



## Revenue and Transportation Interim Committee

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### 60th Montana Legislature

#### SENATE MEMBERS

JIM PETERSON--Chair  
KIM GILLAN--Vice Chair  
JIM ELLIOTT  
JEFF ESSMANN  
CHRISTINE KAUFMANN  
ROBERT STORY JR

#### HOUSE MEMBERS

TIMOTHY FUREY  
GALEN HOLLENBAUGH  
MIKE JOPEK  
BOB LAKE  
PENNY MORGAN  
JON SONJU

#### COMMITTEE STAFF

JEFF MARTIN, Lead Staff  
LEE HEIMAN, Staff Attorney  
FONG HOM, Secretary

# MINUTES

December 6, 2007

Room 137, Capitol Building  
Helena, Montana

Please note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division. **Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document.**

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. The minutes are accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side column of the home page, select *Committees*, then *Interim*, and then the appropriate committee.

To view the minutes, locate the meeting date and click on minutes. To hear the audio recording, click on the Real Player icon. Note: You must have Real Player to listen to the audio recording.

#### **COMMITTEE MEMBERS PRESENT**

SEN. JIM PETERSON, Chair  
SEN. KIM GILLAN, Vice Chair

SEN. JEFF ESSMANN  
SEN. CHRISTINE KAUFMANN  
SEN. ROBERT STORY JR

REP. TIMOTHY FUREY  
REP. GALEN HOLLENBAUGH  
REP. MIKE JOPEK  
REP. BOB LAKE  
REP. PENNY MORGAN  
REP. JON SONJU

#### **COMMITTEE MEMBERS EXCUSED**

SEN. JIM ELLIOTT

#### **STAFF PRESENT**

JEFF MARTIN, Lead Staff  
LEE HEIMAN, Staff Attorney  
FONG HOM, Secretary

**Visitors and Agenda**

Visitors' list, Attachment 1  
Agenda, Attachment 2

**COMMITTEE ACTION**

- The minutes of the September 19, 2007, meeting were approved as corrected.

**CALL TO ORDER AND ROLL CALL**

00:00:01 Sen. Peterson called the meeting to order at 8:00 a.m. The committee secretary took roll. Sen. Elliott was excused.

**AGENDA**

Sen. Peterson called for approval of the minutes of the September 19, 2007 meeting. Mr. Martin noted that there needed to be a correction made on page 14, the first full paragraph dealing with the issue of interest on protested property taxes. The sentence that he was referring to says "Mr. Bucks said that he did not believe that there are any penalties, just interest that is set by STAB." The correct acronym should be STIP, short-term investment pool. He recommend putting in short-term investment pool and not the acronym. The minutes were approved as corrected.

00:05:55 **General Fund Revenue Collection Report - Terry Johnson, Principal Fiscal Analyst, LFD**

Mr. Johnson gave a report of the General Fund Revenue Update on the Fiscal 2008 Revenue Collections (**EXHIBIT 1**), including Fiscal Year 2008 revenues collections compared to revenue estimates that were contained in HJR 2.

**Questions**

00:20:35 Sen. Story asked, of the total vehicle tax revenue, how much does the state treasury keep? Mr. Johnson said that it all goes into the general fund, although the county payment is a general fund expenditures for county entitlement payments.

Sen. Story asked if Mr. Johnson's chart showed tax revenue from capital gains or does it show total capital gains. Mr. Johnson said that it is the net capital gains and losses netted out on the individual tax returns, but it is the income component not the tax on capital gains.

Rep. Furey asked if any part of the Elm Coulee reserve was on state lands. Mr. Johnson said that he did not know for sure but he thought that there was very little on state lands.

Mr. Johnson explained the lawsuit in that the Workers Comp Judge denied benefits to people in the Old Fund, and that Old Fund is defined as prior to July 1, 1990. The Workers Comp Judge denied benefits to those people if they were receiving federal benefits; i.e., social security. At that point when they started to receive those federal benefits, they ceased to receive Worker Comp benefits, and that's the issue of the suit.

Sen. Story said that a lot of people knew that the General Fund has always been the insurer of Old Fund and at any point in time, you don't know what the real liability of that fund is. He asked, if the court rules in favor of the plaintiffs, if that was going to be money that would be needed immediately because it is reimbursement for bond payments. Mr. Johnson said that that would be the case because if it is retroactive back to the point of when those payments cease, those payments would be due to those claimants at that point.

Sen. Story requested that Kris Wilkinson explain where the Old Fund stands. **Kris Wilkinson, Fiscal Analyst, LFD**, said that the Old Fund currently has an unfunded liability of \$32.6 million that is discounted by 5%. Currently, the best estimates that the Montana State Fund has is that the current assets that they have will run out in 2012. They estimate that the payments to the people that are still receiving benefits from that will continue until approximately 2045. When she says that the \$32.6 million is discounted by the amount of money that they have invested, so that's what we believe if we put \$32.6 million into the bank today, we would be able to pay those benefits through 2045, if all things remain the same. If you wait another year, the cash in the bank is going to go down and it is possible that the costs will go up.

Sen. Essmann asked Ms. Wilkinson if that would be due to the compounding, the effect of the money on deposit. Ms. Wilkinson said that that was correct.

