

Fiscal Note Request HB268, As Introduced

(continued)

The first table assumes the trigger for the tax rate reduction is first met in tax year 2004. This is the earliest year that the trigger could be met. The tax rate would be 2% for tax year 2004, 1% for tax year 2005, and then 0% for tax year 2006 and beyond. It is estimated that property tax revenue would be reduced beginning in fiscal year 2004. The estimated reductions are; \$7,203,710 in fiscal year 2004; \$26,708,324 in fiscal year 2005; \$47,684,886 in fiscal year 2006; and eventually reaching full impact of \$62,160,566 in fiscal year 2007. The growth in the estimate for years beyond fiscal year 2007 reflect the growth of class 8 property. Stating the above figures as reduced property tax revenue is synonymous as stating the figures as property tax savings paid by owners of class 8 property.

The tables also list the estimated property tax revenue reduction for state government. If the state mill levies remain fixed at their current levels, the estimated reduction in revenues would actually be realized. It is most likely that the estimated property tax revenue reductions listed for local governments and local schools, unless replaced with alternative revenue, would be offset by higher mill levies, therefore keeping property tax revenues at current law levels.

The second table on the sheet lists the impact of the class 8 tax rate reduction if the trigger were not hit for tax year 2004 but is hit for tax year 2005. The impacts are similar to those listed in the first table. The difference being that the impacts are delayed one year and the impacts are slightly larger due to growth in class 8 property.

| Estimated Impact of Reducing the Tax Rate on Class 8 Property | | | | | | | | |
|---|-----------------|-------------|---------------|---|------------------|-------------------------|----------------------------|--------------|
| If the Trigger is Hit for TY04 (First Year Possible) | | | | | | | | |
| | Taxable Value | | | Estimated Reduction in Property Tax Revenue | | | | |
| | Trigger Not Hit | Triggered | Difference | State 95 Mills | State 6 Mills | Local Govt 182 Mills | Local Schools 163 Mills | Total |
| FY03 | 120,057,884 | 120,057,884 | 0 | 0 | 0 | 0 | 0 | 0 |
| FY04 | 124,620,084 | 108,468,268 | (16,151,816) | (1,534,423) | (96,911) | (2,939,631) | (2,632,746) | (7,203,710) |
| FY05 | 129,355,647 | 69,471,513 | (59,884,135) | (5,688,993) | (359,305) | (10,898,912) | (9,761,114) | (26,708,324) |
| FY06 | 134,271,162 | 27,354,376 | (106,916,786) | (10,157,095) | (641,501) | (19,458,855) | (17,427,436) | (47,684,886) |
| FY07 | 139,373,466 | 0 | (139,373,466) | (13,240,479) | (836,241) | (25,365,971) | (22,717,875) | (62,160,566) |
| FY08 | 144,669,658 | 0 | (144,669,658) | (13,743,617) | (868,018) | (26,329,878) | (23,581,154) | (64,522,667) |

| If the Trigger is Not Hit for TY04 but is Hit for TY05 (Second Year Possible) | | | | | | | | |
|---|-----------------|-------------|---------------|---|------------------|-------------------------|----------------------------|--------------|
| | Taxable Value | | | Estimated Reduction in Property Tax Revenue | | | | |
| | Trigger Not Hit | Triggered | Difference | State 95 Mills | State 6 Mills | Local Govt 182 Mills | Local Schools 163 Mills | Total |
| FY03 | 120,057,884 | 120,057,884 | 0 | 0 | 0 | 0 | 0 | 0 |
| FY04 | 124,620,084 | 124,620,084 | 0 | 0 | 0 | 0 | 0 | 0 |
| FY05 | 129,355,647 | 112,590,062 | (16,765,585) | (1,592,731) | (100,594) | (3,051,337) | (2,732,790) | (7,477,451) |
| FY06 | 134,271,162 | 72,111,430 | (62,159,732) | (5,905,175) | (372,958) | (11,313,071) | (10,132,036) | (27,723,240) |
| FY07 | 139,373,466 | 28,393,843 | (110,979,623) | (10,543,064) | (665,878) | (20,198,291) | (18,089,679) | (49,496,912) |
| FY08 | 144,669,658 | 0 | (144,669,658) | (13,743,617) | (868,018) | (26,329,878) | (23,581,154) | (64,522,667) |

Reducing the tax rate on class 8 property also has an impact on the tax rate for class 12 (railroads and airline) property. The tax rate for class 12 property is 4.02% in tax year 2002. The tax rate for class 12 is calculated annually. It is a weighted average tax rate reflecting the average of tax rates applied to commercial and industrial property in Montana. Included in the calculation of the class 12 tax rate is the market and taxable value of class 8 property. The inclusion of class 8 at a 3% tax rate results in the class 12 tax rate being weighted down towards 3%. Including classes 9 and 13 at tax rates of 12% and 6% respectively result in the class 12 tax rate being pulled up to a higher tax rate.

