Fiscal Note 2015 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	HB0624	**Title:**	Revise taxation of out-of-production agricultural land
Primary Sponsor:	Harris, Bill	**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 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$0	$789,694	$0	$0
State Special Revenue	$0	$364,304	$364,304	$364,304
Federal Special Revenue	$0	$105,766	$105,766	$105,766
Revenue:				
General Fund	$0	$852,798	$852,798	$852,798
State Special Revenue	$0	$53,400	$53,400	$53,400
Federal Special Revenue	$0	$0	$0	$0
Net Impact-General Fund Balance:	$0	$63,104	$852,798	$852,798

Description of fiscal impact: HB 624 creates a new sub-class (undeveloped recreational land) of class three property (agricultural land). This sub-class would be land currently classified as agriculture, no less than 160 contiguous acres, and produces less than an average of $10 annual gross income per acre, per year.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill would require the department to determine which property should be classified in the new sub-class of property. The department will need to mail forms to all of the owners of property that is currently classified as agricultural land (Class 3), consists of parcels greater than 160 contagious acres, and determine if the identified land produced more than $10 per acre per year in gross income. The income standard is similar to the agricultural income benchmark for agricultural land parcels under 160 acres. To receive the standard agricultural land tax rate, the property must be certified as producing $1,500 in annual income on average.

2. This bill creates a new sub-class -- undeveloped recreational land – within class three property (agricultural land) defined as land that was classified as agriculture land on January 1, 2013 that produces $10 or less in annual gross farm income per acre raising agriculture products. The department does not have a reliable way of predicting which land may or may not meet this qualification.
3. The department assumes that all large tracts of land that have conservation easements are able to meet the income threshold by way of leasing land for agriculture purposes.
4. Because the definition specifically sets the income threshold as farm income from raising agriculture products, it may include a large percentage of agriculture land currently enrolled in the Conservation Reserve Program (CRP).
5. According to the USDA Farm Service Agency website, in April of 2012, Montana had 2.5 million acres enrolled in CRP.
6. The department assumes 2 million (80%) of these acres would meet the requirements set forth in this bill requiring classification as undeveloped recreational land (2.5 million x 80% = 2 million).
7. The department estimates that almost all CRP land is currently valued as summer fallow farmland with an average taxable value of $5.68 per acre (summer fallow farmland: Yield = 25 bushels per acre, productivity value/acre = $223.59; TY 2013 tax rate = 2.54%; taxable value/acre = $5.68).
8. This bill requires the department to value undeveloped recreational land as nonqualified agriculture land with an average taxable value of $10.13 per acre (nonqualified agricultural land: productivity value/acre = $57/acre; TY 2013 tax rate (7 times the agricultural tax rate) = 17.78%; taxable value/acre = $10.13).
9. The difference in per acre value is $4.45 ($10.13 - $5.68 = $4.45).
10. This bill is estimated to increase taxable value in the state by approximately $8,900,000 per year ($2,000,000 x $4.45 = $8,900,000).
11. This bill would increase general fund revenue by approximately $852,798 per year (95.82 / 1000 * $8,900,000 = $852,798).
12. University 6 mill state special revenue would increase by approximately $53,400 per year (6.0 / 1000 * $8,900,000 = $53,400).
13. It is assumed that all this property would remain in the class. Since most of the growth in taxable value in class 3 is attributable to non-qualified ag land growth (which offsets withdrawal of other agricultural land for property development) this analysis assumes that there is no additional growth.
14. The Property Assessment Division estimates it will need to review 17,300 forms.
15. The department further estimates that the average review time required is 2 hours per application.
16. This effort would require 34,600 hours (17,300 x 2 = 34,600) to review and reclassify this land, and require the hiring of 16.60 FTE (34,600 / 2,080 = 16.60 FTE) in FY 2014 so that this property can be reclassified appropriately for tax years beginning after December 31, 2013. These FTE will cost $787,694 in FY 2014.
17. The department estimates it will require 40 hours of contracted services to add a new property sub-class to the property database and that work will be included in scheduled annual changes.

Department of Fish, Wildlife and Parks

18. FWP pays approximately $750,000 annually in property tax payments under 87-1-603, MCA.
19. Approximately $600,000 of those annual property tax payments are for lands classified as agricultural that meet the criteria of “undeveloped recreational land” as defined in HB 624.
20. HB 624 increases the tax rate on FWP agricultural lands by a factor of 1.78345 ($10.13/$5.68), increasing taxes on FWP agricultural lands from $600,000 annually to $1,070,070, for a net increase in tax payments in the amount of $470,070 annually.

Fiscal Impact:	**FY 2014 Difference**	**FY 2015 Difference**	**FY 2016 Difference**	**FY 2017 Difference**
Department of Revenue (DOR)				
FTE	16.00	0.00	0.00	0.00
Expenditures: (DOR)				
Personal Services	$0	$763,438	$0	$0
Operating Expenses	$0	$20,352	$0	$0
Equipment	$0	$5,904	$0	$0
TOTAL Expenditures	$0	$789,694	$0	$0
Funding of Expenditures (DOR):				
General Fund (01)	$0	$789,694	$0	$0
TOTAL Funding of Exp.	$0	$789,694	$0	$0
Department of Fish, Wildlife and Parks (FWP)				
Expenditures:				
Operating Expenses	$0	$470,070	$470,070	$470,070
TOTAL Expenditures	$0	$470,070	$470,070	$470,070
Funding of Expenditures (FWP):				
General Fund (01)	$0	$0	$0	$0
State Special Revenue (02)	$0	$364,304	$364,304	$364,304
Federal Special Revenue (03)	$0	$105,766	$105,766	$105,766
TOTAL Funding of Exp.	$0	$470,070	$470,070	$470,070
Revenues (DOR):				
General Fund (01)	$0	$852,798	$852,798	$852,798
State Special Revenue (02)	$0	$53,400	$53,400	$53,400
TOTAL Revenues	$0	$906,198	$906,198	$906,198
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	$63,104	$852,798	$852,798
State Special Revenue (02)	$0	($310,904)	($310,904)	($310,904)
Federal Special Revenue (03)	$0	($105,766)	($105,766)	($105,766)

Effect on County or Other Local Revenues or Expenditures:

1. Rural counties and school districts would experience an increase in taxable value if property meeting the definition of “undeveloped recreational land” were in their jurisdictions. This would represent roughly $1.8 million in tax shift for counties and $1.8 million for schools. The distribution of this property is unknown; the school funding effects of this increase in taxable value therefore cannot currently be estimated.

Sponsor’s Initials *Date* *Budget Director’s Initials* *Date*