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**LFC FINANCIAL MODERNIZATION AND RISK ANALYSIS
SUBCOMMITTEE
67th Montana Legislature**

SENATE MEMBERS	HOUSE MEMBERS	COMMITTEE STAFF	PUBLIC MEMBERS
	Nancy Ballance	Amy Carlson -	Mark Haggerty
	Mary Caferro	Legislative Fiscal	Jason Smith
	Jim Hamilton	Analyst	Sarah Swanson
	Llew Jones	Karen Gilbert -	Myles Watts
	Bill Mercer	Secretary	
	Marilyn Ryan	Julie Johnson -	
		Attorney	

**Financial Modernization and Risk Analysis Study (MARA) Subcommittee
MINUTES LOG
January 16, 2020
8:07 AM
Room 317**

Please note: This document is a Minutes Log and provides annotation of the time elapsed between the beginning of the meeting and the time at which the item was presented or discussed, a motion was made, or a vote was taken. The narrative presented here is provided only as a guide to the audio or video recording of the meeting. The official discussion, motion, or vote is available on the audio or video archive of this meeting. The Legislature does not prepare a transcript of the meeting activities. The time designation may be used to locate the referenced discussion on the audio or video recording of this meeting.

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ROLL CALL

Members Present:

- Rep. Nancy Ballance, Chair (R)
- Rep. Mary Caferro (D)
- Mark Haggerty, Public Member
- Rep. Jim Hamilton (D)

Rep. Llew Jones (R)
Rep. Bill Mercer (R)
Rep. Marilyn Ryan (D)
Sarah Swanson, Public Member

Members Excused:

. Jason Smith, Public Member
. Myles Watts, Public Member

Members Absent:

Staff Present:

Amy Carlson, Legislative Fiscal Analyst
Karen Gilbert, Secretary
Julie Johnson, Attorney

**Work session to review previously presented materials for members unable to attend
Legislative Week events**

08:07:44 Amy Carlson, Legislative Fiscal Division, started the discussion.
08:08:19 Sam Schaefer, LFD, discussed revenues. ([Exhibit 1](#))
08:19:08 Joshua Poulette, LFD, discussed federal funds. ([Exhibit 2](#))
08:33:31 Mr. Schaefer discussed natural resources. ([Exhibit 3](#))
08:40:06 Mark Haggerty, Headwaters Economics, discussed his report. ([Exhibit 4](#))
08:42:44 Joe Triem, LFD, discussed the local government report. ([Exhibit 5](#))
08:59:29 Mr. Schaefer discussed the pensions report. ([Exhibit 6](#))
09:01:50 Ms. Carlson added to the pensions discussion.

Open MARA meeting by senior member of the committee

09:03:46 Rep. Caferro called the meeting to order.
09:03:20 The secretary called the roll.
09:04:12 Rep. Caferro discussed the committee membership.
09:04:31 Rep. Hamilton asked if Rep. Caferro would like to nominate officers.
09:04:40 Rep. Caferro nominated Rep. Jones as chair and Rep. Ryan as vice-chair.
09:06:18 The motion passed unanimously via voice vote.

09:06:41 Rep. Jones asked the committee members to introduce themselves:

09:07:01

- Sen. Brian Hoven, not serving on the subcommittee, said he was sitting in on the meeting.

09:07:20

- Rep. Kim Dudik, not serving on the subcommittee, said she was sitting in on the committee.

09:07:35

- Julie Johnson

09:07:41

- Sarah Swanson

09:07:50

- Rep. Hamilton

09:08:08

- Rep. Ryan

09:08:15

- Mr. Schaefer

09:08:20

- Rep. Mercer

09:08:25

- Mr. Haggerty

09:08:30

- Rep. Caferro

09:08:36

- Rep. Ballance

09:08:53

- Karen Gilbert

09:08:58

- Amy Carlson

09:09:03

- Rep. Jones

09:09:10 Rep. Jones discussed background for developing the subcommittee.

09:12:07 Ms. Carlson discussed the bill that created the committee.

09:17:40 Rep. Jones spoke on additional background information.

09:23:24 Ms. Carlson discussed additional background work.

09:24:15 Mr. Haggerty asked a question about how the group is presenting data.

09:24:52 Ms. Carlson went over a data example.

09:28:08 Rep. Jones discussed chart creation and the visual appearance challenge.

09:29:24 Ms. Carlson explained some technological challenges.

09:29:36 Mr. Haggerty discussed data definitions regarding personal income and gross state product (GSP).