Rep. Lake asked if the \$20 million would have been left intact, would we have still reached a point in time where we had liability over and above that? Ms. Wilkinson said that the \$23 million was the amount of interest we would still be looking at as an amount of an unfunded liability. Rep. Lake said, in other words, we would still have had a liability in front of us regardless of where that \$23 million was pulled. Ms. Wilkinson said that was correct.

Sen. Story said that he was under the impression that when the Legislature came out of the last session, that the second year of the biennium was structurally unbalanced. If we have \$190 million in 2008, why do we only have \$125 million in 2009? Mr. Johnson said that when looking at the structural

balance this time around, it was more difficult than normal because there were so many one-time events. When we look at whether the general fund is structurally balanced, we exclude those one-time events. This time around we looked at the general fund from a biennial perspective and asked if it was structurally balanced in the biennium and not specifically year by year. One of the reasons for doing that is, again, because of the ebb and flow of appropriations between fiscal years. There were a number of transfers that flowed between fiscal years that would change the projected balance at the end of 2008 versus 2009.

Sen. Peterson said that Mr. Johnson projected a comparison between 2007 and 2008, and a drop of about \$60 million. In his presentation, Mr. Johnson analyzed them individually and he showed about a \$40 million increase. He asked Mr. Johnson if he could explain the difference. Mr. Johnson said that looking at individual income tax, the underlying estimate that is contained in HJ 2, as adjusted for legislation impacts, is the \$766 million. He is comparing that to what is actually collected in 2007. If you compare the estimate to what was actually collected, you have a drop of about \$60 million. The next slide is an actual to actual comparison. It's looking at dollars in the bank after five months last year, dollars in the bank after five months this year and we are growing instead of declining from 2007 almost to the tune of 12%.

Sen. Peterson said that one slide in Mr. Johnson's presentation shows the percent change in Montana wage and salaries and the relationship that has to individual income tax withholding. He asked if Mr. Johnson to summarize those major sectors and provide that chart to the committee. Mr. Johnson said that one of the sectors was state and local government as a percentage of wage and salary income in the state and over 22% of our total wages and salaries in Montana came from state and local government employees. He said that he can make a copy and provide that to all the members of the committee.

Rep. Jopek said that he is trying to understand property taxes. He asked why the projected versus the actual is different by 5 percentage points. Mr. Johnson said that the state collected about \$191 million in property taxes. The estimate in HJ 2 is about \$198 million. What drives the additional revenue there is the growth in the underlying taxable value. They have certain classes of property that increase from one year to the next, that has been built into the estimates and if you have a higher taxable value and you apply the state mills, you are going to get more revenue.

01:10:10

**HB 9 Property Tax Credit Issue Overview - Lee Heiman, Staff Attorney**

Mr. Heiman provided a copy of his legal memo (**EXHIBIT 2**) on trigger language

for property tax income tax credit to the committee. He said that his memo restates what he had talked about at the last Revenue and Transportation Committee meeting in that HB 9 provided a mechanism for providing an income tax credit for property taxes paid based upon the amount of general fund revenue received during fiscal year 2007.

## Questions

01:16:27

Sen. Story asked why was the generally accepted accounting principles language in the bill, was it there by accident or does it have a purpose? Mr. Johnson said that definition of generally accepted accounting principles, as contained in the Manual on Accepted Accounting Principles, states that transfers should not be included in your revenue stream. They are treated as other financing sources. Because we are following generally accepted accounting principles, we have a practice where we accrue revenues and there are rules that agencies are to follow to accrue those revenues. Before the books close, they make these estimates and they book them, and when they are booked, they are treated as if they are revenue in the bank. The cash is not there yet. There are a number of ways that that balance can change rather significantly based on those two factors.

Rep. Lake asked if the committee should consider a bill by the committee to keep this from happening again. He said that there needs to be a clear set of guidelines that everyone works on to where we don't have the ability to interpret. Mr. Heiman said that this trigger is only for the revenue as of July 1, 2007. It is never used again. Mr. Heiman said that we have the section now that requires the GAAP. It is possible to draft a general section with GAAP saying that if any reference is made to an ending fund requirement, that it be defined either GAAP or not GAAP.

Sen. Gillan said that she would like to discuss it some more, get more information and have it as a further agenda item. Sen. Peterson said that if the Committee agreed, they will keep this update on the agenda for February and monitor it as it evolves.

01:52:44

### **Demographic and Economic Trends in Montana - Larry Swanson, Director, O'Connor Center for the Rocky Mountain West**

Dr. Swanson gave a presentation on the demographic and economic trends in Montana. He talked about:

- Montana cities becoming the settings of economic growth, diversification and advancement.
- Western Montana, Idaho, Utah, Wyoming and Colorado are the fastest

growing areas in North America and that cities in this region will grow and prosper.

- Migration patterns in the Rocky Mountain West.
- Montana population, that most of the state's population growth during the 1990s was among people at ages between early 40s and late 50s.
- Slowing population growth due to aging.
- The labor force in Montana using population projections and Montana's tightening labor market.
- Dominant trends that will shape the region's economy.
- Revenue estimates for alternative local option tax proposals.

03:16:31 **Administrative Rule Review - Lee Heiman**

Mr. Heiman talked about the five sets of rules that the Department either opposed or adopted that would have hearing dates during November (**EXHIBIT 3**).

**Adjournment**

03:28:57 Sen. Peterson recessed the meeting at 11:29 a.m. The Committee will reconvene at 7:30 a.m. on December 7, 2007.

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