Legislative Services Division

Revenue Interim Committee

September

2019

Proposed Changes January 2020

The work plan provides an outline of what RIC will work on throughout the interim and how much time will be allocated to each subject. It should provide guidance to the committee, staff, and the public over the next 15 months and serve as a blueprint for the interim.

2019-2020 Interim Work Plan

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Introduction

This is the work plan for the Revenue Interim Committee (RIC) for the 2019-2020 interim. The work plan includes a description of planned committee activities. A separate work plan decision matrix shows how the committee allocated resources among proposed study options.

Committee Procedures and Public Participation

The RIC will operate under the Rules, Procedures, and Guidelines for Interim Committees adopted by the Legislative Council. As required by law, 10-day advance public notice will be given for all meetings and the public will be given an opportunity to comment on any matter that is within the jurisdiction of the committee. The Presiding Officer may establish time limits for public comments, if necessary. Interested persons may be added to the mailing list by visiting the RIC website. Agendas, memos, links, and other information can be found on the RIC website: https://www.leg.mt.gov/committees/interim/2019rvic/.

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How the RIC Plans its Work

During the legislative interim, the RIC typically focuses on assigned study topics, oversight of programs and rulemaking activities of the Department of Revenue and the Montana Tax Appeal Board, and revenue estimating and monitoring.[1] The committee may also address issues of interest to committee members within the committee's assigned areas of taxation and revenue estimating and monitoring.

The Legislative Council assigned the Committee one study in the form of joint study resolutions ranked by legislators: House Joint Resolution No. 35 (HJ 35), a study of Montana's state and local tax systems. This study ranked first among the polled studies.

This 2019-2020 Interim Work Plan sets priorities for how RIC will spend its limited time and resources. The work plan sets out a strategy for fulfilling the RIC's responsibilities throughout the 2019-2020 interim. A detailed work plan for the HJ 35 study will be adopted by the committee's December 2019 meeting, and this work plan will be updated at that time. The RIC Work Plan Decision Matrix, a separate document, is a way to look at topic options side by side and review time allocations for each topic.

RIC Statutory Duties and Obligations

Overview

The RIC draws its statutory responsibilities from a number of sources identified below. As applied to the RIC, statutes require the committee to:

1. **Conduct interim studies** as assigned. The committee may recommend to the Legislative Council that a study be assigned to another committee or not be conducted.

[1] The 2019 Legislature created a new Transportation Interim Committee and removed transportation-related duties from the previous Revenue and Transportation Interim Committee.

2. **Review administrative rules** of the Department of Revenue (DOR) and the Montana Tax Appeal Board (MTAB).
3. **Review legislation** proposed by DOR and MTAB. Bills requested by an individual member of the Legislature are not subject to this requirement.
4. **Complete additional statutory duties** including:
    a. preparing a **revenue estimate** by December 1 for introduction during each regular session of the Legislature in which a revenue bill is under consideration;
    b. reviewing income tax credits as provided in House Bill No. 723 (Ch. 399); and
    c. reviewing reports required to be submitted to the Committee.
5. **Monitor the operation of DOR and MTAB** with specific attention to the following:
    a. identification of issues likely to require future legislative attention;
    b. opportunities to improve existing law through the analysis of problems; and
    c. the experiences of Montana's citizens with the agencies and whether these experiences may be amenable to improvement through legislative action.
6. **(Committee driven):** Prepare bills and resolutions that, in the Committee's opinion, the welfare of the state may require for presentation to the next regular session.
7. **(Committee driven)**: Compile, analyze, and furnish information bearing upon the Committee's assignments and relevant to existing or prospective legislation that the Committee determines to be pertinent to the adequate completion of its work.

General Duties of All Interim Committees/Revenue Interim Committee Statute

5-5-215, MCA. General duties of all interim committees.
5-5-227, MCA. RIC oversight

" **5-5-227. Revenue interim committee — powers and duties — revenue estimating and use of estimates.**[2] (1) The revenue interim committee has administrative rule review, draft legislation review, program evaluation, and monitoring functions for the state tax appeal board established in 2-15-1015 and for the department of revenue and the entities attached to the department for administrative purposes, except the division of the department that administers the Montana Alcoholic Beverage Code.

(2) (a) The committee must have prepared by December 1 for introduction during each regular session of the legislature in which a revenue bill is under consideration an estimate of the amount of revenue projected to be available for legislative appropriation.

