



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0169	Title:	Revise payments by FWP to counties for land
Primary Sponsor:	Brenden, John	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 type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input 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	\$94,659	\$0	\$0	\$0
State Special Revenue	\$1,423,132	\$1,423,132	\$1,423,132	\$1,423,132
Federal Special Revenue	(\$15,795,847)	(\$15,795,847)	(\$15,795,847)	(\$15,795,847)
Revenue:				
General Fund	\$160,706	\$160,706	\$160,706	\$160,706
State Special Revenue	\$10,081	\$10,081	\$10,081	\$10,081
Federal Special Revenue	(\$18,820,940)	(\$18,820,940)	(\$18,820,940)	(\$18,820,940)
Net Impact-General Fund Balance:	<u>\$66,047</u>	<u>\$160,706</u>	<u>\$160,706</u>	<u>\$160,706</u>

Description of fiscal impact: SB 169 requires the Department of Fish, Wildlife & Parks (FWP) to pay taxes on all lands held under Title 23 (State Parks), changes the valuation of certain properties for tax purposes, and requires payment of taxes on conservation easements resulting in an increase in the total amount of property taxes paid by the department. This bill will incur a one-time implementation cost of \$94,659.

FISCAL ANALYSIS

Assumptions:

General Assumptions

1. In tax year 2012, FWP paid \$768,966 in property taxes on 415,000 acres owned in fee. The authority for these payments is statutorily appropriated.
2. County tax rates for agricultural land average \$1.42/acre and forest land average \$0.82/acre.
3. A statewide mill average of 548 mills is applied to all calculations.
4. The Homestead Exemption is at the 2014 level of 47% for residential property.

5. The effective tax bill due for Class Four Residential property is calculated by *multiplying* the property value times 0.53 (to factor in the 47% homestead exemption) times the Class Four Residential tax rate of .0247 times the average statewide mill levy of .548. This yields a tax bill equal to .00717 of the property value.
6. FWP will not be assessed property taxes for conservation easements held by the department on DNRC-owned land consisting of approximately 40,000 forested acres. If FWP were required to pay taxes on this land, the costs would increase by an additional \$32,800.
7. Lands purchased by FWP since January 1, 2005, were acquired at market values as determined by independent appraisal at the time of purchase. Based on research conducted for this fiscal note, it is assumed that these purchase prices exceed current county assessments, and thus trigger the application of residential tax rates for these lands. (It is likely that prices paid by FWP for some land purchased before 2005 also exceed current county assessments, but pre-2005 acquisitions have not yet been researched and are not factored into this analysis.)
8. A statewide average mill levy was used to determine the impact of this bill. Therefore the impact to the state general fund and 6 mill university special revenue account is the portion of the statewide average mill levy that are statewide mills. The following table shows the percent of total mills that are state mills. A statewide weighted average mill levy of 95.51 is assumed for the state general fund mills.

<u>Millage Rates</u>	
Statewide Average Mill	548.00
General Fund Average Mill	95.51
University Mill	6.00
<u>Percent of All Mills</u>	
General Fund Average Mill	17.4%
University Mill	1.1%

9. The costs associated with property taxes paid on fee title lands subject to residential rates (as opposed to Ag or Forest Land rates paid by others) and to any property tax payment for lands on which FWP holds conservation easements may not be applied to license revenues. Doing so would constitute a diversion of license revenue as defined by the USFWS, making FWP ineligible to receive future funding from USFWS grant programs.
 - a. Based on USFWS and OIG interpretation and application of title 50 C.F.R. pt 80 and OMB Circular A-87, property tax is an allowable expense for property when:
 - i. The property is under FWP’s control.
 - ii. The tax is applied in a consistent and reasonable fashion across all state agencies.
 - iii. Property tax on easements, which by definition are not controlled by FWP, would constitute a diversion.
 - iv. Applying residential rates for land previously taxed as Ag or Forest land, but not doing so to other state agency landholders, would not be considered consistent and reasonable, and would also constitute a diversion.
10. The diversion identified in assumption 9 will result in the loss of \$18.8 million annually in federal revenue and a reduction to expenditures of more than \$15.7 million annually.

11. The statewide impact of this bill is the total tax increase multiplied by the percent of total mills that are state mills. This does not include the increase in taxes paid by the Department of Fish, Wildlife, and Parks on easements because those taxes are currently being paid by the private land owner. This impact is displayed in the table below.

