

# PROPOSED 2009-2010 INTERIM WORK PLAN OF THE REVENUE AND TRANSPORTATION COMMITTEE

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## INTRODUCTION

This report presents the preliminary 2009-2010 interim work plan for the Revenue and Transportation Interim Committee. The plan is designed to allow for Committee discussion, revision, and adoption. The work plan is divided into five parts:

1. statutory duties of the Revenue and Transportation Interim Committee, including revenue estimating duties;
2. statutorily required agency reports, including Department of Revenue sales assessment ratio studies;
3. interim study assignments, including Senate Joint Resolution No. 16 (study of underinsured and uninsured motorists), Senate Joint Resolution No. 37 (study of income tax filing by married taxpayers), House Bill No. 657 (study of the taxation of oil and natural gas property), and House Bill No. 658 (requested review of property tax assistance programs);
4. other areas for possible review and analysis, including:
  - a. clarify and simplify the laws related to entitlement share payments to local governments and tax increment finance districts (15-1-121, MCA) and to block grant payments to school districts (20-9-630, MCA);
  - b. analysis of certain areas of taxation requested by the House Taxation Committee;
  - c. other agency reports; and
  - d. Committee member topics; and
5. meeting schedule and Committee budgets.

A tabular summary of the proposed work plan is attached to this report.

## STATUTORY DUTIES OF THE REVENUE AND TRANSPORTATION COMMITTEE

The general statutory duties of interim legislative committees are contained in 5-5-215, MCA:

- 5-5-215. Duties of interim committees.** (1) Each interim committee shall:
- (a) review administrative rules within its jurisdiction;
  - (b) subject to 5-5-217(3), conduct interim studies as assigned;
  - (c) monitor the operation of assigned executive branch agencies with specific attention to the following:
    - (i) identification of issues likely to require future legislative attention;
    - (ii) opportunities to improve existing law through the analysis of problems experienced with the application of the law by an agency; and
    - (iii) experiences of the state's citizens with the operation of an agency that may be amenable to

improvement through legislative action;

(d) review proposed legislation of assigned agencies or entities as provided in the joint legislative rules; and

(e) accumulate, compile, analyze, and furnish information bearing upon its assignment and relevant to existing or prospective legislation as it determines, on its own initiative, to be pertinent to the adequate completion of its work.

(2) Each interim committee shall prepare bills and resolutions that, in its opinion, the welfare of the state may require for presentation to the next regular session of the legislature.

(3) The legislative services division shall keep accurate records of the activities and proceedings of each interim committee.

The specific duties of the Revenue and Transportation Interim Committee are contained in 5-5-227, MCA:

**5-5-227. Revenue and transportation interim committee -- powers and duties -- revenue estimating and use of estimates.** (1) The revenue and transportation interim committee has administrative rule review, draft legislation review, program evaluation, and monitoring functions for the department of revenue and the department of transportation and the entities attached to the departments for administrative purposes.

(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.<sup>1</sup>

(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.

### **Revenue Estimating and Monitoring**

The Revenue and Transportation Interim Committee is required to prepare an estimate of revenue available for appropriation for each regular legislative session. The work plan calls for the Committee to be involved in revenue estimating topics and revenue collection status reports throughout the interim. The Legislative Fiscal Division will present general fund revenue collection reports. The Committee may request a report every meeting or periodically.

The Committee adopts the revenue estimates in November of the year preceding the next regular session. Staff of the Legislative Fiscal Division and the governor's budget office each present revenue estimates for the Committee's consideration. The Committee has in the past initially adopted the revenue estimates of the Legislative Fiscal Division and may make changes to those estimates based on information presented by the budget office and economists from the Montana university system. The Committee may want to consider whether other people should be invited

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<sup>1</sup>House Bill No. 21 (Ch. 5, L. 2007) added subsection (2)(b) that allows the Committee to develop revenue estimates for introduction during a special session.

to present their views on the state's economic and financial outlook. At the September 2010 meeting, the Committee should establish procedures for how it will develop revenue estimates in November.

