



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2021 Biennium

**Bill #** HB0300

**Title:** Generally revise taxes and the distribution of revenue through sales tax

**Primary Sponsor:** White, Kerry

**Status:** As Amended in House Committee

- 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 2020 Difference</u>	<u>FY 2021 Difference</u>	<u>FY 2022 Difference</u>	<u>FY 2023 Difference</u>
<b>Expenditures:</b>				
General Fund	(\$295,738,134)	(\$439,880,950)	(\$454,358,731)	(\$466,981,675)
State Special Revenue	\$779,650,733	\$1,909,963,000	\$1,979,498,340	\$2,052,147,715
<b>Revenue:</b>				
General Fund	(\$7,742,000)	(\$331,237,000)	(\$337,207,000)	(\$344,599,000)
State Special Revenue	\$779,562,625	\$1,891,335,600	\$1,959,431,400	\$2,031,760,400
<b>Net Impact-General Fund Balance:</b>	<u>\$287,996,134</u>	<u>\$108,643,950</u>	<u>\$117,151,731</u>	<u>\$122,382,675</u>

**Description of fiscal impact:** HB 300 as amended, creates 2.5% statewide general sales and use tax, which includes business-to-business sales, while also eliminating property tax levy authority of local governments and schools. The bill changes the school funding formula and changes the basis of school and all local government financing. The proposal redirects many state revenue flows. The bill also eliminates the state's mill levies and creates a new statewide levy of 478 mills which applies to all centrally assessed property.

\*\* 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, length, and potential unanticipated interactions of the bill's component changes this fiscal note may be amended as additional data becomes available. \*\*

## FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue (DOR)**

1. HB 300 as amended, creates a statewide general sale and use tax, which is applied to both retail and business-to-business sales. The tax rate for the sales tax is 2.5%. The proposed bill also eliminates property tax levy authority for local governments and schools. The bill statutorily appropriates the revenue generated by the statewide sales tax to local governments and schools, and through two commissions created in the bill. HB 300 eliminates the current law state mills levied on all property. HB 300 also creates a new statewide levy of 478 mills on all centrally assessed property. The bill also rewrites the state school funding model changing the manner and level at which schools are funded. Sales tax revenue, a new centrally assessed property tax and other general fund resources are directed to state special revenue funds for transfers to fund local schools and local governments. The debt service obligations of local governments and schools are also funded out of the sales tax proceeds.

*Sales tax*

2. Beginning January 1, 2020, HB 300 creates a statewide general sale and use tax on tangible personal property and services. The tax rate of 2.5% applies to the sales price of the property or service sold. The tax applies to sales made to the final consumer, as well as sales made from one business to another for the purpose of resale or storage.
3. The following goods and services are excluded from the general sales tax: 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, and the sale or lease of real property or improvements and leases of mobile homes.
4. The proposed bill also allows all sales that occur during the period from October 20 through November 20 to be exempt from the sales and use tax created in HB 300. The exemption also applies to the state’s current 3% sales tax on accommodations and the 4% tax on rental vehicles.
5. Based on the department’s sales tax model, the total sales tax base before adjustments is estimated to be approximately \$33.2 billion in the second half of FY 2020. The total taxable sales are projected to increase to \$68.8 billion in FY 2021, \$71.1 billion in FY 2022 and \$73.6 billion in FY 2023.
6. At a 2.5% tax rate the sales tax would generate a tax liability of \$829.4 million in FY 2020, \$1.72 billion in FY 2021, \$1.78 billion in FY 2022 and \$1.84 billion in FY 2023.

*Adjustments to the base*

7. Households are anticipated to take advantage of the October 20 through November 20 sales tax holiday. Household spending that would have occurred in the week before and the week after the holiday are assumed to move into the holiday period. The sales tax holiday reduces sales tax liability by 12.6% (46 days/365 days).
8. It is assumed that 5% of sales tax revenue will be lost each period, due to noncompliance.
9. A vendor allowance of 5% of the tax due is allowed for the estimated 55,000 vendors collecting the tax to cover their administrative costs. The allowance is capped at \$350 per month.
10. Adjustments for the tax holiday, noncompliance, and vendor allowance results in the following collections:

General Statewide Sales and Use Tax Revenue						
Fiscal Year	Taxable Sales	Tax Liability	Tax Holiday	Noncompliance	Vendor Allowance	Total Revenue
2020	\$33,177,298,248	\$829,432,456	\$0	(\$41,471,623)	(\$23,192,777)	\$764,768,056
2021	\$68,788,836,800	\$1,719,720,920	(\$216,731,952)	(\$75,149,448)	(\$56,723,359)	\$1,371,116,161
2022	\$71,085,743,200	\$1,777,143,580	(\$223,968,780)	(\$77,658,740)	(\$58,202,416)	\$1,417,313,644
2023	\$73,600,031,384	\$1,840,000,785	(\$231,890,510)	(\$80,405,514)	(\$59,744,950)	\$1,467,959,811

*Impact of the Tax Holiday on Accommodations and Rental car taxes*

11. The sales tax holiday also applies to the current 4% accommodations sales tax and 3% rental vehicle sales tax. These taxes are projected based on HJ 2 assumptions.

12. Collections data shows that approximately 4.4% of accommodations sales occur during the month of November. It is assumed that the sales tax holiday will reduce revenue from the two taxes by 4.4%.

Tax Holiday Effect on Accommodations and Rental Car Tax Collections					
Fiscal Year	Accommodations		Rental Car		Change in Revenue
	Current Law	HB 300	Current Law	HB 300	
2020	\$26,380,000	\$26,380,000	\$5,385,000	\$5,385,000	\$0
2021	\$27,287,000	\$26,086,000	\$5,677,000	\$5,427,000	(\$1,451,000)
2022	\$28,109,000	\$26,872,000	\$5,839,000	\$5,582,000	(\$1,494,000)
2023	\$28,856,000	\$27,586,000	\$5,986,000	\$5,723,000	(\$1,533,000)

*Distribution of Sales Tax Revenue*

13. HB 300 as amended, changes the distribution of all sales tax revenue with the main change being all the general fund accommodation tax and rental car tax is pooled with the new sales tax revenue except 25% of the rental vehicle sales tax revenue which is deposited into the senior citizen and disabilities transportation services account. The amendment changes the guarantee account distribution to \$600 million (from \$700 million) and increased the distribution to the sales and use tax reimbursement account from 30% to 46% of total sales tax collections (inclusive of the former general fund accommodations and rental car tax revenue). After those distributions are made any remainder is split 30% into the critical needs assessment (Local government) and 70% education needs assessment (schools) accounts. These are the resources from which the two commissions will make allocation recommendations to the legislature.

