



Revenue and Transportation Interim Committee

62nd Montana Legislature

SENATE MEMBERS

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RON ERICKSON
JEFF ESSMANN
KIM GILLAN
JIM PETERSON
BRUCE TUTVEDT

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CYDNIE (CARLIE) BOLAND
BRIAN HOVEN
SUE MALEK
MIKE MILLER

COMMITTEE STAFF

JEFF MARTIN, Lead Staff
JARET COLES, Staff Attorney
FONG HOM, Secretary

MINUTES

September 26-27, 2011

September 27, 2011

Room 137, Capitol Building
Helena, Montana

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. To the left of each section in these minutes is a time designation indicating the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time designation may be used to locate the referenced discussion on the audio or video recording of this meeting.

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Hard copies of the exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document.

COMMITTEE MEMBERS PRESENT

REP. ROY HOLLANDSWORTH, Chair
SEN. CHRISTINE KAUFMANN, Vice Chair

SEN. RON ERICKSON
SEN. JEFF ESSMANN
SEN. KIM GILLAN
SEN. BRUCE TUTVEDT

REP. DICK BARRETT
REP. CYDNIE (CARLIE) BOLAND
REP. BRIAN HOVEN
REP. SUE MALEK
REP. MIKE MILLER

COMMITTEE MEMBERS EXCUSED

SEN. JIM PETERSON

STAFF PRESENT

JEFF MARTIN, Lead Staff
MEGAN MOORE, Research Analyst
JARET COLES, Staff Attorney
FONG HOM, Secretary

Visitors' List and Agenda

Agenda ([Attachment 1](#))
Visitors' list ([Attachment 2](#))

COMMITTEE ACTION

None

CALL TO ORDER AND ROLL CALL

00:00:01 REP. HOLLANDSWORTH called the meeting to order at 8:01 a.m. The committee secretary called roll. Sen. Peterson was excused.

AGENDA

- **SJR 17 Study of Valuing Centrally Assessed Property and Industrial Property**

- ▶ **Background report on Montana Property Tax Structure - Jeff Martin, Research Analyst**

00:01:52 Mr. Martin gave a report on the Montana property tax structure and unit valuation ([Exhibit 19](#)).

Committee comments and questions of Mr. Martin

The committee discussed the Western States Association of Tax Administrators Manual; the wholesale energy transaction tax; what percentage classes of property is taxed at; centrally assessed intangible personal property;

00:19:52 REP. MILLER
00:20:02 Mr. Martin
00:20:12 SEN. ESSMANN
00:20:40 Mr. Martin
00:21:23 SEN. ESSMANN
00:21:54 REP. HOLLANDSWORTH
00:22:06 Mr. Martin
00:23:16 REP. HOVEN
00:23:37 Mr. Martin
00:23:51 REP. HOVEN
00:24:08 Mr. Martin
00:24:22 REP. HOVEN
00:24:26 Mr. Martin

- ▶ **Department of Revenue procedures for valuing centrally assessed and**

industrial property - Dan Bucks, Director

00:25:27 Director Bucks gave opening remarks regarding the Department's presentation of centrally assessed property. He discussed Montana cases and decisions regarding centrally assessed valuations.

Committee comments and questions

The committee discussed the number of states that are using the Western States Association of Tax Administrators Manual as a training tool.

00:38:09 REP. MILLER

00:38:25 Mr. Bucks

00:39:46 REP. MILLER

00:39:58 Mr. Bucks

00:40:27 REP. MALEK

00:41:00 Mr. Bucks

► **Presentation on Centrally Assessed and Industrial Properties - Gene Walborn**

00:42:44 Mr. Walborn said the wholesale energy transaction tax is deposited into the state general fund. Mr. Walborn also discussed how percentages were established for intangible personal property.

00:43:47 Mr. Walborn gave a presentation on four questions regarding centrally assessed and industrial property (**Exhibit 20**):

- ◆ what is centrally assessed and industrial property
- ◆ what are the numbers
- ◆ what is the process and timelines for the appraisal and assessment of centrally assessed and industrial property
- ◆ how is a centrally assessed property appraised

Mr. Walborn used a hypothetical pipeline company (Western Pipeline Company) to describe the three approaches to determine market value (**pages 12-23, Exhibit 20**).

The committee asked questions of Mr. Walborn's presentation of determining market value for the pipeline company.

