Fiscal Note 2025 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill information:	
SB0145 - Provide for local distribution of lodging tax revenue (Regier, Keith)	
Status:	As Amended in Senate 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

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
State Special Revenue	$0	$80,581,000	$86,632,000	$89,441,000
Revenue:				
General Fund	($57,476,000)	($61,792,000)	($64,228,000)	($66,040,000)
State Special Revenue	$80,581,000	$86,632,000	$89,441,000	$91,631,000
Net Impact-General Fund Balance:	($57,476,000)	($61,792,000)	($64,228,000)	($66,040,000)

Description of fiscal impact: SB 145, as amended, establishes a lodging tax revenue property tax assistance program, which diverts general fund lodging sales and use taxes of $57.5 million in FY 2024 and $61.8 million in FY 2025 to be distributed to local governments where lodging facilities paying the tax are located. Additionally, SB 145 also diverts $23.1 million in FY 2024 and $24.8 million in FY 2025 of the lodging facilities use tax for promotion of the state as a location for the production of motion pictures and television commercials to local governments.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Sales and use taxes collected at a rate of 4% on accommodations and campgrounds are currently distributed per 15-68-820, MCA, 75% to the state general fund and 25% for other purposes to state special revenue funds.
2. SB 145 diverts the 75% from the state general fund to a new lodging sales and use tax distribution account in the state special revenue fund to be distributed to incorporated cities or towns or county where taxed accommodations are located.

3. The following table represents the HJ 2 lodging sales tax revenue estimates multiplied by 75% to estimate the amount that would be diverted from the general fund to the lodging sales and use tax distribution account.

Fiscal Year	Lodging Sales Tax Revenue	Lodging Sales Tax (75%)
2024	$76,635,304	$57,476,478
2025	$82,388,737	$61,791,553
2026	$85,637,109	$64,227,832
2027	$88,052,881	$66,039,661

4. The table below represents the HJ 2 lodging facility use tax revenue estimates multiplied by 30.15% to estimate the amount shifted from the Department of Commerce to the lodging sales and use tax distribution account. It is initially a redirection of funds between two state special revenue accounts, so there is no net impact on state special revenue from this transfer.

Fiscal Year	Lodging Facility Use Tax Revenue	Lodging Facility Use Tax (30.15%)
2024	$76,635,304	$23,105,544
2025	$82,388,737	$24,840,204
2026	$85,637,109	$25,819,588
2027	$88,052,881	$26,547,944

5. The bill directs the first distribution of the new state special revenue lodging sales and use tax distribution account to cities and counties must be made by August 31, 2024, which would be FY 2025 for FY 2024 collections.
6. As amended, SB 145 will require the Department of Revenue to provide each incorporated city or town and each county that receives a distribution with sufficient information to enable the county to administer the reporting of the reduction in property tax. This and other changes to processes and forms that will absorbed by the Department of Revenue.

Department of Commerce

7. Per 15-65-121, MCA, the lodging facility use tax funds allocated to the Department of Commerce are statutorily appropriated. For the purposes of this fiscal note, it is assumed that all revenue allocated would be expended.
8. Under current law, the Department of Commerce (Commerce) receives 60.3% of the 4% lodging facilities use tax for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials.
9. Under the proposed legislation the Commerce would receive 30.15% of the lodging facilities use tax for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials.
10. The 50% reduction in funds available to Commerce would necessitate the elimination of all grant programs designed to enhance product development and disperse visitors throughout the state. Grants that would be eliminated include Niche Marketing, Tourism Grants, Special Event Grants, Emergency Marketing Grants, Disaster Recovery Small Business Grants, Destination Development Grants, Eastern Montana Initiative Grants, Film Office Grants, and Main Street Grants. These grant programs currently total approximately $12 million.

11. The reduction in Commerce funding would result in the elimination of approximately $3.1 million in funding for implementation of the resiliency and sustainability efforts that are currently underway throughout the state that have regional specific implementation plans.
12. Reduced funding would result in elimination of approximately $500,000 currently used for tourism research that are specific to the various tourism regions within the state including eliminating specific information on the tracking and reporting of tourism.
13. Additionally, the marketing budget would be reduced by approximately $7 million.

