



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0842.01: Legislative referendum on sales tax to fund education

Primary Sponsor: Brad Barker Status: As Introduced

☐ Included in the Executive Budget ☐ Needs to be included in HB 2 ☒ Significant Local Gov Impact

☐ Significant Long-Term Impacts ☒ Technical Concerns ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
Expenditures				
General Fund (01)	\$0	\$0	\$0	\$0
Revenues				
General Fund (01)	\$0	\$0	\$0	\$0
Net Impact	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
General Fund Balance	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact

HB 842 would allow for a legislative referendum to be placed on the ballot in November 2026 to authorize a statewide four percent (4%) sales tax to reduce property taxes for education. If the referendum were approved by the electorate, the 2027 Legislature would need to pass legislation to enact and implement the education sales tax and associated property tax relief. The legislative referendum would have no significant fiscal impact for the state.

FISCAL ANALYSIS

Assumptions

Department of Revenue

- HB 842 would authorize a legislative referendum in November 2026 for a four percent (4%) statewide sales tax for the purpose of reducing the property taxes that fund public (K-12) education and the state university system.
- If enacted the referendum states that the sales tax would only tax final goods and services and would exempt the following non-luxury goods and services: a) housing and utilities, b) groceries, c) fuel used for transportation and agriculture, d) health care, and e) financial and insurance services.
- Using data on estimated sales by industry from the 2022 Economic Census and forecasted Personal Consumption Expenditure (PCE) growth rates, it is estimated that the proposed sales tax could initially generate revenue of approximately \$1.1 to \$1.4 billion annually. This is dependent on the details of any implementing legislation.
- For reference, in FY 2025, property taxes levied to fund public schools and the university system totaled just under \$1.3 billion.

5. Therefore, it is estimated that the proposed 4% statewide sales tax would cover most of the property taxes levied to fund public schools moving forward. While consumer spending (and therefore sales tax revenue) and school funding are assumed to generally be in balance, sales taxes are likely to be more variable in the short-term than school funding needs (consumer spending is more volatile than demographic).
6. This bill creates the referendum to be placed on the ballot, and if passed, another bill would be necessary to enact the sales tax and implement all the specifics, including the mechanism for reducing property taxes. Therefore, HB 842 does not trigger specific revenue or significant costs. The general estimate above is contingent on the referendum passing and an implementation bill being passed by the 2027 Legislature.
7. The Department of Revenue would not incur additional costs because of this bill but implementing and administering a statewide sales tax would require an additional division with substantial FTE.

Office of Budget and Program Planning

8. The legislative referendum would dedicate all education sales tax revenue to the reduction of education property tax levies.
9. Levels of sales tax collections by jurisdiction would not perfectly coincide with school district funding needs therefore, the collections would need a distribution mechanism to fund schools.
10. Not all school district property tax levies are constrained by current law state funding but are instead managed by school boards of trustees and local voter preference therefore, not all school property tax levies are equal and equitable on a district by district basis. Legislation implementing collection and distribution of the education sales tax revenue would be needed to address these disparities.

Office of Public Instruction

11. HB 842 establishes that the legislature may enact a sales tax not to exceed 4% to reduce property taxes that fund public schools and the Montana university system. As a referendum this proposal has no state cost to the OPI.

Secretary of State's Office

12. While there may be a minimal fiscal impact for processes related to proofing of ballots to ensure the referendum is properly included on the 2026 general election ballot, the Office of the Secretary of State will absorb the costs associated with implementing this bill within its existing operating budget.

Effect on County or Other Local Revenues or Expenditures**Department of Revenue**

1. If the proposed referendum were to pass, and a education sales tax implemented, it could offset a significant portion of education property taxes levied for school districts and the 6 mill university system levy.

Sponsor's Initials_____
Date_____
Budget Director's Initials_____
3/28/2025
Date