



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	HB0569	Title:	Generally revise property tax laws
Primary Sponsor:	Reichner, Scott	Status:	As Introduced

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|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2014</u> <u>Difference</u>	<u>FY 2015</u> <u>Difference</u>	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>
Expenditures:				
General Fund	\$787,736	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$417,889)	(\$820,185)	(\$1,208,254)
State Special Revenue	\$0	(\$26,255)	(\$51,530)	(\$75,911)
Net Impact-General Fund Balance:	<u>(\$787,736)</u>	<u>(\$417,889)</u>	<u>(\$820,185)</u>	<u>(\$1,208,254)</u>

Description of fiscal impact: HB 569 provides for a property tax freeze for qualified residential property whose owner is 65 years old or more. This bill would cause general fund revenue to decrease by about \$400,000 in FY 2015, with the reduction increasing to approximately \$1,200,000 by FY 2017.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Beginning in FY 2015, HB 569 provides for a property tax freeze for qualified residential property. Qualified property must be owned by someone 65 years of age or older, be the owner's principle dwelling for at least 7 months per year, and the owner may not rent or lease the property. The property tax freeze applies to the principle dwelling and up to one acre.
- Property that qualifies for the property tax freeze would not be assessed property taxes greater than those that were assessed during the base year. The base year is the year that the owner is approved for the property tax freeze. The property tax in subsequent years may not exceed the base year property tax, but if

- during a subsequent year the property tax that would be assessed is less than the base year property tax, the base year will be reset to the current year and the tax payer will be assessed the lower property tax amount.
3. The property tax freeze expires when the owner of the property is no longer a qualified owner. The property tax freeze remains in effect when the qualified owner is deceased only when the owner’s spouse retains ownership, is 55 years of age or greater, and is unmarried. The property tax freeze for a property will expire upon transfer of ownership, regardless if the new owner is qualified for the property tax freeze, when the property is moved out of the county, or property taxes are more than two years delinquent.
 4. If a qualified owner increases the value of improvements due to construction, expansion, or remodeling, the base year for the affected improvements is reset to the year that the construction, expansion, or remodeling occurred.
 5. The property tax freeze does not apply to assessments for a special improvement district or a rural special improvement district.
 6. In 2011, there were an estimated 77,429 owner occupied homes with at least one owner aged 65 and above in Montana, as reported in the 2011 American Community Survey from the U.S. Census Bureau. For the purpose of this fiscal note, it is assumed that all 77,429 owners aged 65 or over would qualify for the property tax freeze.
 7. For the purpose of this fiscal note, it is assumed that the median taxable value of homes cited in assumption 6 is the same as the median taxable value of all residential properties with land less than 1 acre. The estimated TY 2012 median taxable value of potential qualified owners is \$1,843.
 8. The total taxable value of properties that would qualify for the property tax freeze provided by HB 569 is \$142,701,647. This is calculated by multiplying the median taxable value of qualified properties by the number of qualified properties. It is assumed that this amount will grow at the growth rate of class 4 property as reported in SJ 2, and that the growth rate is constant.
 9. The statewide average mill levy for FY 2013 is 548.83. The statewide average mill levy has increased by an average of 1.0% since 2002 and it is assumed that it will continue to grow at this rate.
 10. For FY 2013, 52.5% of local property taxes were levied by local governments and 47.5% were levied by local schools. It is assumed that the proportional distribution of local property taxes will remain constant.
 11. Table 1 displays the current law property taxes levied by type for property that would qualify for the property tax freeze provided in HB 569.

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Total Estimated Taxable Value	\$142,701,647	\$145,843,787	\$149,152,772	\$152,536,833	\$155,997,674
Statewide Average Millage Rate	548.83	554.42	560.07	565.77	571.53
Total Property Taxes Assessed	\$78,318,945	\$80,858,712	\$83,535,993	\$86,300,764	\$89,157,350
Property Taxes Assessed by Type					
State General Fund	\$13,628,007	\$13,928,082	\$14,244,090	\$14,567,268	\$14,897,778
6 Mill Special Account	\$856,210	\$875,063	\$894,917	\$915,221	\$935,986
Local Government	\$33,513,232	\$34,679,173	\$35,908,418	\$37,179,595	\$38,494,883
Local Schools	\$30,321,496	\$31,376,395	\$32,488,569	\$33,638,681	\$34,828,704

12. For the purpose of this fiscal note, it is assumed that 5% of qualified properties become ineligible annually and are replaced with new qualified applicants, and that 10% of the taxable value growth of eligible properties is attributable to new qualified properties being granted a property tax freeze.
13. Table 2 displays the property taxes assessed on property with a property tax freeze if HB 569 is made law. Pursuant to section 5 of HB 569, the property taxes are distributed in relative proportions of the mill levy type for each year. Statewide property tax collections begin to decrease because the proportion of statewide mills to total mills is decreasing.

