Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0529		**Title:**	Increase business equipment tax exemption and reduce tax rate
Primary Sponsor:	Lake, Bob		**Status:**	As Amended - Second Reading

- ☑ 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	$14,665,679	$33,544,945	$33,549,765	$33,554,706
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($1,651,339)	($4,853,099)	($4,873,246)	($4,936,191)
State Special Revenue	($161,887)	($461,721)	($480,938)	($500,993)
Net Impact-General Fund Balance	($16,317,018)	($38,398,044)	($38,423,011)	($38,490,897)

Description of fiscal impact: This bill reduces the tax rate on class 8 property from 3% to 2% and increases the amount of class 8 property that is exempt from property tax from $20,000 to $100,000. Under the bill, all individuals or business entities get the first $100,000 in market value of class tax 8 property exempted. Under current law, only persons and business entities with $20,000 or less in class 8 property are eligible for an exemption. The bill also reimburses local taxing jurisdictions for the reduction in property tax revenue.

FISCAL ANALYSIS

Assumptions:

Reduction in Taxable Value of Class 8 Property

1. Section 3 of HB 529 amends 15-6-138(5), MCA, to exempt the first $100,000 of market value of class 8 property owned by an individual or business from property tax. The total amount of the class 8 market value reduction is $1,084,295,057 ($4,643,968,392 - $ 3,559,673,336).
2. The total market value of class 8 property in Montana was $4,643,968,392 in calendar year 2006. The total taxable value of this property was $135,557,437 ($4,643,968,392 x 0.03 x 0.973). The total taxable

value of the class 8 property reflects the 2.7% abated taxable value some class 8 properties received in calendar year 2006.

3. Under HB 529, the total taxable value of class 8 property is further reduced by dropping the tax rate of class 8 property from 3% to 2%. The taxable value of class 8 property would drop to $69,271,243 ($3,559,673,336 x 2% x 0.973).
4. The combined effects of the increased class 8 exemption and tax rate reduction results in a calendar year 2006 decrease in the taxable value of $66,286,194 ($135,557,437 - $69,271,243).

Reduction in Taxable Value of Class 12 Property

5. The total market value of class 12 property in Montana was $1,171,178,046 in calendar year 2006. Under current law the tax rate is an annually calculated blended rate composed of all the tax rates applied to commercial property. For calendar year 2006 the class 12 tax rate was 3.55%. The total taxable value of class 12 property was $41,576,814 in calendar year 2006.
6. HB 529 will cause the class 12 tax rate to decrease to 3.40% in calendar year 2006. Therefore, the taxable value decrease in class 12 property would have been $1,756,767 ($41,576,814 – $39,820,047) in calendar year 2006 under HB 529. The class 12 tax rate is projected to decrease by approximately 2% annually through calendar year 2010. The taxable value of class 12 property is projected to be $1,687,199 ($1,756,767 x 0.98) in calendar year 2007, $1,653,455 ($1,756,767 x 0.98) in calendar year 2008, $1,620,386 ($1,653,455 x 0.98) in calendar year 2009, and $1,587,978 ($1,620,386 x 0.98) in calendar year 2010.
7. No class 12 property is located within tax increment financing districts. Therefore, the impact of the class 12 tax rate change would be limited to state and local government and education tax revenue.

