GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2019 Biennium

Bill #	HB0620	**Title:**	Generally revise taxes and the distribution of revenue through sales tax
Primary Sponsor:	White, Kerry	**Status:**	As Introduced

✓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

	FY 2018 Difference	FY 2019 Difference	FY 2020 Difference	FY 2021 Difference
Expenditures:				
General Fund	$8,615,857	$279,825,931	$260,926,837	$227,637,430
State Special Revenue	$502,238,202	$1,314,406,477	$1,350,741,409	$1,387,671,833
Revenue:				
General Fund	$125,559,550	($47,043,849)	($48,639,267)	($50,622,575)
State Special Revenue	$502,238,202	$1,295,578,258	$1,331,502,655	$1,368,008,016
Net Impact-General Fund Balance:	$116,943,693	($326,869,780)	($309,566,104)	($278,260,005)

Description of fiscal impact: **This fiscal note represents the estimate of the revenue and expenditures that would result from the implementation of the legislation. Changes in revenue are estimated for each reported year based upon appropriate revenue estimating methodologies for the sources of revenue described. Any changes to revenue estimates may have corresponding changes to the expenditures shown as well. Due to the complexities, size and late introduction date, this fiscal note may be amended as additional data becomes available and research is completed. **

HB 620 creates a 2% statewide sales and use tax, which is applied to both retail, and business-to-business sales and provides for a statewide tax holiday period and eliminates the local property tax. The sales tax collections are allocated to the state general fund (20%), a (property tax) reimbursement fund (70%) which is statutorily appropriated proportionally to property tax, a critical needs fund (5%) and a school infrastructure fund (5%). The critical needs fund and school infrastructure fund are each directed by a five-member commission of elected officials, one from each of five regions of the state. The commission makes recommendations to the Legislature as to which local infrastructure expenditures should be appropriated from the respective fund.
As the bill eliminates the authority of local jurisdictions (governments and schools) to levy property tax, it effectively switches local funding to the new statewide sales and use tax and the state general fund and away from the taxation of local property. The state assumes local government, municipal and school district bond debt

service. The current state property taxes (95, 1.5, and 6 mills) are replaced by a statewide levy of 478 mills on a reduced property tax base consisting only of centrally assessed property.

HB 620 revises funding of schools by rewriting the school funding formula. School district general fund budgets are funded at 100% of a new BASE budget definition, guaranteed tax base aid is eliminated, as is the natural resource development K-12 payment. Pupil transportation, and retirement needs are 100% funded by the state general fund.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

Sales and Use Tax

1. HB 620 creates a statewide general sales and use tax, which is applied to both retail, and business-to-business sales. The tax rate for the sales tax is 2%. The proposal eliminates the authority local governments and schools to levy property tax. Statutory appropriations direct the new statewide sales tax to local governments. HB 620 eliminates the statewide property tax mills levied on all property. The eliminated mills include the state 95 mills, the university six mills, and the 1.5 Vo-tech mills. HB 620 also creates a new statewide mill levy of 478 on all centrally assessed property.
2. The sales and use tax of 2% would apply to sales of tangible personal property and services as of January 1, 2018. The sales tax applies to sales made to the final consumer, as well as business to business sales.
3. Certain classes of items and services are excluded from taxation: food and food ingredients, medicine, drugs, and certain medical devices, medical care, sales made to centrally assessed property taxpayer for business activity, insurance premiums, sales to government agencies, dividends and interest, personal effects, the sale or lease of real property or improvements, and leases of mobile homes.
4. A sales tax holiday (exemption) period from October 20 through November 20 each year. The exemption also applies to the state's current 3 percent sales tax on accommodations and campgrounds and the 4 percent on the base rental charge for rental vehicles.
5. The department's tax model estimates the total sales subject to the new tax at approximately $34.26 billion for the second half of FY 2018. The tax base is projected to increase to $69.7 billion in FY 2019, $70.87 billion in FY 2020 and $72 billion in FY 2021.
6. The 2 % general sales tax would generate a combined tax liability of $685.2 million in FY 2018, $1.39 billion in FY 2019, $1.42 billion in FY 2020 and $1.44 billion in FY 2021.
7. It is assumed that households will move their consumption patterns to take advantage of the tax holiday by shifting larger and flexible expenditures that would have occurred the week before October 20 and during the week after November 20th will be moved into the non-taxed "holiday" period. It is assumed that this will reduce sales tax liability for FY 2019 through 2021 by 12.6% (46 days / 365 days).
8. An allowance noncompliance assumes that 5% of sales tax revenue reduction.
9. After the reductions for the sales tax holiday and noncompliance, total sales tax liability will be approximately $651 million in FY 2018, $1.157 billion in FY 2019, $1.177 billion in FY 2020 and $1.196 billion in FY 2021.
10. HB 620 allows vendors who pay the sales tax to claim an allowance of 5 percent of the tax due, with a limit of $350 per month. The department estimates there would be approximately 55,000 vendors subject to the general sales tax. The combined revenue reduction due to the vendor allowance is estimated to $46,481,713 in FY 2018, $52,268,812 in FY 2019, $52,488,252 in FY 2020 and $52,704,722 in FY 2021.
11. Total sales tax revenue, after vender costs are included, would be $627.8 million in FY 2018, $1.105 billion in FY 2019, $1.125 billion in FY 2020 and $1.143 billion in FY 2021.

HB 620: General Statewide Sales and Use Tax Revenue						
FY	**Taxable Sales**	**Tax Liability**	**Tax Holiday**	**Noncompliance**	**Vendors (5%)**	**Total Revenue**
2018	$34,262,053,073	$685,241,061	$0	$34,262,053	$23,181,257	$627,797,751

2019	$69,697,767,990	$1,393,955,360	$175,676,566	$60,913,940	$52,059,355	$1,105,305,500
2020	$70,866,835,283	$1,417,336,706	$178,623,256	$61,935,672	$52,277,750	$1,124,500,027
2021	$72,020,473,994	$1,440,409,480	$181,531,058	$62,943,921	$52,493,263	$1,143,441,238

12. Under HB 620, 70% of sales tax the revenue is deposited into a reimbursement account, 5% is distributed into a critical needs assessment account, and 5% of the revenue is distributed to a school infrastructure needs assessment account. The remaining funds (20%) are deposited in the state general fund. The tax reimbursement account is to be distributed to each local taxing entities, based on historical property tax shares. Funds in the critical needs assessment account will be distributed by the DOR to fund projects approved by the Legislature. The distributions are estimated as follows:

HB 620: General Sales and Use Tax Revenue Distributions					
Fiscal Year	**Total Revenue**	**Reimbursement SSR Fund**	**Critical Needs SSR Fund**	**School Infrastructure SSR Fund**	**General Fund**
2018	$627,797,751	$439,458,426	$31,389,888	$31,389,888	$125,559,550
2019	$1,105,305,500	$773,713,850	$55,265,275	$55,265,275	$221,061,100
2020	$1,124,500,027	$787,150,019	$56,225,001	$56,225,001	$224,900,005
2021	$1,143,441,238	$800,408,867	$57,172,062	$57,172,062	$228,688,248

Effects on the (4%) Rental Vehicle and (3%) Accommodation tax

13. The sales tax holiday created by HB 620 also applies to the 4% tax on the base charge for rental vehicles and the 3% sales tax on accommodations and campgrounds.
14. Revenue from the accommodations sales tax is forecasted to generate $25.249 million in FY 2018 and $27.659 in FY 2019. OBPP projects accommodations sales tax revenue will continue to increase to $30.259 in FY 2020 and $33.099 million in FY 2021.
15. The rental car sales tax is forecast to generate $4.5 million in FY 2018 and $4.63 million in FY 2019. The OBPP extension of the rental car tax is an increase to $4.76 million in FY 2020 and $4.88 million in FY 2021.
16. Based on historical sales, approximately 4.4% of taxable accommodations sales occur during the month of November. It is assumed that the sales tax holiday created in HB 620 will reduce tax revenue from these two taxes by 4.4% each.
17. Based on anticipated accommodation and rental car tax revenue, and a reduction of 4.4% of the taxes due to the tax holiday, accommodations sales tax will be reduced by $1.22 million in FY 2019, $1.34 million in FY 2020 and $1.46 million in FY 2021. Rental car tax revenue will decrease by $204,400 in FY 2019, $209,950 in FY 2020 and $215,500 in FY 2021.

HB 620: Accommodations and Rental Car Sales Revenue Change			
Fiscal Year	**Accommodations**	**Rental Car**	
	General Fund	**General Fund**	**Senior Citizen Special Revenue**
2018	$0	$0	$0
2019	($1,220,814)	($153,302)	($51,101)
2020	($1,335,545)	($157,465)	($52,488)
2021	($1,460,893)	($161,627)	($53,876)

Changes to Property Tax

18. HB 620 eliminates the state equalization mill levied on all property, starting for tax years beginning after December 31, 2017. The statewide equalization mills include the state's 95 mills, the university system's six mills and the 1.5 Vo-tech mills.
19. Based on HJ 2, the combined taxable value of property in Montana will be approximately $2.9 billion in FY 2018, which will increase to $3.38 billion in FY 2021.

Estimated Taxable Value of Property in Montana				
Class and Property Description	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
1. Net Proceeds	$3,943,102	$4,105,629	$4,268,673	$4,132,234
2. Mine Gross Proceeds	$17,715,798	$19,683,695	$21,240,611	$22,220,914
3. Agricultural Land	$152,256,911	$152,028,526	$151,800,483	$151,572,782
4. Residential & Commercial	$1,722,333,634	$1,866,384,871	$1,876,337,431	$2,027,439,498
5. Rural Co-Op & Pollution Control	$49,712,340	$50,332,530	$50,964,960	$51,609,840
7. Non-centrally Assessed Util.	$1,130,240	$1,121,280	$1,112,400	$1,103,600
8. Business Equipment	$162,245,054	$170,019,407	$178,174,702	$186,729,607
9. Pipelines, Electrical Transmission Lines	$507,627,317	$538,621,200	$571,507,457	$606,401,629
10. Forest Land	$4,870,473	$4,846,120	$4,821,890	$4,797,780
12. Airlines/Railroads	$90,173,320	$94,621,349	$99,288,783	$104,186,441
13. Telecom. & Electrical Gen.	$186,558,190	$191,408,703	$196,385,329	$201,491,347
14. Renewable Energy & Transmission	$18,526,996	$19,317,008	$20,028,019	$20,028,019
15. CO2/Liquid Pipelines	$2,571,746	$2,571,746	$2,571,746	$2,571,746
Total	$2,919,665,121	$3,115,062,064	$3,178,502,482	$3,384,285,439
Total After TIFs	$2,854,357,807	$2,911,122,231	$2,970,564,149	$3,032,840,835

20. With a combined taxable value of more than $2.9 billion, In FY 2018 the state 95 mills would generate $271,163,992, the university 6 mills would also generate $17.5 million, and the Vo-Tech 1.5 mills $1.4 million in revenue for the same fiscal year.

Present Law Estimated State Property Tax Revenue				
State Tax Levies	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
State Equalization (95 mills)	$271,163,992	$276,556,612	$282,203,594	$288,119,879
Montana University Mills (6 Mills)	$17,464,500	$17,827,581	$18,208,223	$18,607,468
State Vo-Tech Mills (1.5 mills)	$1,436,821	$1,462,398	$1,489,128	$1,517,077
Total State Taxes	$290,065,312	$295,846,592	$301,900,945	$308,244,425

21. HB 620 eliminates the state, university system and Vo-tech mills, starting in TY 2018. Most property taxes are paid in November and May of the fiscal year following assessment. Thus, the proposed bill will reduce property tax revenue by $295,846,592 in FY 2019, $301,900,945 in FY 2020, and $308,244,425 in FY 2021.
22. Under the provisions of HB 620, the property tax reduction associated with the statewide mills would be a 100% loss to the general fund and the university system relative to current law.
23. HB 620 also creates a new statewide mill levy of 478 mills on all centrally assessed property. Centrally assessed property classes include class 5, 9, 12, 13, 14, 15 and a small share of class 8. The combined taxable value of centrally assessed property impacted by HB 620 is forecast in HJ 2 to be $855.488 million in FY 2018, $986.656 million in FY 2021. With 478 new mills, the proposed bill will increase property tax revenue from centrally assessed property by $428,864,656 in FY 2019, $449,843,967 in FY 2020 and $471,621,421 in FY 2021.