(b) The committee may prepare for introduction during a special session of the legislature in which a revenue bill or an appropriation bill is under consideration an estimate of the amount of projected revenue. The revenue estimate is considered a subject specified in the call of a special session under 5-3-101.

(3) The committee's estimate, as introduced in the legislature, constitutes the legislature's current revenue estimate until amended or until final adoption of the estimate by both houses. It is intended that the legislature's estimates and the assumptions underlying the estimates will be used by all agencies with responsibilities for estimating revenue or costs, including the preparation of fiscal notes.

(4) The legislative services division shall provide staff assistance to the committee. The committee may request the assistance of the staffs of the office of the legislative fiscal analyst, the legislative auditor, the department of revenue, and any other agency that has information regarding any of the tax or revenue bases of the state.

[2] Amendments to 5-5-227, MCA, have not yet been codified. This is a mock-up of how the section may appear after codification.

(5) The committee shall review tax credits [scheduled to expire][3] as provided in [section 1 of House Bill No. 723]."

Required Reports from the Department of Revenue

The Department of Revenue is required to provide seven reports to the Revenue Interim Committee.

15-1-230, MCA

Biennial report on the number and type of taxpayers claiming the credit for contributions to a qualified endowment under 15-30-2328, the total amount of the credit claimed, the total amount of the credit recaptured, and DOR's cost associated with administering the credit. Terminates Dec. 31, 2025.

15-6-232, MCA

Biennial update of the review and determination process for exempt property in sections 15-6-231 and 15-6-232. Terminates Dec. 31, 2021.

15-7-111, MCA

Report in the second year of each reappraisal cycle on the tax rates for the upcoming reappraisal cycle that will result in taxable value neutrality for each property class.

15-24-3211, MCA

Biennial report on the use of the property tax abatements for gray water systems under 15-24-3202 and 15-24-3203.

15-30-3112, MCA

List of student scholarship organizations receiving contributions from businesses and individuals granted tax credits under 15-30-3111. Terminates Dec. 31, 2023.

15-31-322(2), MCA

Biennial update on countries that may be considered tax havens under 15-31-322(1)(f).

15-32-703(10), MCA

Biennial report on the number and type of taxpayers claiming the credit for costs of investments in depreciable property used for storing or blending biodiesel with petroleum diesel, the total amount of credit claimed, and the DOR's cost of administering the credit.[4]

Required Reports from Other State Agencies

Film Tax Credit Report

The Department of Commerce (DOC) is required to report no later than 6 months before the 2021 legislative session and each biennium thereafter on film tax credits, including the impact of the credits, the dollar amount of credits issued, the number of net new jobs created, the amount of compensation paid, and the economic impact of the film industry in the state. Required by House Bill No. 293 (Ch. 352).

[3] Amendments to House Bill No. 723 should have removed the reference to tax credits "scheduled to expire." The original version of the bill terminated all tax credits on a rolling schedule.

[4] Senate Bill No. 226, creating the new Transportation Interim Committee, incorrectly directed that this report be provided to the Transportation Interim Committee. As this is a report on an income tax credit, the report should continue to be provided to the Revenue Interim Committee and staff will recommend a legislative change to fix the error.

Receipts Less than Revenue Estimate Projection: 17-7-140(4), MCA

The Office of Budget and Program Planning is required to report upon determination of the budget director that an amount of actual or projected receipts will result in an amount less than the amount projected to be received in the revenue estimate.

Medical Marijuana Reports

The Department of Public Health and Human Services and the Board of Medical Examiners are required to provide to the Revenue Interim Committee medical marijuana-related reports provided to the Children, Families, Health, and Human Services (CFHHS) Interim Committee under 50-46-343(6), MCA. The reports are for informational purposes only; the CFHHS Interim Committee has oversight over the medical marijuana program. Required by Senate Bill No. 265 (Ch. 292).

Work Plan: The Committee dedicated 0.259 FTE to its statutory duties including agency monitoring, administrative rule review, revenue estimating and monitoring, and reports required to be provided to the Committee. More than half of the time designated for statutory duties will be spent on the Committee's new statutory requirement to review income tax credits.

Additional Work Plan Topics

Study Resolution Assigned to the RIC by the Legislature

1. House Joint Resolution No. 35: Study Montana's State and Local Tax Systems

Legislative Poll Ranking: #1

Background: The HJ 35 study is intended to be a comprehensive study of the state's state and local tax systems. The Legislature has not conducted such a study in many years and the economy, population, and demographics of the state may be changing. The study will focus on whether to revise the state's current tax structure to reflect the current economy, stabilize state revenue, promote long-term economic prosperity, reflect principles of sound tax policy, ensure a fair and equitable tax structure, and allow Montana to compete for jobs and investments.

