FISCAL NOTE

Bill #: HB 205

Title: Dollars for education -- car rental, realty transfer, bed, and tobacco taxes

Primary Sponsor: Christopher Harris

Status: As Introduced

____ Sponsor signature Date

____ Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:		
General Fund (01)	$189,183	$56,216
Capital Projects Fund (05)	(30,839)	(61,227)
Revenue:		
General Fund (01)	$5,340	$9,989
State Special Revenue (02)		
New Education Fund	$3,625,885	$7,996,075
DPHHS	$26,042	$51,702
Capital Projects Fund (05)	($30,839)	($61,227)
Net Impact on General Fund Balance:	**($183,843)**	**($46,227)**

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:

1. This bill creates a new state special revenue account for education. It creates a new vehicle rental surcharge and a new realty transfer tax and allocates the receipts to the new education account. It increases the rates of the lodging facility use tax, the cigarette tax, and the tobacco products tax and changes the allocation of the receipts from these taxes.

Vehicle rental surcharge

2. This bill imposes a 4% excise tax on passenger vehicle rentals, effective January 1, 2002. Insurance charges and rentals pursuant to an insurance contract are exempt from the tax.
3. In 2002, gross revenue from renting passenger vehicles will be $56.0 million. Of that, $9.3 million will be insurance-related, and $44.1 million will be taxable. (Department of Revenue estimate based on 1997 Economic Census).
4. Rental vehicle owners are allowed to retain 5% of collections to cover their costs of collecting the tax.
5. Revenue from the vehicle rental surcharge will be $1,675,468 per calendar year (95% of 4% of $44.1 million). Receipts in fiscal 2002 will be $837,734, and receipts in fiscal 2003 will be $1,675,468.
6. The Department of Revenue would need to make significant modifications to its computer systems to administer this new tax. The estimated cost for computer programming and related services is $151,230 in fiscal 2002. The department's costs for processing permit applications and quarterly returns would be $37,953 in fiscal 2002 and $56,216 in fiscal 2003.

Realty transfer tax

7. This bill creates a 1% realty transfer tax on transfers of noncommercial property that is not used as a primary residence.
8. It is assumed that the base for the realty transfer tax is composed of vacant residential land and residences that are not rentals and not primary residences.
9. The value of vacant residential land is estimated to be $1,535,000,000. (DOR)
10. The percent of residences that are not rentals and not primary residences is estimated to be 5.8% (US Census Bureau).
11. It is estimated that there are 360,000 residential dwellings in Montana (Department of Revenue).
12. The number of residences that are not rentals and not primary residences is estimated to be 20,880 (360,000 x 5.8%).
13. The median value of residences in Montana in 1990 is $56,600 (US Census). The increase in the house price index from 1990 to 2000 is 78% (Office of Federal Housing Enterprise Oversight). The median value of residences in Montana in 2000 is estimated to be $100,748.
14. The total value of residences that are not rentals and not primary residences is estimated to be $2,103,618,240 ($100,748 x 20,880).
15. The base for the realty transfer tax is estimated at $3,638,618,240 ($1,535,000,000 + $2,103,618,240).
16. It is estimated that there were 19,100 existing single-family home sales in Montana in 1999. (National Association of Realtors)
17. The rate of sale is estimated to be 5.31% (19,100 / 360,000).
18. It is estimated that the value of property sold that is subject to the 1% realty transfer tax is $193,210,629 ($3,638,618,240 x 5.31%)
19. It is estimated that the amount of revenue generated by the realty transfer tax is $1,932,106 per year.
20. The split of the realty transfer tax is $1,835,501 for the state special revenue fund established in 17-2-102, and $96,605 for local governments.
21. State receipts will be $917,750 in fiscal 2002 and $1,835,501 in fiscal 2003.
22. There would not be significant administrative impacts on the department.

Lodging facility use tax

23. This bill increases the lodging facility use tax rate from 4% to 5%, effective January 1, 2002.
24. Lodging facility use tax collections for fiscal 2000 were $11,119,55. If the rate had been 5%, collections would have been $13,899,439. The average annual growth rate of collections from fiscal 1996 to fiscal

2000 was 4.86%. If taxable lodging charges continue to grow at this rate, collections with the current 4% rate will be $12,226,635 in fiscal 2002 and $12,820,850 in fiscal 2003. Collections with the current 4% rate for the first half of fiscal 2002 and the 5% rate for the second half of fiscal 2002 and for fiscal 2003 would be $13,754,965 for fiscal 2002 and $16,026,062 for fiscal 2002. The increase in revenue would be $1,528,329 in fiscal 2002 and $3,799,427 in fiscal 2003.

25. This bill reduces the percentage of the lodging facility use tax going to the historical society, the university system, the department of commerce, and regional tourism corporations by one-fifth. The combination of increased rate and reduced allocation percentages keeps revenue to these uses unchanged.
26. This bill allocates 20% of lodging facility use tax revenue to the new state special revenue account for education. All of the increase in revenue would be allocated to this account.

