



Revenue and Transportation Interim Committee

65th Montana Legislature

SENATE MEMBERS

MARK BLASDEL--Vice Chair
DUANE ANKNEY
DICK BARRETT
CYDNIE (CARLIE) BOLAND
JILL COHENOUR
BRIAN HOVEN

HOUSE MEMBERS

TOM JACOBSON--Chair
BECKY BEARD
JIM HAMILTON
GREG HERTZ
ALAN REDFIELD
BRIDGET SMITH

COMMITTEE STAFF

MEGAN MOORE, Lead Staff
JARET COLES, Staff Attorney
LAURA SHERLEY, Secretary

MINUTES LOG

December 5, 2017
Room 137, 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.

Access to an electronic copy of these minutes and the audio or video recording is provided from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side menu of the home page, select Committees, then Interim. Once on the page for Interim Committees, scroll down to the appropriate committee. The written Minutes Log, along with the audio and video recordings, is listed by meeting date on the interim committee's web page. Each of the Exhibits is linked and can be viewed by clicking on the Exhibit of interest. All Exhibits are public information and may be printed.

Please contact the Legislative Services Division at 406-444-3064 for more information.

COMMITTEE MEMBERS PRESENT

REP. TOM JACOBSON, Chair
SEN. MARK BLASDEL, Vice Chair

SEN. DUANE ANKNEY
SEN. DICK BARRETT
SEN. CYDNIE (CARLIE) BOLAND
SEN. JILL COHENOUR
SEN. BRIAN HOVEN

REP. BECKY BEARD
REP. JIM HAMILTON
REP. ALAN REDFIELD
REP. BRIDGET SMITH

COMMITTEE MEMBERS EXCUSED

REP. GREG HERTZ

STAFF PRESENT

MEGAN MOORE, Lead Staff
JARET COLES, Staff Attorney
LAURA SHERLEY, Secretary

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

AGENDA ([Attachment 2](#))

COMMITTEE ACTIONS

The Revenue and Transportation Interim Committee voted to send a letter to the Legislative Finance Committee suggesting that the committees collaborate on designing a state tax structure study bill for introduction during the 2019 Legislative session.

CALL TO ORDER AND ROLL CALL

00:00:02 Rep. Jacobson called the meeting to order at 8:02 a.m. The committee secretary took roll ([Attachment 3](#)). Rep. Hertz was excused and left his proxy with Rep. Redfield ([Attachment 4](#)).

REVENUE ESTIMATING AND MONITORING -- Legislative Fiscal Division staff

00:01:02 Amy Carlson, Legislative Fiscal Division (LFD)

Fiscal year-to-date revenue update and HJ 2 estimated personal income relative to actual personal income

00:03:40 Stephanie Morrison, LFD, updated the committee on the FYE 2017 General Fund Revenue report and individual income tax collections ([Exhibit 1](#)).

Committee questions for Ms. Morrison

00:12:21 Rep. Jacobson asked for clarification on the current individual income tax revenue collections and if there were any changes made to individual income tax revenue in Special Session 2017.

00:13:08 Rep. Jacobson asked if the individual income tax revenue would see a 40% drop by June 30, 2018.

00:14:41 Sen. Hoven asked if the individual income tax figures in the FYE 2017 General Fund Revenue report are divided between withholding and estimated payments.

00:15:48 Sen. Barrett asked for clarification on which years the individual income tax receipts were analyzed and how they were analyzed, and asked how accurate the variances are of the estimates.

00:18:20 Rep. Jacobson asked if the legislature knew what the state individual income tax collections were at the start of Special Session 2017.

00:20:13 Rep. Jacobson asked why the Regular Session 2017 Taxation Committees did not receive an updated individual income tax forecast report in April 2017. The question was redirected to Ms. Carlson.

00:23:23 Sen. Cohenour asked Ms. Carlson when the divergence was seen from HJ 2: *Revenue estimating resolution*.

00:31:03 Sen. Cohenour asked Ms. Morrison if she has taken her calculation model and applied it to the revenue numbers in 2015 and 2016 to anticipate the revenue issues in 2017.

