

FISCAL NOTE

Bill #: HB 124

Title: Revise local government funding

Primary

Sponsor: Bob Story

Status: As Amended by Free Conference Committee

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
-------------------	------	---------------------------------	------

Fiscal Summary

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
Expenditures:		
General Fund (01)	\$119,337,442	\$130,201,363
State Special Revenue (02)	(15,361,703)	(21,568,918)
Transfers:		
General Fund (01)	(11,670,741)	(6,004,288)
State Special Revenue (02)	11,670,741	6,004,288
Revenue:		
General Fund	\$143,640,181	\$134,769,562
State Special Revenue	(\$27,209,131)	(\$27,826,686)
Net Impact on General Fund Balance:	\$12,631,998	(\$1,436,089)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
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

This fiscal note includes the impacts of HB 124 and SB 176, the state assumption of district courts.

ASSUMPTIONS:

1. Motor vehicle tax law effective January 2001 is used in this analysis.

State Expenditure Impact

2. The state will be responsible for fully funding welfare programs. The state currently funds the welfare programs of 13 counties. The 9-mills levied by the state in these 13 counties would be eliminated. The state would assume financial responsibility for welfare in the remaining 43 counties.

(continued)

3. The state will assume responsibility for funding district courts, except for clerks of court in FY 2003. HB 124 appropriates state general fund to the Supreme Court the amount deducted from the county entitlement share payment (actual FY 2001) in section 1 (2) plus 3% inflation per year. The amount appropriated is up to \$25 million in FY 2003 to be used for implementing SB176.
4. Under HB124, a variety of revenue sources that currently flow to local governments and state agencies would flow to the state general fund. To replace this revenue for local governments, the state would provide counties, cities and towns with an "entitlement share payment". The payment for fiscal 2002 reflects the net change in funding requirements for local governments taking into account 1) their loss of revenue from shifting revenues to the state general fund, and 2) their reduction in costs due to funding district courts and welfare programs by the state. In following years the entitlement share will change as the state economy changes. Entitlement share payments will be based on fiscal year 2001. It is estimated that the statewide entitlement share payment for all years will grow as follows:

<u>Local government unit</u>	<u>Percentage growth</u>
Cities and towns	3.00%
Consolidated Government	2.65%
Counties	2.30%

5. Under current law, local government taxing jurisdictions, including tax increment financing districts (TIFs), annually receive a reimbursement payment from the state for past property tax and other tax reductions stemming from SB184 (1999).
6. Under this bill, each TIF will receive a block grant payment from the state based on the revenue received by each district from SB184 reimbursement programs in fiscal year 2001. When a TIF dissolves, the state discontinues the block grant to the TIF. Included in the block grant payments for tax increment finance districts is \$600,000 in fiscal year 2002 and again in fiscal year 2003 for industrial tax increment finance districts.
7. HB 124 provides for school block grants for FY2002 and FY2003. The amount of the block grant for each school district is equal to the revenue that the school received in FY2001 from corporate license taxes paid by financial institutions, aeronautics fees, state land payments in lieu of taxes, department of fish, wildlife, and parks payments in lieu of taxes, and property tax reimbursements in SB 184. The block grant also includes 93.4% of the vehicle taxes and fees received by the district in FY2001. HB124 allows for an increase in the school block grant of 0.76% per year.
8. The state will make block grant payments to counties for countywide elementary and high school retirement and transportation mills. HB124 allows for an increase in the school block grant of 0.76% per year.

State Government Impacts

9. Administrative costs associated with the state assumption of district courts are estimated to be \$800,500 in the 2003 biennium. Although the state will not assume the district courts until FY 2003, the administration and the council will begin in FY 2002 to begin getting ready for state assumption of district courts. These administrative costs are included in the fiscal note for SB176, but are also shown here to illustrate the impact of both proposals.
10. The Department of Administration will have administrative costs associated with implementing revisions in local government accounting laws (SB138) of \$28,446 in fiscal year 2003.
11. The proposal continues the personal property tax reimbursement programs that currently exist under HB20 and SB417.
12. Revenue from light vehicles currently going to the special revenue account for district courts would be shifted to the state general fund beginning in FY 2002. A transfer of \$5.7 million will be made from the general fund to the court special revenue account in FY 2002 to keep the account whole until assumption of district courts is complete.