01:10:50 SEN. GILLAN

01:10:55 SEN. ERICKSON

01:11:00 SEN. TUTVEDT

01:13:00 REP. MILLER

01:14:05 REP. BARRETT
01:16:04 SEN. TUTVEDT
01:17:50 REP. HOLLANDSWORTH
01:19:23 SEN. TUTVEDT
01:22:24 REP. HOVEN
01:23:45 REP. HOVEN
01:25:43 REP. MILLER
01:28:34 SEN. TUTVEDT
01:30:48 SEN. TUTVEDT
01:37:12 REP. MALEK
01:38:31 SEN. GILLAN
01:38:51 REP. MILLER
01:49:30 REP. HOVEN
01:50:17 REP. MALEK
01:51:02 SEN. ESSMANN
01:52:45 Mr. Daw

▶ **Panel: Taxpayer requirements to report operating and financial information for centrally assessed property**

Nancy Riedel, Director of State Tax Policy, Verizon

Mike Mupo, Director of Property Tax, Verizon

Norman Ross, Tax Director, PacifiCorp

Steve Poulson, Senior Property Tax Advisor, TransCanada Pipelines

01:55:04 **Nancy Schlepp, Montana Taxpayers' Association**, introduced members of the panel.

01:54:18 **Norman Ross, Tax Director, PacifiCorp**, gave a presentation on reporting requirements for centrally assessed unitary properties ([Exhibit 21](#)).

02:07:53 **Steve Poulson, TransCanada Pipelines**, gave a presentation on the Montana Annual Report Checklist for gas pipelines ([Exhibit 22](#)).

02:16:09 **Nancy Riedel, State Tax Policy Director, Verizon**, gave a presentation on the wireless property assessment in Montana ([Exhibit 23](#)).

02:29:37 **Mike Mupo, Director of Property Tax, Verizon**, gave a presentation on

Verizon's property tax history in Montana ([Exhibit 24](#)).

Committee questions

02:40:23 REP. HOLLANDSWORTH asked Mr. Mupo about replacement costs.
02:40:30 Mr. Mupo

Public Comment

02:44:14 **Sarah Wilhelm, Montana Budget and Policy Center**, said that if the centrally assessed property values are lowered, that will raise the property taxes on all homeowners and small business owners in Montana.

02:45:13 **Molly Severtson, Director, The Policy Institute**, said any shift in the tax burden, any change in centrally assessed tax burden, shifts to other taxpayers.

02:45:54 **Nancy Schlepp, Montana Taxpayers Association**, discussed the handout regarding the weighting of indicators. Centrally assessed companies want to pay their fair share but also want predictability in their businesses.

Committee comments and questions of the panel

The committee asked about intangible personal property percentages, how the capitalization rate is determined, the use of the WSATA Manual, intangible personal property exemption, the difference between intangible and tangible assets, the FERC forms; and the status of the Verizon lawsuit.

02:47:55 REP. BARRETT
02:49:28 Mr. Walborn
02:51:00 REP. MILLER
02:51:12 Mr. Ross
02:53:02 REP. MILLER
02:53:19 Mr. Ross
02:54:45 REP. MILLER
02:55:02 Mr. Ross
02:55:52 SEN. ERICKSON
02:56:28 Ms. Reidel
02:57:01 Mr. Mupo
02:58:52 SEN. ERICKSON
02:59:16 Mr. Walborn
03:03:18 SEN. TUTVEDT
03:04:26 Mr. Walborn

03:06:49 SEN. TUTVEDT
03:07:12 Mr. Daw
03:09:42 SEN. TUTVEDT
03:10:22 Mr. Daw
03:12:08 SEN. KAUFMANN
03:12:38 Mr. Walborn
03:14:17 SEN. KAUFMANN
03:14:32 Mr. Walborn
03:16:54 SEN. ESSMANN
03:17:00 Mr. Walborn
03:17:02 SEN. ESSMANN
03:17:28 Mr. Walborn
03:19:12 REP. HOLLANDSWORTH
03:19:59 Mr. Walborn
03:22:45 REP. HOVEN
03:23:10 Mr. Walborn
03:23:48 REP. BARRETT
03:24:58 Mr. Daw
03:26:05 REP. MALEK
03:26:19 Mr. Walborn
03:26:38 REP. MALEK
03:27:13 Mr. Ross
03:32:09 REP. MALEK
03:33:19 Mr. Ross
03:34:29 REP. MALEK
03:35:35 Mr. Walborn
03:36:29 REP. MALEK
03:36:41 Mr. Walborn
03:37:04 SEN. KAUFMANN
03:37:46 Ms. Schlepp
03:38:26 SEN. KAUFMANN
03:39:02 Ms. Schlepp
03:39:34 SEN. GILLAN
03:40:27 Mr. Daw
03:41:14 SEN. GILLAN
03:41:27 Mr. Mupo
03:43:04 Ms. Riedel
03:44:09 REP. MILLER