General Fund Reduction in Revenue Due to HB 529

8. To calculate the future state revenue impacts of HB 529, the taxable value reduction found in assumption 4 is reduced by the amount of taxable value from TIF districts, increased by the abated taxable which is collected at the state level but not collected at the local government level, and grown at HJR 2 growth rates.
9. TIF districts made up 9% of total class 8 taxable value in calendar year 2006 and this percentage is assumed to continue. In calendar year 2006, 2.7% of the taxable value of class 8 property was abated at the county level and this percentage is assumed to continue. The state taxable value of class 8 property in calendar year 2006 that would have been reduced by this bill is $62,110,164 (($66,286,194 *1.027) – ($66,286,194 * 0.09)).
10. Using a 4.3% growth rate, the reduction in total class 8 taxable value will be $64,780,901 ($62,110,164 x 1.043) in calendar year 2007, $67,566,480 ($64,780,901 x 1.043) in calendar year 2008, $70,471,838 ($67,780,901 x 1.043) in calendar year 2009, $73,502,127 ($70,471,838 x 1.043) in calendar year 2010, and $76,662,719 ($73,502,127 x 1.043) in calendar year 2011.
11. The applicable date of the bill is January 1, 2008.
12. For class 8 property, fiscal year tax payments are not based on the prior calendar year taxable value as are other classes of property. Class 8 property not liened to real property (38%) is taxed in the spring of the calendar year. Class 8 property liened to real property (62%) is collected in the following fiscal year when the normal property tax payments are made in November and May. Therefore, FY 2008 taxable value is 62% of calendar year 2007 taxable value and 38% of calendar year 2008 taxable value, etc. Therefore, the increase to the class 8 exemption under HB 529 has a partial year impact on property tax revenue in FY 2008, and a full year impact in FY 2009.
13. Five counties in Montana have colleges of technology and are authorized to mill an additional 1.5 mills on property within those counties. Therefore, the average state mill levy on property statewide is 95.54 (state property tax revenues divided by total taxable value = average state mill levy).

14. Under this bill, the class 8 general fund revenue loss will be:
    - $2,460,799 ($67,780,901 x 0.38 x 0.09554) in FY 2008
    - $6,560,781 (($67,780,901 x 0.62) + ($70,471,838 x 0.38) x 0.09554) in FY 2009
    - $6,842,895 (($70,471,838 x 0.62) + ($73,502,127 x 0.38) x 0.09554) in FY 2010
    - $7,137,139 (($73,502,127 x 0.62) + ($76,662,719 x 0.38) x 0.09554) in FY 2011
15. Under this bill, the class 12 general fund revenue loss will be:
    - $84,924 ($1,653,455 x 0.09554) in FY 2009
    - $83,226 ($1,620,386 x 0.09554) in FY 2010
    - $81,561 ($1,587,978 x 0.09554) in FY 2011
16. Under this bill the total general fund revenue loss will be:
    - $2,460,799 in FY 2008
    - $6,648,705 ($6,560,781 + $84,924) in FY 2009
    - $6,926,895 ($6,842,895 + $83,226) in FY 2010
    - $7,218,700 ($7,137,139 + $81,561) in FY 2011

<u>University 6 mill Revenue Reduction</u>

17. The university 6 mill revenue will be reduced. Total class 8 taxable value including property abated at the local level must be used to calculate this revenue reduction. TIF districts do not receive any of the 6 mill levy. The total class 8 taxable value will be $71,003,186 ($66,286,194 x 1.027 x 1.043) in calendar year 2007, $74,056,323 ($71,003,186 x 1.043) in calendar year 2008, $77,240,745 ($74,056,323 x 1.043) in calendar year 2009, $80,562,097 ($77,240.745 x 1.043) in calendar year 2010, and $84,026,267 ($80,562,097 x 1.043) in calendar year 2011.
18. The class 8 revenue reduction for the university 6 mill levy will be:
    - $161,887 ($71,003,186 x 0.38 x 0.006) in FY 2008
    - $451,598 (($74,056,323 x 0.62) + ($77,240,745 x 0.38) x 0.006) in FY 2009
    - $471,017 (($77,240,745 x 0.62) + ($80,562,097 x 0.38) x 0.006) in FY 2010
    - $491,271 (($80,562,097 x 0.62) + ($84,026,267 x 0.38) x 0.006) in FY 2011
19. The class 12 revenue reduction for the university 6 mill levy will be:
    - $10,123 ($1,653,455 x 0.006) in FY 2009
    - $9,921 ($1,620,386 x 0.006) in FY 2010
    - $9,722 ($1,587,987 x 0.006) in FY 2011
20. The total revenue reduction for the university 6 mill levy will be:
    - $161,887 in FY 2008
    - $461,721 ($451,598 + $10,123) in FY 2009
    - $480,938 ($471,017 + $9,921) in FY 2010
    - $500,993 ($491,271 + $9,722) in FY 2011