The study resolution requests appointment of a subcommittee to undertake the study for the purposes of including non-legislators. The subcommittee will include all members of the Revenue Interim Committee and the following public members, who were appointed at the Committee's organizational meeting:

- Rose Bender, Senior Fiscal Policy Analyst, Montana Budget and Policy Center;
- Eric Bryson, Executive Director, Montana Association of Counties;
- Tim Burton, Executive Director, Montana League of Cities and Towns;
- Dwaine Iverson, CPA;
- Bob Story, Executive Director, Montana Taxpayers Association; and
- Doug Young, Professor Emeritus, Montana State University.

Work Plan: The committee dedicated 0.774 FTE to the study of the state and local tax systems. The study will focus on two main topics: consideration of the adequacy of revenue for the state of Montana and for local governments and whether the tax system relies on diverse and balanced sources of

revenue. The committee will focus its work on existing revenue sources including the property tax, the individual and corporate income taxes, and natural resources taxes, and consider other revenue sources such as a consumption tax. Each HJ 35 committee meeting will address one existing tax type and include information requested by the committee on that topic. Agenda items related to consideration of a consumption tax will also be included.

Optional Topics for RIC Work Plan

1. Member Topics

Authority: Suggested by Sen. Blasdel's constituent

Background: The 2019 Legislature enacted Senate Bill No. 253 (SB 253), which revises the tax deed process to require an auction for properties that contain a dwelling.

Work Plan: The committee allocated 0.001 FTE for this topic. A representative of county treasurers will be asked to update the committee on implementation of SB 253.

2. Legislative Finance Committee House Bill No. 715 Studies

Authority: 5-5-227, MCA. RIC oversight

Background: House Bill No. 715 (HB 715) requires the Legislative Finance Committee (LFC) to undertake two studies.

Section 5 of the bill requires a study of the "long-term future budget and revenue needs with changing economics and demographics." The study is to be conducted by 6 members of the LFC and four people appointed by the LFC chair and vice chair. The bill describes the study as follows:

"(4) Subject to direction provided by the committee, the study shall include but is not limited to:
(a) identifying structural revenue challenges with economic, demographic, and geographical variability considerations;
(b) exploring revenue sufficiency for long-term potential expenditures, including but not limited to the following:
(i) health care costs, consumption, and funding;
(ii) K-12 inflationary increases;
(iii) higher education;
(iv) pensions;
(v) state infrastructure;
(vi) natural resource revenue funded programs; and
(vii) local government spending including infrastructure; and
(c) proposing potential solutions and possible legislation for consideration by the 2021 legislature."

The Legislative Finance Committee work plan describes the HB 715 study activities as follows:

"HB 715 Financial Modernization and Risk Analysis (MaRA) – assumed to be January-September 2020 This study is a separate committee with six members from the LFC and four other members. It will take the data compiled from work from last interim, HB 715 Budget Stabilization Observations, and other

interim committee input to analyze how Montana can move its financial plan forward with the changing economy."

Section 6 of HB 715 provides for a long-term budget stabilization study. The bill describes the study as follows:

"(2) Subject to direction provided by the legislative finance committee the study may include but is not limited to research related to the following topics:

(a) budget stress tests, including pension stress testing, revenue volatility, revenue trends, expenditure trends, and expenditure volatility;

(b) local government expenditures and funding;

(c) financial sustainabilty of revenue sources supporting natural resource programs, education programs, and Medicaid and the children's health insurance program; and

(d) personal services budgeting practices."

The Legislative Finance Committee sent a letter to the Committee asking for "assistance in developing questions, assumptions and understanding budget pressures, opportunities, and risks for the first part of the HB 715 studies." The letter asks for time on the September 2019 meeting agenda for Legislative Fiscal Division staff to explain the work already completed for the study and for the Committee to give feedback to LFD. The letter also suggests that the Committee may wish to take public comment on the feedback to be offered to LFD.

Work Plan: The committee allocated 0.001 FTE for coordination with the Legislative Finance Committee on the HB 715 studies.

Tentative Meeting Schedule

The committee tentatively adopted the following meeting schedule but will review the dates at the September 2019 meeting with the public members of the HJ 35 committee.