(continued)

13. All other revenue from motor vehicles, other than local option taxes and gross vehicle weight (GVW) fees, would be sent to the state. The Proportionally Registered Fleets (IRP) fees are deposited in the Department of Transportation Highway account and the remainder is deposited in the state general fund.
14. All gaming revenue would be deposited in the general fund. Associated with the revenue flow change of gaming revenue is a one-time revenue increase from accruing this revenue to the state general fund.
15. Under the proposal, most district court fees would be deposited in the state general fund.
16. Under current law, 80% of collections from financial institutions under the corporation license tax is returned to local governments where the financial institution is located. Under this bill, the state would retain all revenue from corporation license taxes levied on financial institutions. Associated with this revenue flow change of corporation license taxes levied on financial institutions is a one-time revenue increase from accruing this revenue to the state general fund.
17. All alcohol-related revenues would be retained in full by the state, and the portion currently allocated to local governments is deposited in the state general fund.
18. There are other funding changes that result in a gain in revenue or reduction in expense for the state. These changes are categorized as all other impacts. A listing of the changes is found in appendix A.

Department of Environmental Quality

19. SB168 is law.

Office of Public Instruction

20. The OPI will need \$25,000 for programming costs to perform the calculations for the school and county block grant programs and .25 FTE and \$12,500 annually for additional fiscal staff to manage payments to school districts and counties.

Department of Natural Resources and Conservation

21. DNRC will no longer make payments to local governments in lieu of tax, which is an annual savings of \$560,578. Previously this has been shown in the “all other impacts” section as a revenue. This payment will be included in the entitlement share payment.

Impact of Funding Shifts on State Agencies:

22. Under this bill, some revenues from fees paid on vehicles which are currently earmarked revenues to state agencies would flow to the state general fund. The earmarked revenue would be replaced with statutory transfers of state general fund. The transfers, as seen in new section 3, are designed to be equivalent to the current law earmarking. The transfers would be based on vehicle counts, thereby holding the revenue flow neutral. State agencies would continue to use state special appropriations to spend this transferred general fund revenue.

Impacts of Proposed Funding Shifts on State Government

Revenue Impacts	FY02	FY03
Personal Property Reimbursements	54,934,369	54,934,369
MV - District Court 10%	5,742,983	5,829,127
MV - All Other	75,484,466	76,616,733
Gaming Revenue	28,333,194	30,429,850
Gaming Revenue Accrual	6,944,410	
District Court Fees	0	1,906,941
Financial Institutions Tax	7,398,417	7,398,417
Financial Institutions Tax Accrual	7,398,417	0
Alcohol-Related Taxes	4,116,407	4,213,185
All Other Impacts (revenue only)	1,528,642	1,528,642
Total Revenue Impacts	191,881,304	182,857,265

Entitlement Growth Rate of 3.0% for cities & 2.3% for counties

Expenditure Impacts	FY02	FY03
State Funded Welfare	(15,167,615)	(15,545,703)
State Funded District Courts	(5,742,983)	(22,122,416)
Entitlement Share		
Counties (includes consolidated)	(41,183,585)	(28,116,142)
Cities	(43,462,283)	(44,766,151)
TIF's (original)	(4,073,027)	(4,073,027)
TIF savings (termination of districts)	7,456	765,905
TIF payment to Industrial Districts	(600,000)	(600,000)
Schools K-12 replacement of revenue	(56,980,850)	(57,413,905)
County Retirement	(10,920,240)	(11,003,234)
County Transportation	(1,814,759)	(1,828,551)
DNRC eliminate PILT	560,578	560,578
Judicial Branch Costs - District Courts	(400,250)	(400,250)
Administration, OPI, Justice	(43,238)	(40,946)
Total Expenditure Impacts	(179,820,796)	(184,583,842)

Impact to State

Category	FY02	FY03
Revenue	191,881,304	182,857,265
Expenses	(179,820,796)	(184,583,842)
Net Change	12,060,508	(1,726,578)

(continued)

