



LEGISLATIVE FINANCE COMMITTEE

65th Montana Legislature

Room 110 Capitol Building * P.O. Box 201711 * Helena, MT 59620-1711 * (406) 444-2986 * FAX (406) 444-3036

SENATE MEMBERS

LLEW JONES
EDIE MCCLAFFERTY
FREDERICK (ERIC) MOORE
RYAN OSMUNDSON
JON SESSO
CYNTHIA WOLKEN

HOUSE MEMBERS

NANCY BALLANCE
KIMBERLY DUDIK
KENNETH HOLMLUND
MIKE HOPKINS
KELLY MCCARTHY
MARILYN RYAN

JULIE JOHNSON, Staff Attorney
KAREN GILBERT, Secretary
AMY CARLSON, Director

MINUTES LOG

Dec. 11, 2017

Room 102, Capitol Building
Helena, Montana

Please note: This document is a Minutes Log and provides a notation 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 record 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 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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Please contact the Legislative Services Division at 406-444-3064 for more information.

COMMITTEE MEMBERS PRESENT

SEN. LLEW JONES
SEN. EDIE MCCLAFFERTY
SEN. FREDERICK (ERIC) MOORE
SEN. JON SESSO
SEN. CYNTHIA WOLKEN

REP. NANCY BALLANCE
REP. KIMBERLY DUDIK
REP. KENNETH HOLMLUND
REP. KELLY MCCARTHY
REP. MARILYN RYAN

COMMITTEE MEMBERS EXCUSED

SEN. RYAN OSMUNDSON
REP. MIKE HOPKINS

STAFF PRESENT

AMY CARLSON, Legislative Fiscal Division Director
JULIE JOHNSON, Staff Attorney
KAREN GILBERT, Committee Secretary

VISITORS' LIST ([Attachment 1](#))

AGENDA ([Attachment 2](#))

COMMITTEE ACTION

- Approved minutes from the October 2017 meeting
- Agreed to invite the Revenue and Taxation Committee to create the Joint Subcommittee on the Changing Economy and Impacts to the Long-Term Viability of Montana's Tax Structure to develop recommendations for the 2019 legislature. The first meeting is scheduled for Jan. 17, 2018, in Helena.

CALL TO ORDER and ROLL CALL

00:00:54 Chair Ballance called the meeting to order at 10:03 a.m. on Monday, Dec. 11, 2017, in room 102 of the state capitol. The committee secretary called roll. ([Attachment 3](#)) Rep. Hopkins was excused and left his proxy with Chair Ballance. Sen. Osmundson was excused and left his proxy with Sen. Jones. ([Attachment 4](#))

APPROVAL OF THE MINUTES

00:01:23 **MOTION:** Rep. Holmlund moved to approve the minutes from the Oct. 4 & 5 meeting. **VOTE:** Minutes approved.

2017 NOVEMBER SPECIAL SESSION FISCAL REPORT

00:01:52 Amy Carlson, Legislative Fiscal Division director, presented the 2017 Nov. Special Session Fiscal Report. ([Exhibit 1](#))

COMMITTEE QUESTIONS

00:11:17 Sen. Moore asked for clarification on the ending fund balance after the actions of the 2017 November special session.

00:11:42 Sen. Wolken asked if the Public Service Commission has to cut its budget if revenue doesn't come in, do they have any recourse? Scot Conrady, fiscal analyst, explained that during the November 2017 special session, an error led to a \$250,000 per year reduction in the PSC's operating expense account. According to the Department of Revenue, the PSC's rates will be fine for FY 2018, but there will be an issue and there are several proposed methods to take care of the issue, including transfers, for FY 2019. The appropriation will have to be restored in FY 2019.

00:14:22 Sen. Wolken asked if the PSC would make it to next biennium without cutting essential staff? Mr. Conrady said the agency would be fine for 2018, but may need a supplemental in 2019 or could recoup through cash account.

2019 BIENNIUM BUDGET UPDATE Revenue:

YTD FY 2018 and revenue analysis

- 00:20:55 Stephanie Morrison, lead fiscal analyst, presented the 2019 biennium budget update. ([Exhibit 2](#)) She introduced a new process to compare revenues coming in with what is anticipated. The cash-concept model is a tool that could be more understandable and more timely.
- 00:31:00 Chair Ballance asked what percentage of transfers would have occurred regardless of the special session. Ms. Morrison said two-thirds of the transfers were fire fund transfers and one-third is what was posted by end of November special session action, plus some that were posted in early December and not caught by the report.
- 00:31:56 Ms. Morrison continued her presentation and noted individual income tax is growing but requires 13.1% growth by the end of the fiscal year to reach HJ 2. Withholding is strong with growth at 6.6%.