<u>TIF District Revenue Reduction and Reimbursement</u>

21. It is assumed that the average statewide mill levy will grow at the calendar year 2000 through calendar year 2006 growth rate of 3.4%. The TIF districts do not receive the revenue from the 6 mill levy. In calendar year 2006 (FY 2007) the average statewide mill levy was 526.84. In calendar year 2008 (FY 2009) the average statewide mill levy, less the university 6 mill levy, will be 538.75 ((526.84 x 1.034) - 6). Property within a tax increment financing district is either in the TIF's base or in its' increment. For the purposes of this fiscal note it will be assumed the reduction in class 8 taxable value is taken from the value of the increment. The taxable value of TIF districts in calendar year 2008 is $6,489,843 ($66,286,194 x 0.09 x 1.043 x 1.043). This results in a property tax revenue reduction within TIF districts of:
    - $1,328,639 ($6,489,843 x 0.38 x 0.53875) in FY 2008

- $3,675,717 (($6,489,843 x 0.62) + ($6,768,907 x 0.38) x 0.55727) in FY 2009
- $3,965,525 (($6,768,907 x 0.62) + ($7,059,970 x 0.38) x 0.57643) in FY 2010
- $4,278,132 (($7,059,970 x 0.62) + ($7,363,548 x 0.38) x 0.59623) in FY 2011

22. The reimbursement amount for TIF districts is calculated by using the calendar year 2008 taxable value and the calendar year 2007 (FY 2008) mill levies. In FY 2008, TIF districts will be reimbursed for the revenue reduction from property that is not liened to real property. TIF districts will be reimbursed $1,328,639 ($6,489,843 x 0.53875 x 0.38) in FY 2008 and $3,496,403 ($6,489,843 x 0.53875) in FY 2009 and beyond.

<u>Local Government and Education Revenue Reduction and Reimbursement</u>

23. Section 3 will have significant impacts on local governments and school district revenues.
24. To calculate the local governments and schools revenue impacts of HB 529, the taxable value reduction of class 8 property excluding TIF districts and abatement must be used. The taxable value of class 8 property excluding the taxable value of TIF districts and abated taxable value will be $65,619,527 ($66,286,194 x 0.91 x 1.043 x 1.043) in calendar year 2008, $68,441,166 ($65,619,527 x 1.043) in calendar year 2009, $71,384,136 ($68,441,166 x 1.043) in calendar year 2010, and $74,453,654 ($71,384,136 x 1.043) in calendar year 2011.
25. The statewide average mill levy in calendar year 2006 is 526.84 mills. Removing the state's 101.54 (95.54 + 6) mills, local governments and school have an estimated average statewide mill levy of 425.30 (526.84 – 101.54). Local government and school mills grew 4.35% annually from calendar year 2000 to calendar year 2006. This 4.35% growth is assumed to continue through FY 2011. The class 8 reduction in revenue to local governments and schools will be:
    - $11,066,353 ($65,619,527 x 0.38 x 0.4438) in FY 2008
    - $30,885,341 (($65,619,527 x 0.62) + ($68,441,166 x 0.38) x 0.4631)) in FY 2009
    - $33,614,694 (($68,441,166 x 0.62) + ($71,384,136 x 0.38) x 0.4833)) in FY 2010
    - $36,585,241 (($71,384,136 x 0.62) + ($74,453,654 x 0.38) x 0.5043)) in FY 2011
26. The class 12 revenue reduction to local governments and schools will be:
    - $781,352 ($1,653,455 x 0.4631) in FY 2009
    - $799,034 ($1,620,386 x 0.4833) in FY 2010
    - $817,116 ($1,587,987 x 0.5043) in FY 2011
27. The total revenue reduction to local governments and schools will be:
    - $11,066,353 in FY 2008
    - $31,666,693 ($30,885,341 + $781,352) in FY 2009
    - $34,413,728 ($33,614,694 + $799,034) in FY 2010
    - $37,402,357 ($36,585,241 + $817,116) in FY 2011
28. Under HB 529, the state must reimburse the local government and education taxing jurisdictions for property tax revenue lost. The first reimbursement will occur in FY 2009 and the reimbursement amount is based in the calendar year 2008 taxable value and the calendar year 2007 (FY 2008) mill levy amounts. The statewide average mill levy for property in tax year 2006 is 526.84 mills. Removing the states 101.54 (95.54 + 6) mills, local governments and schools would have an estimated average statewide mill levy of 425.30 (526.84 – 101.54). Local government and school mills grew 4.35% annually from calendar year 2000 to calendar year 2006. This 4.35% growth is assumed to continue through FY 2011. In FY 2008, the average statewide mill levy will be 443.8 (425.30 x 1.0435).
29. The reimbursement amount for local government and education taxing jurisdictions is calculated by using the calendar year 2008 taxable value and the calendar year 2007 (FY 2008) mill levies. In FY 2008, local governments and schools will be reimbursed for the resultant revenue reduction from property that is not liened to real property. Local governments and schools will be reimbursed $11,345,185 (($65,619,527 +

