GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill #	HB0405	**Title:**	Create catch and keep program for rural economic development
Primary Sponsor:	Krautter, Joel G	**Status:**	As Introduced-Revised

☐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 2020 Difference	FY 2021 Difference	FY 2022 Difference	FY 2023 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
State Special Revenue	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Revenue:				
General Fund	($8,000)	($16,000)	($24,000)	($51,000)
State Special Revenue	$0	$0	$0	$0
Net Impact-General Fund Balance:	($8,000)	($16,000)	($24,000)	($51,000)

Description of fiscal impact: HB 405 will require the Department of Labor & Industry (DLI), in partnership with the Department of Revenue (DOR), counties, other local entities and economic development organizations, to administer a grant program designed to attract and retain individuals in Montana rural counties. The program includes an income tax credit that will reduce tax. DLI will incur administrative expenditures to implement the program and provide grants to eligible individuals.

FISCAL ANALYSIS

Assumptions:

Department of Labor and Industry (DLI)

1. HB 405 assigns the "Catch and Keep Montana's Treasure" Act program administration to DLI. The Workforce Services Division (WSD) will take on this responsibility.
2. WSD will use the Incumbent Worker Training program as a model for this program due to the similarity of the grant program administration.

3. The administration of this program will require 1.00 FTE, a Band 6 Administrative Specialist with an annual salary and benefits totaling $78,213.
4. This position will require $18,265 in annual operating costs including $6,140 for the DLI cost allocation plan, $1,400 for rent, $2,904 in technology services, and $7,821 for items such as telephone, copiers, scanners, utilities, minor equipment and supplies.
5. There are one-time start-up costs of $2,800 for furniture and a computer.
6. DLI legal time to develop, promulgate, and adopt the initial rules to implement the program is an estimated one-time cost of $9,700.
7. A 20-page proposal with the Secretary of State's Office and a 5-page adoption notice for the rule-making process is an estimated one-time cost of $1,500.
8. There will be need for legal counsel during the first biennium to assist with program establishment and process development. In addition, there will be significant coordination with multiple local governments and sponsors, as well as long-term compliance monitoring. DLI will require approximately 100 hours per year of legal counsel in the first biennium of this program. This will cost the program $9,700/year in each year of the first biennium.
9. DLI will use a web based grants application as the platform to apply for and award grants. There will be a one-time cost of approximately $10,000 to set up the new program. It will cost $1,575 annually to utilize the platform.
10. Pursuant to Title 17, Chapter 4 in Montana Code Annotated, DLI will work with DOR to assist with the collection of debt in the event a grantee does not fulfill the 5-year residency requirement. DLI already participates in this program with DOR and an MOU is already in place. It is unknown what the total cost will be for collection of debts.
11. HB 405 limits the number of annual grants to no more than 500.
12. HB 405 will require the state to pay up to 50% of the total grant award, with 25% of the grant award being paid by a local entity and 25% of the grant being paid by a sponsor.
13. DLI projects that between 2017-2027, annual job openings by education level in Montana will be broken out as noted below:

Education Level	Total Annual Job Openings	Percent
Post-Secondary Award	3,702	25.6%
Associate's Degree	1,153	8.0%
Bachelor's Degree	8,070	55.8%
Master's Degree	795	5.5%
Doctoral/Prof. Degree	732	5.1%
Total Openings Requiring Post-Secondary Educati	**14,452**	**100.0%**

14. Based on the above projections, 33.6% of these grants will be to individuals who have earned an associate degree, industry-recognized credential, occupational license, or certificate of completion of an apprenticeship; 55.8% of these grants will be awarded to individuals with a bachelor's degree, and 10.6% of these grants will be awarded to individuals with a master's or doctoral degree.
15. HB 405 will award grants in different amounts based on the individual's education level, as well as the county in which the individual will reside. The table below defines these grant amounts based on education level and county in which they will reside.

