FISCAL NOTE

Bill #: SB 504

Title: Sales tax on goods for property tax relief, universities, and teacher pay

Primary Sponsor: Sam Kitzenberg

Status: As Introduced

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Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Expenditures:		
General Fund	$8,390,965	$8,218,671
State Special Revenue	$61,700,000	$66,000,000
Revenue:		
General Fund	$43,708,000	$(41,170,991)
State Special Revenue	$43,708,000	$91,350,000
Net Impact on General Fund Balance:	$35,575,519	$(49,389,662)

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:

Department of Revenue

1. This bill would impose a 4% sales and use tax effective January 1, 2002. The tax would apply to all sales of goods that are not specifically exempted. The tax would not apply to sales of services.
2. Sales by or to governments and Indian tribes, other than natural gas and water, are exempt. Occasional sales are exempt. Sales for resale and sales of goods that will be leased are exempt. Payment of interest and dividends and payments for stocks, bonds and securities and commissions from selling stocks, bonds and securities are exempt.
3. Sales of the following goods are exempt: a) groceries, b) medicine and therapeutic and prosthetic services, c) agricultural products, d) insurance and HMO premiums, e) motor fuel, f) mineral interests and minerals,

g) feed, fertilizers, and other ag inputs, h) chemicals used in mineral industries, i) mining and manufacturing equipment and the services of mining and manufacturing, and j) real estate and improvements.

4. Taxable sales are projected to be $2,337,336,000 in the six months of fiscal 2002 when the tax would apply. Taxable sales in fiscal 2003 are projected to be $4,885,032,000. Tax liability would be $93,493,000 in fiscal 2002 and $195,401,000 in fiscal 2003.
5. Vendors are allowed to retain 1.5% of collections to defray their costs. Collections will be reduced another 5% because of bad debts to vendors and non-compliance. Collections would be $87,416,000 (93.5% of $93,493,000) in fiscal 2002 and $182,700,000 (93.5% of $195,401,000) in fiscal 2003.
6. Revenue from the sales and use tax would be distributed 25% to a state special revenue account for K-12 school salaries, 25% to a state special revenue account for the university system, and 50% to the general fund. In fiscal 2002, $21,854,000 would go to the school salaries account, $21,854,000 would go to the university system, and $43,708,000 would go to the general fund. In fiscal 2003, $45,675,000 would go to the school salaries account, $45,675,000 would go to the university system, and $91,350,000 would go to the general fund.
7. This bill would provide a refundable credit against individual income tax, beginning with taxes for calendar year 2002, equal to 39% of property taxes the taxpayer paid on residential property. This credit would first be claimed in fiscal 2003.
8. Property taxes on residential property, including SIDs, are projected to be $339,797,412 in 2002. Credits against individual income tax in fiscal 2003 would be $132,520,991 (39% of $339,797,412). This would result in a net reduction in revenue to the general fund of $41,170,991 ($132,520,991 - $91,350,000) in fiscal 2003.
9. This bill would require the Department of Revenue to implement the new sales and use tax by January 1, 2002. The department would need to develop and adopt administrative rules; develop tax returns, non-taxable sales certificates, and vendor registration forms; develop systems to process returns and other forms, including a new computer system; hire and train new employees; and register and educate merchants. The department would need to begin preparing to implement the tax immediately upon passage and approval of this bill. The department would incur additional costs of $598,974 in fiscal 2001. Additional costs would be $8,132,481 in fiscal 2002 and $8,020,187 in fiscal 2003.

Office of Public Instruction

10. Based on school district personnel assignment reports submitted to the Office of Public Instruction in FY 2000, there are 11,125 FTE teachers and specialists employed in Montana's public schools.
11. SB504 establishes a 15-step pay schedule for all Montana public school teachers. The schedule's steps are "stair cased" so that fewer steps are provided at the lower end of the educational attainment matrix and more steps are provided in the upper ranges.
12. SB504 establishes 10 educational attainment lanes ranging from BA to BA+90 semester credits.
13. The index value of each step or lane increment in SB 504's salary structure is 3% (i.e. Each step is worth 3% more than the step above it and each lane is worth 3% more than the lane value to its immediate left.)
14. SB504 requires the district to pay, at a minimum, the base salary established in Subsection (1) of SB504.
15. The CPI will increase 3% in from December 2001 to December 2002.
16. Based on a sample of school districts, raising the level of Montana teacher salaries to the level proposed in SB99 will require a 9.6% increase in FY2002. The additional scheduled salary cost is projected to be $40.4 million in FY2002 and $44.2 million in FY2003; the additional payroll costs for TRS and FICA employer contributions are projected to be $6.1 million in FY 2002 and $6.6 million in FY 2003. Combined salary and payroll costs are projected to be $46.5 million in FY02 and $50.8 million in FY03.
17. Section 56(3) requires the state to pay the base salary for teachers in a district where the collective bargaining agreement establishes a higher base salary than the base established in Section 56(1) and (2).