Department of Transportation

23. Summary of impacts to the Department of Transportation Highway Revenue account:

<u>Impact:</u>	<u>FY 2002</u>	<u>FY 2003</u>
Section 3 General fund transfer	\$2,873,853	\$2,916,961
Section 172 Registration Fees	(7,960,000)	(8,080,000)
Section 176 Proportionally Registered Fleets	4,514,748	4,514,748
Section 180 No county admin reduction	<u>394,712</u>	<u>394,811</u>
Net Gain (Fund 02422)	(\$176,687)	(\$253,480)

Fish, Wildlife and Parks

24. HB132 has been passed and approved, the boat in lieu tax continues and so federal Wallop-Breaux motorboat funds continue and so does this program.

Department of Justice, Motor Vehicle Division

25. Operating costs for the Motor Vehicle Division would be increased by \$4,500 in FY 02 (60 hours @ \$75/hour) for programming the fee increases and decreases, distribution allocations, changes affecting licensing exemptions, and developing a program to provide the statistical data required. Computer costs to complete the programming are estimated at \$1,238 in FY 02 only (7.5 days @ \$165/day). Total operating costs would increase by \$5,738 (\$4,500 + \$1,238) in FY 02 only.

26. Training the county treasurers to ensure the accurate implementation of the changes created by HB 124 would be completed at the annual statewide training and communications workshops, regional and local established training schedules provided by the Department of Justice, Motor Vehicle Division training unit and will not increase costs.

FISCAL IMPACT:

<u>Expenditures:</u>	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
Judiciary	\$400,250	\$16,872,440
Department Administration	0	28,446
Department of Justice	5,738	0
DNRC	(560,578)	(560,578)
OPI administrative expenses	37,500	12,500
OPI School Block Grants	56,980,850	57,413,905
OPI County Block Grants	12,734,999	12,831,785
DOR Entitlement Share	84,645,868	73,061,194
DOR TIF Block Grants	4,665,481	3,907,122
DOR Reimbursements (SB 184 only)	<u>(54,934,369)</u>	<u>(54,934,369)</u>
TOTAL	\$103,975,739	\$108,632,445

Funding:**Judiciary**

General Fund (01)	\$400,250	\$22,522,666
State Special (02)		<u>(5,650,226)</u>
Subtotal	\$400,250	\$16,872,440

Appellate Defender

General Fund (01)	\$0	\$178,901
State Special (02)		<u>(178,901)</u>
Subtotal	\$0	\$0

(continued)

Administration

General Fund (01)	0	28,446
-------------------	---	--------

Department of Justice

General Fund (01)	5,738	0
-------------------	-------	---

Department of Natural Resources and Conservation

General Fund (01)	(560,578)	(560,578)
-------------------	-----------	-----------

Office of Public Instruction

General Fund (01)	69,753,349	70,258,190
-------------------	------------	------------

DPHHS

General Fund (01)	15,167,615	15,545,703
-------------------	------------	------------

State Special Revenue (02)	(15,167,615)	(15,545,703)
----------------------------	--------------	--------------

Subtotal	0	0
----------	---	---

MUS

General Fund (01)	194,088	194,088
-------------------	---------	---------

State Special Revenue (02)	<u>(194,088)</u>	<u>(194,088)</u>
----------------------------	------------------	------------------

Subtotal	0	0
----------	---	---

Department of Revenue

General Fund (01)(statutory)	34,376,980	22,033,947
------------------------------	------------	------------

All Agencies

General Fund (01)	\$119,337,442	\$130,201,363
-------------------	---------------	---------------

State Special Revenue (02)	<u>(15,361,703)</u>	<u>(21,568,918)</u>
----------------------------	---------------------	---------------------

TOTAL	\$103,975,739	\$108,632,445
-------	---------------	---------------

Transfers (see appendix 2 for details)

General Fund (01)	(11,670,741)	(6,004,288)
-------------------	--------------	-------------

State Special Revenue (02)	<u>11,670,741</u>	<u>6,004,288</u>
----------------------------	-------------------	------------------

TOTAL	\$0	\$0
-------	-----	-----

Revenues:

General Fund (01)