09:30:14 Rep. Jones commented on a divergence between the GSP line and personal income line.

09:31:12 Rep. Hamilton asked for an overview of the difference between two data points.

09:31:31 Mr. Haggerty responded.

09:32:30 Rep. Ballance said her recommendation was to dig into divergence when they see it.

09:33:10 Mr. Haggerty said it would be a great question for one of the speakers from the Department of Labor.

09:33:47 Rep. Jones said gross state product and personal income will represent the growth of the underlying economy.

09:34:31 Mr. Schaefer discussed a memo on wage income. ([Exhibit 7](#))

09:48:47 Mr. Haggerty had a question about the report.

09:52:18 Rep. Hamilton asked about the date on a report.

09:53:03 Mr. Schaefer responded.

09:53:40 Rep. Hamilton asked for further clarification.

09:53:58 Mr. Schaefer responded.

09:54:23 Mr. Schaefer discussed a report on SB 407. ([Exhibit 8](#))

HJ 35 work to date

10:02:01 Megan Moore, LSD, gave her presentation.

10:05:01 Rep. Hamilton discussed the differences between the HJ 35 study and MARA committees.

10:06:10 Rep. Jones asked what the focus is.

10:06:21 Rep. Hamilton said adequacy has been answered to the committee's satisfaction in a broad way. He said they are looking into efficiency of the tax structure.

10:07:11 Rep. Ballance asked how far out the committee looked to understand whether or not the tax revenue was adequate.

10:07:44 Rep. Hamilton said it was a present to near-term answer.

10:07:56 Ms. Moore said the committee didn't do projections on where revenue sources are going.

10:08:15 Rep. Ballance asked if there was a definition put to adequacy.

10:08:28 Rep. Hamilton said the initial reaction was not to take up adequacy. He said the committee came to a broad answer.

10:08:58 Rep. Jones said he'd like to return to this subject after the next presentation.

10:09:27 Ms. Carlson said she would send links to the committee to find materials being discussed.

Tax Structures in Montana and Surrounding States

- 10:10:35 Doug Young, professor emeritus Montana State University, gave his presentation. ([Exhibit 9](#))
- 10:58:51 Rep. Jones asked about a solution for natural resources taxes.
- 11:01:01 Dr. Young responded.
- 11:02:32 Rep. Jones asked about relative economy size.
- 11:03:25 Dr. Young responded.
- 11:04:14 Rep. Jones asked about natural resources slumping.
- 11:04:28 Dr. Young responded.
- 11:04:48 Rep. Jones asked as industry becomes more service-oriented, how does Montana e-commerce compare?
- 11:05:54 Dr. Young responded.
- 11:06:31 Rep. Jones said he thinks the Montana exporter is at a disadvantage.
- 11:06:50 Rep. Jones asked about local government trends & referred to a chart on page 7.
- 11:10:07 Dr. Young responded.
- 11:12:24 Rep. Jones asked about the state's tax sources and whether it was feasible to offset property taxes looking at future growth.
- 11:14:07 Dr. Young responded.
- 11:15:36 Rep. Jones said he would look at cost drivers and based on a series of assumptions, would ask LFD to forecast a growth drive forward. He asked if they could calculate how much revenue would be needed in the future?
- 11:16:42 Dr. Young responded.
- 11:18:18 Rep. Jones asked if anyone else had questions.
- 11:18:38 Rep. Hamilton asked if some type of consumption tax or sales tax is also falling behind?
- 11:19:51 Rep. Jones clarified a statement.
- 11:20:04 Dr. Young responded.
- 11:21:51 Rep. Hamilton asked about sales taxes.
- 11:22:15 Dr. Young responded.
- 11:22:59 Rep. Jones asked about South Dakota, was it goods and services that was taxed?
- 11:23:49 Dr. Young responded.

11:24:17 Rep. Ballance said as they look at trends in various areas, they will get to a point where they can test assumptions.

11:25:12 Rep. Mercer asked about the scope of Dr. Young's testimony and asked about the hole he would fill with sales tax revenue.

11:26:14 Dr. Young responded.

11:26:21 Rep. Mercer asked if from an economic standpoint whether something like wastewater service was the responsibility of the state or local?

11:26:54 Dr. Young responded.

11:34:20 Mr. Haggerty asked about natural resource taxes.

11:36:03 Dr. Young responded.

11:38:03 Rep. Ryan asked about changes to the income tax structure.