No school district has a higher starting salary than the starting base salary contained in SB 504. Two school districts have higher top salaries than the highest salary contained in SB 504. It is assumed that very few teachers qualify for these highest salary levels.

18. Section 56(4)(a) of SB504 provides for a state-paid 5% longevity payment to all employed educators having 20+ years of TRS credited service. Assuming 3,000 educators qualify for an average of $2,000 the cost would $6.0 million per year.
19. Section 56(4)(b) provides an additional longevity payment of 3% for educators having 25+ years of TRS credited service. Assuming that 1,000 educators qualify for these longevity payments, which average $1,200, longevity costs are projected to be $1.2 million per year.
20. Section 56(5) of SB99 provides for state-paid stipends for holders of masters or doctoral degrees, holders of national board certification, student teacher advisors, and teachers assigned to a PIR-committee. Combined annual costs for these stipends could exceed $8 million.
21. It is assumed that the Office of Public Instruction will be the state agency designated to make payments to approximately 3,000 teachers annually for longevity increases and stipends. Four FTE (2 -Grade 16 and 2-Grade 14) will be needed to administer this program. The appropriation necessary for designing an automated system to manage and process salary information from 450 school districts is $100,000. The majority of the cost of the automated system will be incurred in FY02.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
FTE - Revenue	113.00	173.00
FTE – OPI	4.00	4.00
Expenditures:		
Personal Services - Revenue	$2,027,836	$3,728,939
Personal Services - OPI	$178,484	$178,484
Operating Expenses - Revenue	$5,480,849	$3,226,734
Operating Expenses - OPI	$80,000	$20,000
Equipment- Revenue	$247,332	$380,385
Benefits - Revenue	$376,464	$684,129
Local Assistance - OPI	$61,700,000	$66,000,000
TOTAL	$70,090,965	$74,218,671
Funding:		
General Fund (01)	$8,390,965	$8,218,671
State Special Revenue (02)	$61,700,000	$66,000,000
TOTAL		
Revenues:		
General Fund - Sales Tax	$43,708,000	$91,350,000
General Fund - Income tax		$(132,520,991)
State Special – School Salaries	$21,854,000	$45,675,000
State Special - University system	$21,854,000	$45,675,000

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	$35,317,035	$(49,389,662)
State Special – School Salaries	$(39,846,000)	$(20,325,000)
State Special - University system	$21,854,000	$45,675,000

LONG-RANGE IMPACTS:

1. The cost of this program will increase in FY04 with the expansion of the longevity allowance of 8% to employees who have completed 25 or more years of service.
2. The schedules in SB504 will increase by the growth in the CPI.

TECHNICAL NOTES:

Department of Revenue

1. This bill would require the Department of Revenue to implement the new sales and use tax by January 1, 2002. The department would need to develop and adopt administrative rules; develop tax returns, non-taxable sales certificates, and vendor registration forms; develop systems to process returns and other forms, including a new computer system; hire and train new employees; and register and educate merchants. This cannot be done by January 1, 2002. The earliest that the department could implement a new sales and use tax is January 1, 2003.
2. Section 2 specifies that this is a tax on the sale and use of property. Sections 9 through 28 provide for exempt or taxable status for sales of several types of services. This fiscal note assumes that all services are exempt.

Office of Public Instruction

3. SB99 does not indicate which state agency will be responsible for longevity and stipend payments to school districts. This fiscal note assumes that the Office of Public Instruction will be the administering agency.
4. SB 504 requires the district to pay the base salary amounts in Section 56. The bill does not contain a mechanism for providing the funding to school districts to pay the base salary amounts. The fiscal note assumes OPI will make these payments from the state special account established in this bill.