Motor vehicles – state special 6-mill levy	\$194,088	\$194,088
--	-----------	-----------

Motor vehicles – special fees	11,013,905	11,133,905
-------------------------------	------------	------------

Motor vehicles – local (less section 176)	70,969,718	72,101,985
---	------------	------------

Motor vehicles – District Courts	5,742,983	5,829,127
----------------------------------	-----------	-----------

District Court Fees to courts	0	1,906,941
-------------------------------	---	-----------

District Court Fees to DPHHS	0	33,422
------------------------------	---	--------

Gaming Revenue	35,277,604	30,429,850
----------------	------------	------------

Financial Institutions	14,796,834	7,398,417
------------------------	------------	-----------

Alcohol related taxes	4,116,407	4,213,185
-----------------------	-----------	-----------

All Other (revenue only)	<u>1,528,642</u>	<u>1,528,642</u>
--------------------------	------------------	------------------

Total general fund	\$143,640,181	\$134,769,562
--------------------	---------------	---------------

State Special Revenue (02)

Motor vehicles – state special 6-mill levy	(194,088)	(194,088)
--	-----------	-----------

Motor vehicles – special fees	(11,013,905)	(11,133,905)
-------------------------------	--------------	--------------

DPHHS - Welfare and D.C. fees (adoption)	(15,167,615)	(15,579,125)
--	--------------	--------------

Dept. of Transportation (176 and 180)	<u>4,909,460</u>	<u>4,909,559</u>
---------------------------------------	------------------	------------------

Total state special	(\$27,209,131)	(\$27,826,686)
---------------------	----------------	----------------

Total Revenue	\$116,431,050	\$106,942,876
---------------	---------------	---------------

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	\$12,631,998	(\$1,436,089)
State Special Revenue (02) Transportation	(\$176,687)	(\$253,480)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The shifts in revenue to the state result in net losses in revenue to all counties and municipalities. Local governments would be kept whole, however, under the Entitlement Share program. In the first year of the Entitlement program, the Entitlement Share payments are to approximate the proposed shift of revenue plus growth as shown in assumption 4. In following years, the Entitlement Share payment will grow according to a measure of economic conditions in the state.

The proposal modifies *but does not eliminate* the property tax revenue limitation currently in 15-10-420. Under current law local governments are only allowed to grow property tax revenues by the revenue generated by newly taxable property. As a result, those local governments without newly taxable property would see no growth in property tax revenue. Under the proposal, local governments are allowed to grow property tax revenues at one-half the average rate of inflation for the prior 3 years. This growth would be in addition to the property tax revenue generated by newly taxable property. The proposal also clarifies two issues regarding newly taxable property. First, local governments will not be able to treat the increases in taxable value of land due to elimination of the land cap as newly taxable property. However, local governments will be able to treat the release of taxable value from the incremental taxable value of tax increment financing districts as newly taxable property.

LONG RANGE IMPACTS:

Ongoing deficit concerns:

- The one-time revenue sources in fiscal year 2002 keep the cumulative total costs to the state positive through 2006. The net revenue and expense to the general fund is negative and growing from fiscal years 2003 – 2005. The deficit grows from \$1.6 million in FY 2003 to \$3.3 million in FY 2005.
- The deficit by 2011 is anticipated to be approximately \$6.4 million per year.

TECHNICAL NOTES:

- Due to the timing of the calculations of district court expenditures, the entitlement share of counties does not fully reflect the changes incorporated in HB540 and its effect on district court reimbursements to counties. The state general fund backfills approximately \$200,000 per year of this loss, which under current law would be absorbed by the county.
- Several agencies will need adjustments to appropriations in HB2 or HB124: The Montana University System six-mill levy replacement, DPHHS welfare (fund switch), the Office of Public Instruction the Department of Justice will need operating authority.
- Section 1(1) calculates entitlement shares for lost revenues to local governments for revenues which the act does not eliminate or reduce the local revenue. This occurs in subsections: (e) manufactured homes fees with no change in local revenues in 15-1-116; (g) coal severance tax allocations for county land planning with no change in local revenues in 15-35-108; (i) late filing fees with no change in local revenues in 61-3-201; and (n) single movement permit fees with no change in local revenues in 61-4-311.
- Section 180 eliminates the county administration allocation of 5% of GVW fees yet Section 1 does not include these in the calculation of entitlement shares.

