



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill # HB0323

Title: Revise taxation of class five pollution control equipment

Primary Sponsor: Jacobson, Tom

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

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$77,000)	(\$78,400)	(\$79,900)
State Special Revenue	\$0	(\$4,900)	(\$5,000)	(\$5,000)
Net Impact-General Fund Balance:	<u>\$0</u>	<u>(\$77,000)</u>	<u>(\$78,400)</u>	<u>(\$79,900)</u>

Description of fiscal impact: HB 323 proposes to move all air and water pollution control equipment from class 5 to class 8 property tax classification. This would result in a tax rate reduction for some taxpayers from the current rate of 3% on pollution control equipment to a new average rate for their class 8 property. The class 8 rate is 0% for the first \$100,000 in value; 1.5% for value up to \$6 million; and 3% any property a single owner has over \$6 million.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Currently, class 5 property taxable value is calculated by applying a 3% rate to the market value of the property.
- The taxable value of class 8 property is calculated in three brackets based on the total value of a property owner's class 8 property. The taxpayer's first \$100,000 in value is exempt from property tax, the value between \$100,000 and \$6 million has a rate of 1.5%, and any value over \$6 million has a rate of 3%.

3. Although class 8 property generally has a lower average tax rate than class 5, the top marginal rate for class 8 and class 5 are the same. Therefore, if a taxpayer already has \$6 million in class 8 property, HB 323 would not reduce the taxpayer’s overall taxable value.
4. Because of the graduated rate, the largest reduction in taxable value any individual taxpayer can receive is only applicable to the first \$6 million in value and equal to \$91,500 (\$100,000 X 0% + \$5,900,000 X 1.5% - \$6,000,000 X 3%).
5. In TY 2014, there was approximately \$285.897 million worth of class 5 pollution control equipment with a taxable value of \$8.577 million.
6. When property listed in assumption #5 is added to taxpayers existing class 8 property, taxable value is reduced by \$0.746 million.
7. The reduction in taxable value is assumed to grow at the rate forecast by HJR 2 for FY 16 and FY 17, and the Office of Budget and Program Planning for FY 18 and FY 19. These values and growth rates are listed in the following table.

Reduction in Taxable Value under HB 323 as Introduced					
	TY 2014	TY 2015	TY 2016	TY 2017	TY 2018
TV Reduction	\$746,000	\$777,000	\$810,000	\$825,000	\$841,000
Growth		4.2%	4.2%	1.9%	1.9%

8. State general fund school equalization mills (95) and the university (6) mill state special revenue reductions are calculated by applying these mills to the reduction in taxable value. It is further assumed that pollution control equipment will be attached to real property. The billing cycle for real property is collected in the fiscal year following the tax year. The bill is effective starting in TY 2016; the impacts would begin in FY 2017. The estimated change in state tax revenue is listed below.

Reduction in State Property Tax Revenue under HB 323 as Introduced				
	FY 2016	FY 2017	FY 2018	FY 2019
General Fund	\$0	\$77,000	\$78,400	\$79,900
University	\$0	\$4,900	\$5,000	\$5,000

9. The minor costs associated with the implementation of HB 323 will be absorbed by the department.

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.
11. This change in classification does not change the criteria or certification of this equipment.

<u>Fiscal Impact:</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
TOTAL Expenditures	\$0	\$0	\$0	\$0
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$0	\$0	\$0	\$0
<u>Revenues:</u>				
General Fund (01)	\$0	(\$77,000)	(\$78,400)	(\$79,900)
State Special Revenue (02)	\$0	(\$4,900)	(\$5,000)	(\$5,000)
TOTAL Revenues	\$0	(\$81,900)	(\$83,400)	(\$84,900)

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

General Fund (01)	\$0	(\$77,000)	(\$78,400)	(\$79,900)
State Special Revenue (02)	\$0	(\$4,900)	(\$5,000)	(\$5,000)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

- Local Government jurisdictions and school districts with this property will adjust their mill levies to maintain their budgets under the reductions in taxable value proposed in this bill per the mill calculation rules in 15-10-420, MCA, and Title 20, Chapter 9, MCA. Average local government mills for this property are approximately 209 mills, whereas county and local school mills average 174 mills. The reduction of approximately \$312,000 in taxes for pollution control property owners (\$170,000 local government, and \$142,000 for schools) will be shifted to other taxpayers in the affected jurisdictions.

Sponsor's Initials

Date

Budget Director's Initials

Date