

FISCAL NOTE

Bill #: SB 439

Title: Revise lodging facility use tax

Primary

Sponsor: Lorents Grosfield

Status: Senate 3rd Reading

Sponsor signature

Date

Chuck Swysgood, Budget Director

Date

Fiscal Summary

	<u>FY2002</u>	<u>FY2003</u>
	<u>Difference</u>	<u>Difference</u>
Expenditures:		
General Fund	\$20,253	\$0
State Special Revenue	\$5,740,025	\$5,787,288
Revenue:		
General Fund	\$(958,806)	\$(1,803,955)
State Special Revenue	\$19,216,344	\$19,842,388
Net Impact on General Fund Balance:	\$(979,059)	\$(1,803,955)

<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

ASSUMPTIONS:

Department of Revenue

1. This bill would increase the lodging facility use tax rate from 4% to 9%, effective July 1, 2001.
2. This bill would continue to reimburse state agencies for their lodging facilities use tax payments.
3. Lodging facility use tax collections, net of state agency reimbursements, for fiscal 2000 were \$11,119,551. If the rate had been 9%, collections would have been \$25,018,990. 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 proposed 9% rate would be \$27,509,929 in fiscal 2002 and \$28,846,912 in fiscal 2003. The increase in revenue would be \$15,283,294 in fiscal 2002 and \$16,026,062 in fiscal 2003.
4. This bill imposes a 9% excise tax on passenger vehicle rentals, effective July 1, 2001. Insurance charges and rentals pursuant to an insurance contract are exempt from the tax.

(continued)

5. In 2002, gross revenue from renting passenger vehicles will be \$56.0 million. Of that, \$11,900,000 will be insurance-related, and \$44,000,000 will be taxable. (DOR estimate based on 1997 Economic Census).
6. Rental vehicle owners are allowed to retain 5% of collections to cover their costs of collecting the tax.
7. Revenue from the rental vehicle tax will be \$3,770,550 per year (95% of 9% of \$44.1 million).
8. Total additional revenue would be \$19,053,844 in fiscal 2002 (\$15,283,294 + \$3,770,550) and \$19,796,612 in 2003 (\$16,026,062 + \$3,770,550).
9. This bill would require the department to develop new tax forms and data processing systems to implement the new rental car tax and to administer the new tax. The cost would be \$162,500 in fiscal 2002 and \$45,774 in fiscal 2003. These costs would be paid from the tax receipts. Net additional revenue from the lodging facility use tax and the rental car tax would be \$18,891,344 in fiscal 2002 and \$19,750,838 in fiscal 2003.
10. This bill would allocate all of the revenue from accommodations and rental vehicles as follows: 2.04% to the historical society, 1.48% for tourism research at the University of Montana, 3.34% to the Department of Fish, Wildlife, and Parks, 1.67% to the heritage preservation and development account, 1.39% to the cultural and aesthetic projects account, 1.86% to the cultural and aesthetic projects trust, 7.42% to the Department of Commerce for distribution to local governments, 29.63% to the Department of Commerce for tourism promotion, 2.78% to the Lewis and Clark bicentennial commission, 11.13% to the Department of Commerce for distribution to regional tourism corporations, 1.86% to the community heritage grant program, 1.11% to the main street program, and the remainder to a special revenue account for schools. The following table shows the distribution of revenue under current law, with this bill, and the difference.

	Current Law		Proposed Law		Difference	
	FY 2002	FY2003	FY 2002	FY2003	FY 2002	FY2003
Historical Society	\$ 122,266	\$ 128,208	\$ 638,122	\$ 665,396	\$ 515,855	\$ 537,188
University System	\$ 305,666	\$ 320,521	\$ 462,951	\$ 482,738	\$ 157,285	\$ 162,217
Dept. Fish, Wildlife & Parks	\$ 794,731	\$ 833,355	\$ 1,044,768	\$ 1,089,423	\$ 250,037	\$ 256,068
Heritage Preservation Account	\$ -	\$ -	\$ 522,384	\$ 544,712	\$ 522,384	\$ 544,712
Cultural & Aesthetic Account	\$ -	\$ -	\$ 434,799	\$ 453,383	\$ 434,799	\$ 453,383
Cultural & Aesthetic Trust	\$ -	\$ -	\$ 581,817	\$ 606,685	\$ 581,817	\$ 606,685
Local governments	\$ -	\$ -	\$ 2,321,012	\$ 2,420,216	\$ 2,321,012	\$ 2,420,216
Dept. of Commerce	\$ 8,252,979	\$ 8,654,074	\$ 9,268,406	\$ 9,664,554	\$ 1,015,427	\$ 1,010,480
Lewis & Clark bicentennial	\$ -	\$ -	\$ 869,597	\$ 906,765	\$ 869,597	\$ 906,765
Regional tourism corporations	\$ 2,750,993	\$ 2,884,691	\$ 3,481,517	\$ 3,630,324	\$ 730,524	\$ 745,632
Community Heritage Grant Program	\$ -	\$ -	\$ 581,817	\$ 606,685	\$ 581,817	\$ 606,685
Main Street Program	\$ -	\$ -	\$ 347,213	\$ 362,054	\$ 347,213	\$ 362,054
Education account	\$ -	\$ -	\$ 10,726,076	\$ 11,184,528	\$ 10,726,076	\$ 11,184,528