*Local Government Debt Service*

14. HB 300 requires the State to assume the debt service obligations of local governments and local schools. This is required as current and future property tax collection have been pledged to repay debt. Additionally, local governments may indirectly guarantee local entity debt. There is no data on this indirect potential liability.
15. Information on debt service was obtained from the state bond counsel. The records show a debt stock of approximately \$2.03 billion (not including municipal water and sewer revenue bond debt) as of late-October 2018. \$1.202 billion is local school debt and \$824.7 million is city and county debt. The debt service obligation of local government is not well known, but school debt service is tracked by the Office of Public Instruction. Current records show that school debt service is \$115.8 million per year. Local government debt service was estimated by using the ratio school servicing cost to debt stock. Local governments are assumed to have an annual obligation of \$99.3 million.
16. HB 300 designates a specific fund for school debt servicing (section 55). Local government debt service is required in section 1 (1)(b), and designated as the priority allocation, but a separate fund is not explicitly mandated. In both cases, 125% of the debt service obligation must be held in reserve. In the case of schools that requires \$144.7 million, whereas for local governments the requirement is \$99.3 million. It is assumed that there is a half-year obligation in FY 2020.
17. As the \$600 million for the guarantee account provided for in 20-9-622, MCA, applies at the start of TY 2020, it is assumed that half the \$600 million for TY 2020 will be deposited in FY 2020. The same applies to the repayment of principal and interest on school bonds account.
18. Based on the sales tax estimates and distributions, the summary of sales tax revenue allocations accounts created in HB 300 are presented in the following table:

HB 300 as Amended: Sales Tax Distributions	FY 2020	FY 2021	FY 2022	FY 2023
<b>Combined Sales Tax Revenue</b>	<b>\$779,978,000</b>	<b>\$1,400,009,000</b>	<b>\$1,447,071,000</b>	<b>\$1,498,502,000</b>
Guarantee Account (20-9-622)	\$300,000,000	\$600,000,000	\$600,000,000	\$600,000,000
Repayment of Principal and Interest on School Bonds	\$72,350,000	\$144,700,000	\$144,700,000	\$144,700,000
Sales and Use Tax Reimbursement Account (46%)	\$358,790,000	\$644,004,000	\$665,653,000	\$689,311,000
<i>Of Which Local Debt Service</i>	<i>\$49,650,000</i>	<i>\$99,300,000</i>	<i>\$99,300,000</i>	<i>\$99,300,000</i>
State Park Account (0.100%)	\$780,000	\$1,400,000	\$1,447,000	\$1,499,000
Snowmobile Account (0.080%)	\$624,000	\$1,120,000	\$1,158,000	\$1,199,000
Off-Highway Vehicle Account (0.030%)	\$234,000	\$420,000	\$434,100	\$449,600
Aeronautics Revenue Fund (0.004%)	\$31,200	\$56,000	\$57,900	\$59,900
Senior/Disabled Transportation Services (25% of Rental Car Tax)	\$505,000	\$1,065,000	\$1,095,000	\$1,122,000
<b>Remainder that is distributed to:</b>	<b>\$46,663,800</b>	<b>\$7,244,000</b>	<b>\$32,526,000</b>	<b>\$60,161,500</b>
Critical Needs Assessment Account (30%)	\$13,999,140	\$2,173,200	\$9,757,800	\$18,048,450
Education Needs Assessment Account (70%)	\$32,664,660	\$5,070,800	\$22,768,200	\$42,113,050

*Property tax effects*

19. HB 300 eliminates the state equalization mill levied on all property, starting in TY 2020. The statewide equalization mills include the state’s 95 mills, the university system’s six mills and the 1.5 vo-tech mills. Based on the HJ 2 forecast, the taxable value of property in Montana will be approximately \$3.1 billion in FY 2020, which will increase to \$3.4 billion in FY 2023. Applying the mill rates generates the following revenue under present law:

Estimated Property Taxable Value and Elimination of State Property Tax Revenue				
	FY 2020	FY 2021	FY 2022	FY 2023
Taxable Value	\$3,080,860,000	\$3,148,299,000	\$3,310,848,000	\$3,382,346,000
<b>Revenue</b>				
State General Fund Mills	\$0	(\$300,619,000)	(\$316,094,000)	(\$322,919,000)
University Mills (6 Mills) - SSR	\$0	(\$19,259,000)	(\$20,251,000)	(\$20,698,000)

20. Under HB 300, the entire property tax reduction associated with the statewide mills would be a 100% loss to the general fund and the university state special revenue relative to current law starting in TY 2020. Most property taxes are paid in November and May of the fiscal year following assessment. This eliminates this state revenue effective FY 2021.

*Tax on Centrally Assessed Property*

21. HB 300 also creates a new statewide 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. Since the class 12 rate is a weighted average of all commercial and industrial property, its tax rate rises with the elimination of class 4 commercial property. This in turn increases taxable value in the remaining property.

22. The 478 mill revenue from centrally assessed property is deposited into the guarantee account is as follows:

HB 300 Centrally Assessed Taxable Value and New 478 mill Tax Revenue				
	FY 2020	FY 2021	FY 2022	FY 2023
Total Centrally Assessed Taxable Value	\$1,030,509,621	\$1,067,636,559	\$1,114,919,429	\$1,159,591,232
HB 300 478 Mill Revenue	\$0	\$510,330,000	\$532,931,000	\$554,285,000

*Bentonite tax*

23. HB 300 changes the distribution of bentonite tax directing all the revenue to the guarantee fund. The revenue directed to counties, the state general fund and the university system will decrease by the same amount. The HJ 2 estimate is for total revenue to remain constant. Bentonite is taxed semi-annually so the FY 2020 values are half-year effects:

HB 300 Distribution of Bentonite Tax				
HB 300 by Fund	FY 2020	FY 2021	FY 2022	FY 2023
General Fund	\$137,000	\$0	\$0	\$0
University System	\$8,500	\$0	\$0	\$0
Guarantee Account	\$660,500	\$1,321,000	\$1,321,000	\$1,321,000
Counties with Production	\$515,000	\$0	\$0	\$0
<b>Total</b>	<b>\$1,321,000</b>	<b>\$1,321,000</b>	<b>\$1,321,000</b>	<b>\$1,321,000</b>
Change by Fund	FY 2020	FY 2021	FY 2022	FY 2023
General Fund	(\$137,000)	(\$274,000)	(\$274,000)	(\$274,000)
University System	(\$8,500)	(\$17,000)	(\$17,000)	(\$17,000)
Guarantee Account	\$660,500	\$1,321,000	\$1,321,000	\$1,321,000
Counties with Production	(\$515,000)	(\$1,030,000)	(\$1,030,000)	(\$1,030,000)
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

*Coal Gross Proceeds*

24. 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 300.
25. Based on HJ 2 revenue projections and the timing of coal gross proceeds receipts, in which CY 2020 production affects FY 2022 distributions, changes to the state’s coal gross proceeds tax will increase general fund revenue by \$10.1 million in FY 2022, and \$10.4 million in FY 2023. The distribution to counties with coal production and to the university system will reduce by the same amount.

Distribution of Coal Gross Proceeds Tax				
HB 300 by Fund	FY 2020	FY 2021	FY 2022	FY 2023
General Fund	\$7,901,000	\$8,096,000	\$18,708,000	\$19,170,000
University System	\$499,000	\$511,000	\$0	\$0
Counties with Production	\$9,417,000	\$9,650,000	\$0	\$0
<b>Total</b>	<b>\$17,817,000</b>	<b>\$18,257,000</b>	<b>\$18,708,000</b>	<b>\$19,170,000</b>
Change	FY 2020	FY 2021	FY 2022	FY 2023
General Fund	\$0	\$0	\$10,412,000	\$10,669,000
University System	\$0	\$0	(\$524,000)	(\$537,000)
Counties with Production	\$0	\$0	(\$9,888,000)	(\$10,132,000)
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

*Coal (Sub-)Trust Interest*

26. HB 300 eliminates the current school major maintenance account and directs the interest from the coal sub-trust to the education needs assessment account.

Coal Trust Interest (Sub trust)					
OPI - School Major Maintenance		-\$1,104,500	-\$2,209,000	-\$2,209,000	-\$2,209,000
OPI - Education Needs Assessment		\$1,104,500	\$2,209,000	\$2,209,000	\$2,209,000
<b>Total Coal Trust Interest</b>		<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

*Motor Fuels Tax --Montana Department of Transportation (MDT)*

27. In order to consolidate revenue effects of HB 300, the gas tax fund switches are included in this section. Gasoline tax allocations are changed, reducing the distribution to other accounts, which increases the Highway State Special Revenue (HSSRA), Montana Highway Patrol (MHP), and Bridge & Road Safety and Accountability accounts. MDT’s aeronautics state account loses gasoline tax and is funded with sales tax.

