Revenue and Transportation Interim Committee

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58th Montana Legislature

SENATE MEMBERS
GREGORY BARKUS
JERRY BLACK
VICKI COCCHIARELLA
JON ELLINGSON
ROBERT STORY
KEN TOOLE

HOUSE MEMBERS
JOE BALYEAT
EILEEN CARNEY
RONALD DEVLIN
CHRISTINE KAUFMANN
KARL WAITSCHIES
BILL WILSON

COMMITTEE STAFF
LEANNE KURTZ, Research Analyst
JEFF MARTIN, Research Analyst
LEE HEIMAN, Staff Attorney

MINUTES

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.**

Room 102, State Capitol
December 11 & 12, 2003

COMMITTEE MEMBERS PRESENT

Sen. Robert Story, Chair
Rep. Eileen Carney, Vice Chair
Sen. Gregory Barkus
Sen. Jerry Black
Sen. Vicki Cocchiarella
Sen. Jon Ellingson
Sen. Ken Toole
Rep. Joe Balyeat
Rep. Ronald R. Devlin
Rep. Christine Kaufmann
Rep. Karl Waitschies
Rep. Bill Wilson (Excused for December 12, 2003)

STAFF PRESENT

Jeff Martin, Research Analyst
Leanne Kurtz, Research Analyst
Lee Heiman, Staff Attorney
Cindy Amundson, Secretary

VISITORS

Visitors' list (Attachment #1)

COMMITTEE ACTION

None

CALL TO ORDER AND ROLL CALL

The meeting was called to order by Sen. Story at 9:00 a.m. on Thursday, December 11, 2003. Roll call was taken and all members were present.

Rep. Devlin moved to approve the October 2, 2003, minutes as presented. The minutes were approved unanimously.

SJR 29 Study

Jeff Martin, Research Analyst, Legislative Services Division, presented a background report on the valuation of electrical generation property. (Exhibit 1) The purpose of his report is to "evaluate recent trends in the market valuation of coal-fired electrical generation facilities in Rosebud and Yellowstone Counties and of hydroelectric facilities owned by regulated utilities and PPL Montana; discuss some aspects of PPL Montana's property tax protest; and review some issues related to the valuation of electrical generation property." Mr. Martin emphasized that because the electrical generation property is centrally assessed, the valuations are allocated values and not necessarily the asset value of the particular generation facility.

As part of his report, Mr Martin presented several tables and provided a detailed explanation for each one. The first table showed market value of coal-fired generation property from 1999 through 2003. The second table showed the market value of hydroelectric facilities for tax years 1999 through 2003. The third table contained information on the estimated proportion of PPL Montana protested taxes by county for tax years 2000 through 2003.

Mr. Martin highlighted the differences in values among generation facilities because it is part of PPL Montana's protest. In 1999, the values of Colstrip Units 1 & 2 (owned by the Montana Power Company and Puget Sound) were fairly close. However, over the past four tax years, the difference increases with PPL Montana being about 50 to 60 percent higher than Puget Sound.

Mr. Martin said pollution control is also a part of PPL Montana's protest in which they assert that the Department of Revenue (DOR) included some pollution control equipment in the valuation of the generation facilities, which is significant for the taxpayer because pollution control equipment is taxed at 3 percent and generation facilities are taxed at 6 percent. He added that in order to qualify as pollution control equipment, it has to be certified by the Department of Environmental Quality (DEQ). Colstrip units 1 and 2 went online in 1975 and 1976, so records may be unclear on what qualified as pollution control equipment. Therefore, DOR made some adjustments, increasing the value of PPL Montana's pollution control equipment from $54 million in 2000 to $92 million for the past three years. This was also the same scenario at the Corette plant.

