FISCAL NOTE

Bill #:	HB0792	**Title:**	Statewide school property tax reduction for excess budget surplus
Primary Sponsor:	Koopman, R	**Status:**	As Introduced

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$283,307	$749,630
Revenue:		
General Fund	($1,905,259)	($75,451,465)
Net Impact on General Fund Balance:	($2,188,566)	($76,201,095)

☐	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:

Department of Revenue

1. HB 792 provides for property tax relief in an amount equal to the audited ending general fund balance in excess of $50 million, beginning with the FY 2005 ending fund balance. For the purposes of this fiscal note, it is assumed that the state will end FY 2005 with an audited ending general fund balance of $125 million, and that $75 million will be available for property tax relief. This relief will be obtained by reducing statewide mill levies for tax year 2006. (See technical note #10 and assumption #6)

2. It is further assumed that the intent of this bill is to reduce statewide mill levies provided for in 20-9-331 (33 mills), 20-9-333 (22 mills), and 20-9-360, MCA (40 mills), in such a manner that will result in a reduction in property taxes paid equal to the identified excess general fund balance provided for in section 1 of the bill. The 40-mill levy is reduced first; if that levy is insufficient to provide for the full amount by which property taxes are to be reduced, then any remaining excess general fund balance is allocated 60% to the 33 mills provided for in 20-9-331, MCA, and 40% is allocated to the 22 mills provided for in 20-9-333, MCA, for further reductions commensurate with these amounts. (See technical notes #1 through #5)

<u>Property Tax</u>

3. This bill has no effective or applicability dates. It is assumed that the bill is effective October 1, 2005 and the reduction would apply to mills levied on tax year 2006 taxable valuations. (See technical note #3 and assumption #6)
4. Total statewide taxable value in tax year 2006, including the taxable valuation of tax increment financing districts, is estimated to be $1,874,830,317. Based on this taxable valuation amount, the $75 million in excess ending general fund balance represents a mill levy of 40.004 mills. Consequently, the 40-mill levy will be reduced to zero mills. Eliminating the 40-mill levy will reduce property tax revenue by $74,993,213 ($1,874,830,317 x 40 mills) tax year 2006.
5. The mill levy calculation under 15-10-420(8), MCA, specifies that the mill calculations must be established in whole mills. The remaining reduction amount ($6,787 = $75 million - $74,993,213) will not be enough to change the 22-mill or 33-mill levy by a whole mill, hence they will not be affected under the proposal in tax year 2006. However, they could be reduced in future years if there is an ending general fund balance in excess of $50 million.
6. Once mill levies have been reduced, nothing in the bill provides for them to return to their original level. Under 15-10-420 (1), a governmental entity that is authorized to impose mills may impose a mill levy sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half of the average rate of inflation. Since there is nothing in the bill to allow the mills to return in future years, the reduction in property tax continues into future years. In the FY 2006 and FY 2007 biennium, there will be fiscal impacts associated with personal property that is not-liened to real property for both FY 2006 and FY 2007. (See Long Range Impacts and technical note #6)
7. Most property taxes are paid in November and May of the fiscal year (FY 2007) following assessment. However, under the provisions of 15-16-119, MCA, owners of personal property that is not-liened to real property pay property taxes 30-days after assessments are mailed. This means that instead of paying taxes in November and May of the following fiscal year, they will pay sometime before April in the current fiscal year. Therefore there will be a reduction in property tax revenue in FY 2006. About 38% of business equipment is property that is not liened to real property. The total taxable valuation of class 8 business equipment is forecast to be $125,345,970 in tax year 2006, and $128,981,004 in tax year 2007. Hence, the reduction in state general fund (mill levy) revenue from not-liened to real property associated with this bill is estimated to be $1,905,259 ($125,345,970 x 38% x 40 mills) in FY 2006, and $1,960,511 ($128,981,004 x 38% x 40 mills) in FY 2007.
8. The estimated reduction to state general fund mill levy property tax revenue in FY 2007 is $75,048,465 ($74,993,213 - $1,905,259 + 1,960,511).
9. Various non-levy revenue, such as penalty and interest, BLM grazing payments, federal payments in lieu of tax, county investment earnings, and other miscellaneous non-levy revenue is distributed based on mill levies. It is estimated that the state will lose an additional $1.55 million from this non-levy revenue sources in (tax year 2006) FY 2007 when the 40-mill is eliminated.
10. Total property tax revenue loss to the general fund is estimated at $1,905,259 in FY 2006, and $76,598,465 ($75,048,465 + $1,550,000) in FY 2007.

<u>TIF Reimbursements</u>

11. This bill provides for a reimbursement to tax increment financing districts, ostensibly in the amount of the mill levy reduction calculated above multiplied by the incremental taxable valuation of each district. The total incremental taxable valuation of TIF districts is forecast to be $18,704,440 in tax year 2006, and $18,800,000 in tax year 2007.

12. Consequently, this bill would require a state general fund expenditure of $748,177 ($18,704,440 x 40 mills) in tax year 2006 to keep tax increment financing districts whole under the proposal and $752,000 ($18,800,000 x 40 mills) in tax year 2007. (See technical notes #7 and #8)
13. Assuming 38% of TIF incremental value is not-liened to real property, the state would need to reimburse TIFs $283,307 ($748,177 x 38%) in FY 2006, and $749,630 (($748,177 x 62%) + ($752,000 x 38%)) in FY 2007.

Income Tax

14. This bill will result in an increase in individual income taxes. Because property taxes are deductible for individual income tax purposes, reducing property taxes will increase taxable income for income tax purposes, resulting in a commensurate increase in individual income tax revenue. The reduction in property taxes for tax year 2006 is estimated to increase individual income tax revenue by an estimated $1.147 million in FY 2007.
15. There may also be an increase in corporation license taxes, but that impact is not estimated here.