HB 300: Gas Tax Funding Changes				
Gas Tax	FY 2020	FY 2021	FY 2022	FY 2023
MDT -Highway State Special Revenue (HSSRA)	\$968,000	\$1,948,000	\$1,963,000	\$1,981,000
MDT Bridge & Road Safety and Accountability (BaRSAA)	\$73,633	\$148,203	\$164,269	\$180,843
MDT - Aeronautics Revenue	-\$33,646	-\$67,720	-\$69,303	-\$71,014
Local - Bridge & Road Safety and Accountably (BaRSAA)	\$136,748	\$275,234	\$305,071	\$335,852
Highway Patrol (DOJ)	\$168,305	\$338,749	\$341,338	\$344,463
Parks (FWP)	-\$757,281	-\$1,523,882	-\$1,559,632	-\$1,598,148
Snowmobile (FWP)	-\$450,615	-\$906,960	-\$928,169	-\$951,078
Off-Highway Vehicle (FWP)	-\$105,144	-\$211,624	-\$216,573	-\$221,918
<b>Total State Gas Tax</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

28. The increase in HSSRA and State and local BaRSAA funding has the potential to release as much as \$16 million per year in federal highway funds to Montana projects.
29. The following table summarizes the revenue and distributional changes made by HB 300.

HB 300 as Amended: Revenue Impacts by Tax Type				
	FY 2020	FY 2021	FY 2022	FY 2023
<b>Combined Sales Taxes</b>				
General Fund (Diversion of Accommodation and Rental Car Tax)	(\$7,605,000)	(\$30,344,000)	(\$31,251,000)	(\$32,075,000)
Guarantee Account (Schools)	\$300,000,000	\$600,000,000	\$600,000,000	\$600,000,000
<b>Repayment of School Bonds</b>	<b>\$72,350,000</b>	<b>\$144,700,000</b>	<b>\$144,700,000</b>	<b>\$144,700,000</b>
<b>Education Needs Assessment (Schools)</b>	<b>\$32,665,000</b>	<b>\$5,071,000</b>	<b>\$22,768,000</b>	<b>\$42,113,000</b>
<b>Sales and Use Tax Reimbursement (Local Government) -46%</b>	<b>\$358,790,000</b>	<b>\$644,004,000</b>	<b>\$665,653,000</b>	<b>\$689,311,000</b>
<i>Of which is mandatory debt service</i>	<i>\$49,650,000</i>	<i>\$99,300,000</i>	<i>\$99,300,000</i>	<i>\$99,300,000</i>
<b>Critical Needs Assessment (Local Government)</b>	<b>\$13,999,000</b>	<b>\$2,173,000</b>	<b>\$9,758,000</b>	<b>\$18,048,000</b>
State Parks (FWP)	\$780,000	\$1,400,000	\$1,447,000	\$1,499,000
Snowmobile (FWP)	\$624,000	\$1,120,000	\$1,158,000	\$1,199,000
Off-Highway Vehicle (FWP)	\$234,000	\$420,000	\$434,100	\$449,600
Aeronautics Revenue (MDT)	\$31,200	\$56,000	\$57,900	\$59,900
Senior/Disabled Transportation (MDT)	\$168,100	\$291,800	\$300,500	\$308,800
<b>Sales Taxes Total</b>	<b>\$770,199,000</b>	<b>\$1,365,604,000</b>	<b>\$1,411,628,000</b>	<b>\$1,462,097,000</b>
<b>Elimination of Current Law State Property Tax</b>				
General Fund	\$0	(\$300,619,000)	(\$316,094,000)	(\$322,919,000)
Montana University System	\$0	(\$19,259,000)	(\$20,251,000)	(\$20,698,000)
<b>Total</b>		<b>(\$319,878,000)</b>	<b>(\$336,345,000)</b>	<b>(\$343,617,000)</b>
<b>New Centrally Assessed Property Tax (478 Mills)</b>				
HB 300 C.A. Property Tax -- Guarantee Account (Schools)	\$0	\$510,330,000	\$532,931,000	\$554,285,000
<b>Bentonite Tax</b>				
General Fund	(\$137,000)	(\$274,000)	(\$274,000)	(\$274,000)
Montana University System	(\$8,500)	(\$17,000)	(\$17,000)	(\$17,000)
Guarantee Account (Schools)	\$660,500	\$1,321,000	\$1,321,000	\$1,321,000
Producing Counties	(\$515,000)	(\$1,030,000)	(\$1,030,000)	(\$1,030,000)
<b>Total Bentonite Tax</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Coal Gross Proceeds</b>				
General Fund	\$0	\$0	\$10,412,000	\$10,669,000
Montana University System	\$0	\$0	(\$524,000)	(\$537,000)
Producing Counties	\$0	\$0	(\$9,888,000)	(\$10,132,000)
<b>Total Coal Gross Proceeds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Coal Trust Interest (Sub trust)</b>				
OPI - School Major Maintenance	-\$1,104,500	-\$2,209,000	-\$2,209,000	-\$2,209,000
OPI - Education Needs Assessment	\$1,104,500	\$2,209,000	\$2,209,000	\$2,209,000
<b>Total Coal Trust Interest</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Gas Tax</b>				
MDT -Highway State Special Revenue (HSSRA)	\$968,000	\$1,948,000	\$1,963,000	\$1,981,000
MDT Bridge & Road Safety and Accountability (BaRSAA)	\$73,600	\$148,000	\$164,300	\$180,800
MDT - Aeronautics Revenue	(\$33,600)	(\$67,700)	(\$69,300)	(\$71,000)
Highway Patrol (DOJ)	\$168,300	\$339,000	\$341,300	\$344,500
State Parks (FWP)	(\$757,300)	(\$1,523,900)	(\$1,559,600)	(\$1,598,100)
Snowmobile (FWP)	(\$450,600)	(\$907,000)	(\$928,200)	(\$951,100)
Off-Highway Vehicle (FWP)	(\$105,100)	(\$211,600)	(\$216,600)	(\$222,000)
Local - Bridge & Road Safety and Accountability (BaRSAA)	\$136,700	\$275,200	\$305,100	\$335,900
<b>Total State Gas Tax</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

30. Net changes in state revenue, by fund, are summarized below. New funds created by HB 300 are in bold.

HB 300 as Amended: State Net Revenue Impacts by Fund	FY 2020	FY 2021	FY 2022	FY 2023
State General Fund	(\$7,742,000)	(\$331,237,000)	(\$337,207,000)	(\$344,599,000)
Montana University System	(\$8,500)	(\$19,276,000)	(\$20,792,000)	(\$21,252,000)
Guarantee Account (Schools)	\$300,660,500	\$1,111,651,000	\$1,134,252,000	\$1,155,606,000
<b>Repayment of School Bonds (Schools)</b>	<b>\$72,350,000</b>	<b>\$144,700,000</b>	<b>\$144,700,000</b>	<b>\$144,700,000</b>
<b>Education Needs Assessment (Local Schools)</b>	<b>\$33,769,500</b>	<b>\$7,280,000</b>	<b>\$24,977,000</b>	<b>\$44,322,000</b>
OPI - School Major Maintenance	(\$1,104,500)	(\$2,209,000)	(\$2,209,000)	(\$2,209,000)
<b>Sales and Use Tax Reimbursement (Local Govt.) 46%</b>	<b>\$358,790,000</b>	<b>\$644,004,000</b>	<b>\$665,653,000</b>	<b>\$689,311,000</b>
<b>Critical Needs Assessment (Local Govt.)</b>	<b>\$13,999,000</b>	<b>\$2,173,000</b>	<b>\$9,758,000</b>	<b>\$18,048,000</b>
Senior Citizen Special Revenue (MDT)	\$168,125	\$291,800	\$300,500	\$308,800
MDT -Highway State Special Revenue (HSSRA)	\$968,000	\$1,948,000	\$1,963,000	\$1,981,000
MDT Bridge & Road Safety and Accountability (BaRSAA)	\$73,600	\$148,000	\$164,300	\$180,800
MDT - Aeronautics Revenue	(\$2,400)	(\$11,700)	(\$11,400)	(\$11,100)
State Parks (FWP)	\$22,700	(\$123,900)	(\$112,600)	(\$99,100)
Snowmobile (FWP)	\$173,400	\$213,000	\$229,800	\$247,900
Off-Highway Vehicle (FWP)	\$128,900	\$208,400	\$217,500	\$227,600
Highway Patrol (DOJ)	\$168,300	\$339,000	\$341,300	\$344,500
<b>Net Change to State Government Revenue (All Funds)</b>	<b>\$772,414,625</b>	<b>\$1,560,098,600</b>	<b>\$1,622,224,400</b>	<b>\$1,687,107,400</b>

