# FISCAL NOTE

**Bill #:** HB0310 **Title:** Elderly homestead property tax limitation

**Primary Sponsor:** S. Fisher **Status:** As Introduced

Sponsor signature Date Chuck Swysgood, Budget Director Date

## Fiscal Summary

| | FY 2004 Difference | FY 2005 Difference |
|---|---|---|
| **Expenditures:** | | |
| General Fund | $14,180 | $11,440 |
| **Revenue:** | | |
| General Fund | | ($644,534) |
| State Special Revenue | | ($40,517) |
| **Net Impact on General Fund Balance:** | ($14,180) | ($644,534) |

| | |
|---|---|
| ☒ Significant Local Gov. Impact | ☒ Technical Concerns |
| ☐ Included in the Executive Budget | ☒ Significant Long-Term Impacts |
| ☐ Dedicated Revenue Form Attached | ☐ Needs to be included in HB 2 |

## Fiscal Analysis

ASSUMPTIONS:

1. According to the Department of Commerce, Census and Economic Information Center, there are 83,982 housing units that contain one or more persons 65 years old or older. A housing unit includes houses, apartments, rented rooms and other housing arrangements.
2. From the same data source, 37,359 housing units are identified as owner occupied family housing units. Family housing units include married couples or owners of the housing unit living with other family members. There are 24,975 owner occupied "nonfamily" housing units, which includes those living alone or with someone who is not a family member. The total number of housing units owned and occupied by those 65 years old and older is 62,334.
3. For purposes of this fiscal note it is assumed that all eligible homeowners will receive the tax limitation beginning in property tax year 2004. In future years, the number of eligible homeowners is expected to increase by approximately 1,294 per year. (See Long Range Impacts).
4. Montana law establishes a six-year reappraisal cycle, with the next cycle beginning on January 1, 2003 and ending on December 31, 2008. For each appraisal cycle, the assessed value of all property, including residential land and improvements, are determined.
5. The law requires that for properties increasing in assessed value due to the reappraisal, the difference in assessed value between the 1997 full reappraisal value and the 2008 full reappraisal value be phased-in over the term of the appraisal cycle.

6. The tax year 2002 average assessed value of a residence, including land, is $90,507. The tax year 2008 average value of a residence, including land, is estimated to be $107,114. The difference between these two values is $16,607. Dividing the difference by the six years of the appraisal cycle is $2,768 ($16,607 ÷ 6 = $2,768). The average residential property, including land, will increase in assessed value by $2,768 each year of the appraisal cycle.
7. For purposes of this fiscal note, the average phase-in assessed value in tax year 2004 is $96,043.
8. The residential homestead exemption in current law equals 31% of the assessed value. The homestead exemption is applied to the assessed value of the property each year before applying the tax rate. The homestead exemption amount has been deducted in all calculations.
9. For purposes of this fiscal note, the phase-in assessed value is used in tax year 2004. The allowable homestead exemption is applied.
10. The Class 4, residential property tax rate is 3.46%.
11. Local mill levies increase by approximately 5.7% per year on average. The anticipated mill levy increase from all other taxing jurisdictions for TY2004 is 25.15 mills (.02515).
12. Calculation of tax impact: $96,043 X 31% = $66,269 X 3.46% = $2,293 X 25.15 mills = $58
13. The state general fund mill levy for school equalization will remain fixed at 95 mills. Of the $58 in increased taxes, the state general fund would receive approximately $10.34. $10.34 X 62,334 = $644,534.
14. The state special revenue account for support of the university system will remain fixed at 6 mills. Of the $58 in increased taxes, the state special revenue account would receive approximately $0.65. $0.65 X 62,334 = $40,517.
15. The department must develop an application form. Costs will be higher in TY2004 to reflect the initial use of the tax limitation by those eligible. Costs in TY2005 and beyond will be relatively stable. Costs of developing the application form are $5,180 in FY2004 and $2,440 in FY2005.
16. Notifications in 84 local newspapers informing eligible applicants of the process and availability of application forms will be published annually. The costs of publishing the notice will by $9,000 in FY2004 and FY2005.
17. This bill is effective for property tax years beginning after December 31, 2003.
18. Reductions in property tax base may affect state school equalization payments through GTB payment requirements. The affect on GTB costs would depend on the distribution of limitations granted to property amongst the districts.

| FISCAL IMPACT: | FY 2004 Difference | FY 2005 Difference |
|---|---|---|
| Expenditures: | | |
| Operating Expenses | 14,180 | 11,440 |
| | | |
| Funding of Expenditures: | | |
| General Fund (01) | ($14,180) | ($11,440) |
| | | |
| Revenues: | | |
| General Fund (01) | 0 | ($644,534) |
| State Special Revenue (02) | | ($40,517) |
| | | |
| Net Impact to Fund Balance (Revenue minus Funding of Expenditures): | | |
| General Fund (01) | ($14,180) | ($655,974) |
| State Special Revenue (02) | | ($40,517) |

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
Local governments, including counties, cities and towns and their subdivisions and local schools will experience a potential loss of revenue of $2,909,751in FY2005 and in future fiscal years.

Under 15-10-420, MCA, county and city governments could "float" their mill levies to offset the 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.

LONG-RANGE IMPACTS:
Based on the long-term growth patterns presented in US Census documents, (1980 – 2002) approximately 1,872 Montanans turn 65 each year. Using the state average home ownership rate of 69.1%, approximately 1,294 additional homeowners would become eligible for the exemption each year. The number of deaths that occur within this age group has not been identified but could impact the estimate.

TECHNICAL NOTES:
1. Special improvement districts and rural special improvement districts are exempt from the property tax limitations proposed in this legislation. For clarity and compliance, a definition of "special improvement district" and "rural special improvement district" would be appropriate in this legislation. For example the proposal could refer to a special improvement district or rural special improvement district as defined in Title 7.