Education Level	High-Need County Grant Amount	Low-Need County Grant Amount
Associate's Degree, Industry-Recognized Credential, Occupational License, Certificate of Completion of an Apprenticeship	$ 5,000.00	$ 2,500.00
Bachelor's Degree	$ 10,000.00	$ 5,000.00
Master's or Doctoral Degree	$ 15,000.00	$ 7,500.00

High-Need County is defined as a county with less than 15,000 persons and Low-Need County is defined as a county with greater than or equal to 15,000 persons based on the most recent federal decennial census.

16. HB 405 limits the amount of grants that can be provided to individuals relocating to low-need counties to no more than 20% of the total grants awarded and priority shall be given to high-need counties.
17. If 500 total grants are awarded annually, it could cost over $2 million to give out all 500 grants.
18. HB 405 appropriates $1 million from the employment security account to operate this program and gives DLI authority to limit the number of grants based on appropriation or available funding. HB 405 requires at least 80% of the grants be awarded to high-need counties and no more than 20% be awarded to low-need counties. Based on these assumptions, 215 grants totaling $856,000 will be awarded as follows:
    a. 72 grants will be awarded to individuals with an associate degree, industry recognized credential, occupation a license, or certificate of completion of an apprenticeship;
    b. 120 grants will be awarded to individuals with a bachelor's degree, and
    c. 23 grants will be awarded to individuals with a master's or doctoral degree.
19. The amount of grant funding in the first and second years will be less than in subsequent years due to one-time costs to set up the program.
20. There is a projected ending fund balance for the Employment Security Account to be $4.4 million at the end of FY 2020 and $5.0 million at the end of FY 2021. The ending fund balance will be $3.4 million in FY 2020 and $3.0 million in FY 2021 if HB 405 passes. Expenses will exceed incoming revenue in both years of the biennium. This fund currently supports the operating budgets of four agency divisions. To pay invoices in a timely manner and avoid loans to the fund, DLI aims to keep a 60-day working capital balance on hand. Under the proposed budget, the fund will be under that threshold in FY 2021. Revenue to the fund is collected through an assessment charged to employers, based upon employee wages. In an economic downturn, revenue to the fund could see a decline. These factors draw into question the ability of the fund to sustain the program on an ongoing basis.

Department of Revenue (DOR)

21. HB 405 creates an individual income tax credit for grant recipients. The credit is the lesser of either the amount of property tax that was billed for the taxpayer's homestead during the prior year or $2,000. The credit is available for a maximum of 5 years and is available only if the taxpayer remains in the county for which the taxpayer originally received the grant.
22. To qualify for the credit, the taxpayer is required to have worked and resided in the county in which the award was originally granted for at least 3 years.
23. It is assumed 107 grants will be awarded in the first fiscal year, while the remaining 108 grants will be awarded in the second fiscal year.
24. DLI estimates, and the distribution of grants assumed on line 6, there will be 86 grants awarded to residents of high-need counties and 22 grants awarded to residents of low-need counties each fiscal year.
25. DLI estimates that all the grant recipients will be new graduates from a university or college.
26. As nearly every high-need county does not have a university or college, 86 grant recipients residing in a high-needs county did not reside in the county before they received the grant.

27. As grant recipients are required to reside in the county where they received the grant for at least 3 years before they qualify for the income tax credit, it is assumed that the high-need grant recipients in FY 2020 will not be able to claim an income tax credit before tax year 2022.
28. All 22 of the low-need county recipients have resided in the qualifying county for at least 3 years as soon as they receive the grant.
29. In order to qualify for the credit, the grant recipient must have paid Montana properties taxes against a homestead in which they reside.
30. According to the U.S. Census Bureau's 2010 Decennial Census, nearly 20 percent of people between the ages of 15 and 24 were in an owner-occupied housing unit.
31. The number of people claiming the credit will be 20 percent of the total number of grant recipients each year.
32. Based on TY 2018 property tax records, the average property taxes liability for residential property was $2,167 for the low-need counties. For high-need counties, the average property tax liability was $1,116.
33. Each of the 4 grant recipients with an owner-occupied residence will have their income tax liability reduced by $2,000 for five tax years.
34. The 17 grant recipients living in an owner-occupied residence for FY 2020 will have their income tax liabilities reduced by $1,116 each tax year for five years, starting FY 2023.
35. With a tax liability reduction of $2,000, the 4 low-need grant recipients in FY 2020 will reduce their combined tax liability by $8,000. With the 4 FY 2020 grant recipients, and the 4 new grant recipients in FY 2021, the 8 low-need grant recipients will have their tax liabilities reduced by $16,000 in FY 2021. By FY 2023 there will be 16 low-need grant recipients claiming an income tax credit which will reduce their tax liability by $32,000 in FY 2023.
36. The 17 FY 2020 grant recipients will have an estimated average credit of $1,116 which will reduce their combined tax liability by $19,000 in FY 2023, when they are first able to claim the credit.
37. The grant recipients will not change their withholdings, or estimated payments as a result of HB 405.
38. The combined reduction in general fund revenues for each fiscal year is provided in the table below.

