FISCAL NOTE

Bill #: HB0016 **Title:** Coal tax loan for heritage tourism

Primary Sponsor: Roger Somerville **Status:** Second Reading

____ ____
Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:		
State Special Revenue		48,078
Revenue:		
State Special Revenue	0	1,605,731
Net Impact on General Fund Balance:	**$580,000**	**$940,000**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact	X		Technical Concerns
X		Included in the Executive Budget	X		Significant Long-Term Impacts
X		Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

Governor's Office

1. When the Governor's Executive Budget balance sheet was compiled in December 2000, it included a general fund loss of $580,000 in FY 2002 and $940,000 in FY 2003 as a result of passage and approval of HB 16. Now, with amendments to HB 16, the negative general fund impact has been removed. Thus to restore the executive budget balance sheet it is shown as a positive.
2. The Secretary of State's office will absorb the costs for this act to be submitted to the qualified electors of Montana.

Montana Historical Society

3. This bill is effective on approval by the electorate and becomes effective January 1, 2003. The accommodations tax will increase 1 percent, from 4 percent to 5 percent during the second half of FY 2003.

4. The anticipated amount of accommodations tax is $15,283,294 in FY 2002 and $16,026,062 in FY 2003. The anticipated increase in accommodations tax is 4.86 percent (Department of Revenue's percentage).
5. A heritage tourism accommodation tax account will be established in the state special revenue account, which will be managed by the society. Money in the account will be used for: (a) administrative costs of the Heritage Tourism Oversight Committee as appropriated in the general appropriations act; and (b) loan repayments to the Board of Investments for authorized projects.
6. Interest earned on the account will be retained in the account and other money may be deposited in the account.
7. A Heritage Tourism Oversight Committee of nine members will be established and will be allocated to the Montana Historical Society for administrative purposes. The director of the society; the director of the Montana Heritage Preservation and Development Commission; and the director of the Lewis and Clark Commission will serve on the committee. The society will adopt rules. The costs associated with this committee will be paid from the respective agencies except for the presiding officers of the Legislature and the appointee of the Governor whose costs will be appropriated in the general appropriations act to the society's Administration Program from the heritage tourism accommodation tax account. The society will charge approximately 3 percent for administrative costs.
8. Based on House Tax Committee amendments, the loan proceeds, upon review and approval by the committee are recommended as listed below. The Heritage grants to local communities have been increased by 525 percent.

    Virginia City-Nevada City - $14,000,000
    Daly Mansion - $2,500,000
    Moss Mansion - $450,000
    Original Governor's Mansion - $300,000
    Planning and Design of Historical Society Museum Center - $1,000,000
    Heritage Grants to Local Communities - $10,500,000
    State Park Heritage Properties, FWP - $4,500,000
    Lewis and Clark Bicentennial Commission - $6,750,000

9. No loans will be issued in FY 2002 or FY 2003. The anticipated amount of the loans is presented below:

LOAN SCHEDULE - TEN YEARS											
	FY03	**FY04**	**FY05**	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**TOTAL**
	YEAR 1	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**	**YEAR 6**	**YEAR 7**	**YEAR 8**	**YEAR 9**	**YEAR 10**	**LOANS**
VC/NC		800,000	800,000	800,000	1,600,000	1,600,000	2,100,000	2,100,000	2,100,000	2,100,000	14,000,000
DALY		400,000	400,000	425,000	425,000	425,000	425,000				2,500,000
MOSS			150,000	150,000	150,000						450,000
OGM			100,000	100,000	100,000						300,000
MHS		1,000,000									1,000,000
GRANTS		1,150,000	1,150,000	1,150,000	1,175,000	1,175,000	1,175,000	1,175,000	1,175,000	1,175,000	10,500,000
FWP		500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	4,500,000
L & C		1,687,500	1,687,500	1,687,500	1,687,500						6,750,000
TOTAL	0	5,537,500	4,787,500	4,812,500	5,637,500	3,700,000	4,200,000	3,775,000	3,775,000	3,775,000	40,000,000