COMMITTEE QUESTIONS

- 00:36:44 Sen. Moore asked if partnership income is down and if it was more a function of partnerships not being used as commonly as in the past. Ms. Morrison said she was not exactly sure what to attribute the decline to, but 80% of the decline in partnership income was associated with taxpayers who had more than \$1 million in schedule E income. Ms. Morrison said it's possible people with larger incomes have more flexibility to move income around.
- 00:38:57 Rep. Ryan, asked for clarification on the new cash concept model. Ms. Morrison said she would work on ways to make the charts more clear.
- 00:40:20 Sam Schafer, fiscal analyst, continued the presentation and discussed revenue information.
- 00:46:19 Nick VanBrown, lead fiscal analyst, presented property tax information. Mr. VanBrown noted property taxes were currently 6.4% above last year, but more information will be available in January after the first payments come in.
- 00:47:27 Alice Hecht, fiscal analyst, presented insurance tax information.

Required Reports

- 00:50:00 Kris Wilkinson, lead fiscal analyst, presented statutorily required reports.

Medicaid Monitoring

00:52:28 Josh Poulette, fiscal analyst, presented the Medicaid Monitoring Report. ([Exhibit 3](#))

COMMITTEE QUESTIONS

00:55:02 Chair Ballance asked for clarification that expenditures in the report do not include anything done in special session. She asked if Mr. Poulette knew if the assumptions in this table are relative to provider rates. Mr. Poulette said the estimate was created by the department and he would seek clarification.

00:56:37 Mr. Poulette presented the Montana Help Act Medicaid Expansion Report.

01:01:57 Chair Ballance asked about State Innovation Waivers and if the objective to approve them more quickly was happening? Mr. Poulette said the Centers for Medicare and Medicaid Services is urging states to apply and is promising expedient review.

PUBLIC COMMENT

01:03:36 Bob Story, Montana Taxpayers Association ([Exhibit 14](#))

HEALTHCARE COSTS, HEALTH OUTCOMES AND INTERNATIONAL COMPARISONS -

Josh Poulette, LFD Analyst

01:07:04 Mr. Poulette presented a report on healthcare trends in the U.S. ([Exhibit 4](#))

01:15:08 Rep. Dudik said that infant mortality rates are more correlated to access to health care rather than hospital quality and said infant mortality is a good guide post for how well our health care system is working. Mr. Poulette agreed and said that some research suggests lifestyle behaviors also contribute. He said health care technology in U.S. is fantastic, yet these outcomes don't say the U.S. has the healthiest population. Rep. Dudik said it was not fair to characterize lifestyle choices as impacting infant mortality, it's more an issue of access to care.

01:17:50 Rep. Ryan said she had seen information related to economic factors impacting infant mortality, such as unemployment rates, and said there was more to it than just lifestyle.

01:19:07 Dir. Carlson said there was information in the interim work plan that deals with this specific health care question. At the end of the October meeting, Sen. Moore and Rep. Ryan were chosen to give the committee overall guidance on a health care plan for the interim, focusing on things happening in Montana and decisions needed in Montana for subsequent LFC meetings.

01:22:37 Mr. Poulette said a representative from the Pew Charitable Trusts who works on substance abuse and has expertise on prescription drug use might be good to

bring to the committee.

- 01:23:54 Sen. Wolken suggested inviting someone from the Montana Health Care Foundation regarding mapping behavioral health and said it would be interesting to hear how the state's landscape is changing.
- 01:24:40 Chair Ballance asked about the number of people taking advantage of Montana healthcare savings accounts and other outlying programs.
- 01:25:24 Sen. Moore asked if the number of people on Medicaid expansion (around 85,000) were the same people or had there been turnover, had the legislature had created an entitlement program?
- 01:26:18 Dir. Carlson confirmed the committee wanted additional information including: mapping of behavior health, health savings accounts and what kind of participation rates they have, the private insurance market and what is happening there over the same period of time; and turnover with the Medicaid expansion population.
- 01:30:10 Dir. Carlson reminded the committee there would be a cake celebration at 1 p.m. in the fan window to thank all legislative staff for their help during the November special session.
- 01:30:58 The committee recessed for lunch.