<u>Impact to Statewide Funds</u>				
	<u>FY 2014</u>	<u>FY 2014</u>	<u>FY 2014</u>	<u>FY 2014</u>
Estimated Increase of Property Taxes Paid Caused by SB 169	\$920,706	\$920,706	\$920,706	\$920,706
Amount Paid to State General Fund	\$160,468	\$160,468	\$160,468	\$160,468
Amount Paid to State University Fund	\$10,081	\$10,081	\$10,081	\$10,081

12. This bill requires system implementation costs of \$94,659 in fiscal year 2014 for development and testing the property tax exemption at the Department of Revenue.

Lands Subject to Residential Property Rates

13. Section 3, number 2 requires FWP to pay property taxes at the Class Four Residential Rate if the county assessment on which the taxes are based is less than the purchase price paid by the department.

14. FWP currently pays property taxes on these lands at the same rate that would apply to a private landowner based on the land’s current classification.

- a. Ag Land: 46,000 x \$1.42 (Assumption 2) = \$65,320
- b. Forest Land: 70,000 x \$0.82 = \$57,400
- c. Expenditures in state special and federal special revenue would be reduced by \$122,720 to avoid the diversion issues noted in assumptions 9 and 10.

15. Calculations of the taxes for these lands are based on the most readily available data and are for properties purchased in the last 8 years.

- a. Ag Land: 46,000 acres at a cost of \$42 million x .717% (Assumption 5) = \$301,140
- b. Forest Land: 70,000 acres at a cost of \$58 million x .717% (Assumption 5) = \$415,860
- c. Total property tax cost are \$717,000

16. Total taxes are \$594,280

Current Law	SB 169						
	Acres	Tax Rate	Prop Tax	Acres	Value	Rate	Prop Tax
Ag Land	46,000	\$ 1.42	\$ 65,320	46,000	\$ 42,000,000	0.717%	\$ 301,140
Forest Land	70,000	\$ 0.82	\$ 57,400	70,000	\$ 58,000,000	0.717%	\$ 415,860
			\$ 122,720				\$ 717,000
						Change	\$ 594,280

Conservation Easements

17. Section 3, number 3 requires FWP to pay property taxes on conservation easements held by the department when a landowner has requested an exemption as defined in Section 1. Under current law, the landowner pays property taxes on this land.

18. FWP assumes all landowners will request an exemption.

19. The property taxes for conservation easements are:

- a. Private Ag Land: 230,000 acres x \$1.42/acre = \$326,600
- b. Private Forest Land: 180,000 acres x \$0.82/acre = \$147,600
- c. Total costs are \$474,200

Current Law	SB169						
	Acres	Tax Rate	Prop Tax	Acres	Value	Tax Rate	Prop Tax
Ag Land	0	0	0	230,000		1.42	\$326,600
Forest Land	0	0	0	180,000		0.82	\$147,600
							\$474,200
						Change	\$474,200

State Parks

- 20. SB 169 strikes the exemption for land acquired and managed for the purposes of Title 23. Calculations to determine the tax obligation for the high-value State Park land (totaling about 3,640 acres) were based on a conservative estimate of \$10,000/acre for the value of this land (which consists of prime lakefront or highly desirable urban property).
- 21. FWP has 39,000 acres of State Park land owned in fee.
 - a. Ag Land: 26,560 acres x \$1.42/acre = \$37,715
 - b. Subject to Class Four Residential Rate: 8,800 acres at a cost of \$9 million x .717% tax rate (Assumption 5) = \$64,530
 - c. High-value Land:
 - i. Urban Area State Parks (Giant Springs, Lake Elmo, Spring Meadow, Lone Pine) 1,140 acres
 - ii. Prime Lakefront in State Parks (Flathead Lake – West Shore, Wayfarers, Finley Point, Big Arm, Wild Horse Island; Lake Mary Ronan; Whitefish Lake) 2,500 acres
 - 1. (1,140 +2,500 = 3,640) x \$10,000/acre estimated value x .717% tax rate = \$260,988
 - d. Total taxes are \$363,233.
- 22. In tax year 2012, FWP paid \$36,807 for State Parks.
- 23. The increased cost for State Parks is \$363,233 - \$36,807 = \$326,426