FISCAL IMPACT:

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
Transfers - *TIF Reimbursements*	$283,307	$749,630
Funding of Expenditures:		
General Fund (01)	$283,307	$749,630
Revenues:		
General Fund (01)	($1,905,259)	($75,451,465)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):		
General Fund (01)	($2,188,566)	($76,201,095)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

TIF districts lost revenue from the elimination of the 40-mill levy are made whole via a reimbursement from the general fund.

LONG-RANGE IMPACTS:

Once mill levies have been reduced, nothing in the bill provides for them to return to their original level. Under 15-10-420 (1), a governmental entity that is authorized to impose mills may impose a mill levy sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half of the average rate of inflation. Hence, with natural growth in property taxable values, there will be an additional reduction in revenue of over $76.2 million in FY 2008 and beyond, if there is no budget surplus in excess of $50 million at the end of FY 2006. Since the 40-mill levy would already be eliminated in perpetuity, if there were excess budget surplus at the end of FY 2006 (or any other future years), then the revenue reduction in FY 2008 (and future years) would be even larger once the 22 and 33 mill levies were reduced.

TECHNICAL NOTES:

1. The first sentence of Section 1 of the bill refers to the "reconciled ending fund balance of the state general fund". It is recommended that this be amended to refer to the "audited ending general fund balance".
2. Sub-section (2) of Section 1 provides that the department shall calculate the mill levies under 20-9-331, 20-9-333, and 20-9-360 by considering the "budget surplus" determined under subsection (1). Subsection (1) refers to both the total reconciled ending fund balance of the state general fund, and the amount of this ending fund balance in excess of $50 million. This subsection should be amended to clarify which of these two measures is being referred to by precisely defining the term "budget surplus".
3. Section , subsection (2) provides that "…the department shall calculate the mill levies under 20-9-331, 20-9-333, and 20-9-360 by considering the "budget surplus" determined under subsection (1) as if it were revenue from the levies and shall subtract that amount from what the collections *would be* if the maximum number of mills for each section was levied." More direction is needed in the bill to provide the department with the appropriate direction as to how this is to be done. For example, there is nothing in the bill that discusses the timing of these calculations and the information to be used in the calculation. Since there is no effective or applicability date in the bill, it is assumed that the bill is effective October 1, 2005 and would first apply to taxable value and mills levied for tax year 2006. If the statewide mills referred to in the bill are to be reduced somehow for TY 2005, then how does the calculation process work?
4. Additionally, it us unclear what the bases for the reduction should be. Should the bases be the prior *tax* year taxable value amount, or the current *tax* year taxable value amounts? Does DOR use total statewide taxable valuation, or statewide taxable value net of valuation within tax increment financing districts?
5. Section (2) also says that "…the department shall adjust the mills under 20-9-360 first, and if the number of mills is reduced to zero and a surplus remains, it shall adjust the mills under 20-9-331 and 20-9-333 by allocating 60% of the surplus to 20-9-331 and 40% of the surplus to 20-9-333." There is no direction as to how the department is to adjust the mills under 20-9-360 first. What does this language intend? Second, throughout this subsection the language of the bill refers to "surplus" without defining what this term means. Does it mean the entire original budget surplus? The excess of the original budget surplus in excess of $50 million? Or the remaining excess once the mills under 20-9-360 have been fully offset?
6. Once the statewide mill levies have been adjusted, there is nothing in the bill that addresses whether these mills remain at their adjusted level, or if they return to their former levels. What happens to these mill levies in subsequent years? Nothing in the bill provides for mill levies to return to their original level. Under 15-10-420 (1), a governmental entity that is authorized to impose mills may impose a mill levy sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half of the average rate of inflation.
7. Section 1, subsection (3)(b) provides that "The tax increment, if any, determined as provided in subsection (3)(a) for each urban renewal area, industrial district, or aerospace transportation and technology district that would be attributable to the statewide equalization levy for years in which levies under 20-9-331, 20-9-333, and 20-9-360 are reduced pursuant to 15-10-420(8) and this section must be transferred from the state general fund to the special fund referred to in 7-15-4286." This language would result in a transfer to tax increment financing districts from the state general fund in an amount equal to the tax increment of the district associated with the number of mills levied under 20-9-331, 20-9-333, and 20-9-360 in any year in which these mills are reduced. For example, if all of the excess budget surplus could be accommodated by a reduction in the mills levied under 20-9-360 from 40 to 30 mills, then tax increment financing districts would receive a transfer from the state general fund based on the increment associated with 30 mills, rather than the reduction in the increment associated with 10 mills. If the intent is to reimburse tax increment financing districts just for any reductions in statewide mill levies, then subsection (3)(b) should be amended to begin "The *reduction in* the tax increment, if any,…"

8. This bill provides for a reimbursement to tax increment financing districts, but does not provide any direction on the timing of when those reimbursements are to be made.
9. Since all of the revenue from the 95 mills affected by this bill accrues to the state general fund, the calculation requiring an allocation of 60% of any remaining excess to the 33 mills and 40% to the 22 mills seems unnecessary. Providing for reducing the 33 mills after the 40 mills and then the 22 mills would require less administration in that only one of these mills would be changed for tax billing purposes at a time.
10. The amount of audited ending general fund balance in excess of $50 million is unknown at this time. The Schweitzer budget, dated December 28, 2004 is used as the basis for this analysis. The ending budget and audited surplus could significantly differ from the numbers used in this fiscal note.