- 00:32:14 Sen. Barrett asked if it was possible to see an uncharacteristic drop off in the budget by analyzing the previous 15 years.
- 00:35:32 Sen. Barrett asked for clarification on the reported uncharacteristic time pattern of receipts.
- 00:36:25 Rep. Hamilton asked what the reporting data would show if the reported time period were shortened from 15 years.
- 00:38:07 Sen. Cohenour asked Ms. Morrison for clarification of FY 2018 YTD Revenue Table (see Exhibit 1, page 2) and the projected budget growth.
- 00:45:08 Sen. Hoven asked where capital gains are reported and if the capital gains income would be increasing.
- 00:46:54 Ms. Morrison continued her presentation.
- 00:52:27 Rep. Jacobson asked what caused the reported 10 taxpayers to have the largest negative farm income (see Exhibit 1, page 5).
- 00:55:30 Sam Schaefer, LFD, reviewed the corporate income tax, vehicle taxes and fees, and video gambling tax collections of the FYE thus far (see Exhibit 1).
- 01:03:16 Nick VanBrown, LFD, reviewed property tax changes for FYE 2017 thus far.
- 01:04:22 Alice Hecht, LFD, updated the committee on insurance tax FYE 2017 thus far.

Special session budget changes

- 01:07:15 Ms. Carlson ([Exhibit 2](#))
- 01:16:30 Sen. Cohenour asked for clarification of the figures under HB 2 Other Reductions and Non-HB 2 Additional Reductions in the FY 2018 YTD Revenue Table (see Exhibit 1, page 2).
- 01:19:20 Sen. Cohenour asked if the committee could get an analysis of the anticipated effects versus actual outcomes that HB 2: *General Appropriations Act* had on the state budget.
- 01:24:05 Sen. Cohenour commented on the actual outcome of HB 2 and requested a detailed summary of the anticipated effects and the actual outcomes.
- 01:27:20 Jaret Coles, staff attorney, spoke on the Fire Fund and other budget related issues due to the 2017 wildfire season.
- 01:27:55 Ms. Carlson made clarifying comments to Mr. Coles review.
- 01:28:22 Sen. Cohenour asked why the budget is not at Fiscal 2018 according to the FY 2018 YTD Revenue Table (see Exhibit 1, page 2).

Public comment

None

POSSIBLE STATE TAX STRUCTURE STUDY

Options for state tax structure study -- Megan Moore, committee staff

- 01:30:12 Ms. Moore reviewed the committee options to pursue a state tax structure study ([Exhibit 3](#)).

Legislative Finance Committee work -- Amy Carlson, Legislative Fiscal Analyst

- 01:32:40 Ms. Carlson updated the committee on the Legislative Finance Committee's work ([Exhibit 4](#)).

01:41:36 Sen. Barrett commented on property tax growth.
01:46:55 Sen. Cohenour asked how the revenue diversions work into the general fund and what the general fund would look like without the diversions.
01:47:36 Sen. Cohenour asked if it is appropriate that the Finance Committee handle the study of tax structure.
01:49:20 Rep. Jacobson asked the committee staff to review and remind the committee of its purpose, required work, and oversight as stated in statute.
01:50:13 Sen. Barrett commented on and asked that Mike Kadas, director, Department of Revenue, comment on the implications of the proposed federal tax cuts.
01:51:28 Mike Kadas, director, Department of Revenue (DOR), reviewed the federal tax cuts implications to the budget ([Exhibit 5](#))
01:57:54 Sen. Barrett asked for clarification on the incentive for off shoring net income.
02:01:00 Sen. Cohenour asked Director Kadas to speak on off shoring net income and how that may encourage foreign investment.

Public comment

02:03:20 Bridger Mahlum, Montana Chamber of Commerce
02:04:18 Bob Story, Montana TaxPayers Association ([Exhibit 6](#))
02:15:35 Rep. Jacobson asked Mr. Story if a comprehensive tax structure study could be completed before 2019 and asked for clarification of the increased property taxes in the counties and cities.
02:17:38 Rep. Jacobson asked if the increased property tax is due to inflation.
02:19:28 Kirsten Gerbatsch, Montana Budget and Policy Center

Committee discussion

02:22:40 Sen. Cohenour commented on the committee's statutory duties and recommended that the committee send a letter to the Finance Committee regarding collaboration in their tax structure study.
02:24:07 Sen. Barrett commented on Mr. Story's testimony and his recommendations of a tax study and how tax studies are done.

Motion

02:28:32 Sen. Cohenour moved to draft and send a letter to the Legislative Finance Committee suggesting that the committees collaborate on designing a state tax structure study bill for introduction during the 2019 Legislative session.

