Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0313	**Title:**	Constitutional amendment to limit taxable value for senior citizens
Primary Sponsor:	Jones, William J	**Status:**	As Introduced

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

FISCAL SUMMARY

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$0	$0	$666,263	$83,496
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	($766,034)
State Special Revenue	$0	$0	$0	($48,633)
Net Impact-General Fund Balance	$0	$0	($666,263)	($849,530)

Description of fiscal Impact:

The bill proposes an amendment by referendum to Article VIII, Section 3 of the Montana Constitution. The amendment permits a future legislature to pass legislation allowing owner-occupied principal dwellings where the owner was at least 65 years of age to be valued at the lesser of the property's base year value or current value. Potential fiscal impact from future legislation will not occur until at least FY 2010. The long term revenue impact is significant.

FISCAL ANALYSIS

Assumptions:

Timing of Fiscal Impacts

1. Under proposed law, the amendment will be referred to the electorate in November 2008.
2. As per Article XIV, Section 8 of the Montana Constitution, if the referendum were approved by the electorate in November 2008, the Constitution would be amended July 1, 2009.

3. Under proposed law and by assumption, the Constitution will be amended July 1, 2009, and the 2009 legislature will pass legislation directing the Department of Revenue (DOR) to value property as allowed in the amendment, effective for calendar year 2010, which is FY 2011 property tax payments.

<u>Quantity of Properties Affected by the HB 313</u>

4. The DOR database does not have age information identified with individual properties. Therefore, U.S. Census Bureau information was used to estimate the calendar year 2010 quantity of owner-occupied dwellings where the owner was at least 65 years of age (Type A homes).
5. The 2000 U.S. Census Bureau information had 62,334 Type A homes in Montana.
6. The rate of growth in Type A homes is assumed to equal the rate of growth in the class of individuals who are at least 65 years of age. The U.S. Census Bureau estimates the class of individuals in Montana who are at least 65 years of age to number 120,949 in 2000, and 144,961 in 2010, a growth of 20 percent.
7. Calendar year 2010 estimated number of Type A property is 74,800 (62,334 x 1.2).
8. Calendar year 2009 estimated number of Type A property is 73,554 (62,334 x (1 + (0.2 * 0.9)).

<u>Taxable Value of Type A Property</u>

9. From DOR records, the calendar year 2006 average phase-in appraised value of an owner-occupied dwelling is $104,275.
10. The January 1, 2003 market value for residential property reappraisal increased by 20.2%. In general, to phase-in the reappraisal, the average market value would increase approximately 3.12% annually.
11. The current law phase in is one-sixth of the increased value due to reappraisal each year. So the calendar year 2006 market value has 2 years left to reach final 2003 reappraisal value on January 1, 2008.
12. The phased-in taxable value of an average Type A property in calendar year 2008, the final year of the reappraisal cycle, will be $110,833 ($104,275 x (1.0312)^2).
13. It is assumed that the January 1, 2009 reappraisal for residential property will also grow 20.2%.
14. In calendar year 2009, under current law, Type A property will be phased-in one year under the new reappraisal cycle. The taxable value of an average Type A property in calendar year 2009 will be $114,343 ($110.833 x 1.0312).
15. Total calendar year 2009 appraised value of Type A property is $8,410,385,022 ($114,343 x 73,554).
16. In calendar year 2010, under current law, Type A property will have the second year phased-in. The taxable value of an average Type A property in calendar year 2009 will be $117,910 ($114,343 x 1.0312).
17. Total calendar year 2010 appraised value of Type A homes is $8,819,668,000 ($117,910 x 74,800).
18. It is assumed that 34% of the market value of residential property will be exempt under the homestead exemption in calendar year 2009 and calendar year 2010 (15-6-222, MCA).
19. In calendar year 2009 and calendar year 2010, residential property will be taxed at 3.01% of taxable market value (15-6-134, MCA).
20. Estimated calendar year 2006 loss in taxable value due to property tax assistance programs is 1.2%. It is assumed that the loss in taxable value due to property tax assistance programs will continue to be 1.2%.
21. Calendar year 2009 taxable value of Type A homes is $165,075,740 ($8,410,385,022 x (1 – 0.34) x 0.0301 x 0.988).
22. Calendar year 2009 is assumed to be the base year taxable value for the January 1, 2009 reappraisal cycle.
23. Calendar year 2010 taxable value of Type A homes is $173,108,986 ($8,819,668,000 x (1 – 0.34) x 0.0301 x 0.988).
24. The loss in taxable value for calendar year 2010 due to this bill is $8,033,246 ($173,108,986 - $165,075,740).

