



Fiscal Note Request SB0461, FINAL  
(continued)

**Table 1**  
**SB461 Proposed Tax Rates and Exemption Percentages for Class 4 Residential and Commercial**

Fiscal Year	Tax Rate	----- Class 4 Residential Properties -----		----- Class 4 Commercial Properties -----	
		Owner Occupied Exemption Percent	Non-Owner Occupied Exemption Percent	Multi-Family Housing Exemption Percent	All Other Commercial Exemption Percent
CL '03	3.46%	31.00%	31.00%	31.00%	13.00%
2004	3.40%	31.00%	31.00%	31.00%	13.00%
2005	3.30%	31.40%	31.40%	31.40%	13.30%
2006	3.22%	32.00%	32.00%	32.00%	13.80%
2007	3.14%	32.60%	32.60%	32.60%	14.20%
2008	3.07%	33.20%	33.20%	33.20%	14.60%
2009	3.01%	34.00%	34.00%	34.00%	15.00%

----- TAXABLE VALUE -----

**Table 2**  
**Fiscal 2004 Change in Taxable Value**  
**Current Law and Proposed Law (SB461)**

	Fiscal 2004 Taxable Value		
	Current Law	Proposed Law	Change
<b>Ag. Land Class 3</b>	<b>142,233,697</b>	<b>139,784,152</b>	<b>-2,449,545</b>
<b>Residential Class 4</b>			
- Owner Occupied	557,787,434	547,308,769	-10,478,665
- Other	<u>218,063,171</u>	<u>213,893,538</u>	<u>-4,169,633</u>
<b>Total Residential</b>	<b>775,850,605</b>	<b>761,202,307</b>	<b>-14,648,298</b>
<b>Commercial Class 4</b>			
- Multi-family	30,728,412	30,151,144	-577,268
- Other	<u>253,105,341</u>	<u>250,801,855</u>	<u>-2,303,485</u>
<b>Total Commercial</b>	<b>283,833,753</b>	<b>280,953,000</b>	<b>-2,880,753</b>
<b>Total</b>	<b>1,201,918,055</b>	<b>1,181,939,459</b>	<b>-19,978,596</b>

**Table 3**  
**Fiscal 2005 Change in Taxable Value**  
**Current Law and Proposed Law (SB461)**

	Fiscal 2005 Taxable Value		
	Current Law	Proposed Law	Change
<b>Ag. Land Class 3</b>	<b>145,845,100</b>	<b>139,268,363</b>	<b>-6,576,737</b>
<b>Residential Class 4</b>			
- Owner Occupied	598,953,738	567,944,824	-31,008,914
- Other	<u>236,899,615</u>	<u>224,534,382</u>	<u>-12,365,233</u>
<b>Total Residential</b>	<b>835,853,353</b>	<b>792,479,206</b>	<b>-43,374,147</b>
<b>Commercial Class 4</b>			
- Multi-family	33,589,973	31,850,960	-1,739,013
- Other	<u>271,951,364</u>	<u>260,337,623</u>	<u>-11,613,740</u>
<b>Total Commercial</b>	<b>305,541,337</b>	<b>292,188,583</b>	<b>-13,352,753</b>
<b>Total</b>	<b>1,287,239,790</b>	<b>1,223,936,153</b>	<b>-63,303,637</b>

**Class 3 Agricultural Land**

- As displayed in Tables 2 and 3, under current law the taxable value of class 3 is estimated to be \$142,233,697 in FY 2004, and \$145,845,100 in FY 2005.
- Under the proposal, the estimated taxable value of class 3 is estimated to be \$139,784,152 in FY 2004, and \$139,268,363 in FY 2005.
- Under SB461, class 3 taxable value is estimated to *decrease* from its current law level by \$2,449,545 in fiscal year 2004, and \$6,576,737 in FY 2005.
- Although the taxable value of class 3 agricultural land is reduced from the estimated FY 2004 and 2005 current law levels, class 3 taxable value is held almost entirely constant at its (current) FY 2003 level of \$138,900,095.