Discussion on the motion

02:29:00 Rep. Jacobson recommended that the letter be drafted and reviewed by the committee before a vote to send it to LFC.
02:29:58 Sen. Ankney commented on the letter and his approval of a joint committee.
02:31:36 Rep. Beard recommended that the LFC and the committee review how costs to the state and local governments has changed with the repeal of federal administrative rules.
02:32:37 Rep. Redfield supported the comprehensive study.
02:33:29 Rep. Jacobson summarized the content of the letter to the Finance Committee.
02:35:47 Sen. Hoven recommended that a sense of urgency is added to the letter and to detail who, what, why, and where aspects be included regarding the tax study.
02:36:29 Sen. Cohenour recommended that there should also be some recognition in the letter to LFC to the federal changes that will be affecting the state.

- 02:36:50 Rep. Jacobson asked the committee staff if the letter could be drafted by the end of the meeting.
- 02:37:55 Sen. Cohenour asked if the committee will take a formal vote on the letter.
- 02:38:05 Ms. Moore recommended that the committee wait to vote on the letter until after it is drafted and reviewed by the committee members.

Motion withdrawn

- 02:38:16 Sen. Cohenour withdrew the motion for consideration later in the day after the letter is drafted and reviewed by the committee.

HJ 22: AGRICULTURAL PROPERTY STUDY

Eligibility for Agricultural Classification in Selected States -- Ms. Moore

- 02:39:28 Ms. Moore discussed the eligibility for agricultural classification in surrounding selected states ([Exhibit 7](#)).
- 02:46:29 Sen. Hoven asked how the classification requirement of acreage was established. The question was referred to Mr. Story and Mr. Kadas.

Panel of small parcel agricultural property owners

Hans McPherson, Bitterroot Valley

Deb Carstensen, Diving Dog Vineyard, Polson

Karl Christians, Helena Valley

Scott Stoner, Clancy

- 02:49:10 Mr. McPherson
- 02:57:09 Ms. Carstensen ([Exhibit 8](#))
- 03:16:17 Mr. Christians ([Exhibit 9](#))
- 03:25:10 Mr. Stoner

Committee questions

- 03:28:57 Rep. Hamilton asked each panelist if the income requirement for their farms is appropriate.
- 03:31:50 Sen. Barrett asked why the qualifying income is not based per acre.

Public comment

- 03:35:13 Frank Mutch, Finley Point

SJ 23: CENTRALLY ASSESSED AND INDUSTRIAL PROPERTY

- 03:46:00 Rep. Jacobson commented on the change in the agenda regarding Ms. Moore's presentation on SJ 23: *Interim study on property taxation of utility property*.

Update of 2011 study materials -- Ms. Moore

- 03:46:30 Ms. Moore updated the committee on work and study materials involving SJ 23 ([Exhibit 10](#)) and ([Exhibit 11](#)).

Committee questions

None

Public comment

None

LUNCH (reconvened at 1:02 p.m.)

AGENCY OVERSIGHT: DEPARTMENT OF TRANSPORTATION -- Mike Tooley, Director

Agency update

04:59:58 Director Tooley gave a brief agency update and introduced the upcoming speaker.

House Bill No. 92 report: alternative project delivery contracting process

05:01:23 Director Tooley gave a brief update on HB 92: *Allow for alternative contracting process for the department of transportation*

House Bill No. 473 implementation

05:04:18 Larry Flynn, chief financial officer, Department of Transportation, updated the committee on the work behind HB 473: *Revise highway revenue laws.*

Highway State Special Revenue Fund (HSSR)

05:09:00 Mr. Flynn gave an update on the HSRA Fund ([Exhibit 12](#))

Grass Range and Poplar roundabouts update

05:12:00 Mr. Tooley updated the committee on the ongoing work studying the Grass Range and Poplar roundabouts ([Exhibit 13](#)), ([Exhibit 14](#)), ([Exhibit 15](#)), ([Exhibit 16](#)), ([Exhibit 17](#)), ([Exhibit 18](#)) and ([Exhibit 19](#)).

Committee questions

05:25:38 Rep. Redfield asked who will own the Poplar roundabout.

05:27:15 Rep. Smith commented on the foot traffic in Poplar.

05:27:45 Rep. Redfield asked if the roundabout will have ample room for large machinery and work trucks to pass through.

05:29:08 Sen. Boland asked if the Grass Range intersection will have improved lighting.

05:29:52 Sen. Ankney commented on the fines for running the stop signs at the Grass Range intersection, commented on the roundabout in Lame Deer and foot traffic in the area, and asked who builds the rest areas.