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Fiscal Impact:				
Expenditures:				
Operating Exp (Commerce)	($10,928,000)	($12,663,000)	($13,642,000)	($14,370,000)
Grants (Commerce)	($12,178,000)	($12,178,000)	($12,178,000)	($12,178,000)
Transfers (DOR)	$0	$80,581,000	$86,632,000	$89,441,000
TOTAL Expenditures	($23,106,000)	$55,740,000	$60,812,000	$62,893,000
Funding of Expenditures:				
General Fund (01)	$0	$0	$0	$0
State Special Rev (02) (DOR)	$0	$80,581,000	$86,632,000	$89,441,000
State Special Rev (02) (Commerce)	($23,106,000)	($24,841,000)	($25,820,000)	($26,548,000)
TOTAL Funding of Exp.	($23,106,000)	$55,740,000	$60,812,000	$62,893,000
Revenues:				
General Fund (01) (DOR)	($57,476,000)	($61,792,000)	($64,228,000)	($66,040,000)
State Special Rev (02) (DOR)	$57,476,000	$61,792,000	$64,228,000	$66,040,000
State Special Rev (02) (Commerce)	$23,105,000	$24,840,000	$25,213,000	$25,591,000
TOTAL Revenues	$23,105,000	$24,840,000	$25,213,000	$25,591,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01) (DOR)	($57,476,000)	($61,792,000)	($64,228,000)	($66,040,000)
State Special Rev (02) (DOR)	$57,476,000	($18,789,000)	($22,404,000)	($23,401,000)
State Special Rev (02) (Commerce)	$46,211,000	$49,681,000	$51,033,000	$52,139,000

Effect on County or Other Local Revenues or Expenditures:

1. Revenue from the lodging sales and use tax distribution account is distributed to the incorporated cities and towns from which the revenue was generated for consideration for local property tax relief, pending the action of a local governing body. If the accommodation is located outside city or town limits, the account is distributed to the county. Total revenue distributed to local governments beginning in FY 2025 would be $80.5 million increasing to $86.6 million in FY 2026 and $89.4 million in FY 2027.
2. Cities, towns, and counties that generate the most accommodations tax revenue will see a greater distribution from the account and therefore a greater reduction in property taxes.
3. In calendar year (CY) 2021, the ten cities that generated the most accommodations taxes were Bozeman, Big Sky, Billings, Missoula, West Yellowstone, Butte, Whitefish, Kalispell, Bonner/Greenough/Potomac, and Helena. The top five counties were Gallatin, Flathead, Missoula, Yellowstone, and Silver Bow.

Technical Notes:

14. The amendment to 15-10-420, MCA, will cause local governments to lose revenue authority year over year. By requiring jurisdictions to deduct lodging tax distributions from their budget authority, the total property tax revenue authority will be decreased. As long as lodging tax distributions are greater than half the rate of inflation plus newly taxable property, jurisdictions will face a negative ratcheting effect. If the intent of the bill is to require the lodging tax revenues to be spent on buying down mills rather than increasing government budgets, that is already accomplished through New Sections 1 – 3. The amending language in 15-10-420, MCA, forces jurisdictions to reduce their overall budgets, rather than just offsetting residential property tax mill levies.
15. The Department of Revenue will need a statutory appropriation to issue the payments to local governments.
16. It would be difficult to provide the taxing jurisdictions with the mill levy reduction reflected as a negative number as the Department of Revenue would not have all of the information necessary to make the calculation. Mill levies are set by the local taxing jurisdictions based upon their adopted budgets and the mill levy limitations contained in 15-10-420, MCA. Until the local governments have adopted a budget and determined how many mills to levy given the workings of 15-10-420, MCA, and the use of any other carry forward authority they may have, the department would be unable to calculate the number of mills to be reduced on residential property for that particular property.
17. There may be equalization issues with assessing different types and classes of properties to a different mill levy.
18. There would also be potential difficulty and issues with updates made to 15-10-420, MCA, where the local jurisdictions shall decrease the number of mills to account for lodging tax distributions received because mills are calculated on the total taxable value for all property types and classes within the taxing jurisdiction. It is unclear how the local jurisdiction would decrease their mills that apply to all properties when the lodging tax distributions only go towards and are applied to residential property.

NO SPONSOR SIGNATURE	3.27.23		3-27-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*

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BUDGET AND PROGRAM PLANNING

Dedication of Revenue 2025 Biennium

17-1-507, MCA.

Lodging sales and use tax distribution account in the state special revenue fund

a) **Are there persons or entities that benefit from this dedicated revenue that do not pay? (Explain)**

Yes.

b) **What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?**

Specific purpose designation of the funds in the state special revenue fund.

c) **Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**

These funds would be used to potentially reduce local property taxes in locations where taxed lodging facilities are located. Current use of the funds is for general fund appropriations.

d) **Does the need for this state special revenue provision still exist? _X__Yes ___No (Explain)**

According to SB 145, this fund is necessary.

e) **Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**

Yes. Legislature has little control over local budgets and use of funds.

f) **Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Explain)**

Unknown.

g) **How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)**

The dedicated revenue could be audited as it is purposed in SB 145.