HB 620: Centrally Assessed Taxable Value and HB 620 Centrally Assessed Property Tax Revenue				
Taxable Value	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
5. Rural Co-Op & Pollution Control	$49,712,340	$50,332,530	$50,964,960	$51,609,840
8. Business Equipment (Centrally Assessed)	$318,591	$333,857	$349,871	$366,670
9. Pipelines, Electrical Transmission Lines	$507,627,317	$538,621,200	$571,507,457	$606,401,629
12. Airlines/Railroads	$90,173,320	$94,621,349	$99,288,783	$104,186,441
13. Telecom. & Electrical Gen.	$186,558,190	$191,408,703	$196,385,329	$201,491,347
14. Renewable Energy & Transmission	$18,526,996	$19,317,008	$20,028,019	$20,028,019
15. CO2/Liquid Pipelines	$2,571,746	$2,571,746	$2,571,746	$2,571,746
Total Taxable Value	$855,488,500	$897,206,393	$941,096,165	$986,655,692
HB 620 478 Mill Revenue	**$0**	**$428,864,656**	**$449,843,967**	**$471,621,421**

24. Under the provisions of HB 620, all the revenue generated from the 478 mills will be deposited into the School Trust lands and Interest and Income Guarantee account to offset general fund BASE Aid expenditures.

Changes to other taxes (School non-levy revenues)

25. HB 620 also changes the distribution of the state's bentonite tax, so that all revenue from the tax is deposited into the Guarantee account to offset general fund BASE Aid expenditures.

Distribution of Bentonite Tax Under HB 620				
Current Law				
	FY 2018	**FY 2019**	**FY 2020**	**FY 2021**
Counties with Production	$1,011,340	$1,011,340	$1,011,340	$1,011,340
General Fund	$269,215	$269,215	$269,215	$269,215
Montana University System	$16,866	$16,866	$16,866	$16,866
Total	**$1,297,421**	**$1,297,421**	**$1,297,421**	**$1,297,421**
HB 620				
Counties with Production	$1,011,340	$0	$0	$0
General Fund	$269,215	$0	$0	$0
Montana University System	$16,866	$0	$0	$0
Guarantee Account	$0	$1,297,421	$1,297,421	$1,297,421
Total	**$1,297,421**	**$1,297,421**	**$1,297,421**	**$1,297,421**

26. Based on revenue projections for HJ 2, the distributional changes to the state's bentonite tax will increase Guarantee fund revenue by $1,297,421 in fiscal years 2019, 2020 and 2021. At the same time, revenue to counties, the general fund and the university system will decrease by the same amount.
27. The distribution of revenue from the coal gross proceeds tax is changed so that all collected revenue would be deposited into the state's general fund under HB 620 (see technical note 1).

Distribution of Coal Gross Proceeds Tax				
Current Law				
Fund	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Counties with Production	$9,320,981	$10,624,722	$10,954,499	$11,232,262
General Fund	$6,959,168	$7,927,699	$8,169,996	$8,377,649
Montana University System	$818,726	$932,670	$961,176	$985,606
Total	**$17,098,875**	**$19,485,091**	**$20,085,671**	**$20,595,517**
HB 620				
Counties with Production	$9,320,981	$0	$0	$0
General Fund	$6,959,168	$19,485,091	$20,085,671	$20,595,517
Montana University System	$818,726	$0	$0	$0
Total	**$17,098,875**	**$19,485,091**	**$20,085,671**	**$20,595,517**

28. Based on HJ 2 revenue projections, the distributional changes to the state's coal gross proceeds tax will increase general fund revenue by $11.6 million in FY 2019, $11.9 million in FY 2020 and $12.2 million in FY 2021. The distribution to counties with coal production and the university system will have their revenue reduced by the same amount.

29. The following table has a summary of the revenue and distributional changes made by HB 620.

	FY 2018	FY 2019	FY 2020	FY 2021
General Sales Tax				
Tax Reimbursement Account	$439,458,426	$773,713,850	$787,150,019	$800,408,867
Critical Needs Account	$31,389,888	$55,265,275	$56,225,001	$57,172,062
School Infrastructure Account	$31,389,888	$55,265,275	$56,225,001	$57,172,062
General Fund	$125,559,550	$221,061,100	$224,900,005	$228,688,248
Accommodations and Rental Car Sales Taxes				
General Fund	$0	($1,374,116)	($1,493,010)	($1,622,520)
Senior Citizen Special Revenue	$0	($51,101)	($52,488)	($53,876)
Statewide Mill Property Tax Revenue				
General Fund	$0	($278,019,010)	($283,692,722)	($289,636,956)
Montana University System	$0	($17,827,581)	($18,208,223)	($18,607,468)
Centrally Assessed Property 478 Mills				
Guarantee Account	$0	$428,864,656	$449,843,967	$471,621,421
Bentonite Tax				
General Fund	$0	($269,215)	($269,215)	($269,215)
Montana University System	$0	($16,866)	($16,866)	($16,866)
Counties	$0	($1,011,340)	($1,011,340)	($1,011,340)
Guarantee Account	$0	$1,297,421	$1,297,421	$1,297,421
Coal Gross Proceeds				
General Fund	$0	$11,557,392	$11,915,675	$12,217,868
Montana University System	$0	($932,670)	($961,176)	($985,606)
Counties	$0	($10,624,722)	($10,954,499)	($11,232,262)
Total Change in Revenue				
General Fund	$125,559,550	($47,043,849)	($48,639,267)	($50,622,575)
Montana University System	$0	($18,777,118)	($19,186,266)	($19,609,941)
Counties	$0	($11,636,061)	($11,965,839)	($12,243,602)
Guarantee Account	$0	$430,162,077	$451,141,388	$472,918,842
Tax Reimbursement Account	$439,458,426	$773,713,850	$787,150,019	$800,408,867
Critical Needs Account	$31,389,888	$55,265,275	$56,225,001	$57,172,062
School Infrastructure Account	$31,389,888	$55,265,275	$56,225,001	$57,172,062
Senior Citizen Special Revenue	$0	($51,101)	($52,488)	($53,876)
Total Change in Revenue	$627,797,752	$1,236,898,347	$1,270,897,549	$1,305,141,839

Local Government Debt Service

30. HB 620 requires the state to assume the debt service obligations of local governments. This is required as current and future property tax collection have been pledged to repay the debt. Additionally, local governments may indirectly guarantee local entity debt. There is no data currently data on this potential liability.
31. Information on debt service does not exist in a comprehensive catalog of the debt obligations of counties, municipalities, tax increment financing districts and other legal entities. The best available source is a compilation unaudited county and municipal comprehensive annual financial reports. The latest available data is for FY 2015. This is believed to be an underestimate. It is also unknown what debt service obligations will be as of June 30, 2017. The total reported FY 2015 debt service was $39,845,410.