### **Income tax credit relief multiple**

House Bill No. 9 (Ch. 6, Sp. L. May 2007) provided a one-time \$400 property tax rebate and an income tax credit for the amount of property taxes paid associated with the 95 mills for school equalization levies on \$20,000 of market value of a taxpayer's principal residence times a relief multiple (15-30-140, MCA).

The relief multiple in statute is 0. For tax year 2007 only, a relief multiple was determined based on the amount by which the unaudited general fund revenue received in fiscal year 2007 exceeded \$1,802,000,000. For each \$1,000,000 greater than \$1,802,000,000, the relief multiple was increased by 0.1.<sup>2</sup>

Section 15-30-140, MCA, directs the Committee to determine if a change in the relief multiple is justified, based upon actual and projected revenue and spending and any other appropriate factors. If the Committee determines that a change is justified, the Committee is directed to request a bill draft to change the relief multiple.

Last interim, the Committee concluded it would not have information to make an informed decision on whether to recommend a change in the relief multiple. In addition, if a recommendation were enacted, some or all taxpayers may have to file an amended return to claim the credit. One suggestion was to introduce legislation during the session after budget and revenue amounts were better known.

The Committee should consider whether it wants to develop criteria for determining a recommended change to the relief multiple, recommend repeal of the statute, or simply leave it alone.

### **Rule Review**

Each legislative interim committee is required to review administrative rules proposed by state agencies within the committee's jurisdiction. The agenda for each meeting will likely include an item for this review.

### **STATUTORILY REQUIRED AGENCY REPORTS**

The Legislature often requires a state agency to report to the appropriate interim committee on a particular matter. The Departments of Revenue and Transportation are required to submit a variety of reports to the Revenue and Transportation Committee. The governor's budget office is required to notify the Revenue and Transportation Committee of the amount of actual or projected receipts that is less than the amount projected to be received in the revenue estimate

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<sup>2</sup>The relief multiple in tax year 2007 was 3.6. The amount of the credit was determined as follows: \$20,000 (market value) \* 66.8% (taxable percentage of market value) \* 3.07 (property class four tax rate) \* 95 mills \* 3.6 = \$140.

(17-7-140, MCA). The Committee is required to make recommendations to the budget director on the amount of the revenue shortfall. The budget director must consider the recommendations before certifying a general fund budget deficit. The budget office is also required to present an explanation of any significant change in agency or program scope to the appropriate interim committee (17-7-138, MCA).

### **Sales Assessment Ratio Studies**

House Bill No. 658 amended 15-7-111, MCA, to require the Department of Revenue to provide the Committee with a sales assessment ratio study of residences during the end of the second and fourth year of each reappraisal cycle. The first study would be due in 2010. The Committee may want to request a study be presented at the September 2010 meeting in order to have time to respond to the results of the study.

### **State-Tribal Cooperative Agreements**

Title 18, chapter 11, part 1, MCA, provides that the state may enter into cooperative agreements "to promote cooperation between the state or a public agency and a sovereign tribal government in mutually beneficial activities and services" and "to prevent the possibility of dual taxation by governments while promoting state, local, and tribal economic development." Section 15-70-234, MCA, requires the Department of Transportation to report on the status of cooperative agreements on motor fuel taxation to the Committee and to present an agreement to the Committee for review and comment before the final agreement is presented to the attorney general for approval. Because the timing of the agreements seldom coincides with the Committee's meeting schedule, the Committee may review and comment on the agreement by teleconference.

The Department of Revenue also enters into cooperative tax agreements with tribal governments but is not specifically required to report to the Committee. In the past, the Department has reported to the Committee on tax agreements; the Committee may want to request an update on those agreements and information on pending agreements, if any.

### **Summary of Required Reports**

The required reports are summarized in the table below. The summary table of the Committee's draft work plan at the back of this paper shows a proposed schedule for presentation of the reports.

