



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0240	Title:	Revise taxation of pollution control equipment
Primary Sponsor:	Tutvedt, Bruce	Status:	As Introduced

- | | | |
|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input 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	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$75,735)	(\$80,964)	(\$86,537)	(\$92,494)
State Special Revenue	(\$4,758)	(\$5,087)	(\$5,437)	(\$5,811)
Net Impact-General Fund Balance:	<u>(\$75,735)</u>	<u>(\$80,964)</u>	<u>(\$86,537)</u>	<u>(\$92,494)</u>

Description of fiscal impact: SB 240 would exempt air and water pollution control equipment that is placed in service after December 31, 2012 from property taxation. SB 240 would reduce the general fund by approximately \$160,000 for the biennium and reduce the university 6 mill special revenue fund by approximately \$10,000 for that same period.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. SB 240 would remove air and water pollution control equipment from class 5 that has been placed in service after December 31, 2012, and exempt it from property taxation.
2. Under current law, air and water pollution control equipment that has been certified by the Department of Environmental Quality is classified as class 5 and has a tax rate of 3%.
3. Historical growth of class 5 air and water pollution control property is used to estimate the amount of air and water pollution control property that will be and has been 'placed in service' after December 31, 2012.

4. Pollution control equipment may have remained in class 8 because the class 8 rate has been equal to or lower than the class 5 rate since 2000, meaning that there has been no property tax incentive to certify class 8 equipment as class 5 pollution control property. Although a portion of class 8 growth may be due to pollution control equipment that was not certified, this amount is not known and is not considered when estimating the future value of air and water pollution control equipment.
5. From TY 2008 to TY 2012 class 5 taxable value grew by \$9,829,768 with 15.77% of that growth being attributable to air and water pollution control equipment. Using this historical reference, it is assumed that air and water pollution control equipment will continue to account for 15.77% of class 5 taxable value growth. Table 1 displays the estimated taxable value of class 5 air and water pollution control equipment, assuming that it is 15.77% of class 5 taxable value growth.

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Class 5 Taxable Value	\$45,673,000	\$48,816,000	\$52,176,000	\$55,767,268	\$59,605,723
Class 5 Taxable Value Growth		\$3,143,000	\$3,360,000	\$3,591,268	\$3,838,455
Air and Water Pollution Control Taxable Value		\$495,651	\$529,872	\$566,343	\$605,324

6. The Department of Environmental Quality has certified \$80 million of air and water pollution control equipment, from TY 2008 to TY 2012. Assuming that the certified amount is equal to market value and applying the class 5 rate of 3%, there was \$2.4 million of air and water pollution control equipment taxable value placed in service after January 1, 2008.
7. From TY 2008 to TY 2012, class 5 air and water pollution control taxable value grew by approximately \$1.5 million while new equipment placed in service was valued at a cumulative \$2.4 million for that same time period. The value of new equipment is valued higher than actual growth in large part because equipment annually depreciates, which leads to a large portion of air and water pollution control equipment losing value each year. For the period TY 2008 through TY 2012, the ratio of new pollution control equipment to pollution control equipment growth was 1.6. This ratio is applied to future estimates of air and water pollution control taxable value to arrive at an estimate of the taxable value of pollution control equipment placed in service after December 31, 2012 that would be exempt under SB 240. Those values are displayed below in Table 2.

	FY 2014	FY 2015	FY 2016	FY 2017
	\$793,042	\$847,795	\$906,149	\$968,519

8. The exemption of property provided by SB 240 would reduce revenue to the state general fund and the 6 mill university special revenue fund. It is assumed that the weighted average of the 1.5 vo-tech mills is 0.5, so that 95.5 mills are levied statewide to generate revenue to the general fund. 6 mills are levied to generate revenue to the university state special revenue fund. Table 3 displays the impact of SB 240 on state funds.

	Mills Levied	FY 2014	FY 2015	FY 2016	FY 2017
Exempted Taxable Value		\$793,042	\$847,795	\$906,149	\$968,519
State General Fund	95.5	-\$75,735	-\$80,964	-\$86,537	-\$92,494
6 Mill University Account	6.0	-\$4,758	-\$5,087	-\$5,437	-\$5,811

9. The Department of Revenue could administer this change within existing resources.

Department of Environmental Quality (DEQ)

10. The DEQ currently makes determinations on whether air and water pollution control equipment is class 5 property under ARM Title 17 Chapter 80. The bill is assumed to not materially increase the number of determinations the department currently makes. However, pollution control equipment may have not have been certified as class 5 because the class 8 rate has been equal or lower than the class 5 rate since 2000. The passage of this bill would create more incentive to more precisely identify pollution control property for tax purposes.

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
<u>Fiscal Impact:</u>				
Department of Revenue				
<u>Expenditures:</u>				
TOTAL Expenditures	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	<u>(\$75,735)</u>	<u>(\$80,964)</u>	<u>(\$86,537)</u>	<u>(\$92,494)</u>
State Special Revenue (02)	<u>(\$4,758)</u>	<u>(\$5,087)</u>	<u>(\$5,437)</u>	<u>(\$5,811)</u>
TOTAL Revenues	<u>(\$80,493)</u>	<u>(\$86,051)</u>	<u>(\$91,974)</u>	<u>(\$98,305)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	<u>(\$75,735)</u>	<u>(\$80,964)</u>	<u>(\$86,537)</u>	<u>(\$92,494)</u>
State Special Revenue (02)	<u>(\$4,758)</u>	<u>(\$5,087)</u>	<u>(\$5,437)</u>	<u>(\$5,811)</u>

Effect on County or Other Local Revenues or Expenditures:

1. This bill would reduce taxes paid by owners of air and water pollution control equipment by exempting such equipment placed in service after December 31, 2012. Using FY 2013 averages, it is assumed that 235 local government mills are levied and 211.5 local school mills are levied. Table 4 shows the estimated property taxes that would not be paid by property exempted through the provisions of SB 240.

	Mills Levied	FY 2014	FY 2015	FY 2016	FY 2017
Exempted Taxable Value		\$793,042	\$847,795	\$906,149	\$968,519
Local Governments	235.0	-\$186,365	-\$199,232	-\$212,945	-\$227,602
Local Schools	211.5	-\$167,728	-\$179,309	-\$191,650	-\$204,842

- To the extent that local districts float mills pursuant to 15-10-420, MCA, local jurisdictions would recover any revenue reduction.

Long-Term Impacts:

- Over time, the air and water pollution control property portion of the class five tax base would be reduced to zero and pay no property tax. In TY 2012, just over 25% of class five was identified as air pollution and water pollution control property.

Sponsor's Initials

Date

Budget Director's Initials

Date