

FISCAL NOTE

Bill #: SB0351

Title: Revise business equipment tax to 6% with first \$25,000 exempt

Primary Sponsor: Jon Ellingson

Status: As Introduced

| | | | |
|-------------------|------|---------------------------------|------|
| Sponsor signature | Date | Chuck Swysgood, Budget Director | Date |
|-------------------|------|---------------------------------|------|

Fiscal Summary

| | <u>FY2002 Difference</u> | <u>FY2003 Difference</u> |
|--|-------------------------------------|-------------------------------------|
| Expenditures: | | |
| General Fund | \$0 | (\$1,718,806) |
| Revenue: | | |
| General Fund (01) | 2,649,387 | 6,611,850 |
| State Special Revenue 9-mill (02) | 83,832 | 209,213 |
| University 6-mill | 171,829 | 461,090 |
| Net Impact on General Fund Balance: | \$2,649,387 | \$8,330,656 |

| | | | | | |
|-------------------|------------------|----------------------------------|-------------------|------------------|-------------------------------|
| <u>Yes</u> | <u>No</u> | | <u>Yes</u> | <u>No</u> | |
| 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. The proposal will affect tax year 2002 and beyond.
2. The exemption for class 8 properties is \$25,000 for tax years 2002 and beyond.
3. A portion of class 8-property is not liened to real property. This portion of class 8-property pays taxes in May. In tax year 2002, this portion of property will pay taxes in May 2002 at the 6% rate; because of this the proposal will affect fiscal year 2002 revenues.

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4. It is estimated that the proposal will increase taxable value of class 8-property above current law levels by \$28,638,287 in fiscal year 2002 and by \$76,848,425 in fiscal year 2003. Of the \$28,638,287 increase in fiscal year 2002, it is estimated that \$750,000 is located in tax increment finance districts. Of the \$76,848,425 increase in fiscal year 2003, it is estimated that \$7,250,000 is located in tax increment finance districts. Although state and local mills are applied to the increased taxable value in the tax increment districts, the districts retain all revenue generated by the increment from state and local mill levies, with the exception of the university's 6 mills.
5. The net increase in taxable value of class 8 property going to state and local governments will be \$27,888,287 in fiscal year 2002 and \$69,598,425 in fiscal year 2003.
6. The statewide average mill levy for class 8 property is estimated to be 428.8 mills. Included in the average mill levy are the 95 mills for the general fund, the 6 mills for the university system, and 324.3 mills for local governments. There are 9 mills levied for the state assumption of welfare, however, only thirteen counties levy this mill.
7. The proposal will result in an increase in general fund revenues of \$2,649,387 for fiscal year 2002 and \$6,611,850 in fiscal year 2003.
8. The university 6-mill account will see an increase of \$171,829 for fiscal year 2002 and \$461,090 in fiscal year 2003.
9. It is estimated that 33.4% of the increase in taxable value is in the 13 counties that levy the 9-mills for state assumption. The 9-mill account for state assumption will see an increase of \$83,832 in fiscal year 2002 and \$209,213 in fiscal year 2003.
10. Estimates are based on all mills being held constant.
11. An average mill levy of 500.87 (does not include the university 6-mill levy) would be applied to the increase in taxable value in tax increment finance districts. This results in increased revenues for the districts of \$375,623 in fiscal year 2002 and \$3,631,308 in fiscal year 2003.
12. The above analysis assumes that the state will continue to reimburse local governments at current law levels for the reduction in taxable value in class 8 property due to implementation of SB200 passed by the 1999 Legislature.

School GTB

13. The increased taxable values will cause school district general fund mills to be reduced. Because the statewide guaranteed tax base level for school districts guaranteed tax base aid is based on the previous year's taxable value the reduced mill levies will result in lower state GTB aid costs resulting in a one time savings to the state general fund in fiscal year. In the following years, the statewide guaranteed tax base level rises with the increased taxable value and resulting in higher expenditures.

FISCAL IMPACT:

| | <u>FY2002</u> | <u>FY2003</u> |
|------------------------------------|-------------------|-------------------|
| | <u>Difference</u> | <u>Difference</u> |
| <u>Expenditures:</u> | | |
| Local Assistance (GTB for schools) | \$0 | (\$1,718,806) |
| <u>Funding:</u> | | |
| General Fund (01) | \$0 | (\$1,718,806) |
| <u>Revenues:</u> | | |
| General Fund (01) | 2,649,387 | 6,611,850 |
| State Special Revenue 9-mill (02) | 83,832 | 209,213 |

(continued)

| | | |
|-------------------|---------|---------|
| University 6-mill | 171,829 | 461,090 |
|-------------------|---------|---------|

Net Impact to Fund Balance (Revenue minus Expenditure):

| | | |
|------------------------------------|-----------|-----------|
| General Fund (01) | 2,649,387 | 8,330,656 |
| State Special Revenue 9- mill (02) | 83,832 | 209,213 |
| University 6-mill | 171,829 | 461,090 |

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. It is estimated that local governments would see an increase in property tax revenue of \$9,044,171 in fiscal year 2002 and \$22,570,769 in fiscal year 2003. This is under the assumption that local governments are reimbursed in fiscal years 2002 and 2003 with SB184 fiscal year 2001 reimbursements levels held constant.
2. It is estimated that tax increment finance districts would see an increase in property tax revenue of \$375,623 in fiscal year 2002 and \$3,631,308 in fiscal year 2003. As with local government, this is under the assumption that tax increment finance districts are reimbursed in fiscal years 2002 and 2003 with SB184 fiscal year 2001 reimbursements levels held constant.

LONG-RANGE IMPACTS:

1. It is estimated the general fund and other special revenue accounts would see increased revenue as the class 8 tax base grows.
2. In FY04 and beyond it is anticipated that the state general fund cost for guaranteed tax base aid will increase by approximately \$0.5 million per year as a result of the higher guarantee level generated from higher taxable values.