<b>Reports That are Required to be Provided to the Revenue and Transportation Interim Committee</b>			
<b>Citation</b>	<b>Reporting Entity</b>	<b>Report</b>	<b>Frequency</b>
15-1-230, MCA Ch. 537, L. 1997	Department of Revenue	Number and type of taxpayers claiming the credit for contributions to a qualified endowment under 15-30-166, the total amount of credit claimed, the total amount of the credit recaptured, and the department's cost associated with administering the credit	At least once each year  The credit terminates December 31, 2013
15-7-111(4), MCA Ch. 483, L. 2009	Department of Revenue	Sales assessment ratio studies of residences to assess housing and market trends	During the end of the second and fourth year of revaluation cycle
15-31-322(2), MCA Ch. 521, L. 2003	Department of Revenue	Update of countries that may be considered a tax haven under 15-31-322(1)(f)	Biennially
15-70-234, MCA Ch. 772, L. 1991	Department of Transportation	Status of motor fuel tax cooperative agreement negotiations with the state's Indian tribes	As needed, after negotiations are complete and before final agreement is submitted to Attorney General for approval
15-32-703, MCA Ch. 525, L. 2005	Department of Revenue	The number and type of taxpayers claiming the credit for the costs of investments in depreciable property used for storing or blending biodiesel with petroleum diesel, the total amount of the credit claimed, and the department's cost associated with administering the credit.	At least once each year
15-70-369, MCA Ch. 525, L. 2005	Department of Transportation	The number and type of taxpayers claiming the refund (1 cent a gallon for retailers or 2 cents a gallon for distributors) of biodiesel sold, the total amount of the refund claimed, and the department's cost associated with administering the refund	At least once each year
61-10-154, MCA Ch. 366, L. 2005	Department of Transportation	Authority to stop and inspect, if probable cause exists, diesel-powered vehicles to determine compliance with provisions of special fuels use tax; impacts enforcement has had on the state special revenue fund	At least once each year
17-7-138, MCA	Office of Budget and Program Planning	Significant change in agency or program scope (budget change)	Regular basis

<b>Reports That are Required to be Provided to the Revenue and Transportation Interim Committee</b>			
<b>Citation</b>	<b>Reporting Entity</b>	<b>Report</b>	<b>Frequency</b>
17-7-140, MCA	Office of Budget and Program Planning	Estimated amount of receipts less than the amount projected to be received in the previous session's revenue estimating resolution	Upon determination of budget director that contingency in 17-7-140, MCA, has occurred
90-8-311, MCA	Commerce	Montana capital companies and Montana small business investment capital companies	Annually to the appropriate committee

### **Time for a change?**

The purpose of most of the required reports is to allow interim committees to track the effectiveness of particular legislation. The Committee may want to consider eliminating certain required reports (e.g., the report from the Department of Commerce under 90-8-311, MCA, on capital companies) or revising the frequency of the reports (e.g., the report on contributions to a qualified endowment program).

### **INTERIM STUDY ASSIGNMENTS**

In May, Legislative Services Division staff presented the results of the poll of legislators regarding interim studies and recommendations for the conduct of the studies to the Legislative Council. The poll asked legislators to rank each of 17 study resolutions approved by the 61st Legislature.<sup>3</sup>

The Legislative Council assigned to the Committee Senate Joint Resolution No. 16 (study of underinsured and uninsured motorists), introduced by Senator Roy Brown, and Senate Joint Resolution No. 37 (study of filing status by married taxpayers), introduced by Senator Jeff Essmann. House Bill No. 657, introduced by Representative Wayne Stahl, directs the Committee to study the taxation of oil and natural gas property.

Separate study plans detailing the Committee's options for the study resolutions and House Bill No. 657 will be discussed separately by the Committee at the July 1 meeting.

### **OTHER AREAS FOR REVIEW AND ANALYSIS**

#### **Property Tax Assistance**

Section 14 of House Bill No. 658 requests that the Committee as part of its oversight duties under 5-5-227, MCA, "review methods of providing assistance to property taxpayers, including circuit breaker programs and assistance to low-income, veteran, and elderly property owners and

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<sup>3</sup>See the "Back Page" article in the June 2009 issue of *THE INTERIM* newsletter for a discussion of poll results and recommendations of the Legislative Council.

whether the assistance should be accomplished through income tax or property taxation means." Last interim, the House Bill No. 488 subcommittee of the Revenue and Transportation Committee reviewed a variety of property tax assistance programs. That review would serve as a starting point for consideration of options for property tax assistance.