LUNCH (Reconvened at 1:30 p.m.)

STATE INFORMATION TECHNOLOGY SERVICES DIVISION (SITSD)

Overview - Kris Wilkinson, Lead Fiscal Analyst

- 03:33:07 Kris Wilkinson, lead fiscal analyst, presented overview information. ([Exhibit 5](#))

State Chief Information Officer Report - Ron Baldwin, Department of Administration SITSD Portfolio

- 03:36:19 Ron Baldwin, SITSD CIO, presented a project update report. ([Exhibit 6](#))

COMMITTEE QUESTIONS

- 03:38:44 Rep. Dudik asked about re-baselining: of planned value, earned value and cost variance, which was the original amount of estimated cost? Mr. Baldwin said the amounts as they apply to the project have not changed with re-baselining. Re-baselining occurred when the the vendor was cancelled and the project was moved in-house. Rep. Dudik asked that re-baselining information be provided within the reports instead of supplemental reports for easier tracking. Ms. Wilkinson said they could work on that.
- 03:43:39 Sen. Sesso asked Mr. Baldwin to assure the committee that none of the larger

projects relying on long-range building funds would be delayed by the transfer of \$5 million in long-range program funds to balance the budget during the special session. Mr. Baldwin said to his knowledge there would be no delays in the Montana Program for Automating and Transforming Healthcare (MPATH) and Medicaid Management Information System (MMIS) projects.

- 03:46:00 Sen. Sesso asked Stuart Fuller, DPHHS PIO, if there were interruptions caused by transferring long-range building dollars. Mr. Fuller said he couldn't address that question as he was unaware long range IT funding had been transferred during special session. He did say the MPATH project was on track.
- 03:47:38 Dir. Carlson said funds were not transferred from long-range building IT accounts, just long-range building. The IT projects were not impacted at all.
- 03:48:26 Sen. Sesso asked Mr. Fuller to comment on the change from one-size-fits-all to a compartmentalized process, is it going as expected. Mr. Fuller said yes, the program is moving forward very well and the modular approach is being taken up by a lot of other states.
- 03:50:16 Chair Ballance asked Mr. Fuller how they could clearly track the entire system, not just individual modules. Do we expect to see the entire system finished on 9/30/22? Mr. Fuller said yes, there have been some delays but can come back to the committee to present the component plan and scope of the project. He deferred to Gene Hermanson, MMIS program director for DPHHS. Mr. Hermanson said they could provide that information. He clarified there are 50 separate unique components put into eight modules as part of the MPATH program. It will replace MMIS by 9/30/22.
- 03:55:13 Chair Ballance said she was looking for a more accurate time line for systems development. Mr. Hermanson said 9/30/22 is the last integration point, things will be in place before then.
- 03:56:33 Chair Ballance asked about CMS involvement. Mr. Hermanson said CMS approved their planning document and are involved every step of the way.
- 03:57:45 Rep. Holmlund asked Mr. Baldwin if it was common for firms to be cancelled for an inability to provide fulfillment on a project. Mr. Baldwin said it was uncommon but there are times when an agreement can't be reached.
- 03:58:29 Rep. Holmlund asked if a contract has been nullified, is the company eliminated for consideration for future contracts? Mr. Baldwin said he was not sure and that was a question for procurement.
- 03:59:06 Rep. Holmlund asked what part of acceptance of a contract is based on price vs. proven ability. Mr. Baldwin said RFPs are based on best-solution with proven service record for best price, ensuring the vendor is able to deliver not based only on proposal but on references and past experience.

SITSD Rate Update

- 04:01:12 Lynn Pizzini, SITSD chief information security officer, presented the CIO report.
- 04:04:26 Chair Ballance asked what time period the strategic information technology plan covers. Mr. Baldwin said it covers a two-year period beginning April 1.
- 04:05:47 Ms. Wilkinson presented the reductions report.
- 04:06:44 Sen. Moore asked about the the supplemental report for SITSD. Ms. Wilkinson said supplemental reports are additional information and she would be happy to add it.
- 04:07:38 Chair Ballance asked about rates and how they are actually shown. Ms. Wilkinson said the rate reductions to agencies was reflected in line items.

