



LFC FINANCIAL MODERNIZATION AND RISK ANALYSIS STUDY COMMITTEE

67th Montana Legislature

SENATE MEMBERS

Janet Ellis
Daniel Salomon

HOUSE MEMBERS

Mary Caferro
Llew Jones
Bill Mercer
Sharon Stewart Peregoy

COMMITTEE STAFF

Amy Carlson - Legislative Fiscal Analyst
Julie Johnson - Attorney
Kathy Sangray - Secretary
Sam Schaefer - Fiscal Analyst
Nick VanBrown - Fiscal Analyst

PUBLIC MEMBERS

Mark Haggerty
Mike Hope
Dwaine Iverson
Heather O'Loughlin

MINUTES LOG

March 07, 2022
Room 137
Helena, Montana

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MEMBERS PRESENT:

Rep. Llew Jones, Chair (R)
Sen. Janet Ellis, Vice Chair (D)
Mark Haggerty, Public Member
Dwaine Iverson, Public Member
Rep. Bill Mercer (R)
Heather O'Loughlin, Public Member
Sen. Daniel Salomon (R)

MEMBERS EXCUSED:

Rep. Mary Caferro (D)
Mike Hope, Public Member
Rep. Sharon Stewart Peregoy (D)

STAFF PRESENT:

Amy Carlson, Legislative Fiscal Analyst
Julie Johnson, Attorney
Kathy Sangray, Secretary
Sam Schaefer, Fiscal Analyst
Nick VanBrown, Fiscal Analyst

AGENDA (Attachment 1)

VISITORS' LIST (Attachment 2)

CALL TO ORDER/ROLL CALL

- 10:03:03 Rep. Llew Jones-R called the meeting to order at 10:03 AM. The committee secretary took roll.
- 10:04:08 Chair Jones introduced the MARA Model.

Overview of Anticipated Outcomes from MARA

- 10:05:18 Amy Carlson, Legislative Fiscal Division (LFD) gave a presentation on an overview of the MARA Model.
[EXHIBIT 1](#)
- 10:13:15 Mike Hope joined the meeting.
- 10:15:05 Chair Jones commented on the purpose of the MARA Model and the individual modules within.
- 10:16:13 Ms. Carlson continued explaining the MARA Model.
- 10:19:27 Rep. Caferro joined the meeting.
- 10:25:47 Nick VanBrown (LFD) gave detailed explanation of MARA Model and modules.
- 10:49:31 Dwaine Iverson asked if the model has been back tested with actual data.
- 10:49:45 Mr. VanBrown explained further that the model is being built and has not yet been tested.
- 10:50:29 Chair Jones added that once the innovative model has been built, it will be independently tested for accountability.
- 10:51:20 Heather O'Loughlin, Montana Budget & Policy Center, asked how the MARA Model compares with Outlook.
- 10:51:58 Ms. Carlson explained the connection between the MARA Model and Outlook and that they will not be the same.

Committee Discussion

- 10:52:42 Rep. Caferro asked for clarification on the goal of committee to consider the budget based on revenue, but also realistic forecasts for the budget not based on history or politics.
- 10:53:27 Chair Jones discussed building the reference case and then how the MARA Model can be used by the committee to consider alternative scenarios.
- 10:54:56 Mr. VanBrown explained how to develop the reference case.
- 10:56:28 Rep. Caferro asked specifically about Medicaid and how the model will take account of senior care expenses.
- 10:57:52 Ms. Carlson explained this is a starting point for refining the analysis of information.
- 10:58:48 Rep. Caferro asked if all tax-sponsored health care will be considered or will it just be Medicaid.
- 10:59:43 Ms. Carlson explained that LFD is working on how to consider different variables.
- 11:00:30 Rep. Caferro would like to see the model review all health care expenses together.