DOR Administrative Costs

32. HB 620 requires DOR to close all local county department offices by December 31, 2018. The proposed bill also eliminates property taxes for non-centrally assessed and industrial properties statewide. It is assumed that the proposed changes will reduce the Property Assessment Division (PAD) by 50% in FY 2019 and 75% in FY 2020. PAD will be reduced to only 6.00 FTE, by FY 2021. These remaining staff are needed to maintain: the department's property valuation information system, livestock reporting under 15-24-903, MCA, certification of centrally assessed property values, and all other remaining tasks. The proposed changes will reduce expenditures by $11,003,685 in FY 2019, $16,505,527 in FY 2020 and $21,507,570 in FY 2021. The

number of FTE in the Property Assessment Division will decrease from 303.00 FTE in FY 2018 to 152.00 FTE in FY 2019, 76.00 in FY 2020 and 6.00 in FY 2021.

33. The DOR will require 66.00 additional FTE during FY 2018 to prepare and administer the sales and use tax. The number of FTE required by the department will increase to 86.00 in fiscal years 2019, 2020, 2021. The new FTE will increase department expenditures by $4,848,857 in FY 2018, $6,146,996 in FY 2019, $6,180,093 in FY 2020 and $6,259,858 in FY 2021.
34. The department will need to update its integrated tax processing software and tax forms because of the proposal. Updating the department's forms will require $2,000 in additional expenditures during FY 2018. Changes to the department's integrated tax systems to accommodate the tax changes will require $3,765,000 in FY 2018 and FY 2019.
35. HB 620 authorizes the department to enter the *Streamlined Sales Tax and Use Tax* agreement. The cost of participating in the program will depend on the number of vendors who participate. Based on information from other states *SSTUA* is principally used by large firms and larger internet sales companies. The department is unable to determine participation in the program by firms, and is unable to determine the expenditures implications for the department at this time.

Office of Public Instruction

36. The average number belonging (ANB) used to determine the general fund budgets for K-12 public schools will be as follows. These estimates are for current year ANB, which is used to calculate the budgeted ANB as determined by 20-9-311(13) and (14), MCA, in the Executive Budget.

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
K-6 ANB	84,225	84,885	85,023	85,534	85,974
7-8 ANB	22,646	22,907	23,529	24,139	24,403
9-12 ANB	43,218	43,350	43,925	44,321	45,235
	150,089	151,142	152,477	153,994	155,612

37. The number of FTE (including special education cooperatives) generating the quality educator payment in the Executive Budget is estimated to be:

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
School Districts	12,248.423	12,248.423	12,248.423	12,248.423	12,248.423
Special Ed Coops	177.511	177.511	177.511	177.511	177.511
Total FTE	12,425.934	12,425.934	12,425.934	12,425.934	12,425.934

38. The present law inflation applied to the Basic and Per-ANB Entitlements, and the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data-for-Achievement, and the At Risk Components (20-9-326, MCA) is 1.37% in FY 2018 and 1.00 % in FY 2019. For the present law Executive Budget, entitlement and component is set as follows:

Basic Entitlements	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Elementary Basic	$50,895	$51,592	$52,108	$52,468	$53,213
Middle School Basic	$101,790	$103,185	$104,217	$104,936	$106,426
High School Basic	$305,370	$309,554	$312,650	$314,807	$319,277
Basic Entitlement Increments					
Elementary (Each 25 ANB > 250 ANB)	$2,545	$2,580	$2,606	$2,624	$2,661
Middle School (Each 45 ANB > 450 ANB)	$5,090	$5,160	$5,212	$5,248	$5,323
High School (Each 80 ANB past 800 ANB)	$15,269	$15,478	$15,633	$15,741	$15,965

Per ANB Entitlements	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Elementary Per-ANB	$5,444	$5,519	$5,574	$5,612	$5,692
High School Per-ANB	$6,970	$7,065	$7,136	$7,185	$7,287
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

Components	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Indian Education for All	$21.25	$21.54	$21.76	$21.91	$22.22
Indian Achievement Gap	$209	$212	$214	$215	$218
Quality Educator	$3,169	$3,212	$3,244	$3,266	$3,312
At Risk	$5,363,730	$5,437,213	$5,491,585	$5,529,477	$5,607,996
Data for Achievement	$20.36	$20.64	$20.85	$20.99	$21.29

39. Present law (20-9-326, MCA) requires the superintendent of public instruction to include inflationary adjustments for the Basic and Per-ANB entitlements, and the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data for Achievement, and the At-Risk components in the Executive Budget recommendations presented to the legislature. These present law adjustments resulted in the following expenditures:

Payment	**FY 2018**	**FY 2019**
Direct State Aid	$454.8 million	$461.9 million
Guaranteed Tax Base Aid	$163.3 million	$165.6 million
County Retirement GTB	$37.4 million	$38.6 million
Indian Education for All	$3.3 million	$3.3 million
American Indian Achievement Gap	$4.3 million	$4.3 million
Quality Educator	$39.9 million	$40.3 million
Data for Achievement	$3.1 million	$3.2 million

40. The present law adjustment for the Natural Resources Development payment in the Executive Budget was estimated to be $10.5 million in FY 2018 and $12.2 million in FY 2019 with offsetting GTB savings of $5.6 million in FY 2018 and $6.7 million in FY 2019.
41. Direct State Aid, GTB, and other general fund components are computed with the school funding model used by the Office of Public Instruction, the Legislative Fiscal Division, and the Office of Budget and Program Planning using current statutory entitlements, enrollment estimates, and estimated property tax values.
42. The state special education allowable cost payment remains at the FY 2017 level of $42.89 million per year.
43. Present law statewide taxable valuation is forecast to increase by 8.40% in FY 2018 and 2.40% in FY 2019.
44. Effective March 1, 2017, student counts and budget information were updated and HB 191 was adopted by the legislature and signed by the Governor, providing 0.5% inflation in FY 2018 and 1.87% inflation in FY 2019 on the school funding formula components. The following assumptions are now the current law assumptions used to calculate the school funding appropriation needs.
45. The average number belonging (ANB) used to determine the general fund budgets for K-12 public schools will be as follows, as of March 1, 2017. These estimates are for current year ANB, which is used to calculate the budgeted ANB as determined by 20-9-311(13) and (14).