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**Note:** SB461 in its original form split class 4 residential property into two groups: owner occupied, and other than owner occupied. The current version of SB461 does **not** split residential class 4 property into these two groups. The format of the fiscal note for the original version of the bill is retained.

### **Residential Class 4 – Owner Occupied Property**

11. The fiscal year 2003 total taxable value of all residential class 4 property is approximately \$731.7 million.
12. According to the U.S. Census Bureau, there are 247,723 owner occupied housing units in Montana. DOR estimates the FY 2003 taxable value of owner occupied dwellings at approximately \$528,155,000, or 72% (\$528.1 million ÷ \$731.7 million) of the total taxable value of residential class 4 property.
13. Beginning in fiscal year 2004, the exemption for owner occupied residential property is phased in from the current 31% to 34% over a 6 year period. (See Table 1)
14. The proposal's owner occupied homestead exemption percentages for owner occupied property are 31.0% for FY 2004, and 31.4% for FY 2005.
15. As shown in Table 2, under current law, the estimated FY 2004 phased-in taxable value of owner occupied residential class 4 property is \$557,787,434.
16. Also shown in table 2, in FY 2004 the proposal, by reducing the current tax rate from 3.46% to 3.40%, with an exemption for owner occupied residential property of 31%, is estimated to *decrease* the statewide taxable value of owner occupied property to \$547,308,769. This is a projected reduction in current law taxable value of \$10,478,665 (\$547,308,769- \$557,787,434) in FY 2004.
17. Displayed in Table 3, under current law, the estimated FY 2005 phased-in taxable value of owner occupied residential class 4 property is \$598,953,738.
18. Table 3 shows that in FY 2005, the proposal, by reducing the current tax rate to 3.30%, and increasing the exemption for owner occupied residential property to 31.4%, is estimated to *decrease* the statewide taxable value of owner occupied property to \$567,944,824. This is a projected reduction in current law taxable value of \$31,008,914 (\$598,953,738 - \$567,944,824) in FY 2005.

### **Residential Class 4 – Other than Owner Occupied Property**

19. As illustrated in Table 1, the exemption amounts for owner occupied, and other than owner occupied are equal under the proposal: exemptions are phased in from the current 31% to 34% over 6 years.
20. The estimated taxable value of class 4 residential property that is not owner occupied property in FY 2003 is approximately \$203,517,000, or 28% (\$203.5 million ÷ \$731.7 million) of the total taxable value of residential class 4 property.
21. As shown in Table 2, under current law, the estimated FY 2004 phased-in taxable value of residential class 4 property that is not owner occupied is \$218,063,171.
22. In fiscal year 2004, the proposal, by lowering the current tax rate from 3.46% to 3.40%, with a 31% exemption, is estimated to *decrease* the statewide taxable value of class 4 residential property that is not owner occupied to \$213,893,538. This is a projected *decrease* from current law taxable value of \$4,169,633 (\$218,063,171 - \$213,893,538) in FY 2004.
23. As shown in Table 3, under current law, the estimated FY 2005 phased-in taxable value of class 4 residential property that is not owner occupied is \$236,899,615.
24. In FY 2005, the proposal, by lowering the current tax rate to 3.30%, and increasing the exemption for class 4 residential property to 31.4%, is estimated to *decrease* the statewide taxable value of class 4 property other than owner occupied property to \$224,534,382. This is a projected *decrease* from current law levels of \$12,365,233 (\$236,899,615 - \$224,534,382) in FY 2005.
25. The proposal allows additional property tax assistance for owners who meet certain property tax increases and income requirements. Residential properties that have an increase in taxable value of at-least 24%, and a tax liability increase of \$250 or more, are eligible for the additional tax assistance if their income is below \$75,000. Under the provisions of the proposals, it is estimated that approximately 3,300 property

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owners will qualify for the property tax assistance specified under the proposal. It is estimated that the extended property tax assistance will result in a *reduction* in taxable value of \$166,500 in FY 2004, \$333,000 in FY 2005, and \$1,000,000 in FY 2009 when values are fully phased-in.