Rep. Balyeat commented on the difference between the valuation of the 50% owned by PPL Montana versus the 50% owned by Puget Sound. He asked if PPL Montana is disputing that the cost factor was miscalculated or if they are claiming that cost should not be figured in the formula. David Hoffman, PPL Montana, addressed the question but did not have a clear answer for this. Sen. Ellingson pointed out that the figures on these tables are Department of Revenue (DOR) figures. Gene Walborn, Bureau Chief of Business Tax and Valuation Bureau responded to the question, stating that Rep. Balyeat's understanding of the situation was correct. Jeff Martin added that other than PPL Montana, the other generation facilities are still under a regulated regime in the areas they serve.

Mr. Martin included a brief discussion of the valuation methods used to determine value of income-producing property, particularly centrally assessed property. He asked the Committee if they would like a more detailed report on how each one of the methods is used or how the correlation or weighting scheme is applied. Sen. Ellingson recommended that DOR apply its analysis to these generation facilities and explain to the Committee why there is a significant difference between the valuations. Rep. Story asked Linda Francis, Director of DOR, to address this request. She said the department has to consider their legal case with PPL Montana, but could probably do this if it is done in a generic fashion. Don Hoffman, DOR, said he thought it would be possible without damaging their legal case to provide numbers and methodology. Jeff Martin said he would work with staff from DOR to gather information and present a report at the next meeting.

Sen. Barkus asked if DOR could provide information on the impacts to the counties from the sale, based on the higher valuation and taxes on these facilities. Mr. Martin said they would research that and include it in the report.

In regard to impacts from the sale, Sen. Story asked why values on some facilities increased and some decreased, and if there was any involvement with local governments in the process. Ken Morrison, PPL Montana, said they had some discussions with the local governments during the process. However, they contacted DOR and were told they should use the purchase price allocation.

Sen. Black asked if there would be a comparison of how other states value generation facilities in the report. Mr. Martin said yes.

<u>Exemption of Intangible Personal Property Tax</u>

Gene Walborn, Bureau Chief of Business Tax and Valuation Bureau, Department of Revenue (DOR), presented information on the exemption of intangible personal property tax. (Exhibit 2) He provided a background history and said that DOR's administrative rules allow for intangible personal property to be removed from the company's market value based on a standard industry percentage. He listed these percentages for all exempt companies. (See Exhibit 2, page 2) Mr. Walborn said that exempting intangible personal property for tax year 2003 reduces market value by about $550 million with an estimated tax loss of $17,120,000 for both local and state government. He provided a table which details the breakdown by industry. (See Exhibit 2, page 2) In addition, Mr. Walborn reported that for all industries except the electric companies the estimated tax calculation used the 2002 average commercial and industrial mill levy of 474 mills. For electric companies a mill levy of 417 was used because a significant amount of property is located in counties with lower than average mill levies. The information in the table only includes centrally assessed companies. The impact on locally assessed property is minimal and not included.

Sen. Story asked if all intangible property is phased in after this. Mr. Walborn said that the exemption for centrally assessed property was phased in over a three-year period and it is now 100% exempt. Sen. Story asked if the Committee needed this report any longer because it was 100 percent exempt. Mr. Walborn said they would need to take this provision out of the statute.

Sen. Ellingson asked why there is such a difference in the percentages for the companies. In response, Mr. Walborn used the example of the telecommunication industry, which uses a large amount of software to switch calls. The railroads also use quite a bit of technology for switching, etc., but not as much as the telecommunication industry. In trying to assess these percentages, DOR examined the balance sheets of some large companies. They looked at all the items and determined what percent was software, then decided the default percent should be 5 percent. He added that if an industry does not like the percentage they can petition for a higher percentage.

<u>Class Eight Business Equipment</u>

Dan Dodds, Tax Policy Analyst, DOR, presented a report on class eight property tax trigger calculation. He distributed copies of a memo on the trigger calculation (Exhibit 3) and a trigger timeline (Exhibit 3A). Mr. Dodds explained the statute, which requires the department to calculate the trigger. He reported that the inflation adjusted growth in Montana wage and salary income was 2.48 percent for 2002. Thus, the trigger is not hit and the tax rate for class 8 property remains at 3 percent for tax year 2005. DOR will perform the calculation again in 2004.