- 11:01:1 Ms. Carlson said all health care costs can be combined.
- 11:01:28 Chair Jones explained the difference between the reference case, the current situation, and the potential scenarios and the outcomes.
- 11:03:41 Ms. Carlson agreed that the reference case is the current situation and the scenarios will look at alternatives.
- 11:04:05 Rep. Caferro commented that the model can be used to look at policy issues and it needs to look at all health care costs and not just Medicaid.
- 11:04:58 Chair Jones explained that as individual policy groups impact their specific module it will impact the full MARA model as well.
- 11:05:46 Rep. Caferro asked who Chair Jones means by 'the committee'.
- 11:05:54 Chair Jones explained the he invited any stakeholders in each section to be part of the discussion.
- 11:06:32 Rep. Caferro thanked the Chair for being included on this committee and appreciates the work being done.
- 11:07:02 Chair Jones further explained the overall purpose of the model.
- 11:07:14 Ms. O'Loughlin asked if the MARA Model will help shape Outlook and how legislators will use MARA and Outlook to consider policy.
- 11:08:11 Ms. Carlson explained that the MARA Model is in the process of being invented and how it can be used along with Outlook is still being considered.
- 11:09:29 Chair Jones explained that the reference case that considers Medicaid and the Outlook Model forecast may converge.
- 11:10:15 Ms. Carlson explained why inputs are important and then walked through what the work plan is going forward.
- 11:16:51 Chair Jones explained the MARA journey began six years ago and that the process needs to be independent of a person so that the work can continue.

Interim Committee Updates on Education

- 11:18:46 Pad McCracken, Legislative Services Division (LSD) Researcher, shared a draft agenda for the Education Interim Committee for next week and elaborated on what that committee is working on.
[EXHIBIT 2](#)
- 11:24:17 Sen. O'Brien commented that interim policy and budget meetings have been helpful.

Interim Committee Updates on Local Government

- 11:25:25 Toni Henneman (LSD) Researcher explained the work of the Local Government Interim Committee and the role of the MSU Extension Local Government Center to provide training for those serving in local government.
[EXHIBIT 3](#)
- 11:33:54 Mike Hope commented that there needs to be transparency and accountability for how federal funding is spent by local governments.
- 11:34:45 Ms. Henneman agreed that local governments need to be transparent about revenue and expenditures and training would help in that regard.
- 11:35:41 Rep. Beard asked that the handout be posted and available to the committee online.
- 11:36:11 Chair Jones said the handout is posted online.

He then discussed the possibility of a county going bankrupt, the role of the DOA

to perform audits and withhold dollars if necessary, and the largest expenditure of property taxes is to schools and the distinct budgeting process they go through. Stated there is growing concern about who is responsible if a county or local entity goes bankrupt.

- 11:39:43 Dwaine Iverson, CPA, commented that if cities and towns spend federal money on nonqualified expenditures there could be a claw back which could result in that entity going bankrupt. Because of this possibility, there needs to be more oversight to ensure compliance.
- 11:40:16 Chair Jones agreed that money that goes directly to cities and counties must have oversight because a claw back would be impactful.
- 11:41:04 Ms. Henneman agreed this is an issue and the training is important for local governments.
- 11:41:52 Mark Haggerty, Headwaters Economics, commented that the federal level is aware of the local capacity limitations and they are working with the local level and other entities to ensure payments are being allocated properly, and funding those intermediaries may be an idea that would be well received.
- 11:43:26 Ms. Henneman explained that the MSU Local Government Center does work as conduit between federal and local level, and Montana Association of Counties (MACo) is also working in that capacity and may be able to do more.

Public Comment

- 11:44:40 Jason Rittal, (MACo), explained that local governments that received less than \$10 million can allocate those direct funds to lost revenue and then can expend it for general governmental purposes, but they still must go through the budgeting process.
- 11:46:57 Mr. Haggerty asked for clarification on what federal funds Mr. Rittal is referring to (direct ARPA funds), and what information he has about programs in the infrastructure package.
- 11:47:27 Mr. Rittal said he has only broad information, but no specifics. Most of the funding will come through the state and be competitive. He is working on ways to package projects into one application. He added that allowing direct funds to go towards lost revenue and the general budget has been a game changer.
- 11:48:45 Mr. Haggerty asked if there are any rules in Montana about counties taking direct funds and putting it toward lost revenue and then their general budget and how that scenario may affect other sources of revenue in the short term.
- 11:49:20 Mr. Rittal said the funds must be expended so they will be allocated in a budget.
- 11:49:47 Ms. O'Loughlin asked what the average amount of direct funds counties are receiving.
- 11:50:10 Mr. Rittal explained the range of funding for counties then talked about ongoing reporting for counties and fixing accounting discrepancies. He also added that counties can not go bankrupt per state statute. He commented on the MARA report and promoted the MSU Local Government Center.
- 11:55:25 Sen. Ellis asked who would be providing ARPA training, MACo or the Local Government Center.
- 11:56:31 Mr. Rittal explained that MACo is managing the training in-house.
- 11:56:59 Sen. Ellis asked if the League of Cities and Towns is providing training to cities and towns like MACo is to counties on how to use money to offset lost revenue.
- 11:57:43 Mr. Rittal said that the \$10 million limit applies to cities and towns too, but how they are handling that or getting the training he wasn't sure.