03:45:23 SEN. ERICKSON
03:46:36 Mr. Ross
03:47:57 Mr. Mupo
03:50:10 Ms. Reidel
03:53:04 Mr. Poulson
03:54:52 REP. HOVEN
03:55:20 Mr. Poulson
03:56:15 REP. MALEK
03:57:22 Mr. Mupo

Committee discussion on centrally assessed property

03:59:27 REP. HOLLANDSWORTH
03:59:44 SEN. TUTVEDT
04:00:13 SEN. ERICKSON
04:00:56 REP. MILLER
04:01:13 SEN. ERICKSON
04:01:29 SEN. ESSMANN suggested that staff look at what other groups or manuals are available to see what options the Legislature might have.
04:01:57 Mr. Martin
04:03:38 REP. HOLLANDSWORTH
04:04:28 SEN. GILLAN
04:05:51 SEN. KAUFMANN
04:06:51 Mr. Martin
04:07:27 REP. MALEK
04:08:22 REP. HOLLANDSWORTH
04:08:44 REP. BARRETT
04:10:51 REP. HOVEN

Lunch -- reconvene at 1:19 p.m.

● **SJR 23 Study of Tax Exemptions for Nonprofit Organizations**

▶ **Background Report on SJR 23 Study - Megan Moore, Research Analyst, LSD**

05:19:11 Ms. Moore gave a report on the background of tax exemptions for nonprofit organizations ([Exhibit 25](#)).

Committee questions of Ms. Moore

05:35:31 SEN. ESSMANN

05:35:55 Ms. Moore
05:57:16 SEN. KAUFMANN
05:57:26 SEN. ESSMANN

► **Application and review for nonprofit property tax exemption - Department of Revenue**

05:58:35 Linda Sather, Management Analyst, Department of Revenue, discussed the review process for the applications for nonprofit property tax exemption.

Committee comments and questions of Ms. Sather

The committee asked about the exempt status of Benefis Health System and St. Patrick's Hospital; the number of applications for nonprofit status;

06:02:37 REP. BARRETT
06:04:03 Ms. Sather
06:04:35 REP. BARRETT
06:04:54 Ms. Sather
06:05:01 REP. BARRETT
06:05:05 Ms. Sather
06:05:33 SEN. ESSMANN
06:06:04 Ms. Sather
06:06:42 SEN. ESSMANN
06:07:10 Ms. Sather
06:07:30 SEN. ERICKSON
06:07:53 Ms. Sather
06:08:08 SEN. ERICKSON
06:08:28 Ms. Sather
06:09:07 SEN. KAUFMANN
06:09:42 Ms. Sather
06:11:01 SEN. KAUFMANN
06:11:12 Ms. Sather

► **Application process for income tax exempt status - Department of Revenue**

06:12:03 Lee Baerlocher, Department of Revenue, gave a presentation of application process for the income tax exemption.

Committee questions of Mr. Baerlocher

The committee asked about the number of new applications for the income tax exemption, filing requirements of nonprofits if acquiring other property; and if there is

a process for periodic review for determination of nonprofits obtaining unrelated business income type service.

06:15:41 SEN. ERICKSON
06:15:49 Mr. Baerlocher
06:16:15 REP. BARRETT
06:16:35 Mr. Baerlocher
06:16:58 REP. BARRETT
06:17:14 Mr. Baerlocher
06:17:25 REP. HOLLANDSWORTH
06:17:35 Mr. Baerlocher
06:18:05 REP. HOVEN
06:18:24 Mr. Baerlocher
06:18:58 SEN. ESSMANN
06:19:23 Mr. Baerlocher
06:19:50 SEN. ESSMANN
06:20:12 Mr. Baerlocher

► **Summary of activities of 2003-04 Property Tax Exemption Committee -
Department of Revenue**

06:21:35 Rocky Haralson, Regional Manager for Property Assessment Division, discussed information on additional properties and their market value exempted from the tax rolls in seven most populous counties ([Exhibit 26](#)) and an analysis of the 2003 interim study of non-profits and property tax exemptions ([Exhibit 27](#)).