*Change in Department of Revenue Administrative Costs*

31. HB 300 requires the department to close all local county department offices by December 31, 2020. The proposed bill also eliminates property taxes for non-centrally assessed and industrial properties. It is assumed that the proposed changes will reduce the Property Assessment Division of the department to only 15.00 FTE starting FY 2021 to maintain the department’s property valuation information system, reporting livestock under 15-24-903, MCA, certification of centrally assessed property values, and all other remaining tasks. The proposed changes will reduce department expenditures by \$18,115,375 in FY 2021, \$18,191,979 in FY 2022 and \$18,173,532 in FY 2023.
32. The department’s Business Tax and Valuation bureau will require 30.00 FTE in FY 2020 to administer HB 300 and 50.00 FTE each fiscal year after FY 2020 for administration and compliance. The bureau will also eliminate its 6.50 FTE industrial appraisal auditors.
33. The department will also require 7.00 FTE in FY 2020 to create the new tax forms, develop new tax processes, and to process returns. The staffing need increases to 14.00 FTE for FY 2021 through FY 2023.
34. Finally, the department will require 5.00 FTE in FY 2020 and 10.00 FTE in FY 2021, FY 2022 and FY 2023 for new collections technicians and specialists.
35. Overall, the department will require an additional 35.50 FTE during FY 2020 to prepare and administer the sales and use tax. The requirement increases to 67.50 FTE in FY 2021, FY 2022, and FY 2023. The new FTE will increase department expenditures by \$3,105,000 in FY 2020, \$5,570,000 in FY 2021, \$5,571,000 in FY 2022 and \$5,654,000 in FY 2023.
36. The department will need to update its integrated tax processing software as well as tax forms. Updating the department’s forms will require \$3,000 in additional expenditures during FY 2020. Changes to the department’s integrated tax systems will require \$4,000,000 in FY 2020 and FY 2021.



Department of Revenue FTE Changes				
DOR Division	FY 2020	FY 2021	FY 2022	FY 2023
Property Assessment Division	0.00	-286.75	-286.75	-286.75
Business Tax & Valuation Bureau -- Industrial Appraisers	-6.50	-6.50	-6.50	-6.50
<i>Property Tax subtotal</i>	<i>-6.50</i>	<i>-293.25</i>	<i>-293.25</i>	<i>-293.25</i>
Sales Tax - Administration and Compliance	30.00	50.00	50.00	50.00
Sales Tax - Forms and Processes	7.00	14.00	14.00	14.00
Sales Tax - Collections	5.00	10.00	10.00	10.00
<i>Sales Tax Subtotal</i>	<i>42.00</i>	<i>74.00</i>	<i>74.00</i>	<i>74.00</i>
<b>Total DOR FTE Change</b>	<b>35.50</b>	<b>-219.25</b>	<b>-219.25</b>	<b>-219.25</b>

37. HB 300 authorizes the department to enter into the Streamlined Sales Tax and Use Tax agreement. The cost of participating in the program will depend on the number of vendors who participate in the program. At this time, the department is unable to determine the number of participants in the program and are unable to determine the expenditures the program will require the department to make if it enrolls.

**Office of Public Instruction**

38. HB 300 removes the 95 mills levies from statute and creates a state mill levy on centrally assessed property for school funding.
39. This fiscal note assumes the school funding budget changes will take place with the school district budgets for school year and FY 2021.

*Current Law School Funding*

40. 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.

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
K-6 ANB	84,812	84,898	84,610	84,608	85,063
7-8 ANB	23,103	23,691	23,982	24,012	23,272
9-12 ANB	<u>43,273</u>	<u>43,466</u>	<u>44,267</u>	<u>44,974</u>	<u>45,902</u>
Total	151,188	152,055	152,859	153,594	154,237

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

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
School Districts	12,436.387	12,436.387	12,436.387	12,436.387	12,436.387
Special Ed Coops	<u>182.248</u>	<u>182.248</u>	<u>182.248</u>	<u>182.248</u>	<u>182.248</u>
Total FTE	12,618.635	12,618.635	12,618.635	12,618.635	12,618.635

42. The present law inflation applied to the Basic and Per-ANB Entitlements, and for the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data for Achievement, and At Risk Components (20-9-326, MCA) is 0.91% in FY 2020 and 1.83 % in FY 2021. For the present law budget, entitlement and component is set as follows:

	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>
<b>Basic Entitlements</b>					
Elementary Basic	\$52,105	\$52,579	\$53,541	\$54,232	\$55,100
Middle School Basic	\$104,212	\$105,160	\$107,084	\$108,465	\$110,200
High School Basic	\$312,636	\$315,481	\$321,254	\$325,398	\$330,604
<b>Basic Entitlement Increments</b>					
Elementary (Each 25 ANB > 250 ANB)	\$2,606	\$2,630	\$2,678	\$2,713	\$2,756
Middle School (Each 45 ANB > 450 ANB)	\$5,211	\$5,258	\$5,354	\$5,423	\$5,510
High School (Each 80 ANB past 800 ANB)	\$15,632	\$15,774	\$16,063	\$16,270	\$16,530

<b>Per ANB Entitlements</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Elementary Per-ANB	\$5,573	\$5,624	\$5,727	\$5,801	\$5,894
High School Per-ANB	\$7,136	\$7,201	\$7,333	\$7,428	\$7,547
Direct State Aid (DSA) Percentage	44.7%	44.7%	44.7%	44.7%	44.7%

<b>Components</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Indian Education for All (per ANB)	\$21.76	\$21.96	\$22.36	\$22.65	\$23.01
Indian Achievement Gap (per ANB)	\$214	\$216	\$220	\$223	\$227
Quality Educator (per FTE)	\$3,245	\$3,275	\$3,335	\$3,378	\$3,432
Data for Achievement (per ANB)	\$20.84	\$21.03	\$21.41	\$21.69	\$22.04
At Risk (statewide)	\$5,463,895	\$5,513,616	\$5,614,515	\$5,686,942	\$5,777,933

43. Present law (20-9-326, MCA) requires inflationary adjustments for the basic and per-ANB entitlements, and for the Quality Educator, Indian Education for All, American Indian Achievement Gap, Data for Achievement, and At Risk components in the recommendations presented to the legislature. These present law adjustments result in the following expenditures:

<b>Payment</b>	<b>FY 2020</b>	<b>FY 2021</b>
<b>Direct State Aid</b>	\$469.1 million	\$478.9 million
<b>Guaranteed Tax Base Aid</b>	\$226.5 million	\$236.0 million
<b>County Retirement GTB</b>	\$44.8 million	\$46.1 million
<b>Indian Education for All</b>	\$3.4 million	\$3.4 million
<b>American Indian Achievement Gap</b>	\$4.4 million	\$4.5 million
<b>Quality Educator</b>	\$41.3 million	\$42.1 million
<b>Data for Achievement</b>	\$3.2 million	\$3.3 million

44. 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.
45. The state special education allowable cost payment remains at the FY 2019 level of \$43.29 million per year.
46. The statewide present law taxable valuation forecast is for growth of 7.7% in FY 2020 and 2.10% in FY 2021.
47. HB 300 revises school funding, provides an inflationary adjustment to school funding formula components, provides state funding for school district transportation and retirement, and revises the school funding formula while providing 100% state-funded school district budgets. School bonding statues are revised by HB 300.
48. Section 38 provides a new statewide school levy of 478 mills imposed on all centrally assessed taxable property within the state with a few exceptions. The proceeds of the levy are to be deposited in the state special revenue guarantee account provided for in 20-9-622, MCA, for the purpose of funding K-12 public schools.
49. Section 39, new statute, allows each school district’s trustees to create a local control and efficiency fund to be used for maintenance and improvement of school facilities, including technology infrastructure, adult education and literacy courses, school litigation costs, costs related to any nonoperating purposes in any year the district is not in operation, and any other costs related to education of students as determined by the trustees. This would be a district budgeted fund.