05:34:35 Rep. Smith asked if the Northern Cheyenne Tribe is planning a sidewalk project in Lame Deer and if large equipment will be able to pass through the roundabout.

05:35:00 Sen. Ankney asked when the project in Miles City will start and asked for a conceptual drawing of the project.

Montana Transportation Committee testimony

05:37:26 Greg Jergeson, District 3 Transportation Commissioner, spoke on the Montana Transportation Committee and its current work ([Exhibit 20](#))

05:51:17 Sen. Cohenour asked if the commission could re-institute a project and commented on the importance of public involvement in the projects.

05:54:33 Sen. Ankney asked how the public is notified of upcoming meetings with the commission. The question was redirected to Director Tooley.

06:00:03 Rep. Beard asked if the commission checks with local government agencies if the project has been identified by the residents as a priority to be addressed.

06:04:07 Sen. Hoven asked Director Tooley if local legislators are included in the required maintained electronic notification list in SB 182: *Require MDT to inform the public regarding certain highway construction.*

06:05:05 Rep. Hamilton asked Director Tooley to comment on the projects that the Department of Transportation is collaborating with Fish, Wildlife, and Parks on to develop wildlife corridors.

Public comment

06:08:25 Bob Sivertsen, Havre ([Exhibit 21](#))

06:18:07 Sen. Cohenour asked Mr. Sivertsen what his proposals are for the Grass Range intersection.

06:20:30 Sen. Cohenour asked Director Tooley to comment on the safety of the citizens when considering the improvement of the Grass Range intersection.

AGENCY MONITORING: ADMINISTRATIVE RULE REVIEW

Overview of rulemaking and administrative rule activity -- Jaret Coles, staff attorney

06:24:04 Mr. Coles ([Exhibit 22](#))

Public comment

None

AGENCY OVERSIGHT: DEPARTMENT OF REVENUE -- Mike Kadas, Director

Major cases

06:35:00 Director Kadas introduced the topics for discussion ([Exhibit 23](#)).

House Bill No. 511 (market sourcing)

06:36:12 Lee Baerlocher updated the committee on the market sourcing that was outlined in HB 511: *Revise income tax laws related to businesses* ([Exhibit 24](#)).

06:41:38 Sen. Hoven asked for clarification of the Receipts Factor data on the back of Mr. Baerlocher's handout (see Exhibit 24).

06:42:17 Brian Staley, Corporation Tax Unit Manager, DOR, updated the committee on rules changes that affected the department.

06:47:04 Sen. Barrett asked Mr. Baerlocher if an online movie steaming service is considered to be doing business in the state if the citizens use the service.

06:48:37 Sen. Hoven asked Mr. Baerlocher how he finds the online companies.

06:49:17 Rep. Smith asked Mr. Baerlocher if the company Redbox is taxed since they have kiosks in the state.

06:50:24 Sen. Blasdel asked Mr. Baerlocher how long until the department will start using the market sourcing formula for taxation.

06:52:42 Rep. Jacobson asked Mr. Baerlocher if there will be possible litigation when the market sourcing taxation is implemented.

Office closures and federal tax reforms

06:54:22 Director Kadas updated the committee on the budget cuts made to the department and the office closures in response to the cuts, reviewed the state impact of the federal tax reform, and discussed the county impact of US mineral royalties ([Exhibit 25](#)), ([Exhibit 26](#)), and ([Exhibit 27](#)).

07:11:22 Sen. Cohenour asked if these issues will greatly impact FY 2019.

07:13:11 Sen. Ankney commented on the mineral revenue from Rosebud County and asked if there will be a waiver on mineral royalties.

Public comment

07:16:00 Bob Story, Montana Taxpayers Association
07:19:52 Harold Blattie, Montana Association of Counties
07:24:42 Sen. Barrett commented on the federal reform presentation.
07:25:28 Rep. Jacobson commented on the committee's work addressing the concerns about the federal reform.

SETTING STATEWIDE MILL LEVIES

Overview of statutory authority -- Ms. Moore

07:25:57 Ms. Moore provided an overview of the statutory authority regarding statewide mill levies ([Exhibit 28](#)).
07:27:10 Rep. Hamilton asked for clarification of the mill levies in Gallatin County.
07:27:47 Ms. Moore continued her presentation.

Changes to Determination of Tax Revenue and Mill Levy Limitations form -- Harold Blattie, Montana Association of Counties

07:29:33 Mr. Blattie reviewed the changes to the Determination of Tax Revenue and Mill Levy Limitations form (see [Exhibit 28](#)).