10. Interest earned and repayment of the loans will occur at approximately 6 percent, which is the anticipated STIP rate.
11. Repayment of loans will occur over 20 years for the date of issuance as follows:

	Total	6 %		Loan	
	Payment	Interest	Principal	Amount	Balance
FY 03	-	-	-	0	-
FY 04	-	-	-	5,537,500	5,537,500
FY 05	2,790,930	332,250	2,458,680	4,787,500	7,866,320
FY 06	2,854,413	471,979	2,382,434	4,812,500	10,296,386
FY 07	2,854,413	617,783	2,236,630	5,637,500	13,697,257
FY 08	2,854,413	821,835	2,032,577	3,700,000	15,364,680
FY 09	2,854,413	921,881	1,932,532	4,200,000	17,632,147
FY 10	2,854,413	1,057,929	1,796,484	3,775,000	19,610,664
FY 11	2,854,413	1,176,640	1,677,773	3,775,000	21,707,891
FY 12	2,854,413	1,302,473	1,551,939	3,775,000	23,930,951
FY 13	2,854,413	1,435,857	1,418,556	0	22,512,396
FY 14	2,854,413	1,350,744	1,503,669	0	21,008,727
FY 15	2,854,413	1,260,524	1,593,889	0	19,414,837
FY 16	2,854,413	1,164,890	1,689,523	0	17,725,315
FY 17	2,854,413	1,063,519	1,790,894	0	15,934,421
FY 18	2,854,413	956,065	1,898,348	0	14,036,073
FY 19	2,854,413	842,164	2,012,248	0	12,023,825
FY 20	2,854,413	721,430	2,132,983	0	9,890,842
FY 21	2,854,413	593,451	2,260,962	0	7,629,879
FY 22	2,854,413	457,793	2,396,620	0	5,233,259
FY 23	2,854,413	313,996	2,540,417	0	2,692,842
FY 24	2,854,413	161,571	2,692,842	0	0
	57,024,773	17,024,773	40,000,000	40,000,000	

12. Fund balance will be projected for the next 8 years as follows:

TOTAL FUND PROJECTIONS:							
BASED ON 20 YEAR REPAYMENT SCHEDULE							
	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Accommodations tax	15,283,294	16,026,062	16,804,929	17,621,648	18,478,060	19,376,094	20,317,772
BEG FUND BAL			1,557,653	4,980,841	5,980,315	7,145,964	8,559,488
TAX PROCEEDS		1,602,606	3,360,986	3,524,330	3,695,612	3,875,219	4,063,554
INTEREST EARNINGS		3,125	163,032	371,804	435,318	508,975	597,685
TOTAL INCOME		1,605,731	5,081,670	8,876,975	10,111,245	11,530,157	13,220,727
PAYMENTS				2,790,930	2,854,413	2,854,413	2,854,413
ADMIN EXPENSES		48,078	100,830	105,730	110,868	116,257	121,907
TOTAL REDUCTION		48,078	100,830	2,896,660	2,965,281	2,970,669	2,976,319

TOTAL FUND PROJECTIONS:							
BASED ON 20 YEAR REPAYMENT SCHEDULE							
	FY02	FY03	FY04	FY05	FY06	FY07	FY08
END FUND BAL		1,557,653	4,980,841	5,980,315	7,145,964	8,559,488	10,244,408

Department of Revenue

13. Lodging facility use tax collections for fiscal 2000 were $11,119,55. If the rate had been 5 percent, collections would have been $13,899,439. The average annual growth rate of collections from fiscal 1996 to fiscal 2000 was 4.86 percent. If taxable lodging charges continue to grow at this rate, collections with the current 4 percent rate will be $12,820,850 in FY 2003. Collections in FY 2003 with the 4 percent rate in effect for the first six months and the 5 percent rate in effect for the last six months would be $14,423,456. The increase in revenue would be $1,602,606 (as shown in the MHS tables).
14. This bill allocates 20 percent of lodging facility use tax revenue to the new heritage tourism accommodation tax account. All of the increase in revenue would be allocated to this account. This bill maintains accommodations tax funding for the historical society, the university system, the department of commerce, and regional tourism corporations unchanged.