Change in Income Tax Revenue							
Fiscal Year	Low-Need County Recipients	Low-Need Credits	High-Need County Recipients	High-Need Credits	Total Taxpayers Claiming Credit	Total Credits
2020	4	$8,000	0	$0	4	$8,000
2021	8	$16,000	0	$0	8	$16,000
2022	12	$24,000	0	$0	12	$24,000
2023	16	$32,000	17	$19,000	33	$51,000

39. DOR does not expect to incur significant costs as a result of HB 405.

Fiscal Impact:	**FY 2020 Difference**	**FY 2021 Difference**	**FY 2022 Difference**	**FY 2023 Difference**
Department of Labor and Industry				
FTE (DLI)	1.00	1.00	1.00	1.00
Expenditures:				
Personal Services (DLI)	$78,213	$78,213	$78,213	$78,213
Operating Expenses (DLI)	$51,965	$29,540	$19,840	$19,840
Benefits (DLI)	$869,822	$892,247	$901,947	$901,947
TOTAL Expenditures	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (DLI)	$1,000,000	$1,000,000	$1,000,000	$1,000,000
TOTAL Funding of Exp.	$1,000,000	$1,000,000	$1,000,000	$1,000,000
Department of Revenue				
Revenues:				
General Fund (DOR)	($8,000)	($16,000)	($24,000)	($51,000)
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Revenues	($8,000)	($16,000)	($24,000)	($51,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($8,000)	($16,000)	($24,000)	($51,000)
State Special Revenue (02)	($1,000,000)	($1,000,000)	($1,000,000)	($1,000,000)

Long-Term Impacts:

Department of Revenue

1. The number of credits claimed will increase as more taxpayers in high-need areas become eligible for the property tax credit. The total number of credits claimed will increase as the number of recipient graduates increases and purchase their own homes and pay property taxes.

Technical Notes:

Department of Labor and Industry

1. To estimate the cost effectiveness of this program including estimates of the economic benefits to the county and state as required under Section 4 (8) of HB 405, DLI would need to collect individual social security numbers. Impact reports on individual communities is not currently provided by WSD's Research and Analysis Bureau. Depending on the exact information needed for this reporting requirement, there could be a significant impact to the workload in that bureau and additional FTE could be required. The impact cannot be determined at this time without further information on these reporting requirements.
2. DLI would need to track individual grantee's location of residence to ensure the grantee met the 5-year residency requirement under HB 405. This information could only be obtained using grantee self-reporting. It is unknown the impact self-reporting would have on this program or the amount of grant awards that would need to be collected back by the state if a grantee failed to self-report.

3. HB 405 notes the intent of grant funds is to be used on grantee needs, including but not limited to payments on student loans, house down payments, relocation expenses, business startup expenses or other debt reduction or living expenses. Aside from the grantee reporting the intended use on the grant application, DLI has no authority or means to track how the grant was spent by the grantee.
4. HB 405 requires that no more than 20% of the grants awarded be awarded to individuals who will reside in low-need counties. Due to this requirement, individuals who will reside in low-need counties will only be able to be approved for a grant after a certain number of individuals who will reside in high-need counties are approved and granted funds. This will have to be monitored closely throughout the year and some individuals may have to wait to the end of the fiscal year to find out if they have been approved or not to ensure DLI does not award more grants than allowed to individuals in low-need counties.

JGH	2/20/19	TL	2/20/19
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*