Table 2:
Proposed Law (HB 569) : Property Taxes Assessed on Property Whose Owner 65 or Older

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Total Estimated Taxable Value	\$142,701,647	\$145,843,787	\$149,152,772	\$152,536,833	\$155,997,674
Statewide Average Millage Rate	548.83	554.42	560.07	565.77	571.53
Total Property Taxes Assessed	\$78,318,945	\$80,858,712	\$81,085,239	\$81,441,746	\$81,926,425
Property Taxes Assessed by Type					
State General Fund	\$13,628,007	\$13,928,082	\$13,826,201	\$13,747,082	\$13,689,524
6 Mill Special Account	\$856,210	\$875,063	\$868,662	\$863,691	\$860,075
Local Government	\$33,513,232	\$34,679,173	\$34,854,948	\$35,086,261	\$35,372,834
Local Schools	\$30,321,496	\$31,376,395	\$31,535,429	\$31,744,712	\$32,003,992

14. Table 3 displays the fiscal impact of HB 569. The fiscal impact is measured by subtracting the values in table 1 from the values in table 2.

Table 3:
Estimated Impact of HB 569 on Property Tax Collections

	FY 2014	FY 2015	FY 2016	FY 2017
Total Property Taxes Assessed	\$0	-\$2,450,753	-\$4,859,018	-\$7,230,926
Property Taxes Assessed by Type				
State General Fund	\$0	-\$417,889	-\$820,185	-\$1,208,254
6 Mill Special Account	\$0	-\$26,255	-\$51,530	-\$75,911
Local Government	\$0	-\$1,053,470	-\$2,093,334	-\$3,122,049
Local Schools	\$0	-\$953,140	-\$1,893,969	-\$2,824,711

15. This bill requires system implementation costs of \$77,775 in FY 2014 for development and testing of the property tax freeze. This bill will also require \$2,000 of one-time costs in FY 2014 for form development.
16. The Department of Revenue will require 16.00 temporary FTE for one year in FY 2014 to process the applications for the property tax freeze. This will incur a one-time cost of \$707,961 in FY 2014.

<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				
FTE	16.00	0.00	0.00	0.00
<u>Expenditures:</u>				
Personal Services	\$707,961	\$0	\$0	\$0
Operating Expenses	\$79,775	\$0	\$0	\$0
TOTAL Expenditures	\$787,736	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$787,736	\$0	\$0	\$0
TOTAL Funding of Exp.	\$787,736	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	\$0	(\$417,889)	(\$820,185)	(\$1,208,254)
State Special Revenue (02)	\$0	(\$26,255)	(\$51,530)	(\$75,911)
TOTAL Revenues	\$0	(\$444,144)	(\$871,715)	(\$1,284,165)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$787,736)	(\$417,889)	(\$820,185)	(\$1,208,254)
State Special Revenue (02)	\$0	(\$26,255)	(\$51,530)	(\$75,911)

Effect on County or Other Local Revenues or Expenditures:

- The change in the amount of property taxes paid to local governments and local schools by property that is granted the property tax freeze is displayed in table 4. To the extent that local governments can increase mills pursuant to 15-10-420, MCA, mills will increase and the property tax decline will shift to other tax payers.

	FY 2014	FY 2015	FY 2016	FY 2017
Local Governments	\$0	-\$1,053,470	-\$2,093,334	-\$3,122,049
Local Schools	\$0	-\$953,140	-\$1,893,969	-\$2,824,711

Long-Term Impacts:

- The long term fiscal impact of HB 569 to the state may be larger than the impact reported in this fiscal note. The fiscal impact will continue to grow as the property tax exemption grows for properties with a property tax freeze. The exemption amount will grow as the frozen property tax amount diverges from what would otherwise be owed due to increasing property value and/or increasing mills. This impact will have the most substantial impact on statewide revenue because the share of statewide mills to total mills is expected to decrease. The share of statewide mills will decrease as long as total mills continue to grow.

Technical Notes:

Department of Revenue

1. The Department of Revenue cannot comply with the provisions of section 1, subpart 3, because the department does not track special assessments. County treasurers would have to determine the amount of property taxes due during the base year and every subsequent year.
2. Section 2, subpart 8, of the bill states that a tax payer that qualifies for the property tax freeze may also be enrolled in the property tax assistance program (PTAP) and the elderly homeowner/renter credit. This bill makes no mention of the disabled American veterans program (DAV) and the extended property tax assistance program (EPTAP), and it is unclear if a taxpayer may qualify for the property tax freeze and DAV or EPTAP.
3. The Department of Revenue has no current methodology for tracking property taxes due on certain parts of an improvement in order to comply with the provisions described in assumption 4. Valuing and tracking taxes owed on a specific portion of an improvement could prove to be a large administrative undertaking.
4. HB 569 would complicate the maximum mill levy calculation for local governments. Local governments would have to determine the taxable value of property that is not subject to a property tax freeze, determine the amount of taxes that are subject to the property tax freeze, and determine a maximum mill levy to levy on property that is not subject to the property tax freeze.

Sponsor's Initials

Date

Budget Director's Initials

Date