FISCAL NOTE

Bill #: SB374 **Title:** Continuance of Homestead Exemption

Primary Sponsor: Mike Taylor **Status:** Senate Taxation Amendments

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Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Revenue:		
General Fund		($608,929)
University 6-mill		($38,458)
Net Impact on General Fund Balance:		($608,929)

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:

1. The proposal as amended would extend the sunset date for the land cap exemption for an additional two years, moving the sunset date from December 31, 2001 to December 31, 2003. The result of the sunset under current law would be to add taxable value to the state and local governments where the land cap is applied. The state and local governments will not see this additional taxable value if the sunset is delayed for two years as proposed in the bill.
2. It is estimated that $268,483,694 in market value, or $6,409,780 ($268,483,694 less the homestead exemption of 31% x 3.46%) in taxable value is currently exempt due to the land cap exemption. Without extending the sunset this taxable value would be added back into the tax base of state and local governments in FY02 and FY03.
3. The sale of property that has the land cap applied would result in elimination of the land cap. The land cap would be eliminated in the first tax year following the sale. This would have no impact on tax year 2002 valuations.

4. It is assumed that property currently receiving the land cap exemption set to sunset December 31, 2001 would not be considered newly taxable property when the exemption does sunset.
5. The average statewide mill levy for residential land and improvements is 456.79 for fiscal year 2000. The average mill for residential land and improvements for the state general fund is 95 mills for fiscal year 2000 and 6 mills for the university system.
6. Current law specifies the sunset date for the land cap exemption as December 31, 2001, increasing the taxable value of the property tax base by $6,409,780 in tax year 2002. Under the proposal, the sunset is extended so the property tax base would not increase in tax year 2002, resulting in an estimated loss in revenue of $608,929 ($6,409,780 x .095) in fiscal year 2003 to the state general fund.
7. Current law specifies the sunset date for the land cap exemption as December 31, 2001, increasing the taxable value of the property tax base by $6,409,780 in tax year 2002. Under the proposal, the sunset is extended so the property tax base would not increase in tax year 2002, resulting in an estimated loss in revenue of $38,458 ($6,409,780 x .006) in fiscal year 2003 to the universities 6-mill account.
8. The proposal keep the taxable value of land which is now exempt from coming back into taxable status, and therefore result in higher mill levies than under current law.

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Revenues:		
General Fund (01)		($608,929)
University 6-mill		($38,458)
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)		($608,929)
University 6-mill		($38,458)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
The tax base for some local governments would have increased in fiscal year 2002 and fiscal year 2003 due to the current law sunset of the land cap. Under 15-10-420, MCA, the increase in taxable value would not result in new or additional revenue for the local governments but rather would result in lower mills levied by the local governments. Since the proposal would negate the current law increase in taxable value, the effect of the proposal would be an increase in mill levies for fiscal year 2002 and fiscal year 2003 for property taxpayers in the local governments affected by delaying the sunset of the land cap.

LONG-RANGE IMPACTS:
The land cap exemption is calculated by measuring the value of land in relation to the value of the dwelling located on the land. The value of the land is capped at 75% of the value of the dwelling (or at 75% of the statewide average value of dwellings if the dwelling is less than the statewide average). The impact of the land cap in tax year 2003 will be affected by the implementation of the 2003 reappraisal. Historically, reappraisal cycles have shown land values to appreciate more rapidly than improvements. Thus it is estimated that more land will qualify for the land cap exemption in tax year 2003 than did in previous years. Considering that more land will qualify for the land cap exemption, the impact to taxable value is estimated to be higher in fiscal year 2004 than in fiscal year 2003.