11:58:23 Diane Fladmo, Montana Federation of Public Employees, thanked the committee for the education report and offered her support of the committee's efforts to find solutions to complicated issues.

11:59:26 Lunch

FY 2020 Demographics & Individual Income Tax Revenue Collections

12:44:53 Sam Schaefer, (LFD) Lead Fiscal Analyst, reviewed a handout on Individual Income Tax and analysis of new residents and income trends after moving to Montana.

[EXHIBIT 4](#)

[EXHIBIT 5](#)

13:07:55 Mr. Iverson asked how self-employment income is accounted for.

13:08:10 Mr. Schaefer said that will show up in wage income and then continued the presentation.

13:08:18 Rep. Stewart Peregoy joined the meeting.

13:16:46 Mr. Iverson questioned if the increase in tax filers in the state is linked to the reduction in Montana tax rates.

13:17:27 Mr. Schaefer said it is difficult to determine the reason for more filers and it would be hard to link it directly to the tax rate reduction.

13:17:51 Rep. Mercer appreciates the work done but questions the link between the pandemic and population growth.

13:18:56 Mr. Schaefer explained the growth prior to 2020 and then what has happened since.

13:19:58 Ms. O'Loughlin asked for clarification on immigration numbers from presentation.

13:20:36 Mr. Schaefer explained the increase in population numbers.

13:20:55 Ms. O'Loughlin asked what percent is over and under age 65.

13:21:16 Mr. Schaeffer said about 10% are over age 65.

13:21:36 Ms. O'Loughlin asked if the adjusted gross income is higher for those moving to Montana.

13:22:18 Mr. Schaeffer explained the average and median and why both are shown because they can produce very different results.

13:23:27 Ms. O'Loughlin agreed data is useful and asked if it is possible that the increase in capital gains could be a blip or should we expect to see that growth continue.

13:24:20 Mr. Schaeffer assumes capital gains growth will vary and would not expect to see those high numbers each year.

13:26:01 Mr. Iverson agreed that capital gains may be a blip from selling stock options.

13:26:33 Mr. Schaeffer added that the capital gain income was made after new residents were already in Montana.

13:27:05 Mr. Haggerty is interested in how the labor market is changing and if the employer can be identified on tax returns.

13:27:32 Mr. Schaeffer said in his analysis he only sees incomes types, not the employers.

13:29:31 Mr. Haggerty suggested looking at total withholding for companies with an address outside Montana versus in-state.

13:29:43 Chair Jones agreed that would indicate new employment.

13:30:08 Rep. Mercer asked where the data is coming from for calendar year 2021.

- 13:30:26 Mr. Schaefer said the numbers come from IHS.
- 13:32:14 Chair Jones clarified the income difference between in-state residents over and under age 65, and incomes of new residents over and under age 65.
- 13:33:23 Mr. Schaeffer explained deductions and tax rates.
- 13:33:47 Chair Jones said data is helpful and asked for any questions.
- 13:36:00 Rep. Mercer asked when the data updates will be available and if it will be available before the Governor's budget proposal.
- 13:36:34 Mr. Schaeffer explained the timeline.
- 13:37:03 Chair Jones said he appreciates the work done by Mr. Schaeffer to produce the data.
- 13:37:12 Mr. Hope asked if a correlation between income and property taxes can be shown.
- 13:37:43 Mr. Schaeffer said he can look at deductions on real estate taxes and the impact.
- 13:38:11 Sen. Hoven commented that wealthy out-of-staters are going to rural areas and buying up range and farmland making it more difficult for local buyers to compete for that land.
- 13:39:06 Mr. Haggerty asked if future growth in employment can be broken down by sector and the impact on income taxes. In addition, he pointed out that wealthy out-of-staters buying range and farmland does not increase property tax revenue because that kind of land is not taxed at the property value.
- 13:40:46 Chair Jones asked how the model could look at a circuit breaker that addresses property taxes driven by mills or increases in property values.
- 13:42:16 Mr. Schaeffer said it is possible to get an estimate on this correlation.
- 13:43:11 Mr. Iverson commented on impact of itemized deductions and non-income producing property, and the demographics of homeowners.
- 13:43:59 Rep. Beard asked what indicators will predict that we have reached the plateau of the population increase from people relocating to Montana.
- 13:44:49 Mr. Schaeffer said he used IHS forecast for population, but we have to wait for the tax forms to come in to really see the plateau and that will take a few years for tax forms to come in to see that data.
- 13:46:15 Chair Jones said he appreciates the work done to analyze the data.
- 13:46:48 Break