General Fund Revenue

25. The HJR 2 calendar year 2009 decrease in general fund taxable value due to TIF adjustments and local abatements is 0.18%. It is assumed that this percent will remain constant.
26. Statewide average general fund mills are 95.53.
27. Under proposed law and previous assumptions, projected FY 2011 general fund loss from taxes on Type A homes is $766,034 ($8,033,246 x (1 - 0.0018) x (95.53 / 1000)).

Six Mill Levy Revenue

28. The HJR 2 calendar year 2009 increase to the university 6 mill taxable value due to the addition of the local abatements is 0.90%. It is assumed that this percent will remain constant.
29. Under proposed law and previous assumptions, projected FY 2011 university 6 mill loss from taxes on Type A homes is $48,633 ($8,033,246 x (1 + 0.0090) x (6 / 1000)).

Impact on County and Local Government Property Tax Revenue

30. Statewide average local government and local education mill levies were 325.7 in calendar year 2001 and 425.3 in calendar year 2006. This represents a 5-year growth rate of 21.6% (425.3 / 349.9 -1), or an annual growth rate of 4.0%. It is assumed that these mill levies will grow at 4.0% through calendar year 2010 (applied to calendar year 2010 taxable value).
31. In FY 2011, statewide average city and local government and local education mills will be 497.5 (425.3 x 1.04^4).
32. The revenue loss to local governments and local education budgets under this bill will be $3,996,539 ($8,033,246 x (497.5/1000)).

Administrative Expenses

33. The following table shows the FTE and administrative costs requested by the Department of Revenue. The operating expenses include programming costs, form creation and mailing, advertising, and rent for additional office space.

Table 1
Administrative Expenses

	FY 2010	FY 2011
FTE	14.00	1.50
Expenditures:		
Personal Services	$392,018	$45,343
Operating Expenses	$191,645	$38,153
Equipment	$82,600	$0
TOTAL Expenditures	$666,263	$83,496

Fiscal Impact:

FTE	0.00	0.00	14.00	1.50
Expenditures:				
Personal Services	$0	$0	$392,018	$45,343
Operating Expenses	$0	$0	$191,645	$38,153
Equipment	$0	$0	$82,600	$0
TOTAL Expenditures	$0	$0	$666,263	$83,496
Funding of Expenditures:				
General Fund (01)	$0	$0	$666,263	$83,496
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	$0	$666,263	$83,496
Revenues:				
General Fund (01)	$0	$0	$0	($766,034)
State Special Revenue (02)	$0	$0	$0	($48,633)
TOTAL Revenues	$0	$0	$0	($814,667)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$0	($666,263)	($849,530)
State Special Revenue (02)	$0	$0	$0	($48,633)

Effect on County or Other Local Revenues or Expenditures:

1. Under 15-10-420, MCA, local governments may float mills to cover reductions in revenue due to decreases in taxable value. Because of this, future legislation in line with the proposed constitutional amendment may not affect revenues to local governments. However, if mills were increased in a local jurisdiction because of decreased taxable value due to such future legislation, the mill increase and taxable value reduction would cause a tax shift from homeowners 65 years and older to other property owners in the jurisdiction.
2. In FY 2011, the local government and local education property taxes would decrease by $4.0 million. The impact will grow each year into the future.

Long-Range Impacts:

1. The long-range impact of the proposed constitutional amendment would depend upon directives adopted by future legislatures to value owner-occupied dwellings with owners 65 years of age or older. Under current law the appraised value of a class four property is no more than six years behind current market value. If the proposed amendment were ratified, future legislative directives might "freeze" the assessed value of appreciating Type A homes at some prior value ("base year value"). The assessed value could remain frozen until the owner through sale or death transferred the property to a new owner.

2. Table 2 shows the long-range revenue impact through FY 2016 due to HB 313:

Table 2
Approximate Long-Term Revenue Loss Due to HB 313

Fiscal Year	General Fund Revenue Loss	State Special Revenue Loss	County & Local Govt. Revenue Loss	Total Loss
FY 2012	$1,532,068	$97,266	$7,993,078	$9,622,412
FY 2013	$2,298,102	$145,899	$11,989,617	$14,433,618
FY 2014	$3,064,136	$194,532	$15,986,156	$19,244,824
FY 2015	$3,830,170	$243,165	$19,982,770	$24,056,105
FY 2016	$4,596,204	$243,165	$23,979,234	$28,818,603

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*