INFORMATION TECHNOLOGY UPDATE - Joe Triem, LFD Fiscal Manager

- 04:09:39 Mr. Triem presented the information technology update. ([Exhibit 7](#))
- 04:17:01 Chair Ballance asked if the case study regarding the cost and benefit of decoupling from the centralized services model, using the Legislative Branch as an example, looked at the impact to agencies who stay on the current system assuming quantity pricing. Mr. Triem said the Legislative Branch wasn't a good example as the size of the agency didn't result in a significant price drop when removed from the network. He said there are plans to address the issue should a larger agency be removed.

PENSION UPDATES

Dore Schwinden, Public Employees Retirement System

- 04:19:12 Mr. Schwinden presented the Public Employees Retirement System report. ([Exhibit 8](#))
- 04:36:24 Chair Ballance asked about the percentage that goes back into the economy. Mr. Schwinden said about 95% of it flows through Montana's economy, but it varies from year to year.
- 04:36:55 Chair Ballance asked if that was because retirees are still living in Montana? Mr. Schwinden said yes.
- 04:37:10 Chair Ballance asked about the 2016 & 2017 valuation and 30-year amortization period. Mr. Schwinden said it was largely attributable to the 11.93% market rate of return of last year before the valuation was completed. He said right now, with the returns they are seeing in the market, that amortization period will continue to go down.
- 04:38:59 Sen. Jones asked if Mr. Schwinden sees a gradual drop to 6.5%? Mr. Schwinden

said it is always a topic for discussion. The actuaries do sensitivity analysis on each system and they advise to not make knee-jerk reactions but continue to monitor. They are still in the median, where most public retirement systems are nationally.

- 04:40:50 Sen. Jones asked if they are hearing concerns that they are under-reporting unfunded liability? Mr. Schwinden said the Board of Investments believe we are too high, the actuaries are very different -- it depends on the expertise you are getting. The underlying rate of inflation is what all assumptions are based on. The board accepted the entire package of demographic and economic assumptions presented.
- 04:43:08 Sen. Jones asked if the board consists of financial investment experts? Mr. Schwinden said one person on the board is required to have financial and investment experience. The thought is to have a wide variety of experience by bringing real-world context.
- 04:45:27 Rep. Holmlund asked what employees can do who have retirement plans with PERS and TRS? Mr. Schwinden said they periodically have reporting issues and try to correct them, it is not common.
- 04:46:46 Rep. Holmlund said he has been substitute teaching and was asked by payroll which retirement system he wanted to belong to? Mr. Schwinden deferred to Mr. Shawn Graham, Teachers Retirement system.
- 04:47:22 Sen. Sesso asked how the performance of the fund relates to the guaranteed annual benefit allowance? Mr. Schwinden said since the law was changed in 2013, they don't have vested retirees yet in the new tier, not sure of impacts going forward but it certainly has helped.

Shawn Graham, Teachers Retirement System

- 04:51:07 Mr. Graham presented the results of annual actual valuation of the Teacher's Retirement System. The current year ran a bit of a surplus. ([Exhibit 9](#)) The market asset rate of return was 11.92%, 4% greater than expected. Amortization period decreased from 24 to 22 years.
- 05:05:10 Mr. Graham answered Rep. Holmlund's question about PERS/TRS -- if an employee has two different positions, they should report to the appropriate system according to statute. According to 19-20-301 MCA, there is a minimum number of hours worked to be eligible to be in the retirement system. Once an employee hits the threshold, they are required to be members. Substitutes have the option to waive membership until that minimum is hit.
- 05:06:48 Rep. Holmlund asked if the 210 hours carry from year to year? Mr. Graham said the 210 hours are in a given fiscal year, but once an employee becomes a member they are required to continue being a member even if the minimum isn't met the second year.

- 05:08:17 Sen. McClafferty asked what year tier two started? Mr. Graham said tier two began on or after July 1, 2013 and it's based on hire date, not retire date. Tier one members are retiring, between 600-700 per year.
- 05:09:32 Chair Ballance asked about the goal for the amortization period, how low do they want to drive the number? Mr. Graham said the goal is zero, to be over 100% percent-funded. But it is unlikely that will happen during his career.
- 05:11:13 Chair Ballance asked at what level would they look at contribution rates, 90% by law? Mr. Graham said yes, statute says tier two guaranteed annual benefit adjustment needs to be at 1.5% and three consecutive valuations over 90% funded prior to adjusting any contribution rates.