Rep. Devlin asked about the preliminary data and what weight it might have. Mr. Dodds said it is useful to look at that preliminary data but it is revised every year and it can change dramatically. Sen. Ellingson asked how much the business equipment tax brings in every year. Jim Standaert, Senior Fiscal Analyst, Legislative Fiscal Division (LFD), said it brought in $60 million annually for both state and local governments.

Sen. Story commented that there are two components to the calculation: 1) growth and wages of salaries; and 2) inflation adjustment. Mr. Dodds confirmed that. Sen. Story asked whether it was the growth and wages in salaries or inflation that brought the state close to the trigger. Mr. Dodds said that inflation was low and growth and wages in salaries was also relatively low. Unadjusted growth in wages and salaries were in the range of 3 to 4.8 percent.

Lee Heiman, Staff Attorney, Legislative Services Division, presented a recommendation for a technical amendment related to source of wage and salary information used to calculate the trigger as explained in his letter to Terry Johnson, LFD, dated October 21, 2003. (Exhibit 4) Mr. Johnson had raised three issues in the letter, dated September 24, 2003, pertaining to the statutes regarding the trigger. The first question was relative to the trigger date. The other two questions pertained to the naming of the tables and data sets. Exhibit 4 is Mr. Heiman's response to those questions and includes his suggestions for amendments to the statute to address these issues.

Sen. Story asked if the federal government separates the wage and salary growth between the public and private sectors and, if so, what number is used for the trigger figure. Mr. Dodds said the Bureau of Economic Analysis estimates wages and salaries by economic sector. However, he did not know which had grown faster but offered to get this information for the Committee. Several Committee members offered comments about the number being used for the trigger.

Jeff Martin commented that at some point the Committee may want to request some bill drafts to incorporate Mr. Heiman's suggestions and to deal with some of the other issues with the trigger. Sen. Story recommended waiting on the bill drafts. He said they will need one to deal with Mr. Heiman's suggestion, which is fairly simple, but the other issues are more complex and will need more work before drafting a bill.

HB2 Requirement Regarding DOR Compliance Staff

Dan Hoffman, DOR, provided a summary of the HB2 requirement to report on the cost of DOR compliance staff and additional revenue generated. This request came out of the special session in 2002, when the legislature asked DOR to ascertain whether or not they could enhance revenue by increasing the compliance staff. The department presented a proposal to the Legislature which would add compliance staff to focus on compliance activities related to the individual income tax, and added 13.3 additional FTE to accomplish this. As part of the proposal, DOR was to generate additional revenue over and above the audit revenue contained in the original fiscal year 2003 revenue estimates, and for fiscal years 2003 through 2005, that figure was $15 million. DOR was to increase that amount by $1.862 million in fiscal year 2003 and $3.724 million in each of the fiscal years 2004 and 2005. Fiscal year 2003 was limited due to the fact that we were already into fiscal year 2003 by the time the staff was added.

Mr. Hoffman said that in terms of additional revenue being generated, the department does not report audit collections at the individual level, but in an aggregated total. He explained the reasons for this and also said that they do not assign revenue targets to individuals. He reported that the target for fiscal year 2003 was $16.7 million and they actually collected $20.9 million. The target for fiscal year 2004 is $18.7 million and through November, they have collected $17.2 million, which is right on target.

Update on the Integrated Revenue Information System (IRIS)

Linda Francis, Director, DOR, provided an update on IRIS. She reported that since the last Committee meeting, DOR has collected $1.1 million in rental vehicle tax on the new system. IRIS has been generating individual permits and returns since September 29, 2003.

With regard to conversion, Ms. Francis reported that in agreement with DOR and the vendor that one year's worth of retroactive data, plus all customer account periods that have a debt owing will be converted into the new system.

