



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	SB0264	Title:	Revise distribution of sales and use tax
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Primary Sponsor:	Keenan, Bob	Status:	As amended second house second reading
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- Significant Local Gov Impact
 Needs to be included in HB 2
 Technical Concerns
 Included in the Executive Budget
 Significant Long-Term Impacts
 Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$1,798,300	\$1,949,290	\$2,100,490	\$2,261,700
Revenue:				
General Fund	(\$1,798,300)	(\$1,949,290)	(\$2,100,490)	(\$2,261,700)
State Special Revenue	\$1,798,300	\$1,949,290	\$2,100,490	\$2,261,700
Net Impact-General Fund Balance:	<u>(\$1,798,300)</u>	<u>(\$1,949,290)</u>	<u>(\$2,100,490)</u>	<u>(\$2,261,700)</u>

Description of fiscal impact: SB 264, as amended, revises the distribution of the accommodation and rental vehicle sales and use tax revenue. Under the proposed law, 7% of the revenue generated by the two sales and use taxes would be distributed to seven state special revenue funds. The balance of the revenue would be deposited into the state's general fund. The proposed changes will reduce general fund revenue by \$1.80 million in FY 2016, and \$1.95 million in FY 2017. The amended bill also includes coordination language with SB 180 which expends a portion of the vehicle sales tax revenue.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

- Under current law, Montana places a 3% sales and use tax on accommodations and campgrounds (15-68-102, MCA). The State of Montana also places a 4% sales and use tax on the base rental charge for rental vehicles (15-68-102, MCA). One hundred percent of the revenue for both taxes is deposited into the state general fund.
- In FY 2014, the accommodations and campgrounds sales tax generated \$17,725,159 in revenue, which is an increase of more than \$1 million compared to the revenue generated in FY 2013. During the same fiscal

year, the rental vehicle sales tax generated \$3,521,324 in revenue, which is a slight decrease from the previous fiscal year. When combined, the two sales and use taxes generated \$21,246,483 in revenue for FY 2014.

3. HJ 2, as amended, projects that the accommodations and campground sales tax revenue will increase to \$20.079 million in FY 2015, \$21.872 million in FY 2016 and \$23.835 million in FY 2017. Based on HJ 2, as amended OBPP projects that the accommodations and campground sales tax revenue will increase to \$25.776 million in FY 2018 and \$27.798 million in FY 2019.
4. HJ 2, as amended, projects that the rental vehicle sales tax revenue will increase to \$3.714 million in FY 2015, \$3.818 million in FY 2016, and \$4.012 million in FY 2017. Based on HJ 2, amended OBPP projects that the rental vehicle sales tax revenue will increase to \$4.232 million in FY2018, and \$4.513 million in FY 2019.
5. Under current law, HJ 2 projects that the two sales and use taxes will generate \$25.690 million in revenue for the general fund in FY 2016 and \$27.847 million in FY 2017. OBPP projects that the two taxes will generate \$30.007 million in revenue for the state general fund in FY 2018, and \$32.310 million in FY 2019.
6. SB 264, as amended changes the revenue distribution of the vehicle sales and lodging use taxes. Under current law, 100% of the revenue is deposited into the state general fund. Under SB 264, 1.0% would be deposited into a Department of Fish, Wildlife, and Parks (FWP) state special revenue fund for the enhancement of state parks, 1.0% is deposited into a Department of Commerce (DOC) state special revenue fund for regional nonprofit tourism corporations, 1.0% is deposited into a Montana Historical Society state special revenue fund for historical preservation, 1.0% is deposited into a Montana Historical Society state special revenue fund for the rehabilitation of state-owned heritage property buildings and structures, 1.0% is deposited into a state special revenue fund for the Montana Arts Council, 1.0% is deposited into a Montana Heritage Preservation and Development Commission state special revenue fund, and 1.0% is deposited into a Department of Fish, Wildlife, and Parks state special revenue fund for heritage properties grants. When combined, the seven special revenue fund deposits account for 7% of the revenue generated by the two sales and use taxes. The remaining sales and use taxes deposited into the state general fund.
7. The projected distribution of the revenue generated by the two sales and use taxes into the seven state special revenue funds and general fund under SB 264, as amended, are presented in the table below.

SB 264 Rental Vehicle and Lodging Use Tax Distribution

		<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
Fish, Wildlife, and Parks (state parks)	1.00%	\$256,900	\$278,470	\$300,070	\$323,100
Department of Commerce	1.00%	\$256,900	\$278,470	\$300,070	\$323,100
Historical Society (Heritage)	1.00%	\$256,900	\$278,470	\$300,070	\$323,100
Historical Society (Buildings)	1.00%	\$256,900	\$278,470	\$300,070	\$323,100
Arts Council	1.00%	\$256,900	\$278,470	\$300,070	\$323,100
Heritage Preservation	1.00%	\$256,900	\$278,470	\$300,070	\$323,100
Fish, Wildlife, and Parks (heritage property grants)	1.00%	\$256,900	\$278,470	\$300,070	\$323,100
General Fund (stays in GF)	93.00%	\$23,891,700	\$25,897,710	\$27,906,510	\$30,048,300
		<u>\$25,690,000</u>	<u>\$27,847,000</u>	<u>\$30,007,000</u>	<u>\$32,310,000</u>

8. The Department of Revenue does not expect to incur any additional costs as a result of SB 264, as amended.

Department of Commerce (DOC)

Montana Promotion Division (MPD)

9. The DOC tourism regions and convention and visitors bureaus (CVBs) would receive 1.0% of the revenue generated by the two sales taxes, if they submit and gain approval of a marketing plan from the Tourism Advisory Council (TAC) as referenced in 2-15-1816(4)(a), MCA. This would be distributed among the six tourism regions and fifteen CVBs in proportion to the amount of each region's collections.
10. For the purposes of this fiscal note, the tourism regions and CVBs will add the additional funding into their overall budgets.