FISCAL IMPACT:

Montana Historical Society

	FY2002 Difference	FY2003 Difference
Expenditures:		
Operating Expenses		$48,078
Funding:		
State Special Revenue (02)		$48,078
Revenues:		
State Special Revenue (02)		$1,605,731
Net Impact to Fund Balance (Revenue minus Expenditure):		
State Special Revenue (02)		$1,557,653

LONG-RANGE IMPACTS:

Department of Revenue

1. Accommodations Tax: FY 2004 would be the first year when the 5 percent rate would be in effect for a whole year. Collections with the proposed 5 percent rate would be $16,804,929. Collections with the current 4 percent rate would be $13,443,943. The increase in revenue in FY 2004 would be $3,360,986. Over time, revenue to the state special revenue account created under this bill will grow or decline with growth or decline in the accommodations tax.
2. Personal Income Tax: Under this bill, taxpayers would be allowed a refundable credit against personal income tax equal to one-fifth the amount of accommodations tax paid during the tax year. The first credits claimed would be for tax year 2003 and they would be claimed in FY 2004. The credit would not be claimed on accommodations rented by out-of-state travelers, by government users of accommodations facilities, or by most in-state business travelers. Accommodations tax is paid 72 percent by out-of-state travelers (Institute for Tourism and Recreation Research). Government pays 3 percent of the accommodations tax; business travelers pay 5 percent of the tax; and in-state residents pay the balance of 20 percent of the tax (DOR). Ten percent of the

potential credit would be claimed in the first year. Credits in FY 2004 would be $33,610 (10 percent of 20 percent of $16,804,929). Over time, the fraction of taxpayers claiming the credit would increase.

3. General Fund Interest Earnings: This bill authorizes the Board of Investments to make up to $40 million in loans to state and local government agencies for heritage tourism projects. The first loans would not be made until FY 2004. The interest rate on the loans is to be the short-term investment pool rate, which generally is at least one percentage point less than the rate of return of the coal tax permanent fund as a whole. Based on the loan schedule, the general fund cost of the loans would be $53,124 in FY 2004, $99,619 in FY 2005 and $145,662 in FY 2006.

TECHNICAL NOTES:

Montana Historical Society

1. Section 4 (3) states that heritage tourism loans may be approved quarterly by the Board of Investments in the amount that, in total, does not exceed $40 million over the 10-year period from July 1, 2001, through June 30, 2011. Now that the bill has been amended to include a referendum and clarified through House Tax Committee deliberations, loans will be made into FY 2012, which is past the deadline in the bill. Section 4 (1) should likely be amended to include at the end (page 5, line 5), following “20 years” from the date of issuance and Section 4 (3) should likely be amended at line 11 to strike “from July 1, 2001 through June 30, 2001”.

DEDICATION OF REVENUE:

a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)
Accommodations tax will be paid by people who visit these heritage tourism sites, as well as others.

b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?
The state special revenue fund is proper accounting for this type of money. The interest is accumulated to the fund and this could not be tracked or dedicated to this fund if it were recorded in the general fund.

c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? _X_ Yes ____No (if no, explain)

d) Does the need for this state special revenue provision still exist? _X_ Yes ___No (Explain)

e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)
The budget authority for the oversight committees and the administrative cost will be requested through the budget office in the Governor's Office of Budget and Program Planning and the Legislative Auditors will audit and report to the Legislative Audit Committee.

f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)
Yes. The needs of the entities will be fulfilled and should result in the fulfilling of a legislatively recognized need.

g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)
The society has other dedicated revenue and will account for these funds in a comparable manner.