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
K-6 ANB	84,158	84,531	84,745	85,069	85,681
7-8 ANB	22,659	22,897	23,523	24,157	24,523
9-12 ANB	43,158	43,177	43,858	44,303	45,203
	149,975	150,605	152,126	153,529	155,407

46. The number of FTE (including special education cooperatives) generating the quality educator payment, as of March 1, 2017, is estimated to be:

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
School Districts	12,247.413	12,423.443	12,423.443	12,423.443	12,423.443
Special Ed Coops	177.511	181.587	181.587	181.587	181.587
Total FTE	12,424.924	12,605.020	12,605.020	12,605.020	12,605.020

47. The present law inflation applied to the basic and per-ANB Entitlements, and the quality educator, Indian Education for all, American Indian achievement gap, data-for-achievement, and the at-risk components in accordance with HB 191 (2017 Session), pass and approved, at the rates of 0.5% in FY 2018 and 1.87% in FY 2019. For the present law school district budget calculations, entitlement and component is set as follows:

Basic Entitlements	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Elementary Basic	$50,895	$51,149	$52,105	$52,465	$53,210
Middle School Basic	$101,790	$102,299	$104,212	$104,931	$106,421
High School Basic	$305,370	$306,897	$312,636	$314,793	$319,263
Basic Entitlement Increments					
Elementary (Each 25 ANB > 250 ANB)	$2,545	$2,558	$2,606	$2,624	$2,661
Middle School (Each 45 ANB > 450 ANB)	$5,090	$5,115	$5,211	$5,247	$5,322
High School (Each 80 ANB past 800 ANB)	$15,269	$15,345	$15,632	$15,740	$15,964

Per ANB Entitlements	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Elementary Per-ANB	$5,444	$5,471	$5,573	$5,611	$5,691
High School Per-ANB	$6,970	$7,005	$7,136	$7,185	$7,287
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

Components	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Indian Education for All	$21.25	$21.36	$21.76	$21.91	$22.22
Indian Achievement Gap	$209	$210	$214	$215	$218
Quality Educator	$3,169	$3,185	$3,245	$3,267	$3,313
At Risk	$5,363,730	$5,390,549	$5,491,352	$5,529,242	$5,607,757
Data for Achievement	$20.36	$20.46	$20.84	$20.98	$21.28

48. The Natural Resources Development payment, as of March 1, 2017, is estimated to be $9.2 million in FY 2018 and $12.4 million in FY 2019 with offsetting GTB savings of $4.9 million in FY 2018 and $6.6 million in FY 2019. This funding has been eliminated from the school funding formula in HB 620.
49. Section 38 of HB 620 directs school districts to establish a budgeted “local control and efficiency fund” for the purposes of (a) maintenance and improvement of school facilities, including technology infrastructure; (b) providing adult education and literacy courses at the trustees’ discretion; (c) school litigation costs as necessary; (d) costs related to any nonoperating purposes for any year in which the trustees will not operate a school; and (e) any other costs related to the education of district pupils as determined by the trustees. Funding is to be allocated at the discretion of the trustees.
50. The bill also directs the Board of Public Education (BPE) to distribute to each elementary district and each high school district $50,000 plus $500 per ANB for the first 100 ANB, decreased at the rate of 20 cents per ANB for each additional ANB of the district up through 600 ANB, with each ANB in excess of 600 receiving the same dollar amount as the 600th ANB to be deposited in the local control and efficiency fund. These payments would cost the state general fund $183.5 million in the 2019 biennium.
51. HB 620 directs all school districts will transfer all current fund balances from the district building reserve fund; the nonoperating fund’ the tuition fund; the adult education fund; the litigation reserve fund; the

flexibility fund; the technology acquisition fund; and the building fund to the local control and efficiency fund. Under current law, the building reserve fund; the nonoperating fund; the tuition fund; the adult education fund; the flexibility fund, the technology acquisition fund; are budgeted funds funded by mill levies. The litigation reserve fund and the building fund are currently nonbudgeted funds not funded by mill levies. The most recent ending fund balance data available for this fiscal note is for FY 2016. At that time the total of these funds was $342.9 million.

52. Funding for the building fund (currently nonbudgeted) is primarily the proceeds of bonds sold for the purposes provided in 20-9-403, MCA, insurance proceeds for damaged property as provided in 20-6-608, MCA, or the sale or rental or property as provided in 20-6-604 and 607, MCA.
53. HB 620 repeals the following school district funds: building reserve, nonoperating, building, litigation reserve, technology acquisition and depreciation, adult education, bus depreciation, and school flexibility. Any levies associated with the funds are repealed as well.
54. This bill directs school districts operating a transportation program would establish a transportation fund and adopt a transportation budget. HB 620 directs OPI to calculate each district's transportation payment based on the district's transportation expenditures in FY 2016 ($80.3 million) with the payment increased by the statutory inflation adjustment calculated in 20-9-326, MCA, and distributed in the same manner as current law. The appropriation for FY 2017 for district transportation fund was $11.8 million. The inflation factors as calculated per 20-9-326, MCA, as directed in the bill are 1.37% in FY 2018 and 1.00% in FY 2019. Transportation payments would cost the state general fund $81.4 million in FY 2018 and $82.2 million in FY 2019. This is an increase of $140.1 million over current state transportation funding. The bill directs the trustees of the district to transfer any ending fund balance from these payments at the end of the school fiscal year to the local control and efficiency fund created in this bill. Under current law school district transportation is funded by state, county, and local property taxes.
55. The bill repeals state transportation reimbursement and county transportation reimbursement and funds district transportation costs at 100% with state general fund.
56. Trustees of districts operating a transportation program are allow by this bill to request additional funds for transportation costs from the Infrastructure Needs Assessment Commission created in this bill. These funds would be used for purchase of school buses; demographic changes; and increased operational costs related to fuel prices that increase above the rate of inflation. Any remaining fund balance at year end from this source is to be reappropriated to the ensuing year's transportation budget to reduce the district's state payment.
57. HB 620 creates a School Infrastructure Needs Assessment Commission in Sections 40 - 54 of the bill to be under the administration of the Department of Administration. This commission would consist of five members elected from five districts as defined in the bill.
58. The duties of the commission would be to consider the state's existing and projected funding in the school infrastructure needs assessment account created in section 53 of this bill. The commission would recommend school district projects to the legislature for potential funding as provided in section 48. The commission would adjust all school district allocations under Title 20 upon district reorganization pursuant to 20-6-422, MCA, regarding district annexation and 20-6-423, MCA, regarding district consolidation and upon any district boundary changes as provided in this title.
59. If the trustees of a district determine a need for additional BASE budget funding, a request can be made to the School Infrastructure Needs Assessment Commission.
60. Commission expenses must be paid by the state general fund. The commission and its staff are entitled to reimbursement for travel expenses per statute. The estimated cost would be $5,000 per year.
61. Section 53 of HB 620 creates a school infrastructure needs assessment account in the state special revenue fund. The revenue source for the account would be 5% of the sales tax and use tax proceeds as defined in 15-68-820(1)(c).
62. HB 620, section 54, directs the state will assume all existing bonded indebtedness of school districts as of July 1, 2017. The state shall provide sufficient revenue to any district to pay principal and interest due on existing bonds. Districts receiving this revenue shall establish a debt service account. Total outstanding bonds were