The move of the unemployment insurance back to the Department of Labor and Industry (DLI) is on schedule. Even though withholding and unemployment insurance won't be up in both DLI and DOR until June, 2004, they wanted the least impact to the taxpayers. So effective January 1, 2004, the employers will be receiving separate forms for each agency, although DOR is under contract with DLI to process the forms until June 2004. Ms. Francis added that the form has been greatly simplified from the complex full-page form to a form with five lines. Both forms will be sent to DOR until July 1, 2004, when DLI goes on line with the system. After July 1, DLI will then process the forms. Sen. Story asked about the ability to file electronically and

Ms. Francis said they do have that capability. She said electronic filing is the preferred process because it reduces the chance of human error.

Ms. Francis reported that they are still on schedule and still on budget. The accommodations tax is still on target for March 30 and the cigarette tax will be up and running April 30.

Sen. Story asked if all the rental vehicle vendors have filed and how DOR knows whether it has them all. Dan Hoffman said the department used information from DLI and they sent out over 600 letters asking vendors to file. He said DOR has not yet conducted any compliance studies to ensure that all vendors are in the system, but DOR will be doing follow-up on this.

Review Necessity of Required Reports

Leanne Kurtz, Legislative Services, presented a summary of reports required to be provided to the Committee. (Exhibit 5) Jeff Martin suggested that the Committee may want to review the list during the interim, assess the reports, and determine their value and whether to continue them. He commented that the Committee might want to require a report from DOR similar to that for DOT on state-tribal tax agreements.

Sen. Devlin suggested the Committee ask DOT to report on the design-build contracting to determine if there has been any cost savings since the bill was passed, contingent upon whether enough time has passed to provide any useful data. Sen. Story said he thought they should ask DOT for this report even though there may not be anything to report at this time.

Rep. Balyeat commented on the report regarding Capital Companies and Small Business Investment Capital Companies from the Department of Commerce (DOC). The note in the summary suggests that the Economic Affairs Interim Committee assume responsibility for this report because they oversee DOC. Rep. Balyeat stated he felt it should stay with the Revenue and Transportation Interim Committee because these companies receive a significant tax credit for investing in these Montana capital companies. Jeff Martin suggested that maybe DOC could provide this report to both interim committees. Committee members talked about what types of data they would like to see in this report. Ms. Kurtz said that they could request DOC provide that particular data in their report.

Reports from Executive Branch Tax Study Committees

Tax Reform Study Committee (SB 461)

Larry Finch, DOR, presented a report on the activities of the Tax Reform Study Committee. (Exhibit 6) His report included information on the committee charge, composition, appropriation, activities to date, and issues for the upcoming meeting to be held January 12, 2004. Mr. Finch responded to questions from Committee members.

Property Reappraisal Study Committee (SB 461)

Rocky Haralson, DOR, presented a report on the activities of the Property Reappraisal Study Committee. (Exhibit 7) His report included information on the committee members, charge, activities to date, and issues for the upcoming meeting to be held January 12 and 13, 2004.

Rep. Devlin stressed that the committee is still gathering information and has not made any significant determinations. He said they have noticed that appraisal cycles are different from the past.

U.S. Highway 2 Reconstruction Study

Joe Hart and Steve Long with David Evans & Associates presented the environmental impact statement (EIS) for highway improvements to U.S. 2 from Havre to Fort Belknap. They distributed copies of three documents: 1) EIS briefing information (Exhibit 8); 2) EIS benefit cost analysis of alternatives, revised (Exhibit 9); and 3) EIS existing economic conditions report, executive summary (Exhibit 10). Mr. Hart went over the briefing document, which was divided into four sections, Project Information, Citizens Advisory Committee, Environmental Documentation, and Economic Research. He said the final draft of the EIS will soon be issued and the public will have the opportunity to review it prior to the next official public hearing, scheduled for March 2004. They hope to complete the final documents by the summer of 2004.