### **Letter from the House Taxation Committee**

Toward the end of the 2009 legislative session, the House Taxation Committee agreed on suggestions related to several areas of taxation for study by the Revenue and Transportation Committee this interim. The attached letter from the House Taxation Committee highlights those study topics: individual income taxes, natural resource taxes, property reappraisal, and a tax gap discussion.

### **Clarify Statutes Related to State Reimbursements to Local Taxing Jurisdictions and School Districts**

In the last two sessions, legislation was introduced to reduce the property taxation of class eight business equipment by reducing the tax rate, increasing the exemption amount, or both. The House versions of these bill would have provided a reimbursement to local governments for the reduction in property taxes through the entitlement share payment under 15-1-121, MCA. That section was amended to revise the calculation of the entitlement share payments and simplify or eliminate other provisions of that section. Those amendments apparently did not cause any controversy. The Committee may want to consider requesting legislation to clarify and simplify 15-1-121, MCA, separately from any property tax or other tax changes that may provide a reimbursement to local governments. Although the revised calculation of the entitlement share payment did not cause any controversy, the simplification of this section would not have to include those changes.

The same legislation also made changes to the school district block grant program under 20-9-630, MCA. The Committee may want to clarify that section as well.

The task could probably be accomplished in two or three meetings. The first meeting would include a background report on reimbursements to local taxing jurisdictions and school districts and a discussion of changes that may be made to 15-1-121, MCA, and 20-9-630, MCA. The subsequent meeting or meetings would include a review of the proposed changes to the relevant statutes and making a final recommendation.

### **Department of Transportation**

The Committee should monitor the status of the highway state special revenue account; federal funding of highway projects, including stimulus funding; major highway construction and maintenance projects, including cost increases; highway safety; and other matters affecting the Department of Transportation.

### **Litigation Reports**

The Committee may request reports from the Department of Revenue and the Department of Transportation on litigation affecting the respective department.

### **Agency Legislative Requests**

Interim committees are required to review legislative proposals of assigned agencies as provided by joint legislative rules. Joint Rule 40-40(5)(a) provides that unless requested by a legislator, "a bill draft request submitted at the request of an agency must be submitted to, reviewed by, and requested by the appropriate interim or statutory committee." A committee request for the drafting of an agency bill does not imply that the committee endorses or supports the agency proposal.<sup>4</sup>

### **Recodification of Individual Income Tax Laws**

House Bill No. 24 (Ch. 147, L. 2009), requested by the Revenue and Transportation Committee, recodified the individual income tax laws to improve the administration of and compliance with those laws. Committee staff will provide an update on recodification.

### **Other Committee and Staff Topics**

The Committee and staff may identify other concerns or policy matters for review and analysis as the interim proceeds. If the Committee decides not to take up a member topic, the legislator may submit an information request to the Legislative Services Division. Staff may devote up to 16 hours on an information request.

Staff may recommend clarifying existing law. For example, last interim the Committee introduced legislation to clarify the exemption amount for metal mines production as it applied to the state metal mines tax, to standardize tax increment financing district laws, and to clarify the distribution of certain motor vehicle revenue.

### **Department Reports**

Time will be available at each meeting for the Department of Revenue and the Department of Transportation to report on department activities.

### **PRIORITY OF COMMITTEE PROJECTS**

The draft Committee work plan details a significant amount of work for the interim, including three studies (House Bill No. 657, Senate Joint Resolution No. 16, and Senate Joint Resolution No. 37); revenue estimating and monitoring; review of property tax assistance programs and sales assessment ratio studies; the House Taxation Committee request for analysis; and agency monitoring, rule review, and required reports. The Committee should establish priorities for these tasks to ensure that it can complete its work in a timely fashion.

### **MEETING SCHEDULE AND INTERIM COMMITTEE BUDGET**

Attached to this report is a proposed meeting schedule. Included with the schedule are possible conflicts with other interim committees.