$723.6 million. It is unclear if the intent of this bill is to fully pay these bonds upon assumption of the debt or over the prescribed periods. The current annual cost of all bonded indebtedness of all school districts with such debt is approximately $30 million per year. This debt now is funded by local property taxes.

63. Section 338 of HB 620, redefines "BASE aid" for school funding by increasing direct state aid (DSA) to 100% (was 44.7%) of the basic entitlement and 100% (was 44.7%) of the total per-ANB entitlement for the general fund budget of a district; eliminates the natural resource development K-12 funding payment (NRD); eliminates guaranteed tax base aid (GTB); increasing special education allowable cost payment to 100% from 40%. Continues to include the quality educator payment, total at-risk student payment, total Indian education for all payment, total American Indian achievement gap payment, and the total data-for-achievement payment.
64. The bill redefines a school district "BASE budget" to mean 100% (was 80%) of the basic entitlement; 100% (was 80%) of the total per-ANB entitlement; 100% (was 140%) of the special education allowable cost payment. The other components currently included in BASE budget remain the same: 100% each of total quality educator payment, the total at-risk student payment, the total American Indian achievement gap payment, and the total data-for-achievement payment.
65. "BASE budgets and maximum general fund budgets" in current law 20-9-308, MCA, are amended to be only "BASE budgets" in this bill and are equal the "BASE budget" defined in the previous assumption.
66. As per HB 620, for budget limitation purposes the special education allowable cost payment will be calculated at 100% in the BASE budget calculation. This is a reduction to the amount of special education funding used to determine the current law BASE budget limit (140% special education) and the maximum budget limit (up to 200% special education).
67. In FY 2017, 141 of the 401operating school district's in the state adopted budgets that were over the current definition of maximum general fund budget. These districts would see decreases in budget authority as the fund limit would be set at the calculated BASE budget limit. Additionally, 215 districts adopt budgets that are less than the maximum general fund budget, these districts would experience increased general fund budget.
68. The BASE budget is to be financed by the state through sales and use taxes as defined in this bill, by the new statewide school levy on centrally assessed property, by revenue deposited in the state special revenue guarantee account (20-9-622, MCA), and by the state general fund.
69. The "BASE budget levy" is eliminated. Under current law, this is local property taxes levied to support the district BASE budget.
70. The "BASE funding program" is eliminated. Under current law, this is equalization mills levied statewide to fund K-12 public education.
71. The district "maximum general fund budget" is eliminated. Under current law, this is a budget limiting factor for districts when preparing budgets.
72. The "over-BASE budget levy" is eliminated. Under current law, a district can levy in support of any general fund amount budgeted that is above the BASE budget and below the maximum general fund budget.
73. Section 338 of HB 620, does not include the inflationary increases passed by the 65th Legislature in HB 191 for the school funding formula. For purposes of this fiscal note, it is assumed the entitlements will remain at the level defined in HB 191 for changes that have already been passed by the legislature. These include the basic and per-ANB entitlements, the quality educator, Indian education for all, data-for-achievement, American Indian achievement gap, and the at-risk payments.
74. HB 620 eliminates payments for Guaranteed Tax Base Aid (GTB) reducing general fund expenditures by $162.9 in FY 2018 and $168.8 million in FY 2019.
75. HB 620 repeals section 20-9-630, MCA, school block grants. This funding is a reimbursement provision for funding that has been reduced for various taxes school districts previously retained. The total decrease to the state general fund expenditures would be $68.4 million per year.
76. Non-levy revenues such as oil & gas, coal gross proceeds, and federal forest payments will be directed to the newly established Local Control and Efficiency fund. Under current law, these have been deposited to the district general fund and considered non-levy revenue used to offset GTB paid by the state.

77. Section 346 amends 20-9-501, MCA, to fund 100% of the retirement budget based on "revenue need" from the state general fund. For purposes of this fiscal note, the total adopted budgets will be assumed to be funded by the state. The total adopted retirement budgets in FY 2017 was $165,448,164.
78. The state special revenue guarantee account redefines the statutory appropriation of the account to be for BASE aid as provided in 20-9-306 instead of through school equalization and changes the distribution of any excess interest and income revenue deposited in the guarantee account to exclude distribution of 50% of the excess interest and income revenue be reserved to be appropriated by the next regular session legislature. It is not anticipated in the foreseeable future that there will be any excess interest and income deposited in the guarantee account.
79. HB 620 repeals the following school district funds: building reserve, nonoperating, building, litigation reserve, technology acquisition and depreciation, adult education, bus depreciation, and school flexibility. Any levies associated with the funds are repealed as well.
80. HB 620 repeals several Title 20 statutes as listed in the bill. Many relate to property taxes which are eliminated in the bill, and there are also many statutes related to school district budgets and the changes in school funding that are repealed.
81. The bill eliminates the current quality school facility grant program in the Department of Commerce and eliminates the state special revenue school facility and technology account which funds the grants. Currently, HB 2 contains about $0.4 million for the 2019 biennium from the school facility and technology account to fund administrative costs of the quality school facility grant program.
82. School districts receiving impact aid funds would receive additional state funding which could cause decreases in federal impact aid funds.
83. Section 465 of HB 620 specifies a two-thirds vote would be required by each house of the legislature for passage of this bill because the bill requires the state would assume all existing bonded indebtedness of school districts.