(continued)

5. If HB124 is passed and approved, the government of the State of Montana will accept several global risks that it currently does not have:
 - a. Revenue risk for motor vehicle fees, gambling, and all other revenue moved to the State of Montana
 - b. Expenditure risk for
 - o Assumption of district court expenses: will the state be able to control the costs of the district courts.
 - o Assumption of welfare: how much will it cost to equalize services across the state, can enough efficiency be gained, will the state be able to control costs
 - o Growth rates of the entitlement share, will the revenues of the state keep pace with the requirements of the growth rate of the entitlement share?

Department of Commerce

7. Section 95 revises the restrictions on local mill levies new limitations of 15-10-420, which now allow local governments to levy less than the maximum and retain the capacity to levy to the maximum at a later time without a vote. This may make it more difficult to audit the propriety of the mill levies because the level at which the mill can be set is dependent on local management philosophy which may change from year to year.

Department of Justice, Motor Vehicle Division:

8. Montana Statute 1-2-201(1)(c), MCA, provides that changes to the taxation fees in lieu of taxes for motor vehicles are to be effective the first day of January following passage and approval of the legislation which allows for fair and equal treatment of all Montana taxpayers. Since this bill is effective July 1, 2001, there would be a disparity in the types of collection and the distribution of those fees.
9. It may not be possible to complete the programming required by the State and the counties to implement this bill by July 1, 2001.

Department of Justice, Gambling Control Division:

10. There are a few local jurisdictions that currently do not receive a distribution of video gambling machine taxes or permit fees because they currently do not have any video gambling machines permitted or active within the jurisdiction. There may come a time when a gambling operator is licensed and machines are permitted in those jurisdictions after July 1, 2001. Under the law as it is written it appears that local government distributions will not be adjusted to reflect this fact.

Department of Public Health and Human Services Program 33, Addictive & Mental Disorders

11. SB317 and Section 106, Section 16-1-406, MCA combined create a revenue loss to DPHHS of approximately \$21,000 per year. Current statute allows for a collection of \$1.00 of the \$4.30 tax assessed per barrel of beer. This amendment changes this collection to 23.26% of the total tax collected per each barrel with a maximum collection of \$4.30 per barrel. Smaller brewers will be taxed at a lower amount.

Appendix A

There are other funding changes that result in a gain in revenue for the state. These changes are categorized as all other impacts. A listing of the changes is in Table 4 below.

Table 4
List of Category "All Other Impacts"

Revenue Impacts	Impact on State Government	
	FY02	FY03
County Title-Road Funds	429,720	429,720
County Personalized Plate Fee (\$20 of \$25)	424,990	424,990
Late Filing Fee	202,466	202,466
County Land Planning	198,663	198,663
State Aeronautics Fee	192,514	192,514
Special Mobile Equipment	45,611	45,611
Off-Highway County Titling	9,003	9,003
Disabled Veteran Flat Fee	7,486	7,486
Single Movement Permit	7,239	7,239
Veterans/Purple Hear \$10 Original County General \$3	6,602	6,602
Camper Decal/Replacement Decal	4,140	4,140
County Manufactured Home De-Title	208	208
Total Revenue Impacts	1,528,642	1,528,642

Note: DNRC PILT payment moved to expense

Note: While the above represent a proposed shift in revenue flow from local government to the state, it *does not mean* that local governments would lose revenue currently coming from these sources. The amount of revenue currently in these sources is included in the Entitlement Share payment to local governments.

Appendix 2

General fund transfers	FY2002	FY2003
Transportation	2,873,853	2,916,961
Justice vehicle fees	268,890	268,890
FWP vehicle fees	405,162	405,162
Agriculture vehicle fees	1,513,425	1,513,425
DEQ vehicle fees	748,520	748,520
Military Affairs	117,908	117,908
Judiciary D. C. Motor vehicle	5,742,983	
DPHHS (court fees adoption)		33,422
Total	11,670,741	6,004,288