June 27, 2019 (organizational)
September 24-25, 2019
November 18-19, 2019
January 13, 2020 (Legislative Week additional meeting)
March 19-20, 2020
May 12-13, 2020
July 20-21, 2020
September 11, 2020
November 19, 2020 (Revenue estimate only)

Work Plan Timeline

This timeline provides an outline of how the RIC will accomplish the items in its work plan. The timeline may be revised and will be updated to reflect the adoption of a HJ 35 study plan.

Date	Activities	Tasks/Policy Decisions
June 27, 2019 (Meeting 1)	➢ Organizational	• Elect officers • Review, revise, and adopt work plan • Adopt meeting dates
	➢ Agency Monitoring	• Agency introductions • Administrative rule review
	➢ HJ 35	• Introduce principles for evaluating state tax sources • Discuss approach to HJ 35 and appoint of subcommittee • Adopt preliminary study plan
	➢ Revenue Estimating & Monitoring	• FY 2019 General Fund Update
September 24-25, 2019 (Meeting 2)	➢ Organizational	• Review final work plan and meeting dates
	➢ Agency Monitoring	• DOR update • DOR quarterly budget update • Administrative rule review
	➢ HJ 35	• Receive background information for evaluation of state and local tax systems using NCSL principles • Submit requests for additional information to inform evaluations • Establish methodology for evaluations
	➢ Tax Credit Review	• Establish criteria for reviewing income tax credits

	➢ Revenue Estimating & Monitoring ➢ Other	• FYE 2019 Quarterly Report • LFD presentation on HB 715 study
November 18-19, 2019 (Meeting 3)	➢ Agency Monitoring ➢ HJ 35 ➢ Tax Credit Review ➢ Revenue Estimating & Monitoring	• DOR and MTAB updates • Administrative rule review • Receive additional information requested at September meeting • Conduct state and local tax system evaluations • Use evaluation results to scope study • Income taxes imposed by foreign states or countries • New or expanded manufacturing • YTD GF Revenue Collections
January 13, 2020 (Legislative Week) (Meeting 4)	➢ HJ 35	• Property Tax
March 19-20, 2020 (Meeting 5)	➢ Agency Monitoring ➢ HJ 35 ➢ Tax Credit Review ➢ Revenue Estimating & Monitoring	• DOR and MTAB updates • DOR quarterly budget update • Administrative rule review • Individual income tax and corporate income tax • Alternative energy system • Energy-conserving expenditures • FY 2020 Quarterly Report
May 12-13, 2020 (Meeting 6)	➢ Agency Monitoring ➢ Required Reports ➢ HJ 35 ➢ Tax Credit Review ➢ Revenue Estimating & Monitoring	• DOR update • Administrative rule review • DOR required reports: qualified endowment tax credit, biodiesel blending and storage tax credit, student scholarship organizations • Natural resource taxes • Sales tax • Make recommendations and request legislation • Elderly homeowners and renters • Credit for contractor's gross receipts • FY 2020 General Fund Update

July 20-21, 2020 (Meeting 7)	➢ Agency Monitoring	• DOR and MTAB updates • DOR quarterly budget update • Administrative rule review • Agency bill draft requests
	➢ Required Reports	• DOR required reports: tax haven report, property tax abatements for gray water systems, public listing of exempt property • Department of Commerce film tax credit report
	➢ HJ 35	• Review and revise requested legislation • Review draft final report
	➢ Tax Credit Review	• Follow-up as needed • Request legislation/final report
	➢ Revenue Estimating & Monitoring	• 2023 Biennium Revenue Outlook and FY 2020 Quarterly Report
September 11, 2020 (Meeting 8)	➢ Agency Monitoring	• DOR update • DOR quarterly budget update • Administrative rule review
	➢ HJ 35	• Final review and adoption of legislation • Adopt final report
	➢ Tax Credit Review	• Final review of any legislation/reports requested
	➢ Revenue Estimating & Monitoring	• FYE 2020 Quarterly Report • Presentations from economists and forecasters
November 19, 2020 (Meeting 9)	➢ Agency Monitoring	• Administrative rule review
	➢ Required Reports	• DOR tax rates that will result in taxable value neutrality report
	➢ Revenue Estimating & Monitoring	• 2023 Biennium Revenue Estimate and Comparison to Executive

Ongoing: Agenda items for presentation of medical marijuana-related reports