Cigarette tax

27. This bill increases the cigarette tax from $0.18 to $0.19 per pack, beginning January 1, 2002.
28. Under current law, cigarette tax revenues, after tribal revenue sharing payments, are distributed 73.04% to the state general fund; 15.85% to the Long-Range Building Program Account; and 11.11% to the Department of Public Health and Human Services.
29. Under this proposal, beginning January 1, 2002 cigarette tax revenues, after tribal revenue sharing payments, are distributed 69.5% to the state general fund; 14.5% to the Long-Range Building Program Account; 11% to the Department of Public Health and Human Services; and 5% to the education state special revenue account.
30. Under current law, taxable cigarette sales will be 30,044,841 packs in the second half of fiscal 2002 and 59,649,549 in fiscal 2003.
31. A 1% increase in the price of cigarettes will reduce consumption by 0.44%. Given a base price of $2.61 per pack, a $0.01 increase in the cigarette tax will reduce consumption by 0.17%. With the tax rate increased to $0.19 beginning, January 1, 2002, taxable cigarette sales will be 29,994,191 packs in the second half of fiscal 2002, and 59,548,990 packs in fiscal 2003.
32. Increasing the cigarette tax to $0.19 per pack will generate new net revenue of $290,825 in fiscal 2002 (29,994,191 packs x $0.19 - 30,044,841 packs x $0.18) and $577,389 in fiscal 2003 (59,548,990 packs x $0.19 - 59,649,549 packs x $0.18). The new net revenue will ***increase*** the state general fund by $10,678 in fiscal 2002 and $21,199 in fiscal 2003; the education state special revenue account by $284,945 in fiscal 2002 and $565,715 in fiscal 2003; the Department of Public Health and Human Services by $26,042 in fiscal 2002 and $51,702 in fiscal 2003; and ***decrease*** revenue in the Long-Range Building Program Account by $30,839 in fiscal 2002 and $61,227 in fiscal 2003.
33. There is no administrative impact on the Department of Revenue.

Tobacco tax

34. This bill increases the tax rate on tobacco products from 12.5% to 13.125%, beginning January 1, 2002.
35. Under current law, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 100% to the state general fund.
36. Under this proposal, beginning January 1, 2002, tobacco products tax revenues, after tribal revenue sharing payments, are distributed 95% to the state general fund and 5% to the education state special revenue account.
37. With the current tax rate of 12.5%, taxable sales will be $8,877,060 in the second half of fiscal 2002 and $17,754,120 in fiscal 2003.
38. A 1% increase in the price of tobacco products will reduce consumption by 0.44%. The base wholesale price before taxes is $2.43 per pound and there is a 10% markup from the wholesale price to the retail

price. With an increase in the tax rate to 13.125%, taxable sales will be $8,855,753 in the second half of fiscal 2002 and $17,732,813 in fiscal 2003.

39. Increasing the tobacco products tax rate to 13.125% of the wholesale price will generate new net revenue of $51,789 in fiscal 2002 (13.125% of $8,855,753 - 12.5% of $8,877,060) and $108,754 in fiscal 2003 (13.125% of $17,732,813 - 12.5% of $17,754,120). The new net revenue will ***increase*** the education state special revenue account $57,127 in fiscal 2002 and $119,964 in fiscal 2003, and ***decrease*** the state general fund by $5,338 in fiscal 2002 and $11,210 in fiscal 2003.
40. This bill reduces the fraction of tobacco products tax going to the general fund from 100% to 95%. It allocates 5% of tobacco products tax collections to the new special revenue account for education.
41. There is no impact administrative impact on Department of Revenue.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
FTE	0.5	1.0
Expenditures:		
Personal Services	$21,048	$44,833
Operating Expenses	133,365	11,383
Equipment	34,770	0
Capital Outlay	(30,839)	(61,227)
TOTAL	$168,344	$(5,011)
Funding		
General Fund (01)	189,183	56,216
Capital Projects Fund (05)	(30,839)	(61,227)
Revenues:		
General Fund (01)		
Cigarette tax	$10,678	$21,199
Tobacco tax	(5,338)	(11,210)
Total	$ 5,340	$ 9,989
State Special Revenue (02)		
New Education Fund		
Vehicle rental surcharge	$ 837,734	$ 1,675,468
Realty transfer tax	917,750	1,835,501
Accommodations tax	1,528,329	3,799,427
Cigarette tax	284,945	565,715
Tobacco tax	57,127	119,964
Total Education Fund	3,625,885	$7,996,075
DPHHS - Cigarette tax	$26,042	$51,702
Capitol Projects Fund (03)	(30,839)	(61,227)

(continued)

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	$(183,843)	$(46,227)
State Special Revenue (02)		
New Education Fund	$3,625,885	$7,996,075
DPHHS	$26,042	$51,702
LRBP	$(30,839)	$(61,227)
Federal Special Revenue (03)		
Other		

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
County treasurers would be required to collect the realty transfer tax and would retain 5% of collections to cover their expenses. Counties would retain $48,303 in fiscal 2002 and $96,605 in fiscal 2003.

LONG-RANGE IMPACTS:
The changes in taxes and revenue allocations in this bill take effect January 1, 2002 and are in effect for only three-fourths of the biennium. In future biennia, the effects will be one-third larger.

TECHNICAL NOTES:
1. The county Clerk and Recorder, the County Treasurer, and the Department of Revenue all have a role in administering the realty transfer tax in Sections 8 through 10. The roles of these parties should be clarified. Who determines the market value of the transferred property? Who determines whether a transaction is exempt from the tax? Who determines whether the transferred property is noncommercial and not a primary residence?
2. Sections 2 through 7 use the terms "surcharge" and "passenger vehicle," which are not defined anywhere in Title 20, MCA. These terms need to be defined. "Surcharge" appears to be used as a synonym for "tax," but it is used with other meanings in other titles. For the purposes of this fiscal note, "passenger vehicle" was interpreted to mean automobile or passenger van. However, in the absence of a definition, it is not clear whether it also should be applied to snowmobiles, jet skis, and other off-road vehicles.