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<sup>4</sup>A bill draft requested by a state agency must be preintroduced by December 15 prior to the convening of the legislative session.



The Committee will meet eight times during the interim, including a meeting in November 2010 to adopt the revenue estimates for the 2013 biennium. Because the Committee has three studies to complete and a variety of other tasks, the meeting schedule includes 2-day meetings for most of the interim. The Committee can decide when 2-day meetings are necessary.

The Committee's budget is \$47,736 for the interim. The budget includes legislative salaries and travel, lodging, and meal expenses as well as other minor operational costs, such as postage and printing. In addition, the Legislature appropriated \$20,000 from the general fund to conduct the House Bill No. 657 study.

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**REVENUE AND TRANSPORTATION INTERIM COMMITTEE  
PROPOSED MEETING SCHEDULE FOR THE 2009-10 INTERIM**

Wednesday	July 1, 2009	Organizational meeting
Thursday	Sept. 17, 2009 Sept. 18, 2009	
Thursday Friday	Dec. 3, 2009 Dec. 4, 2009	Montana Taxpayers Association annual meeting
Thursday Friday	Feb. 18, 2010 Feb. 19, 2010	
Thursday Friday	April 29, 2010 April 30, 2010	
Thursday Friday	July 15, 2010 July 16, 2010	Legislative proposals from the Departments of Revenue and Transportation
Monday Tuesday	Sept. 13, 2010 Sept. 14, 2010	Conclude interim work except for revenue estimates
Monday	Nov. 15, 2010	Adopt revenue estimates for 2011 biennium

<b>Possible Meeting Conflicts with Other Interim Committees</b>								
Secretarial support conflicts								
CFHHS	Sept. 21	Nov. 16/17	Jan. 25	March 15/16	May 3	June 28	Aug. 23/24	
SAVA	Sept. 25	Oct. 30	Dec. 11	Jan. 22	March 5	April 22/23	June 24/25	Sept. 10
Committee member conflicts								
CFHHS	Sept. 21	Nov. 16/17	Jan. 25	March 15/16	May 3	June 28	Aug. 23/24	
ELG	Oct. 2	Dec. 11	March 12	June 4	Sept 2/3			
EQC	Sept 10/11	Jan. 7/8	March 4/5	May 6/7	July 22/23	<b>Sept. 13/14</b>		
ETIC	Sept. 24	Nov. 16/17	Jan. 14	March 12	May 23	July 29/30	Sept. 10	
Leg. Council	Aug. 21/22							

REVENUE AND TRANSPORTATION INTERIM COMMITTEE SUMMARY OF DRAFT WORK PLAN, 2009-10 INTERIM									
ACTIVITY	July 1, 2009	Sept. 17-18, 2009	Dec. 3-4, 2009	Feb. 18-19, 2010	April 29-30, 2010	July 15-16, 2010	Sept. 13-14, 2010	Nov. 15, 2010	
<b>GENERAL COMMITTEE DUTIES</b>									
Administrative rule review of the Department of Revenue and the Department of Transportation (5-5-215 and 5-5-227, MCA)	On every committee meeting agenda								
Draft legislation, program evaluation, and monitoring for Department of Revenue and Department of Transportation (5-5-227, MCA)--See also "Additional Agency Reports" at end of table		Agency reports	Agency reports	Agency reports	Agency reports	Committee review and determination to request agency bills	Agency reports		
<b>REVENUE ESTIMATING &amp; TAX CREDIT</b>									
Revenue collection reports -- LFA	Schedule every meeting or periodically								
Revenue estimating resolution (5-5-227, MCA)							Establish procedures for November meeting		
Tax credit--relief multiple (15-30-2336, MCA, formerly 15-30-140, MCA)		Committee decision on how to proceed	Activity based on September 2009 decision and recommendation, if any						
<b>REQUIRED REPORTS</b>									
<b>Department of Revenue</b>									
Tax credit for planned gifts made to qualified charitable endowment (15-1-230, MCA)									