Independent Perspective on the National and State Economic Trends

- 14:00:12 Christopher Thornberg, Beacon Economics, gave a presentation on national and state economic trends.
[EXHIBIT 6](#)
- 15:16:32 Break

Montana Housing Economy

- 15:30:34 Dr. Patrick Barkey, Director, Bureau of Business and Economic Research, University of Montana, gave presentation on where housing is headed in Montana.
[EXHIBIT 7](#)
- 16:16:13 Chair Jones commented on affordable housing and that the highest taxed value changed from Yellowstone to Gallatin county.
- 16:16:45 Mr. VanBrown agreed that Gallatin is the highest followed by Yellowstone, Flathead, Missoula, and Madison counties.

16:17:26 Mr. Iverson asked about the cost per square foot to build.

16:17:47 Dr. Barkey commented on the cost of building.

16:18:33 Mr. Hope commented on the Bozeman housing stock and lot sales and noted that the increase in the price of housing is more from the cost of land.

16:19:46 Dr. Barkey responded regarding number of new lots on the market.

16:20:55 Sen. Ellis asked for clarification on the definition of investors buying property.

16:21:26 Dr. Barkey explained that investors are not planning on living in the home and are looking for a return on their money.

16:21:54 Rep. Mercer pointed out that Stillwater has bought property to house employees, and therefore is solving an employee issue. He asked if there is data to address that type of situation.

16:22:49 Dr. Barkey said they do ask questions on a survey to try to get to that answer, but it is difficult to determine if a company is renting to retain employees versus renting for economic reasons.

16:23:44 Rep. Mercer asked about affordability and proximity of housing and the need to commute if affordable houses are not available in the urban core.

16:26:08 Dr. Barkey said that Ravalli county is a commuting community for Missoula, and it would be interesting to track the data on sprawl and the impact on infrastructure.

16:27:43 Chair Jones expanded on ideas to solve the housing and employee shortages and pointed out that positive impacts are a series of steps.

16:30:26 Dr. Barkey said that the economy is cooling off and people are economizing but part of the solution may need to come from the state to task some communities with addressing affordability. He also pointed out some ideas for addressing shortages in labor markets.

16:35:00 Rep. Beard asked Dr. Barkey about the sentiment from the public about communities relaxing zoning and building permitting and is there resistance to multifamily homes.

16:35:58 Dr. Barkey doesn't see a relaxing of restrictions.

16:37:54 Rep. Nave said her constituents want to limit growth or confine it. She asked how to move forward so growth is constrained and quality of life is not destroyed.

16:39:46 Dr. Barkey responded that you can't control the demand, but communities need to get involved in how growth is handled.

16:41:37 Mr. Iverson asked about the price of gas and the impact on sprawl.

16:41:59 Dr. Barkey said that gas prices are transitory whereas housing is more permanent. High gas prices would not likely be pivotal because people can economize to avoid the high gas prices.

16:43:07 Mr. Iverson commented on hospitality industry workers who are commuting long distances and they are already economizing.

16:43:42 Dr. Barkey added that if you can't economize away the cost of gas, then it's like a tax or a wage reduction.

16:44:47 Ms. O'Loughlin asked about affordable housing challenges, and how many units designated as Affordable Housing move out of that category.

16:45:28 Dr. Barkey explained how we lose Affordable Housing units and the need for affordable housing.

16:46:26 Ms. O'Loughlin asked how to project out housing issues that intersect with other issues and state budget constraints.

16:47:41 Chair Jones commented on the costs of keeping property designated as Affordable Housing.

16:48:47 Mr. Hope asked for a distinction between affordable housing and work force housing.

16:49:37 Dr. Barkey was not sure how to make a distinction.

16:50:25 Ms. O'Loughlin said that certain income levels qualify for affordable housing and may be a subset of work force housing.

16:51:12 Chair Jones added that work force housing has a proximity requirement, and affordable housing may not be linked to a job.

16:52:14 Dr. Barkey pointed out that he studied affordable housing, not work force housing.

16:52:53 Rep. Mercer asked if DOT's planning process may intersect with the work being done in this committee.

16:53:47 Dr. Barkey has been impressed by their work.

Public Comment:

16:55:46 None

ADJOURNMENT

Adjournment: 16:56:17