Sen. Cocchiarella asked about the source of money to fund this portion of the project. Dave Galt, Director, Department of Transportation (MDT), said there were two $1 million segments earmarked for this project from Congress, which did not require state match.

Sen. Story asked about the possibility of a legal issue if the EIS results in a 2-lane highway as the preferred alternative. Dave Galt said that it is possible the state could be sued, but not probable. He said that because of federal regulations, if the EIS preferred alternative is a 2-lane highway, then they have to build a 2-lane highway.

Referencing the cost-benefit analysis, which stated that the costs for a 4-lane highway exceed the benefits, Rep. Balyeat asked if they included the costs to southern communities if the public switched from southern routes to the northern routes because of the new highways. Mr. Hart said that would be an outcome of the reconfiguration study, because they are looking at all 2-lane highways in Montana.

Rep. Devlin asked if this section of highway was chosen because of high traffic and Mr. Galt said that it had the highest traffic counts on Highway 2 east of the Continental Divide, it was in most need of repair, and there were already plans to deal with that stretch.

Rep. Waitschies asked if they considered the possibility of any new businesses starting up in that area when they did the EIS. Mr. Hart said they did consider this and talked with a number of those types of industries about their interest in moving to this area, but did not have any firm commitments.

Rep. Carney asked if MDT had abandoned the Swamp Creek project at Libby when they chose to proceed with this project. Mr. Galt said that this is not a comparison project and MDT intends to proceed with the Swamp Creek project later. He explained the situation with Swamp Creek and the reasons why there have been delays in that project. He said he would forward her a copy of the report on that project.

Mr. Galt introduced Dan Rice, Commissioner of the Transportation Commission from Great Falls and the Chairman of the Reconfiguration Study. Sen. Story suggested that they present the Reconfiguration Study (the study) to the Committee at some future date and Mr. Galt agreed.

Mr. Rice reported that the study is in the final testing phase. The study will allow them to take a particular segment of highway and configure it in any one of the four alternative highways, to analyze the economic activity that currently occurs statewide, and, hopefully, to determine what activity would occur if the improvements were made. That would be done by sectors of particular businesses, i.e., an improved 2-lane between Helena and Three Forks. He said there are pluses, i.e., it might make transportation a little bit easier and faster, but there are also minuses, i.e., might take business from other areas of the state. He said hopefully this tool will give them the pluses and minuses. Mr. Rice said that this tool will be final and available in 90 to 110 days and agreed with Sen. Story that a presentation to the Committee would be a very good idea. He said this is a very good tool and is not used in any other state.

Sen. Barkus asked if an EIS must be done on every highway project and Mr. Galt said they have to do an EIS or at least an environmental assessment (EA). He said it depended on the social impacts to the area.

Department of Revenue Litigation Report

Dave Ohler, DOR, presented a litigation report for DOR. He said that most of their cases relate to either tax or liquor issues with four main areas of litigation, which are property tax, corporate tax, individual income tax, and liquor violations. They currently have 142 active litigation cases, which include 64 property tax, 35 liquor violations, 23 individual income tax, and 20 corporation license tax. He provided status reports on several of the most significant cases, including PPL Montana, Qwest, and Touch America.

Department of Transportation Litigation Report

Tim Reardon, MDT, presented a litigation report for MDT. He said MDT handles the majority of cases in-house and the largest percentage of the workload is acquisition of property. He summarized several cases and said that some of the major cases involve contract claims. He said if the contractor succeeds in the case, the state pays attorney fees, costs, and 10 percent interest. Mr. Reardon said they have 139 open claim cases, some of which are major cases, and he gave a few examples. Sen. Story asked where the money comes from to pay the costs in the contract claims cases where the contractor succeeds. Mr. Reardon said most of it is federal aid eligible, but the attorney fees and costs are not and this money has to come out of the state coffers per statute.