REVENUE AND TRANSPORTATION INTERIM COMMITTEE SUMMARY OF DRAFT WORK PLAN, 2009-10 INTERIM								
ACTIVITY	July 1, 2009	Sept. 17-18, 2009	Dec. 3-4, 2009	Feb. 18-19, 2010	April 29-30, 2010	July 15-16, 2010	Sept. 13-14, 2010	Nov. 15. 2010
Report on countries that may be considered a tax haven (15-31-322, MCA)	As scheduled							
Credit for blending biodiesel fuel (15-32-703, MCA)	As scheduled							
<b>Department of Transportation</b>								
Cooperative agreements with tribes on motor fuel taxation (15-70-234, MCA)	As negotiations occur-- committee review may be conducted by teleconference							
Inspection of diesel-powered vehicles to determine compliance with special fuel laws and impact on highway fund (61-10-154, MCA)	As scheduled							
Refund for biodiesel sold (15-70-369, MCA)								
<b>Other Required Reports</b>								
Budget Director must report when actual or projected revenue is less than estimates adopted by the Legislature (17-7-140, MCA)	If necessary							
Budget office explanation of change in agency or program scope (17-7-138, MCA)								
Report from the Department of Commerce to "an appropriate interim committee" regarding Montana capital companies and Montana small business investment capital companies (90-8-311, MCA)	As scheduled Consider repeal							
<b>INTERIM STUDY ASSIGNMENT</b>								
SJR 37--Study of tax filing by married taxpayers	Study plan	Background report and other Committee work	Staff reports & Committee work as necessary	Staff reports & Committee work as necessary	Staff reports & Committee work as necessary	Final recommendations	Final recommendations	

**REVENUE AND TRANSPORTATION INTERIM COMMITTEE  
SUMMARY OF DRAFT WORK PLAN, 2009-10 INTERIM**

<b>ACTIVITY</b>	July 1, 2009	Sept. 17-18, 2009	Dec. 3-4, 2009	Feb. 18-19, 2010	April 29-30, 2010	July 15-16, 2010	Sept. 13-14, 2010	Nov. 15, 2010
HB 657--Study taxation of oil and natural gas property	Background report and study plan	Staff reports & Committee work as necessary	Staff reports & Committee work as necessary	Staff reports & Committee work as necessary	Staff reports & Committee work as necessary	Final recommendations		
SJR 16--Study of uninsured and underinsured motorists	Study plan	Background report	Staff reports & Committee work as necessary	Staff reports & Committee work as necessary	Staff reports & Committee work as necessary	Staff reports & Committee work as necessary	Final recommendations	
HB 658--Review of property tax assistance			Background report	Staff reports & Committee work as scheduled	Staff reports & Committee work as scheduled	Staff reports & Committee work as scheduled	Final recommendations	
HB 658--Sales assessment ratio studies reported by DOR								
<b>OTHER TOPICS AND STUDIES</b>								
Staff recommendations for clean-up legislation				Initial presentation	Review draft legislation if requested			
Bill draft to clarify entitlement share payments and school block grants			Background report	Review draft legislation	If necessary			
Review necessity of required reports								
Committee member topics and other matters	As topics come up							
House Taxation letter to committee requesting tax analyses	Committee decision to pursue request	Activity based on committee decision in July						
<b>AGENCY REPORTS &amp; OTHER REPORTS</b>								

**REVENUE AND TRANSPORTATION INTERIM COMMITTEE  
SUMMARY OF DRAFT WORK PLAN, 2009-10 INTERIM**

<b>ACTIVITY</b>	July 1, 2009	Sept. 17-18, 2009	Dec. 3-4, 2009	Feb. 18-19, 2010	April 29-30, 2010	July 15-16, 2010	Sept. 13-14, 2010	Nov. 15. 2010
<b>Department of Revenue</b>								
Update on cooperative tax agreements						As scheduled		
Litigation reports						As scheduled		
<b>Department of Transportation</b>								
Review status of highway special revenue account						As scheduled		
Status of highway and other projects, including status of federal funding						As scheduled		
Litigation reports						As scheduled		
Highway safety reports						As scheduled		

As of: June 19, 2009 (11:57am)