11:38:31 Dr. Young responded.

11:41:04 Rep. Hamilton asked what other states do with similar natural resource depletion situations?

11:42:17 Mr. Haggerty responded.

11:44:26 Dr. Young commented.

Labor Market Trends

11:45:35 Barb Wagner, Department of Labor & Industry, gave her presentation. ([Exhibit 10](#))

12:13:11 Rep. Hamilton asked about the population tree chart.

12:14:17 Ms. Wagner responded.

12:14:59 Rep. Jones asked if Montana is further along in the aging statistic than other states?

12:15:22 Ms. Wagner responded.

12:16:03 Mr. Haggerty asked about migration trends out of cities.

12:17:31 Ms. Wagner responded.

12:18:52 Mr. Haggerty asked if people moving to Montana are richer.

12:19:08 Ms. Wagner responded.

Public comment

12:20:02 Bob Story, Montana Taxpayers Association

Lunch recess

12:26:39 The committee recessed for lunch.

13:05:22 The committee reconvened.

Demographic and Economic Changes Influencing Tax Collections in All States

13:05:53 Ms. Carlson introduced Don Boyd, Rockefeller College of Public Affairs & Policy research, for Pew Charitable Trusts.

13:06:36 Mr. Boyd gave his presentation. ([Exhibit 11](#))

13:38:29 Rep. Hamilton asked about workforce growth on slide 11.

13:39:11 Mr. Boyd responded.

13:39:59 Rep. Hamilton asked about income and income taxes on slide 15.

13:40:26 Mr. Boyd responded.

13:41:04 Mr. Boyd continued his presentation.

Montana Demographics and Potential Budget and Revenue Impacts

14:01:20 Joshua Poulette discussed his report. ([Exhibit 12](#) & [Exhibit 13](#))

14:15:21 Mr. Schaefer discussed revenue impacts.

14:21:00 Mr. Poulette discussed implications.

14:24:34 Rep. Mercer asked about population growth projections.

14:25:17 Mr. Poulette responded.

14:25:25 Rep. Mercer asked if it was important they understand the MSU dataset?

14:25:43 Mr. Poulette said Alice Hecht, LFD analyst who built the maps, does understand the dataset very well and would be able to answer questions.

14:26:21 Rep. Mercer asked if there is anything they should know?

14:26:38 Mr. Poulette said they have done that work and can provide it.

14:26:52 Mr. Haggerty commented the difference is when the data sets have been produced.

14:27:17 Ms. Hecht said the ERemi dataset was produced specifically for Montana this summer.

14:30:11 Mr. Poulette said they expect an update to IHS data soon.

14:30:26 Mr. Haggerty asked about the shifting demographics by county and trends related to property valuation.

14:31:32 Mr. Schaefer responded.

14:32:05 Rep. Jones said Rep. Hamilton's district as well as the western edge of the state fit Mr. Haggerty's scenario as they have in-migrations of retirement aged populations bringing wealth, coming from areas where they paid significantly more for property.

14:32:40 Mr. Schaefer discussed out-of-state migration into Montana.

- 14:33:10 Ms. Carlson said the next item on the agenda will give a little bit more of what he is looking for.
- 14:33:36 Rep. Ballance asked as the population ages if agricultural land is taken out of production, can you tie the population and property tax pieces together?
- 14:34:05 Rep. Jones said in counties that are becoming more rural with net migration out, the tax base is moving toward agriculture in those areas.
- 14:34:42 Mr. Haggerty said in Dr. Young's presentation, the increase in property values was not compared to personal income and that would be interesting to look at on a county by county basis.
- 14:36:05 Rep. Jones said it was a great dataset and commended staff on their work.

Property Tax Report and other data available

- 14:38:21 Ms. Carlson introduced LFD analyst Julia Pattin.
- 14:39:01 Ms. Pattin discussed her report. ([Exhibit 14](#) & [Exhibit 15](#))
- 14:48:23 Rep. Jones asked about a chart regarding property classes.
- 14:49:27 Ms. Pattin responded.
- 14:50:03 Rep. Jones asked about a chart on property market value and taxes paid.
- 14:50:32 Ms. Pattin responded.
- 14:51:15 Rep. Jones said there is a construction incentive driving bonding and impacting numbers. He asked about block grants.
- 14:52:18 Mr. Haggerty said he reads the chart differently and explained.
- 14:52:45 Rep. Jones clarified.
- 14:53:04 Mr. Haggerty discussed what impacts property tax.
- 14:53:53 Ms. Carlson said the top slide on page 7 discusses market value that will help explain this chart.
- 14:55:01 Mr. Haggerty asked if they used to assess on a five-year basis?
- 14:55:14 Rep. Jones said six.
- 14:55:37 Haggerty asked if the process changed.
- 14:55:48 Ms. Pattin said the way they assessed property did change.
- 14:58:47 Rep. Jones said he needed to think more about the information and it would be good to describe changes and the challenges local government will face with property tax.
- 14:59:46 Ms. Pattin continued her presentation.
- 15:06:07 Rep. Jones asked a question about the property market value and taxes paid slide.