Highway Safety

Dave Galt presented an update on the highway safety program. He distributed copies of an updated list of traffic fatalities for September, October, and November 2003. (Exhibit 11) The list includes the names and ages of the fatalities, total number of fatalities, the number of motorcycle and pedestrian fatalities, the number of fatalities in which a seatbelt was used and not used, and the number of alcohol-related fatalities. Mr. Galt noted the numerous MDT media advertisements to deal with alcohol and seatbelt fatalities on Montana highways.

Mr. Galt said they are anticipating a significant changes at the federal level for highway safety programs. He noted that both proposed reauthorization bills contain billions of dollars in funding for highway safety. The federal government will require that every state have a comprehensive safety program (CSP). In anticipation of this, MDT is working on its CSP and would like to set up a steering committee as part of the program to include at least one member of this Committee. He said there are federal dollars available and MDT is in the process of issuing an RFP to hire a consultant team to assist in putting it together. Mr. Galt introduced Priscilla Sinclair, MDT's recently hired safety officer.

Rep. Waitschies asked for clarification of what "unknown" means in regard to the alcohol-related fatalities listed on Exhibit 11. Mr. Galt said he wasn't sure but would check with the highway patrol because they provide the information. Sen. Cocchiarella asked if the fatality statistics are broken out by county. Mr. Galt said they do have that information in the statewide report.

Mr. Galt said he was going to send a letter to representatives in Washington, D.C. stating that MDT is not in favor of sanctions for noncompliance with seatbelt and alcohol legislation. Rep. Balyeat suggested he include the fact that Montana has a higher percentage rate of compliance than most states with secondary, as well as primary seatbelt laws. He also suggested that Mr. Galt recommend that if there are going to be sanctions, they be based on percentage of compliance with seatbelt laws. Mr. Galt will provide a copy of the communication he sends to Washington.

Public Comment

Kris Minard distributed a handout entitled, 2002 Rate of Alcohol Related Fatalities per 100 Million VMT. (Exhibit 12) Ms. Minard spoke on the tragedies of alcohol-related traffic fatalities. She asked the Committee to sponsor legislation for an open-container law that complies with TEA-21 and conduct research to ascertain what other measures can be taken to make Montana's highways safer.

Status of MDT Long-Range Planning

Dave Galt reported on the status of MDT's long range planning. He distributed copies of a draft long-range planning document for the Highway State Special Revenue Account (HSRA). (Exhibit 13) Mr. Galt pointed out the negative number at the bottom of the column titled, Projections FY 04 and explained the primary reasons for this. He attributed it to the following factors:

- additional funding to the state-funded construction program for 2004 and 2005;
- higher contractor payments this year, based on the preconstruction season; and
- $6 million that used to go to MDT and is now going to the Department of Justice.

Rep. Balyeat commented on HB 21 (requiring full recovery of indirect costs from federal and third-party grants, August 2002 Special Session) and relayed information he received from the Legislative Audit Division that due to HB 21 MDT saved between $5 and $31 million in just one year. Mr. Galt said he agreed with that. However, he clarified that HB 21 has forced MDT to think differently and changed their business practices, which is not necessarily a bad thing. He explained his concern about the $42 million in the account and possible misconceptions that this is extra money that could be available for other uses.

Sen. Story asked about the ethanol incentive for 2006 and if there was any activity on that yet, especially when the federal government is pushing these programs more and more. Mr. Galt said they are still not anticipating that until 2006, but he will provide a detailed report for the Committee at the next meeting.

Sen. Ellingson asked if MDT is getting any more federal money into the state as a result of charging more indirect costs against our federal highway projects. Mr. Galt responded strictly from an MDT perspective. He said they are not getting any more federal program money but they are doing a better job of leveraging Montana state tax money.

