FISCAL NOTE

Bill #: SB 347

Title: Allow quarterly payment of most property taxes.

Primary Sponsor: John Cobb

Status: Introduced

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Sponsor signature Date

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Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	**FY2003 Difference**
Expenditures:		
General Fund	$5,500	$550
Revenue:		
General Fund	($10,845,808)	($753,520)
State Special Revenue		
(University 6-Mill Levy)	($658,418)	($24,230)
(State Assumption of Welfare 9-mill levy)	($422,244)	($15,539)
Net Impact on General Fund Balance:	**($10,851,308)**	**($754,070)**

Yes	**No**		**Yes**	**No**	
x		Significant Local Gov. Impact	x		Technical Concerns
	x	Included in the Executive Budget	x		Significant Long-Term Impacts
	x	Dedicated Revenue Form Attached		x	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

Revenue:

1. This proposal allows property tax payments over $500, other than centrally assessed tax payments, to be paid quarterly. Currently, statues require that payments be made semi-annually. For this analysis, it is assumed that all property taxes in the amount paid over $500 annually, with the exception of centrally assessed, personal property not leaned to real, net proceeds, and mobile home property tax bills are affected by the proposal.

2. Total taxable value in the state is projected at $1,679,739,875 for fiscal year 2001 (DOR). Total property taxes paid in Montana are estimated at $724,298,291 for fiscal year 2001. For purposes of this analysis, total statewide revenue growth from property taxes is projected to be 2.69% in FY02, and 3.68% in FY03. Applying the aforementioned growth rates of 2.69% for FY02 and 3.68% in FY03, estimated total statewide revenues from property taxes is $743,803,644 ($724,298,291 x 1.0269) for FY02, and $771,160,742 ($743,803,644 x 1.0368) for FY03.
3. Property taxes paid in excess of $500, other than centrally assessed tax payments, are estimated to be $354,797,715 (DOR) for FY01. Applying the estimated growth rates of 2.69% and 3,68% for FY02 and FY '03 respectively results in an estimated payment from property taxes in excess of $500, other than centrally assessed property of $364,352,417 ($354,797,715 x 1.0269) in FY02, and $377,753,299 ($364,352,417 x 1.0368) in FY03.
4. Under current law, total payments are scheduled to be received one-half on or before November 30, and one-half on or before May 31. Total payments for FY01 are estimated to be $362,149,145 paid by November 31, 2000, and $362,149,145 paid by May 31, 2001.
5. The proposal changes the schedule for qualifying property tax payments over $500, other than centrally assessed tax payments, to four quarters, to be received one-quarter on or before November 30, one-quarter on or before February 28, one-quarter on or before May 31, and one-quarter on or before August 30.
6. For purposes of this fiscal note, it is assumed that 50% of qualifying property tax payers that pay in excess of $500 annually will apply and use the proposed quarterly payment schedule. If 50% of qualifying taxpayers opt for the quarterly schedule, that means an estimated $182,176,209 ($364,352,417 x 0.5) in revenues from FY02 will be paid quarterly, and in FY03 an estimated $188,876,650 ($377,753,299 x 0.5) will be paid quarterly.
7. Using the abovementioned assumptions, quarterly property tax payments from those qualifying and using the quarterly payment schedule is estimated to be $45,544,052 ($182,176,209) / 4) each quarter in FY02, and $47,219,162 ($188,876,650 / 4) each quarter in FY03. All other property tax half-payments for FY02, still under the current payment schedule are estimated to be $280,813,718 (($743,803,644 - $188,876,209) / 2), each half-payment due on November 30, 2001 and May 31, 2002. All other property tax half-payments for FY03, still under the current payment schedule are projected to be $291,142,046 (($771,160,742 - $188,876,650) / 2), each half-payment due on November 30, 2002 and May 31, 2003.
8. Estimated yearly property tax payments for FY02 are estimated to be $326,357,770 ($280,813,718 + $45,544,052) by November 30, 2001, $45,544,052 by February 28, 2002, and $326,357,770 ($280,813,718 + $45,544,052) by May 31, 2002. The total estimated FY02 property tax revenues, not including the August 30, 2002 payment (see technical note) that is carried over to FY03 is estimated to be $516,083,384 ($235,269,666 + $45,544,052 + $235,269,666) under the proposal.
9. Estimated yearly property tax payments for FY03 are estimated to be $45,544,052 by August 30, 2002 (see technical note), $338,361,208 ($291,142,046 + $47,219,162) by November 30, 2001, $47,219,162 by February 28, 2002, and $338,361,208 ($291,142,046 + $47,219,162) by May 31, 2002. Total estimated FY03 property tax revenues are estimated to be $769,485,630 ($45,544,052 + $338,361,208 + $47,219,162 + $338,361,208).
10. When the property tax payments in excess of $500 are made in August it shifts revenue from one fiscal year to the next, it has two significant impacts on revenue (see technical note). The first impact of the August quarterly payment is FY02 loses the amount of the August 2002 payment in revenue, which is $45,544,052. The second impact the August payment has on revenues is the August 30th quarterly payment from the previous year is moved into the current fiscal year, and the August 30th payment made in the current fiscal year is moved into the next fiscal year, the gain in revenue from realized property tax revenue growth in the current year, and future years is lost. For this analysis amount of revenue lost in

FY03 due to current year growth is the difference between the August 2003 payment and the August 2004 payment; growth is projected to be 3.68% so the loss due to growth in FY03 is estimated to be $1,737,665 ($47,219,162 x 0.0368).

