

Fiscal Note Request HB0754, As Introduced

(continued)

2. The DOR would utilize a centralized production line for processing the applications, and it is estimated the processing would take 5 minutes per application. There are 340,250 properties classified as residential in Montana. It is estimated that it would require 16 FTE ($340,250 \times 5 / 60 / 1760 = 16.11$ FTE) to process all the applications for exemption from the 20% surcharge. The processing of the applications must be completed in the first quarter of every year. This will require department to hire the equivalent of 64 FTE (12 months work/ in 3 months time = 4 times the work load of 16 FTE = requires 64 FTE to complete the task in 3 months) grade 8-property valuation specialists for three months every year. This will cause the department to expend \$314,908 for personal services in fiscal year 2004 and \$312,513 in fiscal year 2005.
3. It is estimated that contracted services would cost \$152,360 annually to create and mail out the application for exemption from the 20% surcharge. In fiscal year 2004 an additional \$73,935 would be expended for IT contract services to update the department's property databases to reflect change made by this bill. This brings the total expenditure on operating expense in fiscal 2004 to \$226,295 ($\$152,360 + \$73,935 = \$226,295$). In fiscal year 2005, operating expenses reflect only the cost to create and mail out the application.
4. The department also would be required to upgrade the computer hardware that runs the property databases in fiscal 2004; this would entail the purchase of \$63,000 in computer equipment.

<u>FISCAL IMPACT:</u>	<u>FY 2004</u> <u>Difference</u>	<u>FY 2005</u> <u>Difference</u>
FTE	16.00	16.00
<u>Expenditures:</u>		
Personal Services	\$314,908	\$312,513
Operating Expenses	\$226,295	\$152,360
Equipment	<u>\$63,000</u>	<u>\$0</u>
TOTAL	\$604,203	\$464,873
<u>Funding of Expenditures:</u>		
General Fund (01)	\$604,203	\$464,873
<u>Revenues:</u>		
General Fund (01)	0	\$7,311,246
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	\$(604,203)	\$6,846,373

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

County Treasurers will incur additional organizational cost when administering and collecting the 20% surtax.

LONG-RANGE IMPACTS:

Starting in fiscal year 2005 and every fiscal year there after, the surtax will generate \$7,311,246 in revenue for the state general fund.

TECHNICAL NOTES:

1. The bill does not provide a clear definition of what "paid income taxes" means. Does the person who files a Montana income tax return and has no income tax liability have to pay the 20% surtax or does the property owner just have to file a Montana income tax return. For the purposes of this fiscal note it was

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assumed that property owners with an out of state mailing address on the property tax bill did not pay Montana income tax.

2. In section 1, subsection (2)(a), the language “ if the owner had in a previous year paid income taxes but, because of age, infirmity, or misfortune, did not pay income taxes in the prior year,” it is unclear how age, infirmity or misfortune is to be applied.
3. This bill may be challenged on grounds that it violates the equal protection clause of the Montana Constitution Article VIII, § 3, since owners of similar properties under class four are being treated differently.
4. The bill is not clear about when the surtax is applied. Should the surtax be applied to property taxes collected in tax year 2004 or applied to taxes collected on the taxes assessed in tax year 2004?
5. The bill does not provide a clear definition of residential property. It might be helpful to specify that residential property is that property described in 15-6-134(1)(e) and (1)(f)(i), (ii), (iv).
6. The bill should clearly indicate in section 1 that the county treasurer of the county in which the property is located would be the responsible party for remitting the proceeds of the surtax to the department of revenue