SUMMARY OF WORK PLAN - Amy Carlson, Director

- 05:12:38 Dir. Carlson presented the updated LFD work plan. ([Exhibit 10](#))
- 05:17:30 Dir. Carlson said she would update the healthcare item per earlier discussion and asked if anyone had anything to add.
- 05:17:39 Sen. Wolken suggested for the September meeting the committee should invite the Nonprofit Montana Healthcare Foundation and Zoe Bernard with DPHHS.
- 05:18:33 Sen. Sesso said he'd like to see the LFD staff stick with the financial aspects of healthcare. He said the committee has to stay focused on the costs of providing healthcare to Montanans.
- 05:20:27 Chair Ballance agreed with Sen. Sesso and asked about an offer to have someone from the Montana Medical Association and Montana Hospital Association present to the committee in March. She said while it would be interesting to have that discussion, she didn't know how you limit it to just the financial aspect.
- 05:21:22 Sen. Sesso said it is important to try. He said he would like to hear reports from those groups mentioned, but with some direction. The focus for LFD staff should be on the financial aspects in terms of our goals in 2020-21 and beyond.
- 05:22:59 Sen. Jones said for the next session, the HELP Act is going to be a big item. Affordability and outcomes will be important, he said it's the math that's going to matter to its renewal. He asked they deal with an asset test along with an income test to stop waste, fraud and abuse. He said the work program has been less than effectual, how can we make it more effectual. He said they want a return on investment and to help get people back to work, how can legislators make this affordable for the long term.
- 05:25:55 Rep. Dudik said she hoped the focus would remain on Montana. She said she would like to hear from the Department of Labor and get statistics on the job

training program and expanding economic opportunities in the state.

COMMITTEE BUSINESS

Subcommittee update: HB 639 Study: Results First and Child Protective Study

- 05:27:26 Rep. Dudik said the subcommittee is going to discuss how child neglect cases are handled in Montana and if it's efficient. She said the public defender's office and judiciary should be brought into the conversation. Mr. Poulette said DPHHS is trying to build a complete program inventory to try to determine what they are paying child welfare workers to do, and it's a complex task. He said the Results First staff isn't panicking and the work is ongoing. The Department of Justice has already done this on their own and has had some interaction with DPHHS regarding program inventory.
- 05:31:13 Chair Ballance asked if an update in March would be too late to get the Department of Justice involved? Mr. Poulette said they could get the Results First staff assessment on how this has been done in other states.
- 05:32:08 Rep. Dudik said the plan sounds reasonable but not satisfactory. There wouldn't be much time after the March meeting before elections and it would be too late to involve agencies in discussion. She said an evidence-based policy discussion is significantly impacted by court/legal processes. She said this a uniquely Montana program and should involve legal system stakeholders now. Mr. Poulette said he is happy to try to involve the other actors in best way we can. Rep. Dudik said an email update would be great.
- 05:34:13 Chair Ballance said they could determine later if another subcommittee meeting was needed prior to March.
- 05:35:05 Sen. Moore, referring back to the health care discussion, said it would be useful to see a benchmark of the impact Medicaid expansion has had on the general fund in other states purely from a fiscal standpoint.
- 05:36:18 Dir. Carlson confirmed that information would be covered in the March meeting.

Other business

- 05:37:57 Rep. McCarthy had a question regarding the previous session. He said during the session, legislators were given a series of general fund forecast updates. He said the March report stated there would be an April report including new information to better align revenue and estimated revenue, Department of Revenue information through March. He said the legislature missed personal income by \$70 million and that revenue estimate would have been a useful tool. He said he had information that Dir. Carlson may have been directed to stop sending information or to not publish the April report. He asked if that was true, and if not, he asked why they did not produce an April report.