Montana Heritage Commission (MHC)

11. The Montana Heritage Commission (MHC) would receive 1.0% of the revenue generated by the 3% lodging facility sales tax and 4% vehicle rental sales tax.
12. MHC would add the additional funding into the overall budget for the preservation, protection, and enhancement of heritage commission properties and the artifacts it manages. The Montana Heritage Commission manages 273 historical registered buildings and 1,234,714 registered Americana artifacts.

Fish, Wildlife and Parks (FWP)

13. SB 264, as amended, allocates 1.0% of both sales taxes to FWP for the renovation, replacement, and enhancement of state parks. These revenues would be deposited in an existing fund.
14. The amended bill allocates 1.0%, of both sales taxes to FWP for the Heritage Preservation grants program. These funds would be deposited in a new Heritage Preservation Grants fund and appropriated in HB 2. It is anticipated \$85,000 would be used for operating expenses to manage the grants program and the balance would be for grants.

Montana Historical Society

Historical Society (historic preservation)

15. The allocation of 1.0% of the lodging and vehicle sales taxes to the Historical Society for the historic preservation. The funding would be used for conservation of collections; archival storage for museum artifacts; digitizing collections; electronic records preservation; and interactive technology for exhibits.

Historical Society (rehabilitation of state-owned heritage property buildings and structures)

16. The amended bill allocates 1.0% of the two sales taxes to the Historical Society for rehabilitation of state-owned heritage property buildings and structures.

Montana Arts Council

17. The Montana Arts Council is allocated 1.0% of the lodging and vehicle sales taxes in SB 264, as amended. These funds would support growth in arts marketing, services and experiences that leverage increased visitor spending and length of stay.

Fiscal Impact:	FY 2016	FY 2017	FY 2018	FY 2019
<u>Expenditures:</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Operating Expenses				
FWP (enhance state parks)	\$256,900	\$278,470	\$300,070	\$323,100
Commerce (MHC)	\$256,900	\$278,470	\$300,070	\$323,100
Historical Society (historical preservati	\$256,900	\$278,470	\$300,070	\$323,100
Historical Society (rehabilitation)	\$256,900	\$278,470	\$300,070	\$323,100
Arts Council	\$256,900	\$278,470	\$300,070	\$323,100
FWP (heritage properties grants admin)	\$85,000	\$85,000	\$86,275	\$87,569
Grants FWP (heritage properties grants)	\$171,900	\$193,470	\$213,795	\$235,531
Local Assistance (DOC-MPD)	\$256,900	\$278,470	\$300,070	\$323,100
TOTAL Expenditures	<u>\$1,798,300</u>	<u>\$1,949,290</u>	<u>\$2,100,490</u>	<u>\$2,261,700</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)				
FWP-state parks (1%)	\$256,900	\$278,470	\$300,070	\$323,100
Commerce -MHC (7.5%)	\$256,900	\$278,470	\$300,070	\$323,100
Historical Society-heritage (7%)	\$256,900	\$278,470	\$300,070	\$323,100
Historical Society-buildings (1%)	\$256,900	\$278,470	\$300,070	\$323,100
Arts Council (7%)	\$256,900	\$278,470	\$300,070	\$323,100
Commerce-MPD (3.5%)	\$256,900	\$278,470	\$300,070	\$323,100
FWP-heritage preservation (2%)	\$256,900	\$278,470	\$300,070	\$323,100
TOTAL Funding of Exp.	<u>\$1,798,300</u>	<u>\$1,949,290</u>	<u>\$2,100,490</u>	<u>\$2,261,700</u>
<u>Revenues:</u>				
General Fund (01)	(\$1,798,300)	(\$1,949,290)	(\$2,100,490)	(\$2,261,700)
State Special Revenue (02)				
FWP-state parks (1%)	\$256,900	\$278,470	\$300,070	\$323,100
Commerce -MHC (7.5%)	\$256,900	\$278,470	\$300,070	\$323,100
Historical Society-heritage (7%)	\$256,900	\$278,470	\$300,070	\$323,100
Historical Society-buildings (1%)	\$256,900	\$278,470	\$300,070	\$323,100
Arts Council (7%)	\$256,900	\$278,470	\$300,070	\$323,100
Commerce-MPD (3.5%)	\$256,900	\$278,470	\$300,070	\$323,100
FWP-heritage preservation (2%)	\$256,900	\$278,470	\$300,070	\$323,100
TOTAL Revenue	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$1,798,300)	(\$1,949,290)	(\$2,100,490)	(\$2,261,700)
State Special Revenue (02)	\$0	\$0	\$0	\$0

Sponsor's Initials

Date

Budget Director's Initials

Date



Dedication of Revenue 2017 Biennium

17-1-507-509, MCA.

- a) **Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)**
The revenue comes from the sales taxes on accommodations and rental cars. All persons who stay in motels/hotels/etc. and who rent cars pay this tax. There is no way of knowing which persons or entities in the cultural organizations pay this tax.
- 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 funds are distributed to the programs/grants that benefit cultural tourism.
- c) **Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**
Yes
- d) **Does the need for this state special revenue provision still exist? 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)**
No, the funds will be carefully utilized and monitored by the council. The funds will be audited by the Legislative Auditor, and reported to the public, the tourism industry, and the legislature.
- f) **Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)**
Yes, promotion of the arts has been funded by the state, since 1967.
- 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?)**
No inefficiencies known.