Comparison of past and current calculation methods -- Ms. Moore

07:37:33 Ms. Moore discussed and compared the past and current calculation methods of mill levies (see [Exhibit 28](#)).

Ed Caplis, Department of Revenue

07:40:05 Mr. Caplis discussed the calculation methods that the department uses.

Public comment

07:42:33 Mr. Story, Montana Taxpayers Association
07:47:08 Rep. Jacobson asked Ms. Moore if the committee could do more work in the area of mill levies.
07:48:06 Sen. Hoven asked if the testimony on Agriculture Classification will be discussed. The question was redirected to Ms. Moore.

HJ 18: TAX INCREMENT FINANCING STUDY (TIF)

Consideration of maximum incremental values/maximum taxable value in district -- Ms. Moore

07:49:13 Ms. Moore discussed the maximum incremental values and maximum taxable values in a district ([Exhibit 29](#)).
07:55:00 Rep. Jacobson asked if there will be more committee discussion on TIFs in future meeting agendas.

Overview of guarantee of TIF bonds -- Ms. Moore

07:55:26 Ms. Moore gave an overview of TIF bonds guarantees ([Exhibit 30](#)).
07:58:42 Rep. Hamilton asked for clarification on prohibiting pledging of the general credit and the exceptions.
08:01:28 Rep. Beard asked if Section 7-15-4301 was included in the possible consolidation effort of Sections 7-15-4289 and 7-15-4290.
08:02:20 Rep. Jacobson asked if a district has to bond before the end of the period and if extending the life of the district extends the bond.

08:03:21 Rep. Jacobson asked if there is a limit of length on the bond and what happens to the funds if there is additional revenue.
08:04:44 Rep. Beard asked if the committee should invite a bond attorney to address the mechanics of TIF bonds.
08:05:45 Rep. Hamilton commented on the mechanics of TIF bonds.
08:06:25 Sen. Barrett commented on school districts.
08:08:08 Sen. Hoven asked if the TIF directors can issue another set of bonds after the first issuance of bonds.
08:08:55 Rep. Jacobson asked if the topic of TIFs will be revisited in later meetings.
08:09:35 Sen. Barrett asked if the appropriate uses of TIFs will be discussed in later meetings.
08:10:49 Rep. Hamilton recommended inviting a panel of TIF managers for questions.
08:11:22 Sen. Cohenour commented on the idea of inviting a panel of TIF managers.
08:12:05 Sen. Barrett asked if having a panel of TIF managers was discussed as part of the work plan.
08:14:00 Rep. Jacobson commented on the importance of the committee understanding the mechanics of TIFs before making decisions in the future.

Public comment

08:16:38 Tim Burton, Montana League of Cities and Towns

AGENCY OVERSIGHT: MONTANA TAX APPEAL BOARD -- Dace McAlpin, Chair

Update

08:22:27 Mr. McAlpin updated the committee on the work of the Montana Tax Appeal Board ([Exhibit 31](#)).

Public comment

None

PUBLIC COMMENT ON ANY OTHER TOPIC WITHIN THE COMMITTEE'S JURISDICTION

None

08:30:27 Sen. Hoven asked if the committee was supposed to hear a report from the Department of Health and Human Services, will the committee hear from them at the next meeting.
08:31:30 Sen. Hoven commented on SB 333: *Generally revise medical marijuana laws* that went through the Regular Session 2017 Taxation committees.
08:33:17 Rep. Redfield asked to have DOR update the committee on the medical marijuana tax collections.

DRAFT LETTER TO THE LEGISLATIVE FINANCE COMMITTEE

08:34:10 Rep. Jacobson asked the committee to review the draft letter ([Exhibit 32](#)).
08:35:14 Sen. Ankney asked if there will be a motion made on the draft letter.

Motion

08:35:27 Sen. Cohenour moved to send the letter to the Legislative Finance Committee suggesting that the committees collaborate on designing a state tax structure study bill for introduction during the 2019 Legislative session.

Discussion on the motion

08:35:49 Sen. Hoven commented on the content of the letter.

Vote

08:36:04 The motion passed on a unanimous voice vote.

INSTRUCTIONS TO STAFF

08:36:55 Ms. Moore reviewed the committee's next meeting dates.

ADJOURNMENT

08:37:31 Rep. Jacobson adjourned the meeting at 4:39 p.m.

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