*Local Control and Efficiency Payment*

50. The bill directs that the Board of Public Education (BPE) would annually distribute to each operating elementary and high school district \$50,000 plus \$500 per ANB for the first 100 ANB, with a decrease of 20 cents per ANB for each additional ANB up through 600 ANB, with each ANB in excess of 600 receiving the same amount of entitlement at the 600<sup>th</sup> ANB to be deposited in the school district local control and efficiency fund. This payment would amount to approximately \$91 million per year from the guarantee account.
51. HB 300 directs all school districts will transfer all current school district ending fund balances from the district building reserve fund (\$65.7 million), the nonoperating fund (\$0.031 million), the tuition fund (\$3.7 million), the adult education fund (\$6.6 million), the litigation reserve fund (\$0.0), the flexibility fund (\$43.4 million), the technology acquisition fund (\$20.4 million), and the building fund (\$495.5 million) 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, and 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 \$635.3 million is for FY 2019.

- 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 300 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 these funds are repealed as well.

*School District Transportation*

54. This bill directs school districts operating a transportation program would establish a transportation fund and adopt a transportation budget. HB 300 directs OPI to calculate each district’s transportation payment based on the district’s transportation expenditures in FY 2018 (\$86 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 2019 for the district transportation fund was \$10 million and HB 2 requests \$12 million for each year of the 2021 biennium. The inflation factors as calculated per 20-9-326, MCA, as directed in the bill are 0.91% in FY 2020 and 1.83% in FY 2021. The following table shows the current state transportation costs and the costs proposed in HB 300 beginning in FY 2021. These payments would be paid from the guarantee account.

	FY 2021	FY 2022	FY 2023
Inflation factor (20-9-326, MCA)	1.83%	1.29%	1.60%
Current Transportation costs to be eliminated	(\$11,973,552)	(\$11,973,552)	(\$11,973,552)
Pupil transportation costs (HB 300)	\$90,094,515	\$91,256,734	\$92,716,842

- 55. The bill directs the trustees of the district to transfer any ending fund balance from the transportation 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.
- 56. The bill repeals state transportation reimbursement and county transportation reimbursement and funds district transportation costs at 100% with state general fund.
- 57. Trustees of districts operating a transportation program are allowed by this bill to request additional funds for transportation costs from the Education 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 re-appropriated to the ensuing year’s transportation budget to reduce the district’s state payment. Currently, the bus depreciation fund budgets statewide totaled \$59.7 million in FY 2019.

*Education Needs Assessment Commission*

- 58. HB 300 establishes an Education Needs Assessment Commission in Sections 41-54 for consideration of school district supplemental funding requests, creates a school district local control and efficiency fund for discretionary expenses and provides a distribution of non-levy revenue to the fund of certain districts.
- 59. The Education Needs Assessment Commission is attached to the Department of Administration for administrative purposes only. This commission would consist of five members elected from five districts as defined in the bill.
- 60. The duties of the commission would be to consider the state’s existing and projected funding in the education needs assessment account created in section 54 of this bill. The commission would recommend school district projects to the legislature for potential funding as provided in HB 300. 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.

- 61. If the trustees of a district determine a need for additional BASE budget funding, a request can be made to the Education Needs Assessment Commission.
- 62. Commission expenses must be paid by the state general fund. The commission and its staff are entitled to reimbursement for travel expenses per statute.

*Education Needs Assessment Account*

- 63. Section 54 creates an education needs assessment account in the state special revenue fund. Revenue for the account would be sales tax and use tax proceeds as defined in 15-68-820(1)(h)(ii), MCA, and a portion of the revenue from the coal severance tax trust fund defined in 17-5-703, MCA, currently directed to the school major maintenance account. Money in the account may be appropriated by the legislature to provide state government funding for school district projects and social needs of a community that were previously funded by property taxes prior to this legislation.
- 64. Section 298 eliminates the \$200 million cap on the coal severance tax sub-trust created in SB 260, 2017 Regular Session, for school facilities funding. This would allow that sub-trust to continue to grow. This bill redirects the monthly transfer of earnings from the sub-trust to the education needs assessment account established in Section 54 and eliminates the school facility major maintenance state special revenue account. Interest earnings are projected to be \$2.2 million per year.

*Sales Tax and Use Tax Bonded Indebtedness Reimbursement Account/School Bonds*

- 65. Section 55 creates a sales tax and use tax bonded indebtedness reimbursement account in the state special revenue fund which is to be statutorily appropriated. All money allocated under 15-68-820(1)(b), sales tax and use tax proceeds equal to the amount necessary to repay principal and interest on school bonds maintaining a reserve of 125% of the average amount of principal and interest payable on the bonds, must be deposited in the account.
- 66. This bill directs the state will assume all existing bonded indebtedness of school districts as of July 1, 2019. 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.

*BASE Aid*

- 67. For purposes of this fiscal note, it is assumed the first-year school districts would budget and receive funding according to changes within HB 300 would be FY 2021.
- 68. HB 300, Section 345, redefines “BASE aid” for school funding by increasing direct state aid (DSA) to 100% (currently 44.7%) of the basic entitlement and 100% (currently 44.7%) of the total per-ANB entitlement for the general fund budget of a district; eliminates guaranteed tax base aid (GTB); increases 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. This bill directs the payments will be from the state special revenue guarantee account instead of the state general fund.

- 69. BASE aid for school funding would change as indicated in the following tables:

<b>CURRENT LAW</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
Total DSA	\$478,923,464	\$487,769,394	\$498,443,511
Total GTB	\$236,028,202	\$240,269,603	\$245,371,413
Indian Education for All Payment	\$3,418,458	\$3,481,127	\$3,556,367
Close Achievement Gap Payment	\$4,471,060	\$4,532,029	\$4,613,321
Quality Educator Payment	\$42,083,148	\$42,625,750	\$43,307,156
Data for Achievement Payment	\$3,272,947	\$3,333,319	\$3,406,194
At Risk Payment	<u>\$5,614,515</u>	<u>\$5,686,942</u>	<u>\$5,777,933</u>
Total reduction for General Fund	\$773,811,794	\$787,698,164	\$804,475,895

HB 300 Proposed	FY 2021	FY 2022	FY 2023
Total DSA	\$1,067,087,168	\$1,086,876,720	\$1,110,756,176
Total GTB	\$0	\$0	\$0
Indian Education for All Payment	\$3,418,458	\$3,481,127	\$3,556,367
Close Achievement Gap Payment	\$4,471,060	\$4,532,029	\$4,613,321
Quality Educator Payment	\$42,083,148	\$42,625,750	\$43,307,156
Data for Achievement Payment	\$3,272,947	\$3,333,319	\$3,406,194
At Risk Payment	<u>\$5,614,515</u>	<u>\$5,686,942</u>	<u>\$5,777,933</u>
Total new payment School Payments	\$1,125,947,296	\$1,146,535,887	\$1,171,417,147
<b>Change in state costs</b>	<b>\$352,135,502</b>	<b>\$358,837,723</b>	<b>\$366,941,253</b>

