FISCAL NOTE

Bill #:	SB0296	**Title:**	Alternative method for assessing, taxing certain noncontiguous land parcels
Primary Sponsor:	Black, J	**Status:**	Second Reading

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0	$21,300
State Special Revenue	$0	$0
Revenue:		
General Fund	$0	($52,178)
State Special Revenue	$0	($3,280)
Net Impact on General Fund Balance:	$0	($73,378)

- ☐ 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. Under the SB 296, land that is under one ownership and that is greater than 20 acres in size, but less than 160 acres in size, could become eligible for agricultural land classification contingent upon meeting the additional requirements provided in this bill. Typically these parcels of land are called "non-qualified agricultural land".
2. Under the proposal, the 20 to 160 acre parcels of land that do not meet the minimum $1,500 in agricultural related income produced by the land, may qualify as agricultural land if the owner: (a) submits proof that 51% of the owner's annual income is derived from agricultural production; (b) the property taxes are paid by a family corporation, family partnership, sole proprietorship or family trust involved in Montana agricultural production and 51% of the entity's Montana annual gross income is derived from agricultural production or; the owner is a shareholder, partner, owner, or member of a family corporation, family partnership, sole proprietorship, or family trust that is involved in Montana agricultural production and 51% of the entity's Montana annual gross income is derived from agricultural production.
3. Under current law, in TY 2004 the department has identified 32,099 parcels containing 775,472 acres classified as non-qualified agricultural land. Each acre is valued the same as the average grade of grazing

land in the state and is taxed at seven (7) times the class 3 tax rate (23.1% vs. 3.3%). These parcels have a taxable value of $7,518,897. They contribute $716,804 to the state general fund and $45,114 to the university account. The average mill levy on these properties is 475.31 mills.

4. For purposes of this fiscal note, it is assumed that 10% of the acres currently classified non-qualified agricultural land, or 77,547 acres, become eligible for assessment and taxation as agricultural land.
5. These acres currently contribute $71,680 to the state general fund and $4,511 to the university account.
6. The average per acre value of agricultural land in TY 2004 is $80.22. Assuming that the acreage that qualifies as agricultural land is valued using the statewide average value yields an assessed value of $6,220,836 (77,547 X $80.22) and a taxable value of $205,288 ($6,220,836 X 3.3%).
7. Taxes associated with the newly classified agricultural acres are $97,975 ($205,288 X 475.31 mills = $97,975). The state general fund would receive $19,502 and the university account would receive $1,232.
8. This results in a reduction of $52,178 to the state general fund ($71,680 – $19,502 = $52,178); and a reduction of $3,279 to the 6 mill university account ($4,511-$1,232 = $3,279).
9. The administrative costs for implementing this proposal are minimal and can be absorbed in the current budget of the department.
10. The bill is effective on July 1, 2005. The ownership criteria outlined in the bill will be applied to tax year 2006. This will affect FY 2007 revenues.

Office of Public Instruction

11. The reduction in property tax values from SB 296 would impact the state's obligation to fund the guaranteed tax base aid for school districts and counties.
12. Property tax values decrease by 0.03% in FY 2007. There will be a one-year guaranteed tax base (GTB) cost spike. The guarantee level is determined by the prior year taxable values applied against current year taxable values. The higher guarantee level in FY 2006 will apply to the lower taxable values in FY 2007 and cause increased state contribution as districts levy more mills to compensate for the drop in taxable values.
13. The one-time increased cost will be $15,600 in FY 2007 for district levies as calculated by the school funding model. Countywide retirement GTB will increase $5,600 based on a historical average of 27% of the costs paid for by the state and a FY 2004 county levies equal to $68.6 million (0.03% times $68.6 million local levies times 27%).
14. In FY 2008 and beyond the lower overall level of taxable values will not impact in statewide guaranteed tax base aid costs.

<u>FISCAL IMPACT:</u>

	FY 2006 Difference	FY 2007 Difference
<u>Expenditures:</u>		
Local Assistance	$0	$21,200
<u>Funding of Expenditures:</u>		
General Fund (01)	$0	$21,200
<u>Revenues:</u>		
General Fund (01)		($52,178)
State Special Revenue (02)		($3,280)

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	($73,378)
State Special Revenue (02)	($3,280)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. a. This bill would impact local governments and school districts due to the loss in taxable value of $205,288 in (tax year 2006) FY 2007.
   b. The statewide average mill levy for this agricultural land in tax year 2004 (FY 2005) is 475.31 mills. Statewide mill levies have increased annually by 4.5 percent since FY 2001. Assuming growth of 4.5%, the statewide average mill levy for residential property would be 519.05 (475.31 x 104.5% ^2 years) in FY 2007.
   c. Removing the states 101.53 (95.53 + 6) mills, local governments and schools would have an estimated average statewide mill levy of 417.52 (519.05 – 101.53) in FY 2007.
   d. The associated revenue decrease to local governments and school districts under the proposal is estimated to be $85,711 ($205,288 x 417.52 mills) in FY 2007.
2. Under 15-10-420, MCA, county and city governments could float their mill levies to offset this property tax revenue loss.
3. School districts may increase levies to offset the loss in taxable value under the provisions of Title 20, MCA.

TECHNICAL NOTES:

Department of Revenue

1. Subsection (1)b(iii)B(II) states that "property taxes on the property are paid by a family corporation, family partnership, sole proprietorship or family trust…". The department has no means for identifying the party paying the taxes on a property. Language stating that the owner will provide "proof" that the taxes have been paid by the owner or one of the entities listed in the bill would be beneficial to the department. Unless instructed otherwise, the department will address this concern through the Administrative Rule process.