15:06:32 Ms. Pattin said she could get him exact numbers.

15:08:09 Ms. Pattin continued her presentation.

15:23:34 Rep. Jones asked a question about the heat charts.

15:24:34 Ms. Pattin responded.

15:24:59 Rep. Jones discussed city breakouts in the report.

15:31:58 Rep. Jones said he liked the charts and would like to see the scale broadened. He said he'd like to see a school district map as well.

15:34:26 Mr. Haggerty said that Bozeman is raising a lot more revenues without raising rates, property values are skyrocketing but the city is still struggling to pay for services.

15:35:15 Ms. Pattin responded.

15:36:46 Nick Van Brown, LFD analyst, provided additional insight.

15:37:51 Rep. Jones said he previously served on city council and discussed special improvement district (SID) tax revenues.

15:39:10 Ms. Pattin said some communities have more SIDs and use it as a fee-based revenue.

15:40:30 Mr. Haggerty asked when property tax limits were put in place and what was the rationale?

15:40:56 Rep. Jones said Bob Story could probably answer that question.

15:41:08 Ms. Moore said 1996. She said it was all outlined on the HJ 35 website.

15:41:58 Rep. Hamilton asked about Ms. Pattin's residential property by levy district map.

15:42:53 Ms. Pattin responded.

15:43:57 Rep. Hamilton said he was interested in learning the major factor that makes the difference between cities.

15:44:31 Mr. Van Brown explained the tax rate.

15:45:48 Rep. Jones further discussed the maps and how to link them so they don't pollute each other.

15:46:39 Ms. Pattin said she agreed.

15:47:04 Mr. Van Brown said market value is also part of the equation.

15:47:32 Rep. Jones asked if Sen. Story could explain why it was put into law.

15:47:58 Sen. Story explained the 1998 initiative that froze local government taxes and fees.

15:50:39 Mr. Haggerty asked if the concern among voters was the increase in tax rates or was it a small-government initiative.

- 15:51:08 Sen. Story said the drivers were interested in smaller government, the voters were interested in freezing taxes.
- 15:51:59 Mr. Haggerty said a proposition in California came before Montana's as a small government initiative.

Public Comment

- 15:52:30 Bob Story, Montana Tax Association
- 16:06:09 Tim Burton, Montana League of Cities and Towns
- 16:09:06 Rep. Maryanne Dunwell

Brief recess

- 16:13:32 The committee took a brief recess.
- 16:33:48 Rep. Jones called the meeting back to order.

Next steps discussion

- 16:34:31 Ms. Carlson went over her notes for next steps for staff for the March meeting.
- 16:40:00 Ms. Pattin commented.
- 16:41:23 Ms. Carlson continued the discussion.
- 16:43:36 Rep. Hamilton mentioned the pension stress testing report in February.
- 16:43:56 Ms. Carlson said that could be included in a June overall report.
- 16:44:30 Rep. Ballance said she was concerned that if the report is simple enough to report on in March, it might not be what they want.
- 16:45:05 Mr. Haggerty said he'd like to have a discussion on resource revenue and discuss how they treat it.
- 16:45:53 Rep. Jones said there is no consistency on how natural resource revenue is treated in Montana.
- 16:46:25 Mr. Haggerty said natural resource revenue is unlikely to have a boom, but there is significant production.
- 16:46:49 Ms. Carlson went over the topics.
- 16:48:23 Rep. Jones said if there are other questions, committee members should send them in by the end of January.
- 16:49:09 Ms. Carlson discussed anticipated upcoming MARA meeting date to be March 20.
- 16:51:56 Rep. Jones thanked everyone for participating today and said he sees this group's work focused on a problem requiring a solution in a bipartisan manner.

ADJOURNMENT

- 16:52:40 With no further business, Rep. Jones adjourned the meeting.