70. The bill redefines a school district “BASE budget” to mean 100% (currently 80%) of the basic entitlement; 100% (currently 80%) of the total per-ANB entitlement; and 100% (currently 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.
71. “BASE budgets and maximum general fund budgets” in current law 20-9-308, MCA, are redefined to be only “BASE budgets” in this bill and are equal to the “BASE budget” defined in the previous assumption.
72. In FY 2019, 145 of the 402 operating school districts statewide had budgets over the current 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, districts that adopt budgets below current maximum general fund budget would experience increased general fund budgets.
73. The “BASE budget levy” is eliminated. In current law, local property levies support the district BASE budget.
74. The “BASE funding program” is eliminated. Under current law, this is equalization mills levied statewide to fund K-12 public education.
75. The district “maximum general fund budget” is eliminated. Under current law, this is a budget limiting factor for districts when preparing budgets.
76. 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.
77. HB 300, Section 345, includes the inflationary increases proposed in the Executive Budget for the 2021 biennium. These include the basic and per-ANB entitlements, quality educator, Indian education for all, data for achievement, American Indian achievement gap, and at-risk payments.
78. HB 300 eliminates payments for guaranteed tax base aid (GTB) reducing general fund expenditures by \$236 million in FY 2021, \$240.3 million in FY 2022, and \$245.4 million in FY 2023.
79. Non-levy revenues such as oil & gas, coal gross proceeds, and federal forest payments will be directed to the newly established school district 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.

*Special Education*

80. The special education allowable cost payment would be calculated at 100% in the BASE budget calculation for budget limit purposes per HB 300. 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). The current special education general fund appropriation is \$43.3 million, and the state payment would increase to \$56.9 million and be paid from the state special revenue guarantee account per HB 300. These payments will be paid from the guarantee account.

*Retirement*

81. Section 355 amends 20-9-501, MCA, to fund 100% of the retirement budget from the state general fund, based on “revenue need.” 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 2019 was \$176,264,476 and HB 300 directs this would be paid from the proceeds of the sales tax and use tax in 15-68-820(1)(c)(iv) in Section 293. Current

law retirement paid by the state general fund is estimated to be \$48.4 million in FY 2021, \$49.7 million in FY 2022, and \$51.2 million in FY 2023. These payments will be paid from the guarantee account.

*Guarantee Account*

82. The state special revenue guarantee account in Section 358 is statutorily appropriated to fund BASE aid at 100% as redefined in Section 345 of this bill instead of funding BASE aid through school equalization as in current law. This section also states that any excess interest and income revenue deposited in this account would be transferred to the new education needs assessment account created in Section 54. It is not anticipated in the foreseeable future that there will be any excess interest and income deposited in the guarantee account.
83. The guarantee account also receives interest and income from common school lands. Current law states that excess interest and income over \$56 million would be deposited to the school major maintenance account in 20-9-525, MCA. This bill repeals 20-9-525, MCA, and deposits excess interest and income into the education needs assessment fund created in Section 54. The projected current law guarantee account revenue is about \$45.5 million per year.
84. In FY 2020 sales tax deposits in the guarantee fund will offset state general fund education expenditures.

*School Facility and Technology Account*

85. The bill eliminates the current state special revenue school facility and technology account. Currently, HB 2 contains appropriation authority of \$4 million in FY 2020 and \$6.4 million in FY 2021 to be used to pay debt service reimbursements to school districts, if funds are available. These funds would be excess funds currently allowed to transfer from the state special revenue major maintenance account if excess fund remain in that account after the natural resource development payment is made in each year.

**Department of Natural Resources and Conservation (DNRC)**

86. Under HB300, DOR county property assessment offices would be closed. Assessors collect property ownership transfer information used in the administration of DNRC programs, including water rights, home site leases and fire protection assessments.
87. DOR, under 85-2-454(2)(d), MCA, provides DNRC with notice of property transfers. The Water Division uses this information to update water right ownership records.
88. The Trust Lands Management Division (TLMD) utilizes the DOR valuations of cabin site leases on school trust lands. TLMD currently has 645 cabin site leases. Cabin site lease fees are based on valuation of the land.
89. The Forest Division (FD) is authorized to provide fire protection services to private and public landowners per 76-13-105, MCA and to assess a fee for wildland fire protection (76-13-208, MCA). The FD currently uses DOR data to calculate fire protection assessments for more than 62,000 property owners on nearly 4 million acres of land. Assessments fund one-third of DNRC's fire protection preparedness budget. HB 300 would eliminate the current mechanism for collecting this fee. DNRC would require a new collection mechanism to continue the current, statutorily mandated fire protection assessment system.

*DNRC Administrative costs*

90. TLMD would require 1.00 FTE Real Estate Appraiser, to process approximately 100-150 lease valuations per year and their appeals. Operating expenses for the appraiser will include an office package at \$1,600 and a computer at \$1,200 in FY 2020. Other ongoing expenses are forecasted at \$5,000 for a leased vehicle and \$3,000 per year for per diem and lodging. Agency legal services of approximately \$50,000 per year will be needed for a hearings examiner in the cabin site valuation appeal process. These costs would be paid from the division's primary funding source, the trust administration state special revenue account.
91. FD assumes that 3.00 FTE (Management Analysts) will be needed to manage the data for the fire protection assessment program, assess landowners and submit assessments and manage revenue transfers. Personal services expenses for the management analyst positions are based on \$80,000 per year funded 2/3 from the general fund and 1/3 state special revenue, as per 76-13-213, MCA. FY 2020 operating expenses for each Management Analyst include an office package of \$1,600, a computer package of \$1,200, and an \$80,000

data service package. Each FY also includes \$10,000 miscellaneous operating expenses. It is assumed that each County Treasurer will bill and collect fees from assessed property owners; these costs are not reflected in this fiscal note.

**Secretary of State**

92. 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.

**Department of Administration**

*Critical Needs Assessment Commission and the Education Needs Assessment Commissions*

93. The bill creates two Commissions that are each directed by five elected officials, one from each of five regions specified in the bill. The costs for this commission were developed based on prior TSEP staffing and operational expenditures, PSC Commissioner pay and benefits, as well as some of the PSC operating expense. The PSC operates with approximately 33.00 FTE, the TSEP program with just over 6.00 FTE.
94. The bill is unclear as to the compensation of the commissioners but authorizes the commissioners to hire and pay an unspecified number of staff members. The bill further refers to commissioners as “state officers” (sections 7 and 45) and authorizes reimbursement of expenses. The basis for compensation of state officers is set in 2-16-405 and 406, MCA.
95. Personal services are based on 13.00 FTE per commission, consisting of 5.00 FTE commissioners (\$685,000), 3.00 FTE technical staff (\$273,000), 2.50 FTE technical specialists (\$177,500) and 2.50 FTE administrative support personnel (\$135,000). Travel, rent and operations were estimated based on 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. Costs include one-time office packages (\$1,600) and (\$1,200) computer set-ups for each FTE (\$36,400). Total annual costs are \$1,270,500 for personnel services expense and \$435,000 ongoing operation expense and \$36,400 one-time set-up costs. Recurring annual expense is \$1,705,500 per commission. These costs are inflated by 1.5% in FY 2020 and FY 2021. Costs are \$1,778,300, in FY 2020, \$3,411,000, in FY 2021 and \$3,462,200, in FY 2022 and \$3,514,100 in FY 2023.
96. While the bill is effective January 1, 2020, it is assumed that the commissioners would be elected in November 2019 (FY 2020). Expenditures would begin January 1, 2020 mid-way through FY 2020. The recurring expenditures are reduced by 50% for FY 2020. The Commissions are funded out of the state general fund.