Current Law	SB169						
	Acres	Tax Rate	Prop Tax	Acres	Value	Tax Rate	Prop Tax
Ag Land				26,560		1.42	\$37,715
Urban State Park				8,800	\$9,000,000	0.717%	\$64,530
Prime Lakefront				3,640	\$36,400,000	0.717%	\$260,988
Tax year 2012 FWP State Park Taxes			\$36,807				\$363,233
						Change	\$326,426

- 24. This bill requires system implementation costs of \$30,000 in fiscal year 2014 for development and testing within the Department of Revenue tax information system.
- 25. An estimated 721 properties with land held under easement by the Department of Fish, Wildlife, and Parks could qualify for the property tax exemption cited in section 1 of the bill. The Department of Revenue would have to process an exemption application for each of these properties, which will incur a one-time cost of \$55,026 in FY 2014. Additionally, the Department of Revenue will incur one-time costs of \$7,632 for testing of computer systems and \$2,000 for development of a new tax form for the easement exemption.

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
<u>Fiscal Impact:</u>				
FTE				
Loss to Diversion	(141.68)	(141.68)	(141.68)	(141.68)
<u>Expenditures:</u>				
Personal Services				
Loss to Diversion	(\$9,452,195)	(\$9,447,040)	(\$9,447,040)	(\$9,447,040)
Operating Expenses (FWP)				
Prop Tax	\$1,394,906	\$1,394,906	\$1,394,906	\$1,394,906
Loss to Diversion	(\$5,018,185)	(\$5,022,144)	(\$5,022,144)	(\$5,022,144)
Capital				
Equipment	(\$247,241)	(\$248,437)	(\$248,437)	(\$248,437)
Operating Expenses (DOR)	\$94,659			
TOTAL Expenditures	<u><u>(\$14,278,056)</u></u>	<u><u>(\$14,372,715)</u></u>	<u><u>(\$14,372,715)</u></u>	<u><u>(\$14,372,715)</u></u>

<u>Funding of Expenditures:</u>				
General Fund (01)	\$94,659	\$0	\$0	\$0
State Special Revenue (02)	\$1,423,132	\$1,423,132	\$1,423,132	\$1,423,132
Federal Special Revenue (03)	(\$15,795,847)	(\$15,795,847)	(\$15,795,847)	(\$15,795,847)
TOTAL Funding of Exp.	<u><u>(\$14,278,056)</u></u>	<u><u>(\$14,372,715)</u></u>	<u><u>(\$14,372,715)</u></u>	<u><u>(\$14,372,715)</u></u>

<u>Revenues:</u>				
General Fund (01)	\$160,706	\$160,706	\$160,706	\$160,706
State Special Revenue (02)	\$10,081	\$10,081	\$10,081	\$10,081
Federal Special Revenue (03)	(\$18,820,940)	(\$18,820,940)	(\$18,820,940)	(\$18,820,940)
TOTAL Revenues	<u><u>(\$18,650,153)</u></u>	<u><u>(\$18,650,153)</u></u>	<u><u>(\$18,650,153)</u></u>	<u><u>(\$18,650,153)</u></u>

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$66,047	\$160,706	\$160,706	\$160,706
State Special Revenue (02)	(\$1,413,051)	(\$1,413,051)	(\$1,413,051)	(\$1,413,051)
Federal Special Revenue (03)	(\$3,025,093)	(\$3,025,093)	(\$3,025,093)	(\$3,025,093)

Effect on County or Other Local Revenues or Expenditures:

- Of the \$920,706 of additional property tax revenue that is generated by SB 169, an estimated 42.8% would be paid to local governments and 38.6% would be paid to local schools. The table below displays the amount of property tax that would be paid to these two entity types.

<u>Percent of Average Mills</u>	
Local Government Mills	42.8%
Local School Mills	38.6%
<u>Allocation of Additional Property Taxes</u>	
Local Government	\$393,818

Local Schools	\$355,679
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2. The \$355,697 in property taxes that are paid to local governments would be treated as newly taxable value, which would increase the millage authority of local jurisdictions under the provisions of 15-10-420, MCA.

Technical Notes:

1. If passed, this legislation would be in violation of Montana’s assent statutes restricting the use of hunting and fishing license funds, i.e. 87-1-708 through 710, MCA, and 87-1-701 through 703, MCA.

Sponsor’s Initials

Date

Budget Director’s Initials

Date

