



Revenue and Transportation Interim Committee

65th Montana Legislature

SENATE MEMBERS

MARK BLASDEL--Vice Chair
DUANE ANKNEY
DICK BARRETT
JILL COHENOUR
BRIAN HOVEN
EDIE MCCLAFFERTY

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

September 14, 2017
Room 172, 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. JILL COHENOUR
SEN. BRIAN HOVEN

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

COMMITTEE MEMBERS EXCUSED

SEN. EDIE MCCLAFFERTY

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:

- approved language to be sent to the budget director acknowledging revenue projections may result in an ending fund balance below limits set in Section 17-7-140, MCA; and
- changed the February meeting to March 13-14, 2018, and the July meeting to July 10-11, 2018.

RECONVENE AND ROLL CALL

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

PROJECTED GENERAL FUND BUDGET DEFICIT

FYE 2017 General Fund Revenue report -- Legislative Fiscal Division (LFD)

00:01:02 Stephanie Morrison, LFD, updated the committee on the FYE 2017 General Fund Revenue report and the individual income tax collections for FYE 2017 thus far ([Exhibit 1](#)).

00:02:18 Sen. Cohenour arrived to the meeting at 8:03 a.m.

00:04:51 Sen. Blasdel arrived to the meeting at 8:05 a.m.

Committee questions for Ms. Morrison

00:21:55 Rep. Beard asked if the non-wage income tax revenues will have an abnormal increase in 2017 due to delays.

00:23:49 Rep. Hamilton asked what percentage of individual income tax is capital gains and if it's too early in FYE 2017 to tell how much capital gains are represented.

00:27:14 Sen. Barrett asked if the revenue estimates for wage income and non-wage income are calculated separately.

00:28:59 Sen. Barrett commented on the revenue estimates and asked if there will be an income tax surge in FYE 2017 or 2018.

00:30:10 Sam Schaefer, LFD, reviewed the corporation income tax collections of the FYE 2017 thus far (see Exhibit 1).

00:33:15 Rep. Jacobson asked if the oil production tax will continue to decrease and eventually bottom out.

00:35:16 Mr. Schaefer continued his presentation.

Committee questions

00:37:19 Rep. Hamilton asked how common it is to see a sudden and significant increase in corporate tax collection.

00:38:47 Rep. Jacobson asked if there is a correlation between the non-wage income tax

- and oil production tax decrease.
- 00:41:43 Sen. Hoven asked Ms. Morrison if she monitors changes in income tax by income levels over the years.
- 00:42:42 Nick VanBrown, LFD, reviewed property tax changes for FYE 2017 thus far.
- 00:43:59 Alice Hecht, LFD, updated the committee on insurance tax FYE 2017 thus far.

Committee questions for the presenters

- 00:45:57 Sen. Cohenour asked Ms. Morrison to discuss the timeline of FYE reporting and the changes and implementation of HB 2: *General Appropriations Act*.
- 00:52:10 Sen. Barrett thanked Ms. Morrison for her discussion of HB 2 and commented on the timeline for HB 2.
- 00:53:44 Rep. Hamilton asked Ms. Morrison if the legislature should be concerned that revenue collection patterns are currently below the 5-year average.

2019 biennium budget update -- Amy Carlson, Legislative Fiscal Analyst

- 00:56:59 Ms. Carlson reviewed the 2019 biennium budget ([Exhibit 2](#)) and ([Exhibit 3](#)).
- 01:11:18 Sen. Barrett asked if the first and second scenarios in the handout are built on the actual beginning fund balance (see Exhibit 2).
- 01:11:46 Ms. Carlson continued her presentation.

Committee questions

- 01:24:36 Rep. Jacobson asked for the history of when an income tax growth increased the revenue budget.

Projected general fund revenue amount that is less than revenue estimate -- Dan Villa, Budget Director, Office of Budget and Program Planning

- 01:26:57 Director Villa presented the Projected General Fund Revenue Outlook from the Governor's Office of Budget and Program Planning ([Exhibit 4](#)).

Committee questions

- 01:46:30 Sen. Barrett asked when Mr. Villa will notify the committee of the estimated amount of revenue if the actual or projected receipts amount to less than the amount projected.
- 01:47:44 Sen. Barrett asked when would be the earliest date that the Governor would implement the budget cuts.