Committee questions of Mr. Haralson

The committee asked about disposition of proceeds if property is sold, and total market value of property becoming exempt that would impact pre-existing tax base.

06:28:53 SEN. ESSMANN
06:30:07 Mr. Haralson
06:30:41 REP. BARRETT
06:31:03 Mr. Haralson
06:31:27 REP. BARRETT
06:32:00 Mr. Haralson
06:32:18 REP. BARRETT
06:32:28 Mr. Haralson
06:32:31 REP. BARRETT
06:32:53 Mr. Haralson
06:33:41 REP. HOLLANDSWORTH

06:33:52 Mr. Haralson
06:33:55 REP. HOVEN
06:34:06 Mr. Haralson

► **Overview of tax status of hospital property - Bob Olsen, Montana Hospital Association**

06:35:22 Mr. Olsen gave an overview of the tax status of the hospitals in Montana. Mr. Olsen discussed spreadsheets showing properties of different hospitals ([Exhibit 28](#)).

Committee questions of Mr. Olsen's presentation

06:50:22 REP. HOLLANDSWORTH
06:50:46 Mr. Olsen
06:52:08 REP. HOLLANDSWORTH
06:52:17 Mr. Olsen
06:53:27 REP. BARRETT
06:55:41 Mr. Olsen
06:58:43 REP. BARRETT
07:01:00 Mr. Olsen
07:03:07 REP. HOVEN
07:03:42 Mr. Olsen
07:08:30 REP. HOLLANDSWORTH
07:09:01 Mr. Olsen
07:10:36 SEN. ESSMANN
07:11:05 Mr. Olsen
07:12:24 SEN. ESSMANN
07:12:59 Mr. Olsen
07:14:46 SEN. ESSMANN
07:15:00 Mr. Olsen
07:15:30 SEN. ESSMANN
07:15:34 REP. MALEK
07:15:49 Mr. Olsen
07:16:53 REP. MALEK
07:17:10 Mr. Olsen
07:18:29 REP. MALEK
07:18:48 Mr. Olsen
07:20:04 REP. MALEK
07:20:44 Mr. Olsen

07:22:27 REP. HOVEN
07:23:42 Mr. Olsen
07:25:53 SEN. ESSMANN

Public Comment

07:27:24 **Charlie Briggs, Assistant Vice President, Easter Seals and Goodwill Northern Rocky Mountain, nonprofit company in Great Falls**, commented on human services and healthcare topics.

● **SJR 13 WORK PLAN DISCUSSION**

07:36:24 Ms. Moore discussed the work plan of the SJR 13 study.

07:38:26 REP. HOLLANDSWORTH asked about the dates for the December meeting.

07:38:55 Mr. Martin said the committee will meet December 8-9.

07:39:04 SEN. ESSMANN requested that Ms. Moore provide information at the next meeting:

- review language from Minnesota and Pennsylvania statutes that have distinctions
- Maine's law regarding real estate
- a follow up report on distinctions in Wisconsin as listed in Footnote 17

SEN. ESSMANN requested that the Department provide a list of properties that are exempt and the values they had when they went off the tax rolls.

07:43:59 REP. BARRETT requested that the Department provide the committee information that shows the amount of property that was exempt in each year, or added to the stock of exempt properties and compare that to the total amount of property and the amount of growth in property from year to year and answer the question, is there a significant eroding of the property tax base or the shifting of property taxes going on as a result of the application of these exemptions.

07:48:27 SEN. ESSMANN would like Ms. Moore and the Department visit with the local county assessors and get a list.

07:49:20 REP. BARRETT said that what the committee needs to do is place each of these annual figures in the context of that year.

07:52:09 REP. MALEK commented on what she would like at the February meeting regarding nonprofits.

07:54:23 SEN. KAUFMANN commented about the nonprofit association that the state has that does general research about the value of the nonprofit sector that would have some resources that might be helpful.

Public Comment on any topic - None

● **ADJOURNMENT**

07:55:51 With no further business before the committee, REP. HOLLANDSWORTH adjourned the meeting at 3:57 p.m.

CI0425 1332fhxb.