



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	HB0156
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Title:	Revise tax laws related to pollution control equipment
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Primary Sponsor:	Miller, Mike
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Status:	As Introduced
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- 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
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FISCAL SUMMARY

	<u>FY 2016</u> <u>Difference</u>	<u>FY 2017</u> <u>Difference</u>	<u>FY 2018</u> <u>Difference</u>	<u>FY 2019</u> <u>Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$65,000)	(\$132,000)	(\$179,000)
State Special Revenue	\$0	(\$4,000)	(\$9,000)	(\$11,000)
Net Impact-General Fund Balance:	\$0	(\$65,000)	(\$132,000)	(\$179,000)

Description of fiscal impact: HB 156 exempts pollution control and carbon sequestration equipment placed in service after December 31, 2014 from property taxation. Once the revenue impacts take full effect, the bill would reduce the general fund revenue by approximately \$310,000 in the 2019 biennium and reduce the university 6 mill special revenue fund by approximately \$20,000 for that same period.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- The bill exempts pollution control and carbon sequestration equipment placed in service after December 31, 2014. These types of property are currently classified as class 5, class 8 or class 15 for property tax purposes.

2. Under current law, class 5 air and water pollution control equipment must be certified by the Department of Environmental Quality, and class 15 carbon sequestration property must be certified as having met prevailing wage standards or be certified by DEQ to qualify as class 15 property.
3. The table below shows the market value of pollution control equipment and carbon sequestration property in their current property classification. Tax years 2015 through 2018 were estimated using the growth rates in HJR 2 as extended by OBPP for TY 2017 and TY 2018.

Estimated Pollution Control Market Value			
Year	Class 5	Class 8*	Class 15
TY 2014	\$285.897	\$310.042	\$117.162
TY 2015	\$297.852	\$325.854	\$117.162
TY 2016	\$310.308	\$342.473	\$117.162
TY 2017	\$316.203	\$357.599	\$117.162
TY 2018	\$322.211	\$373.422	\$117.162
*Estimated values based on total Class 8 growth and TY 2002 pollution control data.			

4. The class 8 value was estimated to be a function of the amount of class 5 personal property pollution control equipment in 1999, and the growth of class 8 from 1999. The 1999 data is relevant because that is the last year that the class 5 rate was below the class 8 rate, however, this 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 provides an estimate for the pollution control equipment that is currently classified as ordinary business equipment in class 8.
5. It is assumed that the annual change in value for these types of property is a result of new property. This new property is therefore assumed to be the qualifying property placed in service after December 31, 2014. The table below shows the change in market value for the three classes of property relative to TY 2014, which is assumed to equal the value of equipment, placed in service after December 31, 2014.

Change in Market Value (Millions \$)			
Year	Class 5	Class 8*	Class 15
TY 2015	\$11.955	\$15.812	\$0.000
TY 2016	\$24.411	\$32.431	\$0.000
TY 2017	\$30.307	\$47.558	\$0.000
TY 2018	\$36.314	\$63.380	\$0.000

6. The table below shows the average tax rates that are used to determine taxable value for the three classes of property.

Tax Rate			
Year	Class 5	Class 8*	Class 15
TY 2015	3.00%	2.04%	3.00%
TY 2016	3.00%	2.04%	3.00%
TY 2017	3.00%	2.04%	3.00%
TY 2018	3.00%	2.04%	3.00%

7. The tax rates are multiplied by the estimated market value. The following table shows the estimated amount of taxable value for the affected property.

Estimated Taxable Value of Pollution Control Equipment			
Year	Class 5	Class 8*	Class 15
TY 2015	\$0.359	\$0.322	\$0.000
TY 2016	\$0.732	\$0.660	\$0.000
TY 2017	\$0.909	\$0.968	\$0.000
TY 2018	\$1.089	\$1.290	\$0.000

8. The taxable value is then multiplied by the 101 state mills to determine the decrease in property tax revenue as a result of HB 156.

State Tax Revenue (101 mills)			
Year	Class 5	Class 8*	Class 15
TY 2015	\$0.036	\$0.033	\$0.000
TY 2016	\$0.074	\$0.067	\$0.000
TY 2017	\$0.092	\$0.098	\$0.000
TY 2018	\$0.110	\$0.130	\$0.000

9. This decrease in revenue is distributed proportionally to the mills for the university mills (6) and the state general fund mills (95).

Department of Environmental Quality (DEQ)

10. DEQ currently makes determinations as to whether equipment submitted for certification as class five property meets the definition of “air and water pollution control equipment” under 15-6-135(2)(a), MCA. Air and water pollution control equipment certification requests may have been somewhat limited in recent years because the class eight property tax rate has been equal to or lower than the class five property tax rate since 2000.
11. DEQ assumes that this bill will not materially increase the number or complexity of determination requests that will be submitted. Therefore, DEQ assumes that this bill will have no fiscal impact on the department.

<u>Fiscal Impact:</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>
<u>Department of Revenue</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
<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)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>Revenues:</u>				
General Fund (01)	\$0	(\$65,000)	(\$132,000)	(\$179,000)
State Special Revenue (02)	\$0	(\$4,000)	(\$9,000)	(\$11,000)
TOTAL Revenues	<u>\$0</u>	<u>(\$69,000)</u>	<u>(\$141,000)</u>	<u>(\$190,000)</u>

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$0	(\$65,000)	(\$132,000)	(\$179,000)
State Special Revenue (02)	\$0	(\$4,000)	(\$9,000)	(\$11,000)

Effect on County or Other Local Revenues or Expenditures:

1. This legislation has the potential to shift local taxes from pollution control and carbon sequestration property to other classes of property in levy districts with reductions in taxable value. Affected local government jurisdictions mills will adjust under the provisions of 15-10-420 MCA. Local school mills will adjust under the provisions of the school funding statutes in Title 30, MCA. On a statewide basis, the total local government and school district tax shifts are roughly four times the state general fund impacts.

Long-Term Impacts:

1. There are projects in development that may be able to qualify for property tax exemptions under the provisions of this bill. The impacts of these projects and their potential exemptions have not been contemplated as part of this analysis. As a result, due to the lack of precise data on pollution control equipment, the long-term fiscal impact may be understated.

Sponsor's Initials

Date

Budget Director's Initials

Date