$1,653,455) x 0.4438 x 0.038) in FY 2008 and $29,855,749 (($65,619,527 + $1,653,455) x 0.4438) in FY 2009 and beyond.

30. The total reimbursement will be $12,673,818 ($1,328,639 + $11,345,185) in FY 2008 and $33,235,918 ($29,855,749 + $3,496,403) for FY 2009 and beyond.

<u>Business Tax Revenue Increase</u>

31. With lower property taxes, businesses will have lower property tax expenses to deduct in calculating taxable net revenue. This bill would reduce the property taxes businesses pay by:
    - $14,973,504 ($2,460,799 + $161,887 + $1,284,465 + $11,066,353) in FY 2008,
    - $42,023,489 ($6,648,705 + $461,721 + $3,553,551 + $31,666,693) in FY 2009,
    - $45,655,334 ($6,926,895 + $480,938 + $3,833,773 + $34,413,728) in FY 2010, and
    - $49,258,093 ($7,218,700 + $500,933 + $4,136,043 + $37,402,357) in FY 2011.
32. Corporations that do business in Montana and other states are required to report their Montana property on their corporation license tax returns. Of this property, 66.65% was reported by corporations that had positive taxable income. It is assumed that the same proportion of total business property is owned by businesses with positive net income.
33. Each calendar year, the reduction in business expenses is half of the reduction in property tax for profitable businesses for the same numbered fiscal year plus half of the reduction for the next fiscal year. The reductions are $23,984,168 for tax year 2008 (0.6665 x (($14,973,504) + (0.5 x $42,023,489)), $29,218,968 for tax year 2009 (0.6665 x (0.5 x $42,023,489 + 0.5 x $45,655,334))), and $31,629,900 for tax year 2010 (0.6665 x ((0.5 x $45,655,334) + (0.5 x $49,258,093))).
34. The corporation license tax rate is 6.75%. It is assumed that the average marginal tax rate on business income reported on individual income tax returns is also 6.75%.
35. The change in tax liability will be $1,618,931 (0.0675 x $23,984,168) in tax year 2008, $1,972,280 (0.0675 x $29,218,968) in tax year 2009, $2,135,018 (0.0675 x $31,629,900) in tax year 2010, and approximately $2,430,000 (0.0675 x $36,000,000) in tax year 2011.
36. Businesses frequently use the option for an extended deadline for filing tax returns. Because of this, the changes in tax liability will be reported on tax returns filed over the course of the following calendar year, with half of the change coming in the fiscal year including the last half of the tax year and half coming in the next fiscal year. General fund revenue will increase by $809,466 (0.5 x $1,618,931) in FY 2008, $1,795,606 (0.5 x $1,618,931 + 0.5 x $1,972,280) in FY 2009, $2,053,649 (0.5 x $1,972,280 + 0.5 x $2,135,018) in FY 2010, and $2,282,509 (0.5 x $2,135,018 + 0.5 x $2,430,000) in FY 2011.

<u>Office of Public Instruction Fiscal Impact on Expenditures</u>

37. The increase in property tax values due to HB 529 will impact state's obligation to fund the guaranteed tax base aid for school districts and counties.
38. Property tax values will decrease by $68,042,961 (($41,576,814 – $39,820,047) + ($135,557,437 - $69,271,243)) in FY 2008 (calendar year 2007) or 1.915%. There will be a one-year guaranteed base aid (GTB) cost decrease. The guaranteed level is determined by the prior year taxable values applied against current year taxable values. The lower guaranteed level in FY 2007 will apply to the lower taxable values in FY 2008 and cause decreased state contribution as districts levy less mills to compensate for the increase in taxable value. The one-time increased expenditures will be $896,000 in FY 2008 for district levies as calculated by the school fund model.
39. Countywide retirement GTB will increase $342,000 based on a historical average of 28% of the costs paid by the state and FY 2006 county levies equal to $63.8 million (1.915% times 63.8 million local levies times 28%).
40. In FY 2009 and beyond the lower overall level of taxable values will not have a significant impact in statewide guaranteed tax base aid costs.