**Legislative Branch**

97. HB 300 requires the Revenue and Transportation Interim Committee (RTIC) to research, analyze, and discuss all the aspects of the statewide general sales and use tax, elimination of class 3, class 4, and class 10 property taxes, and funding of local governments and school districts.
98. The RTIC would evaluate whether the sales and use tax has contributed to a reduction in total taxation for resident individuals.
99. There is an appropriation to the Legislative Services for \$15,000 for RTIC to perform the study.
100. It is assumed that the RTIC, (a 12-member committee) will have three additional one-day meetings in Helena.
101. The branch will incur some additional training costs (materials, classes, conferences) associated with educating Legislative Fiscal Division staff on the economics of sales tax.
102. With an effective date of July 1, 2019 for the RTIC study, and January 1, 2020 for the new tax law to take effect, LFD training (\$14,109) will occur in FY 2020 only, and the RTIC study (\$15,000) will be split 70% FY 2020 and 30% 2021.

*Statutory appropriation form*

103. 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:

	<u>YES</u>	<u>NO</u>
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 Note Request – As Amended in House Committee**

*(continued)*

<u>Fiscal Impact:</u>	FY 2020	FY 2021	FY 2022	FY 2023
<b>FTE (DOR)</b>	35.50	(219.25)	(219.25)	(219.25)
<b>FTE (DNRC)</b>		4.00	4.00	4.00
<b>FTE (Commissions)</b>	0.00	26.00	26.00	26.00
<b>Total FTE</b>	<u>35.50</u>	<u>(193.25)</u>	<u>(193.25)</u>	<u>(193.25)</u>
<b><u>Expenditures:</u></b>				
DOR Personal Services (01)	\$2,548,334	(\$11,765,427)	(\$11,942,034)	(\$12,121,136)
DOR Operating Expenses (01)	\$399,075	(\$1,683,318)	(\$1,876,608)	(\$1,902,861)
DOR University 6 mill backfill (01)	\$8,500	\$19,276,000	\$20,792,000	\$21,252,000
DOR Transfers--Tax Reimbursement (02)	\$358,790,000	\$644,004,000	\$665,653,000	\$689,311,000
DOR Transfers--Critical Needs Assessment (02)	\$13,999,000	\$2,173,000	\$9,758,000	\$18,048,000
DOR Transfers--Repayment School Bonds (02)	\$72,350,000	\$144,700,000	\$144,700,000	\$144,700,000
DOR Transfers--Education Needs Assessment (02)	\$33,769,500	\$7,280,000	\$24,977,000	\$44,322,000
<b>Subtotal DOR</b>	<u>\$481,864,409</u>	<u>\$803,984,255</u>	<u>\$852,061,358</u>	<u>\$903,609,003</u>
OPI Local Assist (adjust BASE Aid)	\$0	\$352,135,502	\$358,837,723	\$366,941,252
OPI Local Assist (adjust Special Ed)	\$0	\$13,572,018	\$13,572,018	\$13,572,018
OPI Local Assist (adjust Transportation)	\$0	\$78,120,963	\$79,283,182	\$80,743,290
OPI Local Assist (adjust Retirement)	\$0	\$127,868,417	\$126,582,976	\$125,065,786
OPI Local Assist (Local Ctrl & Efficiency)	\$0	\$90,518,394	\$90,865,167	\$91,238,448
<b>Subtotal OPI</b>	<u>\$0</u>	<u>\$662,215,294</u>	<u>\$669,141,066</u>	<u>\$677,560,794</u>
Commissions - Personal Services	\$1,270,500	\$2,541,000	\$2,579,115	\$2,617,802
Commissions - Operating Expenses	\$507,800	\$870,000	\$883,050	\$896,296
<b>Subtotal Commissions</b>	<u>\$1,778,300</u>	<u>\$3,411,000</u>	<u>\$3,462,165</u>	<u>\$3,514,098</u>
DNRC - Personal Services	\$160,000	\$320,000	\$324,800	\$329,672
DNRC -Operating Expenses	\$85,200	\$148,000	\$150,220	\$152,473
Legislative Branch - Operating Expenses	\$24,690	\$4,500	\$0	\$0
<b>Subtotal Others</b>	<u>\$269,890</u>	<u>\$472,500</u>	<u>\$475,020</u>	<u>\$482,145</u>
<b>TO TAL Expenditures</b>	<u><u>\$483,912,599</u></u>	<u><u>\$1,470,083,049</u></u>	<u><u>\$1,525,139,609</u></u>	<u><u>\$1,585,166,040</u></u>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01) DOR	\$2,955,909	\$5,827,255	\$6,973,358	\$7,228,003
General Fund (01) OPI	(\$300,660,500)	(\$449,435,705)	(\$465,110,934)	(\$478,045,206)
General Fund (01) Commissions	\$1,778,300	\$3,411,000	\$3,462,165	\$3,514,098
General Fund (01) DNRC + Leg.	\$188,157	\$316,500	\$316,680	\$321,430
<b>Sub-total General Fund</b>	<u>(\$295,738,134)</u>	<u>(\$439,880,950)</u>	<u>(\$454,358,731)</u>	<u>(\$466,981,675)</u>
SSR Sales Tax Reimbursement	\$358,790,000	\$644,004,000	\$665,653,000	\$689,311,000
SSR (02) Critical Needs Assessment	\$13,999,000	\$2,173,000	\$9,758,000	\$18,048,000
SSR (02) Guarantee Acct (OPI)	\$300,660,500	\$1,111,651,000	\$1,134,252,000	\$1,155,606,000
SSR (02) Repayment School Bonds	\$72,350,000	\$144,700,000	\$144,700,000	\$144,700,000
SSR (02)-Education Need Assessment	\$33,769,500	\$7,280,000	\$24,977,000	\$44,322,000
SSR (02) - DNRC	\$81,733	\$155,999	\$158,340	\$160,715
<b>Subtotal SSR (02)</b>	<u>\$779,650,733</u>	<u>\$1,909,963,999</u>	<u>\$1,979,498,340</u>	<u>\$2,052,147,715</u>
<b>TO TAL Funding of Exp.</b>	<u><u>\$483,912,599</u></u>	<u><u>\$1,470,083,049</u></u>	<u><u>\$1,525,139,609</u></u>	<u><u>\$1,585,166,040</u></u>
<b><u>Revenues:</u></b>				
General Fund (01)	(\$7,742,000)	(\$331,237,000)	(\$337,207,000)	(\$344,599,000)
SSR(02) MT Univ Sys-6 mills	(\$8,500)	(\$19,276,000)	(\$20,792,000)	(\$21,252,000)
SSR (02) Guarantee Acct	\$300,066,500	\$1,111,651,000	\$1,134,252,000	\$1,155,606,000
SSR (02) Sales Tax Reimb Acct	\$358,790,000	\$644,004,000	\$665,653,000	\$689,311,000
SSR (02) Critical Needs Assessment	\$13,999,000	\$2,173,000	\$9,758,000	\$18,048,000
SSR (02) Repayment School Bonds	\$72,350,000	\$144,700,000	\$144,700,000	\$144,700,000
SSR (02) Education Needs Assessment	\$33,769,500	\$7,280,000	\$24,977,000	\$44,322,000
State Spec Rev (02) Sr Citizen Spec Rev	\$168,125	\$291,800	\$300,500	\$308,800
SSR (02) School Major Maintenance	(\$1,104,500)	(\$2,209,000)	(\$2,209,000)	(\$2,209,000)
SSR (02) All Other	\$1,532,500	\$2,720,800	\$2,791,900	\$2,871,600
<b>Subtotal SSR (02)</b>	<u>\$779,562,625</u>	<u>\$1,891,335,600</u>	<u>\$1,959,431,400</u>	<u>\$2,031,706,400</u>
<b>TO TAL Revenues</b>	<u><u>\$771,820,625</u></u>	<u><u>\$1,560,098,600</u></u>	<u><u>\$1,622,224,400</u></u>	<u><u>\$1,687,107,400</u></u>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$287,996,134	\$108,643,950	\$117,151,731	\$122,382,675
State Special Rev (02)	(\$88,108)	(\$18,628,399)	(\$20,066,940)	(\$20,441,315)

**Effect on County or Other Local Revenues or Expenditures:**

**Department of Revenue**

1. HB 300 changes the distribution of the coal gross proceeds tax and the bentonite tax. Currently between \$10 million and \$12 million in revenue from these taxes are distributed to counties with coal or bentonite production. Under HB 300, these taxes are deposited into the state's general fund or into the state's guarantee account.
2. Revenue from the tax reimbursement account will be allocated to county and local governments based on the distribution of property taxes during FY 2019. Local jurisdictions may lose non-levy revenues that will not be replaced from the tax reimbursement account.
3. The DOR's property tax information system is an integral part of keeping parcel and ownership data records accurate. Counties would need to take on additional work to keep property records up-to-date.