Public comment

- 01:50:09 Heather O'Loughlin, Montana Budget and Policy Center
- 01:52:52 Bob Story, Montana Taxpayers Association
- 01:58:24 Joel Peden, Montana Independent Living Project
- 02:03:30 Jackie Heldt, State Director, SEIU 775
- 02:04:48 Sarah Howell, Montana Women Vote
- 02:05:45 Nick Hart, Montana Alzheimer's Association
- 02:07:05 Stacy Anderson, Montana Primary Care Association
- 02:09:06 Shawn Reagor, Montana Human Rights Network
- 02:12:37 Kristin Page-Nei, American Cancer Society/Cancer Network ([Exhibit 5](#))

02:15:00 Kim Brown, Opportunity Resources
02:16:55 Diane Fladmo, MEA-MFT
02:19:25 John Ilgenfritz, Helena
02:22:58 Claudia Clifford, AARP Montana
02:24:29 Brent Mead, Montana Policy Institute
02:25:38 Bridger Mahlum, Montana Chamber of Commerce
02:27:16 Travis Hoffman, Independent Living
02:29:34 Rose Hughes, Montana Healthcare Association
02:34:59 Adam Haight, Northern Plains Resource Council

Committee discussion and recommendations

02:36:27 Sen. Cohenour commented on the revenue estimate and projections presented.
02:37:28 Sen. Barrett recommended that the committee urge OBPP and LFD to continue to examine and refine the revenue estimate if the committee decides to accept the estimate.
02:39:20 Sen. Hoven asked Sen. Barrett for clarification of his recommendations.
02:40:09 Sen. Hoven discussed the projected revenue estimate from OBPP and LFD and gave his recommendations on how the committee should proceed.
02:43:05 Sen. Barrett commented on the recommended budget cuts and percentage of cuts to programs.
02:44:12 Rep. Hamilton responded to Sen. Hoven's comments and recommended that the committee look at balanced solutions.
02:45:38 Sen. Blasdel recommended that the committee continue the discussion later in the meeting.
02:47:34 Rep. Jacobson asked Ms. Moore to give a historical perspective and help give direction to the committee.
02:49:50 Rep. Jacobson discussed options on how the committee will proceed to vote on the projected general fund budget deficit and suggested a possible committee conference call if necessary.
02:50:10 Sen. Cohenour recommended that the committee make a decision before the end of the meeting.
02:50:20 Rep. Jacobson agreed with Sen. Cohenour's comment and discussed the committee's duty to respond to the projected general fund budget deficit.

BREAK (reconvened at 11:06 a.m.)

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

03:06:16 Director Kadas gave a brief DOR staff update.
03:07:04 Becky Schlauch, DOR

2017 Reappraisal

03:08:04 Director Kadas gave the committee an update on the department's current 2017 reappraisal work ([Exhibit 6](#)) and ([Exhibit 7](#)).

Income tax fraud update

03:12:23 Director Kadas reviewed the income tax fraud work ([Exhibit 8](#)).

Major case update

- 03:16:09 Dan Whyte, Chief Legal Council, DOR presented a litigation update ([Exhibit 9](#)).
03:20:11 Director Kadas reviewed the memo he sent to the committee regarding statewide mill levies ([Exhibit 10](#)).

Committee questions

- 03:30:34 Rep. Jacobson asked Director Kadas what the potential fiscal impact will be with the department's restraints on collection.
03:31:11 Sen. Blasdel asked Mr. Whyte for clarification of the liquor store reimbursements.

Public comment

None

LUNCH (reconvened at 12:37 p.m.)

- 04:36:32 Rep. Jacobson reconvened the meeting and asked the committee to review a draft of the letter the committee will send to OBPP regarding the general fund balance ([Exhibit 11](#)) and ([Exhibit 12](#)).
04:41:17 Committee discussion and recommendations to the draft letter.

MOTION

- 04:54:05 Sen. Barrett moved to accept the first two paragraphs and the first closing statement of the draft letter (see Exhibit 12).

DISCUSSION ON THE MOTION

- 04:54:41 Rep. Hamilton commented on the importance of communicating to the public that the committee plans to work collaboratively with the Governor's office regarding the state budget.