41. HB 529 does not specify where school districts must deposit reimbursements, so this fiscal note assumes they would deposit the reimbursement in the flexibility fund or some fund other than the district general fund. Therefore, there would not be a GTB impact at the district level.
42. The bill does not specify that counties must deposit the county reimbursement into the retirement fund, so this fiscal note assumes the county would not deposit reimbursements in the retirement fund. Therefore there would not be a GTB impact at the county level.

Department of Revenue Administrative Expenses

43. To implement the reimbursement found in section one as written, in FY 2008 the department will require the equivalent of a one time 0.70 FTE at an expense of $37,345 to setup the reimbursement mechanism.
44. Section 5(3) amends 15-8-301, MCA, to create a reporting requirement for businesses and individuals that own class 8 property. To enforce this section and additional 3.0 FTE will be required. Two auditors will be required by the Property Assessment Division (PAD) and one auditor will be required by the Business Tax and Valuation (BTV) unit of the Business and Income Tax division. The costs associated with the 3.0 FTE are $170,253 for personal services and $17,838 for operating expenses in FY 2008. After a 2.5% inflationary increase expenses will be to $174,509 and $18,284 in FY 2009, $178,872 and $18,741 in FY 2010, and $183,344 and $19,210 in FY 2011. There will be a one-time only cost of $493,020 to modify the department's new computer system.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
FTE	3.70	3.00	3.00	3.00
Expenditures:				
Personal Services	$207,598	$174,509	$178,872	$183,344
Operating Expenses	$510,858	$18,284	$18,741	$19,210
Reimbursements	$12,673,824	$33,352,152	$33,352,152	$33,352,152
Local Assistance	$1,238,000	$0	$0	$0
TOTAL Expenditures	$14,630,280	$33,544,945	$33,549,765	$33,554,706
Funding of Expenditures:				
General Fund (01)	$14,630,280	$33,544,945	$33,549,765	$33,554,706
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$14,630,280	$33,544,945	$33,549,765	$33,554,706
Revenues:				
General Fund (01)	($1,651,333)	($4,853,099)	($4,873,246)	($4,936,191)
State Special Revenue (02)	($161,887)	($461,721)	($480,938)	($500,993)
TOTAL Revenues	($1,813,220)	($5,314,820)	($5,354,184)	($5,437,184)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($16,281,613)	($38,398,044)	($38,423,011)	($38,490,897)
State Special Revenue (02)	($161,887)	($461,721)	($480,938)	($500,993)

Effect on County or Other Local Revenues or Expenditures:.

1. The following table shows the revenue impacts of HB 529:

HB 529 -
Revenue Impact on TIF Districts and Local Governments and Education Taxing Jurisdictions

Local Government and Education Taxing Jurisdictions	FY 2008	FY 2009	FY 2010	FY 2011
Revenue Decrease	($11,066,353)	($31,666,693)	($34,413,728)	($37,402,357)
Reimbursement	$11,345,185	$29,855,749	$29,855,749	$29,855,749
Net Loss	$278,832	($1,810,944)	($4,557,979)	($7,546,608)
TIF Districts				
Revenue Decrease	($1,328,639)	($3,675,717)	($3,965,525)	($4,278,132)
Reimbursement	$1,328,639	$3,496,403	$3,496,403	$3,496,403
Net Loss	$0	($179,314)	($469,122)	($781,729)
Total Net Change	$278,832	($1,990,258)	($5,027,101)	($8,328,337)

Long-Range Impacts:

1. Local government and school reimbursements will continue at the FY 2009 level. Revenue loss to local governments, schools, and TIF districts will continue to grow under HB 529.

Technical Notes:

1. This bill becomes effective January 1, 2008. To store the related individuals' social security numbers on a personal property account will require modification to the new property system (PVAS). The current timeline for the PVAS computer system has it scheduled to be on-line and functional by August 2007.

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