### **Commercial Class 4**

26. Under current law, all commercial property, except multi-family housing, receive an exemption of 13%. Multi-family housing is classified as commercial property, but under the provisions of SB184 passed during the 1999 legislative session, multi-family housing receives the 31% exemption specified for residential class 4 property.
27. The fiscal year 2003, total taxable value of all commercial class 4 property is approximately \$271.2 million.
28. In FY 2003 commercial class 4 property other than multi-family housing units had a statewide taxable value of \$242.3 million, or 92% ( $\$242.3 \text{ million} \div \$271.2 \text{ million}$ ) of the total taxable value classified as commercial class 4 .
29. As shown in Table 1, beginning in FY 2004, the proposal increases the exemption for commercial property from 13% to 15% over a 6-year period. While the exemption for multi-family housing, which is tied to residential class 4 property, is increased from its current 31% to 34% in FY 2009.
30. The proposal's exemption percentages for commercial property, other than multi-family housing are 13.0% for FY 2004, and 13.3% for FY 2005. (See Table 1)
31. As shown in Table 2, under current law, the estimated FY 2004 phased-in taxable value of commercial class 4 property other than multi-family housing is \$253,105,341.
32. In fiscal year 2004, the proposal, by reducing the current tax rate from 3.46% to 3.40%, with an exemption for commercial class 4 property other than multi-family housing at 13%, is estimated to *decrease* the statewide taxable value of commercial class 4 property other than multi-family housing to \$250,801,855. This is a projected reduction in current law taxable value of \$2,303,485 ( $\$253,105,341 - \$250,801,855$ ) in FY 2004.
33. As shown in Table 3, under current law, the estimated FY 2005 phased-in taxable value of commercial class 4 property other than multi-family housing is \$271,951,364.
34. In fiscal year 2005, the proposal, by reducing the current tax rate to 3.30%, and increasing the exemption for commercial class 4 property other than multi-family housing to 13.3% is estimated to *decrease* the statewide taxable value of commercial class 4 property other than multi-family housing to \$260,337,623. This is a projected reduction in current law taxable value of \$11,613,740 ( $\$271,951,364 - \$260,337,623$ ) in FY 2005.

### **Multi-family Housing**

35. Multi-family housing has an estimated FY 2003 taxable value of \$28.9 million, or 8% ( $\$28.9 \text{ million} \div \$271.2 \text{ million}$ ) of the total taxable value classified as commercial class 4.
36. The proposal's exemption percentages for multi-family housing are 31.0% for FY 2004, and 31.4% for FY 2005. (See Table 1)
37. Displayed in Table 2, under current law, the estimated FY 2004 phased-in taxable value of multi-family housing is \$30,728,412.
38. In fiscal year 2004, the proposal, by reducing the current tax rate from 3.46% to 3.40%, with a 31% exemption, is estimated to *decrease* the statewide taxable value of multi-family housing to \$30,151,144. This is a projected reduction in current law taxable value of \$577,268 ( $\$30,728,412 - \$30,151,144$ ) in FY 2004.
39. As shown in Table 3, under current law, the estimated FY 2005 phased-in taxable value of multi-family housing is \$33,589,973.

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40. In fiscal year 2005, the proposal by reducing the current tax rate to 3.30%, and increasing the exemption for multi-family housing to 31.4%, is estimated to *decrease* the statewide taxable value of multi-family housing to \$31,850,960. This is a projected reduction in current law taxable value of \$1,739,013 (\$33,589,973- \$31,850,960) in FY 2005.

### Summary

41. Illustrated in Tables 2 and 3, it is estimated that SB461 would *reduce* the taxable value of class 3 and 4 property below current law levels by \$19,978,596 in FY 2004, and \$63,303,637 in FY 2005. The extended property tax assistance program will further *reduce* taxable value by \$166,500 in FY 2004, and \$333,000 in FY 2005. The *total reduction* from current law levels is estimated to be \$20,145,096 (\$19,978,596 + \$166,500) in FY 2004, and \$63,636,637 (\$63,303,637 + \$333,000) in fiscal year 2005.

42. The average mill levy for the state general fund is 95.53 mills (95 mills plus the 1.5 mills levied in five counties).