Secretary of State

84. This bill will have minimal cost for postage and administrative duties related to tribal notifications in Section 21 of the bill. The Office of the Secretary of State does not receive general fund monies for office operations, but has agreed to assume the fiscal responsibility for this bill.

Critical Need Assessment and the School Infrastructure Needs Assessment Commissions

85. The bill creates two Commissions that are each directed by five elected officials, one from each of five regions specified in the bill (like the Public Services Commission). The costs for this commission were developed from the TSEP staffing and operational expenditures, PSC Commissioner pay and benefits, as well as the some of the PSC operating expense. The PSC operates with approximately 33.00 FTE, the TSEP program with just over 6.00 FTE.
86. Personal services were based on 18.00 FTE per Commission, consisting of 5.00 FTE commissioners ($685,000), 3.00 FTE senior/Technical staff ($273,000), 5.00 FTE compliance/technical specialists ($355,000) and 5.00 FTE administrative support personnel ($270,000). Travel, rent and operations were estimated based on FY 2016 TSEP and the PSC expenditures. It is assumed that there will be quarterly meetings in each of the five regions (20 meetings). Travel was estimated at $50,000 per year, operations at $150,000 per year, and rent at $235,000 per year. These costs apply to each Commission. There will be one-time office package ($1,600) and ($1,200) computer set-ups for each FTE ($50,400). Total Annual costs are $1,530,000 for personnel services expense and $435,000 ongoing operation expense and $50,400 one-time set-up. Recurring annual expense is $1,965,000 per commission. These costs are inflated by 1.5% in FY 2020 and FY 2021. The Commissions' costs are $4,030,800, in FY 2019, 4,091260, in FY 2020 and $4,152,630 in FY 2021.

87. While the bill is effective January 1, 2018, it is assumed that the commissioners would be elected in November 2018 (FY 2019). Expenditures would begin January 1, 2019 mid-way through FY 2019. The recurring expenditures are reducing by 50% for FY 2019. The Commissions are funded out of the state general fund.
88. A statutory appropriation is created for the tax reimbursement account under HB 620. 17-1-508, MCA, requires analysis of the statutory appropriation relative to the guidance in 17-1-508(3), MCA, to be published in the fiscal note. In reviewing and establishing statutory appropriations, the legislature shall consider the following guidelines. Answer yes or no to each of the following guidelines regarding the statutory appropriation:

		YES	NO
a.	The money is from a continuing, reliable, and estimable source.	X	
b.	The use of the appropriation or the expenditure occurrence is predictable and reliable.	X	
c.	The authority exists elsewhere.	X	
d.	An alternative appropriation method is available, practical, or effective.	X	
e.	It appropriates state general fund money for purposes other than paying for emergency services.	X	
f.	The money is used for general purposes.		X
g.	The legislature wishes to review expenditure and appropriation levels each biennium.		X
h.	An expenditure cap and sunset date are excluded.		X

Fiscal Impact:	FY 2018	FY 2019	FY 2020	FY 2021
FTE (DOR)	66.00	(65.00)	(141.00)	(211.00)
FTE (Commissions)	0.00	36.00	36.00	36.00
Total FTE	**66.00**	**(29.00)**	**(105.00)**	**(175.00)**
Expenditures:				
DOR Personal Services	$4,178,165	($3,189,659)	($7,493,308)	($11,371,754)
DOR Operating Expenses	$458,832	($1,731,230)	($2,832,126)	($4,332,786)
DOR Equipment	$3,978,860	$3,814,200	$0	$19,836
DOR University 6 mill backfill (01)	$0	$18,777,118	$19,186,266	$19,609,941
DOR Transfers--Tax Reimbursment Acct	$439,458,426	$773,713,850	$787,150,019	$800,408,867
DOR Transfers--Critical Needs Acct	$31,389,888	$55,265,275	$56,225,001	$57,172,062
DOR Transfers-- School Inf. Acct	$31,389,888	$55,265,275	$56,225,001	$57,172,062
Assumption of Local Govt. Debt Service	$0	$40,000,000	$40,000,000	$40,000,000
Subtotal DOR	*$510,854,059*	*$941,914,829*	*$948,460,853*	*$958,678,228*
OPI Local Assistance (DSA)	$0	$545,668,248	$547,627,575	$546,351,198
OPI Local Assistance (GTB)	$0	($165,567,636)	($168,167,705)	($171,708,144)
OPI Local Assistance (Retirement GTB)	$0	($38,567,091)	($39,784,924)	($41,041,213)
OPI Local Assistance (Natural Resources Dev)	$0	($12,200,000)	($13,400,000)	($15,800,000)
OPI Local Assistance (Local Ctrl & Eff. Pmt)	$0	$92,023,479	$92,692,426	$93,417,404
OPI Local Assistance (New Retirement Pmt)	$0	$165,448,164	$165,448,164	$165,448,164
OPI Local Assistance (New Pupil Transport)	$0	$68,094,237	$80,412,104	$81,553,956
OPI Local Assistance (Debt Service)	$0	$65,000,000	$65,000,000	$65,000,000
OPI Local Assistance (Block Grants)	$0	($68,614,722)	($68,614,722)	($68,614,722)
Subtotal OPI	*$0*	*$651,284,679*	*$661,212,918*	*$654,606,643*
Commissions - Personal Services	$0	$765,000	$1,552,950	$1,576,244
Commissions - Operating Expenses	$0	$267,900	$441,525	$448,148
Subtotal Commisssions	*$0*	*$1,032,900*	*$1,994,475*	*$2,024,392*
TOTAL Expenditures	$510,854,059	$1,594,232,408	$1,611,668,246	$1,615,309,263
Funding of Expenditures:				
General Fund (01) DOR	$8,615,857	$57,670,429	$48,860,832	$43,925,237
General Fund (01) Commissions	$0	$1,032,900	$1,994,475	$2,024,392
General Fund (01) OPI	$0	$221,122,602	$210,071,530	$181,687,801
Sub-total General Fund	*$8,615,857*	*$279,825,931*	*$260,926,837*	*$227,637,430*
SSR (02) Tax Riembursment Acct.	$439,458,426	$773,713,850	$787,150,019	$800,408,867
SSR (02) Critical Needs Acct	$31,389,888	$55,265,275	$56,225,001	$57,172,062
SSR (02) School Infrastucture Acct (OPI)	$31,389,888	$55,265,275	$56,225,001	$57,172,062
SSR (02) Guarentee Acct (OPI)	$0	$430,162,077	$451,141,388	$472,918,842
Subtotal SSR (02)	*$502,238,202*	*$1,314,406,477*	*$1,350,741,409*	*$1,387,671,833*
TOTAL Funding of Exp.	$510,854,059	$1,594,232,408	$1,611,668,246	$1,615,309,263
Revenues:				
General Fund (01)	$125,559,550	($47,043,849)	($48,639,267)	($50,622,575)
State Special Rev (02) Guarantee Acct	$0	$430,162,077	$451,141,388	$472,918,842
State Spec Rev (02) MT Univ Sys-6 mills	$0	($18,777,118)	($19,186,266)	($19,609,941)
State Spec Rev (02) Sr Citizen Spec Rev	$0	($51,101)	($52,488)	($53,876)
State Spec Rev (02) Tax Reimb Acct	$439,458,426	$773,713,850	$787,150,019	$800,408,867
State Spec Rev (02) Critical Needs Acct	$31,389,888	$55,265,275	$56,225,001	$57,172,062
State Spec Rev (02) Inf. Needs Acct	$31,389,888	$55,265,275	$56,225,001	$57,172,062
Subtotal SSR (02)	$502,238,202	$1,295,578,258	$1,331,502,655	$1,368,008,016
TOTAL Revenues	$627,797,752	$1,248,534,409	$1,282,863,388	$1,317,385,441
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$116,943,693	($326,869,780)	($309,566,104)	($278,260,005)
State Special Rev (02)	$0	($18,828,219)	($19,238,754)	($19,663,817)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. HB 620 changes the distribution of the coal gross proceeds tax and the bentonite tax. Under current law, between $10 million and $12 million in revenue from both taxes is distributed to counties with coal or bentonite production. Under HB 620, all the revenue from the taxes are deposited either into the state's general fund or into the state's Guarantee account.
2. HB 620 eliminates the authority of counties, consolidated governments, incorporated cities, incorporated towns, or other taxing entity to levy property taxes. Revenue from the tax reimbursement account will be allocated to county and local governments based on the distribution of property taxes collected during FY 2017. This funding switch results in a net increase in state general fund transfers to local government to replace local property taxes.
3. The following table shows the statewide effects of the elimination of local property tax, state assumption of *known* local government debt service and the redirection of some non-levy revenue to the state under HB 620. As the main purpose of the fiscal note is to show the changes to the state relative to present law it provides an incomplete presentation of the funding switches between the state and instances of local government. The following table presents these funding switches from the perspective of counties and municipalities:

Local Government Impacts of HB 620 Revenue Reductions and Sales Tax Transfers

Local Revenue Changes	FY 2019	FY 2020	FY 2021
County Non-Levy Revenue	(11,636,061)	(11,965,839)	(12,243,602)
Counties	($519,693,267)	($532,685,599)	($546,002,739)
Cities	($172,858,428)	($177,179,889)	($181,609,386)
Total Local Revenue Reductions	($704,187,757)	($721,831,327)	($739,855,727)
HB 620 Transfers to Local Governments and Assumption of Debt Service			
Counties	$580,597,638	$590,680,187	$600,629,674
Cities	$193,116,212	$196,469,832	$199,779,193
Assumption of Debt Service	$39,845,410	$39,845,410	$39,845,410
Total Transfers /decreases in liability	$813,559,260	$826,995,429	$840,254,277
Net Increase / (decrease) in Local Resources	$109,371,503	$105,164,102	$100,398,550

4. The impact on local schools is not as a clear cut as the tax changes to local governments given the changes in the school funding formula.
5. Schools lose the ability to levy local property taxes, but debt service is assumed by the state. The school funding formula is rewritten to fully fund schools through the state guarantee fund and the state general fund with a variety of revenue sources including sales tax transfers. The detailed accounting sheet in the main body of the fiscal note reflects the changes to the state relative to present law.
6. Under HB 620 local property taxes for schools (and some non-levy revenues) are eliminated and the state assumes full funding of local schools. Unlike for the estimates for local governments, school debt service is well known and is included in the HB 620 net change to school funding. The following table shows the effects of the funding changes due only to HB 620 (that is net of the current level of school funding):

Net change in Local School Funding under HB 620

	FY 2019	FY 2020	FY 2021
Local School Property Tax Elimination	($675,951,757)	($692,850,551)	($710,171,815)
HB 620 Net increases to State School Funding	$651,284,679	$661,212,918	$654,606,643
Net Increase / (decrease) in Local Resources	($24,667,078)	($31,637,633)	($55,565,172)

Long-Term Impacts:

Office of Budget and Program Planning

1. Changes to the basis for allocating sales tax revenue to local government jurisdictions over time will be set by local the Critical Needs Assessment Commission, as approved by the Legislature each biennium. Differences will develop due to timing lags as Legislative authorization is required before expending collections, particularly in the first biennial cycle. The difference between where sales tax revenue is generated and where Montana residents live, will create differences the collections relative to FY 2017 distribution of property tax levies over time. These discrepancies will develop between regions and within regions given that 70% of the resources are allocated based on the 2017 distribution of property and only 5% are available for adjusting the allocation of sales tax collections and for addressing changing local government needs.
2. The change in the pattern of revenue collections will require that large payments and transfers may need to be reorganized and/or reduced to rationalize cash flow constraints.

Technical Notes:

1. The bill is effective January 1, 2018. The first statewide general election is November 2018. The Commissions envisioned by this bill would not be operational until sometime during the second half of FY 2019.
2. The direct debt service obligations of local governments are not known with certainty. The potential counter-party risk (back-up security) obligations of Counties and Municipalities is known with less precision.
3. There is no mention of oil and gas revenue, a principal source of non-levy revenue received by school districts and how those revenue flows would operate within the proposed school funding formula.
4. Federal forest receipts are allocated based on relative state and local school mill shares (17-3-213, MCA).
5. Section 262 of HB 620 strikes the distribution provisions in 15-23-730, MCA, therefore it is assumed that all revenue will be distributed to the general fund. Additional language would clarify the intent of the legislation.
6. The department's property tax data is used across multiple state agencies for many purposes, such as water rights, home site leases and fire protection assessments. The uses of functions would be affected given the property tax changes made by HB 620

Sponsor's Initials	Date	Budget Director's Initials	Date