



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0408	Title:	Revise tax rate laws on mandated pollution control equipment
Primary Sponsor:	Miller, Mike	Status:	As Amended in Senate Committee <input type="button" value="v"/>

- 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

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$2,370,649	\$3,666,213
Revenue:				
General Fund	\$0	\$0	(\$674,459)	(\$1,043,053)
Net Impact-General Fund Balance	<u><u>\$0</u></u>	<u><u>\$0</u></u>	<u><u>(\$3,045,108)</u></u>	<u><u>(\$4,709,266)</u></u>

Description of fiscal impact: This bill would reduce the class 5 rate for pollution control equipment only. Starting in tax year 2015, the rate for pollution control is reduced from 3% to 2% and then is phased down by 0.5 percentage points until it reaches 1% in TY 2017. HB 408 provides for reimbursements to local governments, the 6 mill university special revenue account, school districts, countywide (school) retirement funds, county (school) transportation mill levies, as well as tax finance increment districts. There is no fiscal impact during the next biennium, but there will be a net reduction to general fund balance of approximately \$7.5 million during the following biennium.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. HB 408 provides for a separate rate for class 5 air and water pollution control equipment for property tax purposes. Under current law, the tax rate for class 5 property is 3%. Starting in tax year 2015, the rate for pollution control is reduced from 3% to 2% and then is phased down by 0.5 percentage points until it reaches 1% in TY 2017. Table 1 displays the proposed rate change by tax year and fiscal year. All other (non-pollution control equipment) property that is classified as class 5 will continue to be taxed at 3%.

Tax Year	Fiscal Year	Current Law	Proposed Law
2013	2014	3.0%	3.0%
2014	2015	3.0%	3.0%
2015	2016	3.0%	2.0%
2016	2017	3.0%	1.5%
2017	2018	3.0%	1.0%

2. HB 408 provides for a reimbursement for the amount of local taxes that would be generated by levying mills on the taxable value decrease resulting from the rate changes in this bill. Reimbursements are made to local governments, the 6 mill university special revenue account, school districts (including countywide retirement and transportation funds), and tax finance increment districts (TIFs). Reimbursements to local governments and tax finance increment districts are made through the entitlement share payment. Reimbursements to school districts are made through school block grants. Reimbursements to the 6 mill university state special revenue fund are made through a transfer from the general fund.
3. For cases when the reimbursement is added to the entitlement share base, the reimbursement for the following year will equal the reimbursement for the current year less the reimbursement that has been placed in the entitlement share base.
4. By June 1, 2014, the Department of Revenue must provide each taxing entity that is affected by HB 408 with an estimate of the amount of reimbursement described in assumption 2. The Department of Revenue must provide this estimate for every year that the rate on class 5 pollution control is different from the class 5 rate for other property.
5. Reimbursement payments will be made during the fiscal year following the tax year of the rate reduction.
6. Pollution control equipment must be certified and approved by the Department of Environmental Quality before being classified as class 5. The class 5 rate has been equal to or greater than the class 8 rate since 2000. As a result, there is pollution control equipment that is currently classified as class 8 and owners of that property have not certified it with the Department of Environmental Quality because there has not been an economic incentive to certify since 1999.
7. HB 408 would create an economic incentive for owners of class 8 pollution control equipment to certify that equipment with the Department of Environmental Quality and move that property to class 5 in order to receive the benefit of the reduced rate.
8. For the purpose of this fiscal note, it is estimated that the amount of pollution control equipment that is classified as class 8 and would move to class 5 with the passage of HB 408 is a function of the amount of class 5 personal property pollution control equipment in 1999, and the growth of class 8 from 1999 to 2012. 1999 data is relevant because that is the last year that the class 5 rate was below the class 8 rate however, data was not available until 2002. Growing the 2002 market value of class 5 personal property pollution control equipment by the growth rate experience of class 8 property (from 2002 to 2012) provides an estimate that in 2012 there is a net increase of \$296,616,000 in market value of class 8 property that could move to class 5, if the class 5 rate were to decrease.
9. Property tax records indicate that in TY 2012 there was \$390,473,990 of market value of class 5 pollution control equipment (of which 75% is centrally assessed) with a total taxable value of \$11,706,328.
10. For the purpose of this fiscal note, the total value of class 5 pollution control equipment is the class 8 pollution control equipment that would move to class 5 and the actual amounts in class 5. The total TY 2012 estimated market value is \$687,088,990 and the total TY 2012 estimated taxable value is \$20,604,778 (the respective sums from Assumptions 8 and 9).
11. It is assumed that pollution control taxable value will grow at a rate equal to the estimated total statewide taxable value growth provided in the revenue estimate and that the growth rate remains constant. Table 2

displays the estimated taxable value of class 5 pollution control equipment by property located in a TIF district and property located outside a TIF.

TY 2013	TY 2014	TY 2015	TY 2016	TY 2017
\$21,338,229	\$21,999,709	\$22,681,699	\$23,384,834	\$24,109,767

12. The taxable value decrease caused by HB 408 is the difference in taxable value if a 3% rate is used and the taxable value applying the reduced rate provided in section 3 of this bill. Those rates are described in assumption 1. Table 3 displays this taxable value loss.

