Fiscal Note 2017 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	HB0213	**Title:**	Revise business equipment tax laws
Primary Sponsor:	Miller, Mike	**Status:**	As Amended in House Committee

- ☐ 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 2016 Difference	FY 2017 Difference	FY 2018 Difference	FY 2019 Difference
Expenditures:				
General Fund	$3,529,135	$10,933,519	$9,073,225	$9,232,602
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($1,257,996)	($2,100,239)	($2,192,999)	($2,290,034)
State Special Revenue	($78,814)	($131,580)	($137,392)	($143,471)
Net Impact-General Fund Balance:	($4,787,131)	($13,033,758)	($11,266,224)	($11,522,636)

Description of fiscal impact: HB 213, as amended in committee, reduces the taxable value on class 8 property by increasing the exemption amount from $100,000 to $500,000. This bill reimburses local governments, schools, TIFs, and the university system for the loss in taxable value. This is estimated to reduce general fund balance by $18.1 million in the 2017 biennium and $23.6 million in the 2019 biennium.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Current law taxes class 8 property as follows: the first $100,000 in market value of a person or business is exempt, the next $6 million in market value is taxed at 1.5%, and any market value over $6.1 million is taxed at 3%. HB 213 increases the exemption from $100,000 to $500,000.
2. The estimated reduction in taxable value is shown in the table below. Because HB 213 applies to property tax years beginning January 1, 2016, not lien-to-real property (strict personal property) is affected in FY

2016. This causes a reduction in taxable value of approximately 8.7%. All class 8 property will be affected beginning FY 2017. This causes a further reduction of approximately 5.6% for a total reduction of the class (before compounding) of 13.85%. Estimates are based on property tax data from TY 2014 and growth rates from HJR 2 and the Office of Budget and Program Planning.

Reduction in Class 8 Property Taxable Value		
	Strict Personal Property	All Personal Property
FY 16	$13,135,600	-
FY 17	-	$21,930,031
FY 18	-	$22,898,600
FY 19	-	$23,911,805

3. The class 12 tax rate is affected by any change to the class 8 tax rate. However, this is assumed to be small and is not included in this estimate.
4. Applying the class 8 weighted average mill rate of 95.77 mills, the estimated reduction in revenue to the state general fund is $1,257,996 in FY 2016, $2,100,239 in FY 2017, $2,192,999 in FY 2018, and $2,290,034 in FY 2019.
5. This bill also reduces revenue from the university 6 mill levy. This is estimated to decrease revenue to the state special revenue fund by $78,814 in FY 2016, $131,580 in FY 2017, $137,392 in FY 2018, and $143,471 in FY 2019.
6. HB 213, as amended, provides a reimbursement from the general fund to local governments, tax increment financing districts (TIFs), the university system, school districts, county school retirement funds, and county school transportation funds. The estimated loss to these taxing jurisdictions is in the table below.

Reimbursements to Local Governments and Schools		
	Strict Personal Property	All Personal Property
Local Governments	$3,050,940	$4,653,738
TIFs	$399,381	$520,955
6 Mill	$78,814	$131,580
Schools	$2,843,543	$4,378,580

7. Strict personal property tax reimbursements to local governments and TIF districts would be a one-time reimbursement that is to be made by June 15, 2016.
8. The full reimbursements of all class 8 property to local governments and TIF districts would become part of the entitlement share payment beginning in FY 2017. These payments would grow by the entitlement share payment growth rate per 15-1-121, MCA.
9. Strict personal property tax reimbursements to schools would be a one-time reimbursement to be made by November 30, 2016.
10. The full reimbursements of all class 8 property to schools would be through an increase in the school block grant payments under the provisions of 20-9-630, MCA, beginning FY 2017.
11. Strict personal property tax reimbursements to the University system for strict personal property would be reimbursed by June 15, 2016. Therefore, the estimated loss in revenue in FY 2016 in assumption #5 would be fully reimbursed.
12. The full reimbursements of all class 8 property to the University system would be transferred from the general fund beginning FY 2017. This reimbursement is fixed at $131,580.

Office of Public Instruction

13. There is a one-time loss of $2.8 million in revenue to school districts for all funds, county retirement, and county transportation in FY 2016 for strict personal property tax that is reimbursed through a one-time payment in FY 2017.
14. The decrease in property tax revenue due to this bill for strict personal property in FY 2016 does not have a guaranteed tax base aid (GTB) effect on school districts in FY 2016. GTB would have been determined prior to the effective date of the bill.
15. GTB changes to all school district funds, county retirement, and county transportation due to changes in taxable value are offset by block grant reimbursements. Block grant payments are considered non-levy revenue for school district general fund budgeting purposes. Non-levy revenues are considered prior to GTB calculation in school budgeting. Therefore, the reimbursement goes into school district general fund base funding, with the net effect of reducing GTB costs to the state relative to current law by $1.6 million in FY 2017 and $0.8 million in each succeeding year. There would also be countywide retirement GTB and countywide transportation effects that are assumed to be included in these estimates.
16. The reimbursement for lost FY 2016 revenue would be reimbursed to school districts as one-time block grant payments of $2.8 million in FY 2017. Ongoing block grant payments of $4.4 million would begin in FY 2017 per 20-9-630, MCA.

Fiscal Impact:	**FY 2016 Difference**	**FY 2017 Difference**	**FY 2018 Difference**	**FY 2019 Difference**
Office of Public Instruction				
Expenditures:				
Local Assistance (OTO)	$0	$2,843,543	$0	$0
Local Assistance (ongoing)	$0	$4,378,580	$4,378,580	$4,378,580
Local Assistance (GTB)	$0	($1,594,876)	($764,940)	($763,925)
TOTAL Expenditures	$0	$5,627,246	$3,613,640	$3,614,655
Funding of Expenditures:				
General Fund (01)	$0	$5,627,246	$3,613,640	$3,614,655
TOTAL Funding of Exp.	$0	$5,627,246	$3,613,640	$3,614,655
Department of Revenue				
Expenditures:				
Local Assistance				
TIFs (OTO)	$399,381	$0	$0	$0
TIFs (ongoing)	$0	$520,955	$520,955	$520,955
Local Governments (OTO)	$3,050,940	$0	$0	$0
Local Governments (Ongoing)	$0	$4,653,738	$4,807,050	$4,965,412
MUS (OTO)	$78,814	$0	$0	$0
MUS (Ongoing)	$0	$131,580	$131,580	$131,580
TOTAL Expenditures	$3,529,135	$5,306,273	$5,459,585	$5,617,947
Funding of Expenditures:				
General Fund (01)	$3,529,135	$5,306,273	$5,459,585	$5,617,947
TOTAL Funding of Exp.	$3,529,135	$5,306,273	$5,459,585	$5,617,947
Revenues:				
General Fund (01)	($1,257,996)	($2,100,239)	($2,192,999)	($2,290,034)
State Special Revenue (02)	($78,814)	($131,580)	($137,392)	($143,471)
TOTAL Revenues	($1,336,810)	($2,231,819)	($2,330,391)	($2,433,505)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($4,787,131)	($13,033,758)	($11,266,224)	($11,522,636)
State Special Revenue (02)	($78,814)	($131,580)	($137,392)	($143,471)

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*