VOTE

- 04:55:49 The motion failed on a 6-6 roll call vote, with Rep. Beard, Hertz, Redfield, and Sen. Ankney, Blasdel, Hoven voting 'no' ([Attachment 5](#)).
04:57:44 Rep. Jacobson clarified and recommended changes to the draft letter.
04:58:31 Sen. Ankney commented on the importance of the language in the letter regarding a special session.
04:59:34 Rep. Beard stressed the importance of the OBPP informing and updating the legislature on the state budget.

MOTION

- 05:00:48 Sen. Blasdel moved to adopt the two first paragraphs of the draft letter, add Sen. Cohenour's recommended amendment to insert language to include the LFD staff, and adopt the second closing statement (see Exhibit 12).

VOTE

- 05:01:50 The motion passed on a 11-1 voice vote, with Rep. Hamilton voting 'no'.

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

Agency update

05:02:47 Director Tooley updated the committee on the Department of Transportation's ongoing work, along with the updates on HB 437: *Revise highway revenue laws*.

Committee questions for Director Tooley

05:11:50 Rep. Hertz asked Director Tooley to update the committee on the installation of the roundabout at the Grass Range intersection and asked if there are any warning signals leading up to the stop sign at the intersection.

05:14:06 Sen. Hoven asked the department to reconsider the option of a four-way stop at the Grass Range intersection instead of a roundabout.

Update on implementation of HB 473 and MDT FYE budget

05:15:32 Larry Flynn, DOT ([Exhibit 13](#))

Committee questions for Mr. Flynn

05:24:10 Rep. Beard asked for clarification of the distributor allowance.

05:25:14 Rep. Hertz recommended that the department give the committee periodical updates on the HSRA Fund.

05:25:58 Sen. Hoven asked for clarification of the Motor Fuel Tax Distribution numbers in Mr. Flynn's handout (see Exhibit 13).

05:27:16 Mr. Flynn made clarifications to his handout.

Public comment

05:27:40 Eric Bryson, Montana Association of Counties

SJ 23: CENTRALLY ASSESSED AND INDUSTRIAL PROPERTY

Overview of centrally assessed and industrial property valuation -- Doug Roehm, Centrally Assessed and Industrial Property Unit Manager, DOR

05:29:26 Mr. Roehm ([Exhibit 14](#))

05:33:03 Sen. Hoven asked for language clarification on the first slide of Mr. Roehm's presentation (see Exhibit 14).

05:33:36 Mr. Roehm continued his presentation.

05:47:53 Sen. Barrett asked for clarification between the market approach and original cost less depreciation approach.

05:49:10 Mr. Roehm continued his presentation.

Committee questions for Mr. Roehm

05:59:34 Sen. Hoven asked if reconciliation is the same for all utility industries.

06:02:56 Rep. Hertz asked for clarification of the examples given in Mr. Roehm's presentation (see Exhibit 14).

06:04:44 Rep. Jacobson asked for an example of an intangible personal property.

06:05:59 Sen. Hoven asked if the department has prescribed ranges for various industries and if the ranges change over a 5-year period.

06:08:44 Jill Gallagher, DOR ([Exhibit 15](#))

Committee questions for the presenters

- 06:22:20 Sen. Hoven asked for clarification of the income approach in Ms. Gallagher's handout (see Exhibit 15).
- 06:25:28 Sen. Hoven asked if a company's property taxes will change if they have a couple years of negative cash flow. The question was referred to Mr. Roehm.
- 06:25:59 Sen. Ankney asked if there is urgency to settle the case of protested taxes with CHS refinery. The question was referred to Director Kadas.
- 06:28:57 Rep. Hertz asked Mr. Roehm for examples of why there are intangible personal properties in the cost approach of the valuation methods.

Panel discussion: Perspective on centrally assessed and industrial property valuation in Montana

Rick Smith, Northwestern Energy

Shelley Nauman, CHS, Inc.