- 05:41:00 Dir. Carlson said the report showed there was virtually no change, something on the order of \$5 million or less over five years. She said she gave the report to caucus leadership, including Rep. Jenny Eck, during negotiations with executive. Dir. Carlson apologized for not also giving the information to Rep. McCarthy. She said the people she spoke with were not worried with \$5 million difference and didn't want to hang up the negotiation. She said the report was evaluated and didn't seem of value to her or to the four people she talked to about it. She said by the end of April, they did know there was a potential challenge with revenues at that point. She said the year-to-date monitoring status report showed median YTD collections (the current method of measuring that Ms. Morrison is looking to improve) showed as of April 1, HJ 2 was \$10-12 million below median. She said one month later it was \$40 million negative, a \$52 million drop from one month to the next using the same calculations. On June 1, it dropped another \$20 million, so by the end of the fiscal year it was down \$75 million. She said revenues fell off at the very end of the fiscal year, it happens at least 25 percent of the time and you can't necessarily predict when.
- 05:46:26 Rep. McCarthy said even with not much material change the information is still beneficial to those of us making decisions. He said it would have been very valuable to have seen the revenue estimate. He said leadership decided it wasn't valuable to the rest of us and he is extremely disappointed. He said now that they know the report was generated, can they get a copy.
- 05:48:39 Chair Ballance clarified that he wanted the end of April report. Speaking as one who saw that report, she said it was during the last of session negotiations and part of thought process was it would end up confusing more than it would help. She said since it was such a small difference it didn't seem of benefit to publish at that time.
- 05:50:17 Rep. McCarthy said his concern was rooted in the fact that it looked like 150 legislators made a decision on the budget, but not everyone had complete information. He said it was an asymmetry of knowledge and it is not the right way for the legislative branch to operate. He said he loved the opinion that special session could have been avoided if legislators had made tougher decisions during regular session. He said they are all equals and should all have the same information.
- 05:51:48 Ms. Morrison said she was not sure they actually produced the report. She said they do have the numbers from calculations in points of time and that information is almost certainly available.
- 05:52:48 Rep. Dudik asked Ms. Morrison about the new revenue model. Ms. Morrison said the forecasting models for individual tax return runs through detailed tax-payer data for the most recent year from the Department of Revenue and applies what they assume for growth-rate. She said they take the model that is built (it is also shared with the governor's office) and put in different assumptions on those revenues and that is what generates tax payer liability and fiscal year liability. She said, as indicated in the report, the largest piece is the growth rate, \$64 million of the error due to incorrect growth rate assumptions. She said the

estimated wage income at 3.3 percent actually came in at 1.6 percent. She said it's hard to tell if that's a modeling error or suddenly the income growth declared on tax returns is different than any other labor data. She said it will take some time to assess.

- 05:57:53 Rep. Dudik said she wanted assurance LFD is assessing and making changes to the model to be more accurate. Ms. Morrison said they are always assessing and looking to make the modeling more accurate.
- 05:58:21 Sen. Jones said modeling has been an ongoing conversation during his entire time in the legislature. He said HJ 2 is often a political number, two sessions ago the executive forecast was high and LFD was accurate. He said who ever is right or closer the last time is assumed the better estimator. The challenge legislators have is it's a two-year forecast. He said there is almost a thought-process involved that there is a conspiracy involved in forecasting -- forecasting is difficult to get the errors out. He said wealth is mobile, income tax is mobile. He said legislators are going to struggle in a two-year biennium system hooked to a volatile source to have a super-accurate forecast.
- 06:01:48 Rep. Dudik said she is not interested in LFD vs OBPP, she just wants accuracy.
- 06:02:15 Chair Ballance moved the discussion on to the tax structure study.
- 06:02:55 Dir. Carlson went over the last document in Exhibit 10, setting up the discussion for additional research.
- 06:12:52 Sen. Jones said he spoke with RTIC Chairman Tom Jacobson regarding a letter to the LFC from RTIC about a joint-tax structure study. (Exhibit 11) He said the government is hooked onto traditional economy but when you look at growth, the revenue economy not hooked to growth economies. He said Walmart is the state's largest employer and participates in the state's economy, but has experienced a sales decline for the first time in history -- Amazon is exploding in the state. He said every state is struggling with the e-commerce formula, it is difficult to make it participate in the economy. He said the joint study has to deal with the new economy, the state can't keep hooking to the flat line and expect to grow the economy. ([Exhibit 15](#))
- 06:27:18 Sen. Sesso said he was hoping the LFC doesn't settle for a work plan for a study in terms of 2018 output. He said by next year at this time they could have some concrete options as far as policy changes in time for the 2019 session. He said that's what he wants for Christmas. Chair Ballance agreed.
- 06:31:49 Rep. Dudik said 55% of state revenue comes from individual income tax and 12% property tax, two-thirds of state's tax comes from people who work or own property. She said she would like to see the committee go forward with a study on all the issues outlined in the plan including looking at what other states are doing.
- 06:34:30 Chair Ballance said she was not excited about coming out with a study about

increasing revenue in 2019 without also looking at spending. She said the committee needs to make sure it's a balanced study. Rep. Dudik agreed.