**Office of Public Instruction**

4. School funding is changed in HB 300. Local property taxes would no longer be assessed to fund any portion of school district budgets. In FY 2019, local property taxes funded \$593.7 million of school district budgets including the district general fund, transportation, bus depreciation, tuition, adult education, non-operating, technology, flexibility, debt service, and building reserve funds.
5. The BASE aid school funding formula is revised in HB 300 and 100% is funded by the state.
6. HB 300 allows school districts to create a Local Control & Efficiency budgeted fund and creates a state payment of over \$90 million to fund the account to be used for maintenance and improvement of school facilities including technology infrastructure, providing adult education and literacy courses, school litigation costs, costs related to school district in nonoperating status, and any other cost of educating pupils as determined by the district trustees.
7. County costs for annual transportation (\$12 million) and retirement (\$158 million) currently paid with local property tax levies would be paid by the state.

**Office of Budget and Program Planning**

8. HB 300 creates new revenue from sales taxes and eliminates local authority to levy property tax. The bill produces revenue shifts between state funds and between the state and local jurisdictions (local government entities and local schools). The revenue shifts eliminate local effort and replace the funding with state special and general fund transfers. The state transfers are funded, in part, from statewide sales tax. Sales tax allocations may not fund instances of local government to FY 2019 levels. In the case of schools, any mandated funding not covered by the state guarantee fund would require state general fund appropriations.
9. These shifts make it difficult to assess, even at the statewide level, state, local government, and local schools net funding changes. The following table is an estimate of the effects at the broad jurisdiction level. For this table local schools and local government property tax collections are projected from the DOR taxes levied reports. These numbers present the approximate present law revenue stream from property tax. Revenue growth is based on aggregate jurisdiction Olympic average annual property revenue between FY 2010 and FY 2019. This table does not include all non-levy revenue, use of reserves, nor full local property tax levy authority and as such may understate the loss of local revenue authority.

HB 300 as Amended: Estimated Impacts to Schools and Local Governments				
	FY 2020	FY 2021	FY 2022	FY 2023
<b>Consolidated Schools</b>				
Reduction in Present Law State Support		(\$817,103,718)	(\$830,990,088)	(\$847,767,819)
<b>Increase in HB 300 General Fund Support to Schools</b>	<b>(\$300,660,500)</b>	<b>\$367,668,013</b>	<b>\$365,879,154</b>	<b>\$369,722,613</b>
Guarantee Account (State Support to Schools)	\$300,660,500	\$1,111,651,000	\$1,134,252,000	\$1,155,606,000
Repayment of School Bonds (Schools)	\$72,350,000	\$144,700,000	\$144,700,000	\$144,700,000
Education Needs Assessment (Local Schools)	\$33,769,500	\$7,280,000	\$24,977,000	\$44,322,000
OPI - School Major Maintenance	(\$1,104,500)	(\$2,209,000)	(\$2,209,000)	(\$2,209,000)
<i>Estimated Reduction in Local School Property Tax Levies</i>		<i>(\$799,424,965)</i>	<i>(\$830,677,520)</i>	<i>(\$863,151,856)</i>
Net Change to Local Schools	\$105,015,000	\$12,561,330	\$5,931,546	\$1,221,938
<b>Consolidated Local Government</b>				
Sales and Use Tax Reimbursement (Local Govt.)	\$358,790,000	\$644,004,000	\$665,653,000	\$689,311,000
Critical Needs Assessment (Local Govt.)	\$13,999,000	\$2,173,000	\$9,758,000	\$18,048,000
CGP & Bentonite in Producing Counties	\$0	\$0	(\$9,888,000)	(\$10,132,000)
Local - Bridge & Road Safety and Accountably (BaRSAA)	\$136,700	\$275,200	\$305,100	\$335,900
<i>Estimated Reduction in Local Government Property Tax Levies</i>		<i>(\$784,657,687)</i>	<i>(\$822,048,906)</i>	<i>(\$861,221,926)</i>
Net Change to Instances of Local Govt.	\$372,925,700	(\$138,205,487)	(\$156,220,806)	(\$163,659,026)

**Long-Term Impacts:**

**Office of Budget and Program Planning**

1. The change in the timing of revenue collections and large transfers may need to be designated explicitly and rationalized to address cash flow constraints.
2. The basis for allocating sales tax revenue to local jurisdictions will change over time. While the commissions are envisioned to allocate resources to adjust for such changes, a difference between where sales tax revenue is generated and where Montana residents live will develop. Timing lags and legislative authorization cycles may further shift the need for allocations away from the FY 2019 distribution of property tax. These discrepancies will develop between regions and within regions.

**Technical Notes:**

**Office of Budget and Program Planning**

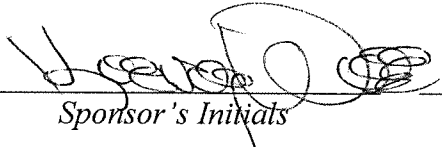
1. The compensation of commissioners is not explicit in this bill, but the bill authorizes commissioners to hire and pay an unspecified number of staff members. The bill further refers to commissioners as “state officers” (sections 7 and 45) and authorizes reimbursement of expenses. The basis for compensation of state officers is set in 2-16-405 and 406, MCA. These sections may need to be amended to include the commissioners.
2. Federal forest receipts are allocated based on relative state and local school mill shares (17-3-213, MCA). With the elimination of school mills there would be no basis for allocating federal forest receipts.

**Department of Revenue**

3. DOR property tax data is used across state agencies for other purposes, such as water rights, home site leases and fire protection assessments. This cadastral data collection and data maintenance function will need to be transferred to other entities to preserve the documentation of the ownership rights to real property.
4. HB 300 explicitly eliminates class 3, class 4 and class 10 property. However, the bill also eliminates property taxes for all property that is not centrally assessed. This does not account for all property. Clarification of the tax treatment of this property is necessary.
5. The exemption of commercial (class 4) property while including centrally assessed property generates differential treatment of commercial and industrial property and substantially increases the class 12 tax rate. The class 12 tax rate applies to railroad (and other transportation property) which may cause a federal 4-R Act challenge in U.S. District Court.

**Office of Public Instruction**

6. It is unclear which fiscal year school districts would begin budgeting according to changes in HB 300. This fiscal note assumes schools will begin budgeting for FY 2020 starting July 1, 2019.
7. School districts receiving impact aid funds would receive additional state funding which could cause decreases in federal impact aid funds.
8. Section 354 changes the name of section 20-9-380, MCA, from “School facilities fund—school major maintenance aid special revenue account” to School facilities fund—state general fund transfer of earnings.” Earnings are then directed to the education needs assessment account or to remain in the school facilities fund. The naming convention is inconsistent.

	<u>2-19-19</u>	<u>TL</u>	<u>2/19/19</u>
<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>