Under the scenario of the class 8 tax rate being reduced to 2%, then 1%, and eventually to 0%, the class 12 tax rate would initially be reduced for a couple of years due to the lower rates of 2% and 1% for class 8 pulling the class 12 tax rate down. However, once the tax rate for class 8 reaches is 0%, class 8 would no longer be

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included in calculating the class 12 tax rate. If the tax rate for class 8 were reduced, it is estimated that the resulting tax rate for class 12 would be 3.57% (class 8 at 2%), 2.67% (class 8 at 1%), and then 4.385 (class 8 at 0%). This assumes that the tax rates for classes of property remaining in the calculation do not change.

A reduction in the tax rate for class 12 property from 4.02% to 3.57% would translate into a reduction of \$2,300,000 in taxes paid on class 12 property. A reduction in the tax rate from 4.02% to 2.67% would translate into a reduction of \$7,000,000. An increase in the tax rate from 4.02% to 4.385% would result in an increase in taxes paid of \$1,900,000.

The tables below show the estimated combined impact of the trigger hitting for tax year 2004.

| If the Trigger Hits for TY04 Estimated Change in Taxes Paid State Government | | | |
|--|--------------|-------------|--------------|
| | Class 8 | Class 12 | Total |
| FY04 | (1,631,333) | 0 | (1,631,333) |
| FY05 | (6,048,298) | (526,850) | (6,575,148) |
| FY06 | (10,798,595) | (1,580,551) | (12,379,146) |
| FY07 | (14,076,720) | 427,334 | (13,649,386) |

| If the Trigger Hits for TY04 Estimated Change in Taxes Paid Local Government | | | |
|--|--------------|-------------|--------------|
| | Class 8 | Class 12 | Total |
| FY04 | (5,572,377) | 0 | (5,572,377) |
| FY05 | (20,660,026) | (1,783,897) | (22,443,923) |
| FY06 | (36,886,291) | (5,351,690) | (42,237,981) |
| FY07 | (48,083,846) | 1,446,938 | (46,636,907) |

Reductions in property tax values would affect state school equalization payments through GTB payment requirements. During years the taxable value is being reduced state GTB costs would increase. Once reductions were complete the affect on GTB costs would depend on the distribution of class 8 property amongst the districts.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

It is estimated that county, city, and local schools currently would receive property tax revenue of \$5,572,377 in fiscal year 2004, \$22,443,923 in fiscal year 2005, \$42,237,981 in fiscal year 2006, that they would no longer receive if the trigger were to hit for tax year 2004. Currently there is no replacement revenue designated to backfill the revenue loss to local governments and schools.

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Under 15-10-420, MCA, county and city governments could float their mill levies to offset this property tax revenue loss. The extent of revenue loss to counties and cities is dependant on each county and city government's choice to absorb the revenue loss, or to float mill levies to offset some or all of the revenue loss.

The extent of the revenue loss to local school districts is dependant on the impact of the revenue loss on the guaranteed tax base (GTB) funding to the schools general fund and each school districts choice to absorb the revenue loss or float mills to offset some or all of the revenue loss to their non-general funds.

If it is assumed that the loss in property tax revenue is to be replaced by additional property tax revenue by floating mills, it is estimated that the increase in local mill levies would average be 2.88, 11.87, and 22.92 mills for fiscal years 2004, 2005, and 2006 respectively. This is an average increase in local mill levies of 0.8%, 3.2%, and 5.9% respectively.

If HB268 passes and the trigger was hit, the property tax revenue losses associated mill levy increases stated above will not occur.

LONG-RANGE IMPACTS:

It can be estimated that the first year that tax rate for class 8 is reduced due to the trigger; the property tax revenue loss to state government is approximately \$1,631,333. The second year after the trigger hits, it is estimated that the property tax revenue loss to state is approximately \$6,575,148. The third year after the trigger hits, it is estimated that the property tax revenue loss to state is approximately \$12,379,146. The fourth year after the trigger hits, it is estimated that the property tax revenue loss to state is approximately \$13,649,386. This fourth year reflects the full impact of the class 8 tax rate reaching 0%.

If HB268 passes and the trigger was hit, the property tax revenue losses stated above will not occur.