MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

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Director
AMY CARLSON

DATE: April 4, 2016

TO: School Funding Interim Commission

FROM: Nick VanBrown and Sam Schaefer

RE: School Facility Funding Options

There have been several ideas on how to pay for increased school facility funding both from this committee and from public letters to this committee. This document provides a short description of the funding proposals that have been suggested as well as a brief description of the proposal's effect. None of these write-ups are comprehensive, they are intended to provide additional fiscal information on all of the suggested proposals to see if the committee thinks additional information is needed on specific proposals.

FINANCING WITH STATE TRUST FUNDS

Financing with State Trust Funds proposes use state trust money to finance facility construction and improvement loans to school districts. Currently, the state invests funds in the Coal Trust and Common School Trust in fixed income investments. Interest from these trusts fund infrastructure projects, pensions, and the guarantee account. In FY 2015, these trusts saw a return on investments of approximately 4.0%. Using these trusts to finance with school districts could help with funding school facilities. School districts' current loans typically range from 2% to 3%. As a result, if the state were to provide loans to the schools at the school's current rates or lower it would be a loss to the state's general fund and guarantee account. Currently, districts are getting loans at far lower interest rates than the current rate of return for the state's coal and common school trusts.

GASOLINE TAX

The proposal is to increase the state's gasoline tax by $0.02 per gallon and direct the funds towards school facility improvement. The state's current gasoline tax is $0.27 per gallon and the proceeds are almost entirely deposited into the Highway State Special Revenue Account. In FY 2015, total gasoline tax collections were $143.8 million. In general, for every $0.01 that the gas tax is increased, $5.0 million is generated in additional revenue. Therefore, a $0.02 increase would generate $10.0 million per year.

INDIVIDUAL INCOME TAX

The proposal is to increase the state's individual income tax by one-tenth of a percent and direct the new funds to school facility improvement. In the 2015 Legislative session HB 166 was proposed legislation that would have reduced the income tax rate for each bracket by two-tenths of a percentage point. The bill ultimately did not pass but once fully implemented would have reduced personal income tax collections by approximately $40.0 million, per the bill's fiscal note. Using this analysis it is assumed that increasing the income tax rate for each bracket by one-tenth of a percent would generate approximately $20.0 million per year in additional revenue. All proceeds from individual income tax currently go to the state's general fund.

VIDEO GAMING TAX

The proposal is to increase the state's video gaming tax by 2% and direct the new revenue to school facility improvement. Montana taxes video gaming profits at 15% and the proceeds are deposited in the state general

fund. In FY 2015 this totaled $59.8 million. This implies that total taxable profits are nearly $400 million. Given these values, approximately $4.0 million in additional revenue would be generated for every 1% increase on the tax, therefore a 2% increase would yield $8.0 million.

LOTTERY PROFITS

The proposal here is to use lottery profits to fund school facilities. In FY 2015 total lottery profits were $12.4 million. The profits are deposited into the state general fund. In the 2015 Legislative session HB 617 capped the amount distributed to the general fund at the FY 2015 levels. Under the bill's provisions, profits exceeding the FY 2015 collections are now directed to a state special revenue account to fund STEM scholarships. Using this source for facilities would result in a decrease to the general fund or to the newly created scholarship fund.

SALES TAX

The proposal here is instituting a sales tax and directing the funds to school facility improvement. A memo from the Department of Revenue to the Revenue and Transportation Interim Committee estimated that a 4% statewide sales tax on goods and services similar to those taxed by other states would generate $600 million in FY 2018.

PROPERTY TAX

The suggested proposal is to increase the statewide property tax by 10 mills and direct the additional revenue to school facility improvement. Currently there are 95 statewide education mills for state and county equalization. This provides about $250 million a year for the state general fund to be distributed to schools. Each statewide mill generates roughly $2.5 million in revenue, so 10 mills would create $25 million in additional revenue.

NATURAL RESOURCE PROMOTION AND REVENUE INCREASES

There are no specifics yet on this proposal, but generally this would likely involve increasing tax rates or somehow promoting natural resource development in the state. Oil and Coal are by far the two largest sources of natural resource revenue in the state. Prior to FY 2015 oil and natural gas revenues, both state and local, amounted to around $200 million annually and coal severance revenue around $55 million. Promotion of these two particular sources may be difficult as low oil prices have reduced production tax revenue to half their prior levels, and due to pressures on the coal industry the Legislative Fiscal Division is estimating a decline in coal production from FY 2015. Tax rates can be adjusted; during the 2015 session HB 411 decreased tax rates on low production wells.

COAL TAX DISTRIBUTION CHANGE

The proposal is to cap and/or divert the coal tax trust money to facilities. This is somewhat similar to what was proposed in SB 354 (2015; Ripley). Currently, 50% of the total coal severance tax revenue flows into the trust. In FY 2015 that amount was about $31 million. That amount has the potential to be less in coming years as a result of declining coal production. The 50% distribution of severance taxes into the trust is constitutionally protected. In addition, a 75% vote in each house is required to appropriate the trust's principal.