43. It is estimated that property tax revenue for the state general fund would *decrease* \$1,924,461 (\$20,145,096 x 95.53 mills) in FY 2004, and \$6,079,208 (\$63,636,637 x 95.53 mills) in FY 2005.

44. The mill levy for the university system is 6.00 mills.

45. It is estimated that property tax revenue for the university system would *decrease* \$120,871 (\$20,145,096 x 6 mills) in FY 2004, and \$381,820 (\$63,636,637 x 6 mills) in FY 2005.

### Department of Revenue Expenditures

46. The application process for the extended property tax assistance program will require an estimated review of 7,000 applications each year.

47. The departments will need one additional grade 9 property valuation specialists (PVS) to review the 7,000 applications each year, and work on other annual activity associated with the proposal's extended property tax assistance program.

48. Salary and benefits for additional staff are estimated at \$25,562 in FY 2004, and \$25,398 in FY 2005.

49. Equipment and operating expenses, which include contract services, supplies, rent, computer equipment, printing, advertisement, and postage costs are estimated at \$54,369 in FY 2004, and \$6,114 in FY 2005.

50. The proposal's extended property tax assistance program will require alterations to the CAMAS system, which will be made by the CAMAS vendor at an estimated cost of \$20,000 in FY 2004.

51. Total estimated costs to implement a the extended property tax assistance program are \$99,931 (\$25,562+ \$54,369 + \$20,000) in FY 2004, and \$31,512 (\$25,398 + \$6,114) in FY 2005.

52. SB461 includes provisions for two interim committees to study taxation issues, with a biennial appropriation for administrative expenses of \$60,000. Fiscal note assumes the costs to be \$30,000 in each year.

### Office of Public Instruction

53. The average number belonging (ANB) in K-12 public schools will be as follows:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
K-6 ANB	76,057	74,289	72,130
7-8 ANB	25,082	25,147	25,203
9-12 ANB	50,366	49,989	49,002
Totals	151,505	149,425	146,662

54. The basic and per-ANB entitlements would remain the same:

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>
Basic entitlement EL	\$19,244	\$19,244	\$19,244
Basic entitlement HS	\$213,819	\$213,819	\$213,819
Per-ANB entitlement EL	\$3,906	\$3,906	\$3,906

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Per-ANB entitlement HS	\$5,205	\$5,205	\$5,205
Direct State Aid Percentage	44.7%	44.7%	44.7%

55. Under current law the statewide taxable valuation will increase by 4.0% in FY 2004 and by 5.5% in FY 2005. Under SB 461, the change in statewide taxable valuation will increase by 3.0% in FY 2004 and by 3.2% in FY 2005.
56. Under current law, direct state aid will be \$319.05 million in FY 2004 and \$314.20 million in FY 2005. Special education payments will be \$34.91 million in FY 2004 and FY 2005. Guaranteed tax base aid to schools will be \$97.82 million in FY 2004 and \$95.24 million in FY 2005.
57. Under SB 461, direct state aid and special education expenses will remain the same as current law. Guaranteed tax base aid to schools will be \$98.31 million in FY 2004 and \$96.41 million in FY 2005. The net increased cost in guaranteed tax base aid to schools will be \$490,000 in FY 2004 and \$1,170,000 million in FY 2005.
58. The current law county retirement guaranteed tax base aid would be \$21.57 million in FY 2004 and \$23.07 million in FY 2005. Under SB 461, county retirement guaranteed tax base aid would be \$21.76 million in FY 2004 and \$23.46 million in FY 2005. The net increased cost in guaranteed tax base aid to counties will be \$190,000 in FY 2004 and \$390,000 in FY 2005.