- 06:35:10 Sen. Jones said they will have to look other areas such as at the 95 mills. He said they will need to have some sort of balanced solution, maybe by reducing property tax and getting other services to participate in economy. He said the state lacks equitable nature across the system. He said they could never pass a sales tax, but they do need to fix the leak. He said they just have to begin, this change in economy is not going to slow down.
- 06:37:30 Sen. Moore said they also need to discuss elasticity. For example, the difference of a 2-3% increase in the upper income tax rate makes the difference if wealthy individuals choose to live and declare residency in Jackson Hole or the Gallatin Valley. He said he also couldn't imagine tourists coming from Minneapolis to Yellowstone would change their travel plans if a hotel room in Billings costs \$92 instead of \$87.50. He asked if the tax policy would change behaviors and change overall income to the state -- it's rate times quantity, the tax rate times how many people are paying it.
- 06:38:54 Sen. Jones said the pass-through income tax, the higher-end income taxes become very elastic. He said you are where your W2 gets reported, higher income earners not tied to a W2 are elastic. They can locate their primary residence wherever they choose, the option is always to declare residency where there is no income tax. He said our taxable model is such that we don't touch any of the consumption they do, making it fairly difficult to get them to participate in economy.
- 06:40:52 Dir. Carlson suggested the committee consider developing a working subcommittee with RTIC in January to flesh out priority issues. She said they could bring recommendations to both full committees in March.
- 06:42:58 Sen. Jones agreed and suggested the committee write a letter to RTIC.
- 06:44:04 Sen. Wolken suggested narrowing ideas before subcommittee meets, have both committees rank them.
- 06:44:58 Chair Ballance said they will put together a letter saying instead of designing a study, the subcommittee will move forward with proposals on economic impacts for a subcommittee meeting in January.
- 06:46:31 Rep. Ryan said she would like to attend the meeting regardless if she sits on the subcommittee.
- 06:46:44 Chair Ballance said the committee should pick three or four people due to budgets.
- 06:47:11 Dir. Carlson said she could set up a web go-to-meeting in January for those who want to participate even if they are not on subcommittee.

- 06:48:02 Chair Ballance said the subcommittee members would be Senators Jones, Moore, Wolken and Sesso.
- 06:49:28 Chair Ballance reviewed dates for meetings in 2018: March 12-13, June 18-19, September 10-11, and December dates are to be determined. ([Exhibit 12](#))
- 06:53:19 Chair Ballance referred back to the HB 639 discussion and asked about the contingency funding for Medicaid caseload, the numbers on which the contingency was based have now changed. Mr. Holzer said it was not written as a specific number, but indicated the entirety of the appropriation for the department.
- 06:54:28 Chair Ballance said the bill was hard-coded, the numbers included everything but restricted amounts. She said the restricted amounts have changed because SITSD rates were added and changed some of the numbers in the non-restricted.
- 06:55:04 Dir. Carlson said they can handle this question in the budget status report and specifically line out those concerns so they are understood. Chair Ballance said the concern was to get any contingency funding based on a higher case load, they would have had to exceeded that number and they have not.

LFD Budget update

- 06:56:00 Dir. Carlson said changes in the budget due to the special session affects how many people, if any, can attend next year's NCSL. ([Exhibit 13](#))

Staff announcements

- 06:56:47 Dir. Carlson said Karen Gilbert's position is a combination of positions, Katie Church's position changed to help with data needs and LFD is in the process of hiring two new analysts.
- 06:57:54 Nick VanBrown and Alice Hecht each received longevity pins for five years of state service.
- 06:59:10 Joe Treim presented Amy Carlson a 25-years longevity pin for Carlson. He said she started working for the state in 1992 and has worked under four governors, with five budget directors, and served four regular sessions and one special session.

Public Comment

- 07:00:49 Bob Story, Montana Taxpayers Association

ADJOURNMENT

- 07:09:00 With no further business before the committee, the meeting adjourned.