11. This bill would allow a non-refundable credit against personal income taxes or corporation license tax equal to all lodging facility use taxes paid by a taxpayer. Residents pay 28% of the tax. The amount of credit that could be claimed would be \$7,702,780 in fiscal 2002 (28% of \$27,509,929) and \$8,077,135 in fiscal 2003 (28% of \$28,846,912). The credit would be claimed primarily by the small percentage of taxpayers who are frequent travelers, and frequent travelers would take time to become aware of the credit and begin taking it. Ten percent of the potential credit, or \$770,278, would be claimed in fiscal 2002, and twenty percent, or \$1,615,427, would be claimed in fiscal 2003.
12. This bill would allow a non-refundable credit against personal income taxes or corporation license tax equal to rental vehicle tax paid by the taxpayer. Most taxable rentals are to non-residents, and many residents who rent a car infrequently will not take the credit. Credits will be 5% of collections, or \$188,528.
13. The total reduction in revenue to the general fund would be \$958,806 in fiscal 2002 (\$770,278 + \$188,528) and \$1,051,240 in fiscal 2002 (\$1,615,427 + \$188,528).

(continued)

14. This bill would require the department to add additional lines for the credits to income and corporation tax forms and to modify its computer system to process the additional information. This will require expenditures totaling \$20,253 in fiscal 2002.

Department of Commerce

15. SB 439 as amended, creates two new programs in the Department of Commerce, the Main Street program, and the Business Marketing and Recruitment program. The Department of Commerce would need to hire 2.00 grade 15 FTE to perform to develop, implement, and administer each of the new programs at an estimated cost of \$69,500 in FY 2002 and \$71,000 in FY 2003. For the purposes of this fiscal note it is assumed the Main Street program would incur approximately \$65,000 in administrative costs each year and that any remaining funds would be used to directly assist communities in either restoring or retaining the historical character of their downtown areas. Finally, operating costs for the Business Marketing and Recruitment program are \$50,000 in FY 2002 and \$55,000 in FY 2003.

FISCAL IMPACT:

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
FTE – Dept of Commerce	2.00	2.00

Expenditures:

Personal Services – Dept of Revenue	\$34,380	\$34,511
Personal Services – Dept of Commerce	\$69,500	\$71,000
Operating Expenses – Dept of Revenue	\$142,528	\$11,263
Operating Expenses – Dept of Commerce	\$45,500	\$49,000
Equipment – Dept of Revenue	\$5,845	\$0
Other – Historical Society	\$515,856	\$537,188
Other – University System	\$157,285	\$162,217
Other – Fish, Wildlife and Parks	\$250,037	\$256,068
Other – Heritage Preservation	\$522,384	\$544,712
Other – Regional Tourism	\$730,524	\$745,633
Other – Local Governments	\$2,321,012	\$2,420,216
Other – Dept of Commerce	<u>\$965,427</u>	<u>\$955,480</u>
TOTAL	\$5,760,278	\$5,787,288

Funding:

General Fund	\$20,253	\$0
State Special	<u>\$5,740,025</u>	<u>\$5,787,288</u>
TOTAL	\$5,760,278	\$5,787,288

Revenues:

General Fund (01)	\$(958,806)	\$(1,803,955)
State Special Revenue (02)	\$19,216,344	\$19,842,388

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	\$(979,059)	\$(1,803,955)
State Special Revenue (02)	\$13,476,319	\$14,055,100

(continued)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

This bill would allocate \$2,321,012 in fiscal 2002, and \$2,420,216 in fiscal 2003 to local governments for tourism-related expenditures.

LONG-RANGE IMPACTS:

1. The fraction of taxpayers claiming the income and corporation tax credits may increase over time as more taxpayers become familiar with the credit and begin keeping records of their lodging facility use tax payments. This will reduce revenue to the general fund.
2. The 2.78% allocation of accommodations tax and rental car tax revenue to the Lewis and Clark bicentennial commission sunsets at the end of fiscal 2007. Beginning with fiscal 2008, these funds would go to the special revenue account for schools.

TECHNICAL NOTES:

1. Additional funds provided for education, Main Street Program, Community Heritage grant program, Lewis and Clark Bicentennial, and Cultural and Aesthetic account can only be expended if legislative appropriations are adjusted.

Department of Commerce

2. If the amount of money received in each year of the 2003 biennium is more than that what was actually received in FY 2001 by Travel Montana and the regional non-profit tourism corporations, then the funds would accumulate until appropriated by the next Legislature.

Montana Historical Society

3. The bill establishes a community heritage program, but it does not state where the program is administered. However the Community Heritage Grant Program Committee is appointed by the Society's Board of Trustees, who then presents its findings and recommendation for grant awards. We recommend clarification that this program be administered by the Society, which would include disbursement, reporting requirements, compliance with established state grant requirements, etc.