11. This proposal will affect interest earnings to both state and local governments. When state and local governments receive tax payments, the payments are deposited into accounts that earn short-term interest. It is estimated that short-term investment programs will have average annual interest rates of 6.5%, or a monthly rate of 0.54% in FY'02, and 6.3% annually, or 0.53% monthly in FY'03. Interest earnings lost per year is the amount of estimated interest earnings that would have been collected on the second (February 28th) and fourth (August 30th) quarterly payments each year had they been collected under current law in half-payments. For this analysis, time lost on interest earnings is estimated to be 3 months (November 30 to February 28, and May 31 to August 30) for each quarter payment not made on the current half-payment schedule of November 30 and May 31, for a total of 6 months (3 months x 2 payments not made on November 30 or May 31). Using the aforementioned assumptions, total interest earnings lost to both state and local governments in FY02 is estimated to be $1,480,182 ($45,544,052 x 6 months x 0.0054), and $1,501,569 ($47,219,162 x 6 months x 0.0053).
12. Total revenue loss to both state and local governments in FY02 is estimated to be $47,024,234 ($45,544,052 + $1,480,182), and $3,239,234 ($1,737,665 + $1,501,569) in FY03.
13. It is estimated that the proportion of property taxes levied for state government purposes is 24.49%, and the remaining 75.51% is levied for local government purposes.
14. Under this proposal, loss to the state in FY02 is projected to be $11,516,235 ($47,024,234 x 0.2449), and $793,288 ($3,239,234 x 0.2449) in FY03. Of the amount lost to the state in FY02, it is estimated that $10,472,745 is lost to the state general fund, $635,770 is lost to the 6-mill university levy, and $407,720 is lost to the 9-mill state assumption of welfare levy. Of the amount lost to the state in FY03, it is estimated that $753,520 is lost to the state general fund, $24,230 is lost to the 6-mill university levy, and $15,539 is lost to the 9-mill state assumption of welfare levy.
15. Under this proposal, loss to the local governments in FY02 is estimated to be $35,507,999 ($47,024,234 x 0.7551), and $2,445,946 ($3,239,234 x 0.7551) in FY03.

Expenditures:

16. The Department of Revenue is responsible for providing the forms used by taxpayers to elect to make quarterly payments. The forms printed by the Department of Revenue would be distributed to the 56 county treasurers' offices, which would then disseminate the forms to those taxpayers wishing to elect the quarterly payment option. It is projected that 250,000 or approximately 1/3 of total property tax payers would opt for the quarterly payment schedule in FY02, and an additional 2,500 forms would be needed in FY03 and subsequent years. It is estimated that it will cost the department 2.2 cents to print each application form. Using the abovementioned assumptions, the total expenditures associated with printing the proposals application form to the Department of Revenue is projected to be $5,500 (250,000 x $0.022) in FY02, and $550 (2,500 x $0.022) in FY03.
17. See effects on county or other government revenues or expenditures section.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Expenditures:		
Operating Expenses	$5,500	$550
Funding:		
General Fund (01)	$5,500	$550
Revenues:		
General Fund (01)	($10,472,745)	($753,520)
State Special Revenue (02)		
University 6-Mill Levy	($635,770)	($24,230)
State Assumption of Welfare 9-mill levy	($407,720)	($15,539)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	($10,478,245)	($754,070)
State Special Revenue (02)		
University 6-mill levy	($635,770)	($24,230)
State Assumption of Welfare 9-mill levy	($407,720)	($15,539)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. Under this proposal, loss to local governments in FY02 is estimated to be $35,507,999 ($47,024,234 x 0.7551), and $2,445,946 ($3,239,234 x 0.7551) in FY03.
2. It is assumed that the county treasurers' offices would notify the taxpayers of the availability of the election form in their offices, and the cost of the public notification would be borne by the county treasurers.
3. County governments would bear accounting, reprogramming and, or software costs for their current computer systems to comply with this proposal. If the costs are substantial the proposal could be in violation of 1-2-112, MCA (un-funded mandate). Section 4(a) of that law considers an insubstantial amount to be "a required expenditure of the equivalent of approximately 0.1 mill or less levied on taxable property of the local government unit". For a county with a tax base of $30,000,000, a 0.1 mill levy would produce $3,000. Of the 56 counties only 10 have a tax base greater than $30,000,000.

TECHNICAL NOTES:

1. Fiscal years run from July 1 to June 30, having a payment date on August 30 will move those revenues into the next fiscal year. Generally accepted accounting practices only allows collections to accrue 60 days past the end of the fiscal year. Under the proposal, the August 30, 2002 estimated payment amount of $45,544,052, that under current law would have been paid on or before May 31, 2002 and included in FY '02 revenues, is now collected in FY '03 and included in FY '03 revenues. As illustrated in the assumptions, under the proposal the payment made in August of 2003 will be collected and received as revenue in FY '04.
2. 15-17-122 specifies that notice of tax sales must be first published on or before the first Monday in June. The proposal does not revise this date to adhere to the new property tax payment schedule.
3. 15-16-301 specifies that the delinquency list and amount of taxes owed is due on the third Monday of December, and the third Monday of June. The proposal does not revise this date to adhere to the new property tax payment schedule.

4. Problems may arise for local governments who scheduled bond payments to coincide with the current law property tax schedule, if the first quarter or third quarter payment is not sufficient to meet their obligations.
5. Under current law, the SB417 personal property reimbursement program (15-1-112, MCA) is administered by counties withholding state property tax remittance to fund the reimbursement to local governments. Currently, there is enough property tax collected to withhold and cover the reimbursement amounts. Under the proposal, there may not be enough property tax collections in November and May to withhold and cover the reimbursement amounts. The proposal does not have a remedy for this.
6. The proposal requires new services to be provided by local governments, but does not include funding. This may violate 1-2-114, MCA. See above section 'effect on county or other local revenues or expenditures'.