<b>FISCAL IMPACT</b>	<b>FY 2004</b>	<b>FY 2005</b>
<b>Department of Revenue</b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
FTE	1.00	1.00
<u>Expenditures:</u>		
Personal Services	\$25,562	\$25,398
Operating Expenses	68,569	6,114
Equipment	5,800	0
Committees Approp.	<u>30,000</u>	<u>30,000</u>
TOTAL	\$129,931	\$61,512
<b>Office of Public Instruction</b>		
<u>Expenditures:</u>		
Local Assistance	\$680,000	\$1,560,000
<u>Funding of Expenditures:</u>		
General Fund (01)	\$809,931	\$1,621,512
<u>Revenues:</u>		
General Fund (01)	(\$1,924,461)	(\$6,079,208)
State Special Revenue (02)		
<i>University 6-Mill Account</i>	(\$120,871)	(\$381,820)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(\$2,734,392)	(\$7,700,720)
State Special Revenue (02)		
<i>University 6-Mill Account</i>	(\$120,871)	(\$381,820)

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Local governments will see the same decreases from current law taxable value (as shown in Tables 2 and 3). However, since local government mill levies are set on current year taxable values, and the proposal actually slightly increases taxable value from its FY 2003 level (estimated increases of \$82,500 in FY 2004, and \$330,670 in 2005); the decreases from current law will not be realized at the local level.

LONG-RANGE IMPACTS:

The left hand side of Table 4 shows that in FY 2009, when reappraisal values are fully phased-in (including estimated natural growth under both current law and proposed), the total taxable value for classes 3 and 4 is estimated to decrease from its estimated current law level by \$275 million.

<b>Table 4</b>							
<b>Fiscal 2009 Change in Taxable Value</b>							
<b>Current Law and Proposed Law (SB461)</b>				<b>----- Fiscal 2003 and Proposed Law (SB461)</b>			
<b>Includes Estimated Growth</b>				<b>Does Not Include Estimated Growth</b>			
<b>Fiscal 2009 Taxable Value</b>				<b>Fiscal 2009 Taxable Value</b>			
	<b>Current Law</b>	<b>Proposed Law</b>	<b>Change</b>		<b>Fiscal 2003</b>	<b>Proposed Law</b>	<b>Change</b>
<b><u>Aq. Land Class 3</u></b>	<b>160,151,810</b>	<b>138,805,087</b>	<b>-21,346,722</b>	<b><u>Aq. Land Class 3</u></b>	<b>138,900,095</b>	<b>139,418,778</b>	<b>518,683</b>
<b><u>Residential Class 4</u></b>				<b><u>Residential Class 4</u></b>			
- Owner Occupied	788,920,985	656,475,844	-132,445,141	- Owner Occupied	528,154,850	518,822,395	-9,332,454
- Other	<u>324,414,050</u>	<u>269,780,210</u>	<u>-54,633,840</u>	- Other	<u>203,516,641</u>	<u>213,211,219</u>	<u>9,694,577</u>
<b>Total Residential</b>	<b>1,113,335,035</b>	<b>926,256,054</b>	<b>-187,078,981</b>	<b>Total Residential</b>	<b>731,671,491</b>	<b>732,033,614</b>	<b>362,123</b>
<b><u>Commercial Class 4</u></b>				<b><u>Commercial Class 4</u></b>			
- Multi-family	46,934,340	39,054,939	-7,879,401	- Multi-family	28,856,105	30,865,685	2,009,581
- Other	<u>363,608,440</u>	<u>304,470,334</u>	<u>-59,138,105</u>	- Other	<u>242,346,346</u>	<u>240,627,328</u>	<u>-1,719,018</u>
<b>Total Commercial</b>	<b>410,542,780</b>	<b>343,525,273</b>	<b>-67,017,507</b>	<b>Total Commercial</b>	<b>271,202,451</b>	<b>271,493,013</b>	<b>290,562</b>
<b>Total</b>	<b>1,684,029,624</b>	<b>1,408,586,414</b>	<b>-275,443,210</b>	<b>Total</b>	<b>1,141,774,037</b>	<b>1,142,945,405</b>	<b>1,171,368</b>

However, under the provisions of SB461, shown on the right half of Table 4: if we look at the property that existed in FY 2003, excluding natural growth, the estimated change in taxable value from FY 2003 to 2009 is an increase of \$1,171,368 in taxable value. This indicates that the proposal holds class 3 and 4 taxable values overall relatively constant at their (current) fiscal 2003 level.

When fully implemented in FY 2009, an additional \$1 million reduction in taxable is expected under the extended property tax assistance program provided for in the bill.