Jamie Fenwick, Charter Communications

Mike Kadas, Director, DOR

- 06:37:37 Mr. Smith ([Exhibit 16](#))
- 06:49:12 Ms. Nauman ([Exhibit 17](#)) and ([Exhibit 18](#))
- 07:01:43 Ms. Fenwick
- 07:08:39 Sen. Hoven asked if the Charter rates are comparable to other communication companies and asked if the dollar amount per subscriber is similar.
- 07:09:36 Director Kadas

Committee questions for the presenters

- 07:21:32 Rep. Hertz commented on the income methodology in oil production companies and asked Director Kadas for clarification of the oil companies income valuation.
- 07:22:40 Rep. Hertz asked Ms. Nauman to share with the committee the value of the 2014 appraisals on the CHS plant.
- 07:24:17 Sen. Barrett asked Ms. Nauman if the company spent \$100 billion to build a \$100 million plant.
- 07:26:47 Sen. Barrett asked Ms. Nauman to clarify her calculations she used to respond to the last question.
- 07:27:44 Sen. Hoven asked Director Kadas how much of CHS tax is a result of the 3% business equipment tax, and if the department's depreciation schedules are the same as the federal depreciation schedules.
- 07:29:17 Rep. Hertz asked if the depreciation schedules are straight line.

Public comment

- 07:29:58 John Bemis, CenturyLink ([Exhibit 19](#))
- 07:36:35 Bob Story, Montana Taxpayers Association ([Exhibit 20](#)), ([Exhibit 21](#)), ([Exhibit 22](#)), and ([Exhibit 23](#)).
- 07:43:24 Bridger Mahlum, Montana Chamber of Commerce
- 07:46:13 Mike Green, Helena (see Exhibit 14)

PANEL DISCUSSION: IMPACT ON LOCAL GOVERNMENT OF PLACING PROPERTY INTO FEDERAL TRUST

Commissioner Gale Decker, Lake County

Ryan Rusche, Attorney, Confederated Salish & Kootenai Tribes

Charlena Toro, Attorney, Department of Revenue

07:53:14 Commissioner Decker ([Exhibit 24](#))
08:05:51 Rep. Hamilton asked Commissioner Decker if he is under legal obligation to provide services to persons who are no longer on his tax rolls.
08:08:25 Mr. Rusche
08:19:40 Commissioner Decker commented on Mr. Rusche's presentation.
08:21:24 Ms. Toro
08:25:41 Rep. Hertz commented on Ms. Toro's presentation and the state reservations.
08:27:36 Mr. Rusche made clarification to his presentation regarding trust land on the reservation.
08:31:13 Rep. Hamilton asked Mr. Rusche to clarify the trust land ownership map and how it affects the services on the reservation ([Exhibit 25](#)).
08:35:55 Rep. Smith asked Commissioner Decker if he sent certified letters requesting collaboration with the state tribes.

Public comment

08:37:19 Sen. Lea Whitford, SD 8

HJ 22: AGRICULTURAL PROPERTY STUDY

Overview of types of property that qualify for agricultural classification and how the property is valued -- Bonnie Hamilton, Property Assessment Division Agricultural Appraiser, DOR

08:46:50 Director Kadas introduced Ms. Hamilton.
08:47:21 Ms. Hamilton updated the committee on the types of property in the state that qualify for agricultural classification and how the property is valued ([Exhibit 26](#)).
08:58:33 Sen. Hoven asked if the agricultural designation transfers to the new owner if there is a change in ownership of a designated property.
08:59:23 Ms. Hamilton continued her presentation.

Committee questions

09:07:14 Rep. Jacobson asked for the current year equivalent of the annual gross agricultural income.
09:07:26 Sen. Hoven asked if production income will be decreasing. The question was referred to Director Kadas ([Exhibit 27](#)).
09:19:04 Rep. Redfield asked if changing valuation numbers would solve agriculture property value issues as highlighted in Director Kadas' presentation (see Exhibit 26).
09:20:53 Sen. Hoven asked Director Kadas to comment on pulse crops.

Public comment

09:23:05 Bob Story, Montana Taxpayers Association ([Exhibit 28](#))
09:25:44 Jay Bodner, Montana Stockgrowers Association

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

None

Instructions to staff

09:27:06 Committee discussion on next meeting dates.

ADJOURNMENT

09:29:16 Rep. Jacobson adjourned the meeting at 5:30 p.m.

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