TY 2013	TY 2014	TY 2015	TY 2016	TY 2017
\$0	\$0	\$7,560,567	\$11,692,429	\$16,073,178

13. TY 2012 mills were used to estimate the reimbursements that would be made pursuant to HB 408. For each property, local mills were applied to arrive at the value of property taxes that would have to be reimbursed to local governments, schools, tax increment districts, and the university system. The amount of these reimbursements is provided in table 4.

	FY 2015	FY 2016	FY 2017	FY 2018
6 Mill	\$0	\$45,363	\$70,155	\$96,439
Local Gov't	\$0	\$963,877	\$1,490,637	\$2,049,127
School	\$0	\$1,066,093	\$1,648,715	\$2,266,431
TIF	\$0	\$295,315	\$456,707	\$627,818
Total	\$0	\$2,370,649	\$3,666,213	\$5,039,815

14. The reduction of taxable value pursuant to HB 408 would reduce property tax revenue generated by the 95 and 1.5 mills to the general fund. Statewide mills were applied against the value of the taxable value loss in table 3 for each year to arrive at the impact to state general fund. That impact is shown in table 5, and is expected to continue as long as the class 5 pollution control rate is less than the class 5 rate for other property.

FY 2015	FY 2016	FY 2017	FY 2018
\$0	-\$674,459	-\$1,043,053	-\$1,433,848

15. The department could use existing resources to cover minimal additional administrative costs.

Office of Public Instruction

16. The taxable value changes and the school block grant reimbursements in the prior version of this bill were loaded into the school funding model to evaluate potential impacts. The taxable value reductions are highly concentrated in school districts with large tax bases and the reductions are effectively small shares of the district tax bases. There were no material guaranteed tax base (GTB) aid impacts. This remains the case for the amended bill.

<u>Fiscal Impact:</u>	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Department of Revenue				
<u>Expenditures:</u>				
Transfer to University System (DOR)	\$0	\$0	\$45,363	\$70,155
Transfer to Local Governments (DOR)	\$0	\$0	\$963,877	\$1,490,637
Transfer to TIFs (DOR)	\$0	\$0	\$295,315	\$456,707
Transfer to Schools (OPI)	\$0	\$0	\$1,066,094	\$1,648,714
TOTAL Expenditures	\$0	\$0	\$2,370,649	\$3,666,213
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$2,370,649	\$3,666,213
TOTAL Funding of Exp.	\$0	\$0	\$2,370,649	\$3,666,213
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	(\$674,459)	(\$1,043,053)
Property Tax 6 mill (SSR 02)	\$0	\$0	(\$45,363)	(\$70,155)
Transfer for 6 mill (MUS) (SSR 02)	\$0	\$0	\$45,363	\$70,155
TOTAL Revenues	\$0	\$0	(\$674,459)	(\$1,043,053)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$0	\$0	(\$3,045,108)	(\$4,709,266)
State Special Revenue (02)	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

1. Local governments, TIFs, and school districts are reimbursed through the entitlement share and school block grant programs.

Long-Term Impacts:

1. This bill would reduce the tax rate for class 5 pollution control equipment through TY 2017 (FY 2018).
2. The costs in FY 2018 (full reduction of the Class 5 tax rate for this subset of property) are presented in Tables 4 and 5 (assumptions 13 and 14). Reimbursements and transfers in FY 2018 would increase state general fund expenditures by \$5,039,800 and the revenue loss to the general fund would be \$1,433,848, for a net reduction to general fund balance of \$6,473,648 in FY 2018. The costs would grow at the pollution control property growth rate from then on.

Technical Notes:

Department of Revenue

1. Section 1, part 1 of this bill requires the Department of Revenue to calculate the difference of estimated property tax revenue that would be generated if the class 5 pollution control rate was 3% and the estimate of

property tax revenue generated under current law. It is unclear whether the intent is for the department to calculate this in perpetuity, or if the intent is for this calculation to occur only during years of a rate change. This fiscal note assumes this calculation will only need to be made in years where there is a change in the tax rate for pollution control equipment.

2. Section 1 part 2 directs the department to “distribute the reimbursement to local governments with the entitlement share payments...” The reimbursement is the difference between the property tax collection under current law and the property tax collection that would have been collected if the rate were 3%. This could cause a problem because the previous year reimbursement will become part of the entitlement share base and grow at the entitlement growth rate, and if the full fiscal year reimbursement presented in this fiscal note is added to the entitlement share, then double counting will occur.
3. HB 408 mandates that by June 1, 2014 the Department of Revenue provide the affected parties an estimate of the difference in property tax collections that would be collected under the provisions of this bill and if the rate on class 5 pollution control equipment were 3%. The amended version of HB 408 postpones the rate reduction on class 5 pollution control equipment until tax year 2015. Since the rate in tax year 2014 under HB 408 is 3%, the difference between current law property tax collections and property tax collections under HB 408 would be zero. Local governments, schools, and other affected parties would not need such an estimate until June 1, 2015.

Sponsor’s Initials

Date

Budget Director’s Initials

Date