Report on Reauthorization of Federal Highway Funds

Dave Galt presented an update on reauthorization of federal highway funds. He said the department is still dealing with temporary funding and Congress has not taken any action on anything long-term. He reported that the house bill has the highest level of funding that they have ever given to rural states and the funding in the senate bill is very significant as well.

Mr. Galt said there are some very exciting things about those bills. The first is the American Treasures Program or Historic Park Roads Program, as it is referred to in the bill, which doubles the amount of funding going to the parks program. It also sets up a new program of eligibility to focus more on historic roads in the park system, which will be particularly important for the maintenance of the Going to the Sun highway in Glacier Park and access roads to the parks, including the Beartooth and Blackfeet highways.

Rep. Kaufmann asked about problems associated with the reauthorization bill. Mr. Galt said one of the problems is the revenue streams matching the appropriation streams, and another is funding for the highway side versus the transit side. Rep. Kaufmann also asked if MDT takes a position with regard to this and he said he spends a significant amount of time in Washington, D.C. lobbying the congressional delegation. Sen. Cocchiarella asked what the Committee could do to help. Mr. Galt said there are hundreds of policy issues, as well as funding issues in the bill and said he would make a list of the issues for the Committee.

Committee Work Plan

The Committee discussed several possible work plan issues, which included the following:

- the method for calculating the Class 8 trigger calculation;
- congressional issues - reauthorization bill and ban on Internet taxes; and
- significant decrease in corporation taxes.

Recess & Reconvene

The Committee recessed at 5:00 p.m. on Thursday, December 11, 2003, and reconvened at 8:30 a.m. on Friday, December 12, 2003. The roll was noted with a quorum present.

National Economic Trends

Andrew Hodge, Group Managing Director for U.S. and Canada, Global Insight, presented information on national economic trends titled, "The US Locomotive, A Full Head of Steam". (Exhibit 14) He answered questions from the Committee members and concluded with the statement that the economy is doing exceptionally well compared to the last several years.

State Economic Trends

Paul Polzin, Director, Bureau of Business and Economic Research, University of Montana, presented information on Montana's national economic trends titled, "Montana's Economy: Dodging Economic Bullets". (Exhibit 15) Mr. Polzin's report included information on the following: 1) annual percent change in nonfarm wage and salary employment: January 1999 through October 2003; 2) index of consumer sentiment, U.S. and Montana; 3) Montana Outlook - industries impacted by 2001 recession and aftermath; 4) Montana's economic base; 5) Montana income taxes collections impacted by U.S. economic conditions; 6) Montana Forecast, percentage change in nonfarm labor income. Mr. Polzin also distributed copies of the publication, "Outlook 2003, 28th Annual Montana Economic Outlook Seminar" (Exhibit 16) and "Outlook 2004, Street Smart Economics" (Exhibit 17). He answered questions from the Committee members.

General Fund/Federal Funds Update: 2005 Biennium Projected

Terry Johnson, Principal Fiscal Analyst, Legislative Fiscal Division, presented a report on the status of the general fund/federal funds and a 2005 biennium outlook. (Exhibit 18) Mr. Johnson's report was divided into the following sections:

- 2005 biennium general fund outlook;
- expenditure reductions under 17-7-140, MCA; and
- 2007 biennium general fund outlook.

He informed the Committee that combining the $100 million in unavailable revenue with the $50 million in reduced 2005 biennium revenues, and the $85 million in statutory and policy driven issues, the general fund revenue in the 2007 biennium will need to grow at a rate that will raise $235 million. Mr. Johnson emphasized that these numbers are not predictions, but very preliminary calculations based on a limited amount of information. He said that national and state economic growth, federal policies, and world events could change this outlook either positively or negatively.

Tom Beck, provided a response on behalf of the executive branch, stating they generally agree with Mr. Johnson's report for the 2005 biennium. However, they strongly disagree with the predictions for the 2007 biennium, stating that they think the numbers are too extreme.

There being no further business, the meeting adjourned at 12:20 p.m.

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