TAX POLICY LEGISLATION AND INITIATIVES

The Fifty-sixth Legislature enacted a number of tax policy initiatives that will have a significant impact on taxes paid by residential and commercial property owners. The extent of the actual tax relief provided will depend on the extent by which local taxing jurisdictions adjust mill levies. Other tax policy legislation reduced taxes on vehicle owners, and on the oil, coal and natural gas extraction industries. Since all of this legislation impacts the property tax base and/or the associated non-levy revenue distributions, the impact on state and local budgets was a major focal point of the legislature. This concern resulted in a new state general fund reimbursement mechanism for local taxing jurisdictions.

This section of the report summarizes the tax policy initiatives enacted by the Fifty-sixth legislature. Information provided includes a summary of the major components of each of the tax policy initiatives. Subsequent sections summarize the fiscal impacts by: 1) tax base, 2) state and local taxing jurisdictions, and 3) classes of taxpayer.

Summary of Tax Policy Initiatives

The Fifty-sixth Legislature passed legislation that will substantially reduce property taxes for businesses, homeowners and light vehicle owners and will reduce production taxes for oil, natural gas and coal producers in tax year 1999 and beyond. As a result of these reductions, state general fund property tax revenue will decline by approximately 8.2 percent in fiscal 2000 and 19.5 percent in fiscal 2001 compared to the HJR2 estimates for the same years.

The tax relief enacted by the Fifty-sixth Legislature is the result of several pieces of legislation. The next several sections provide a detailed summary of each bill.

In short, the legislative package:

- cuts in half the tax rate on business equipment from 6 percent to 3 percent;
- phases-in over four years the elimination of the livestock property tax;
- phases-in over four years reappraisal of residential and commercial real estate;
- provides for a homestead exemption and a commercial real estate exemption, and reduces the tax rate on all class 4 property, which also will be phased in over 4 years;
- cuts in half the tax rate on electrical generating and telecommunications real estate and business property;
- reduces by 30 percent the tax on light motor vehicles and redistributes the remaining revenue;
- creates a new stripper exemption for oil production, an expanded definition of stripper oil production, and reduces rates on new oil and natural gas production;
- creates a new excise tax on the transmission of electricity and a new excise tax on telecommunications services in order to replace revenue reductions associated with the property tax base reductions;
- eliminates the telephone license tax;
- creates a new license tax on coal production and an offsetting reduction in the coal severance tax in order to redirect revenue from taxes on coal; and
- provides for partial reimbursement of local governments and schools and the university system.

Table 1 summarizes the impacts of the tax legislation on the state general fund. The impact on the statewide property tax base for each property tax bill is in the first panel. In tax year 2000, the tax base will fall $312.7 million, a reduction of 19.5 percent from pre-legislative levels. One statewide mill will generate $1.63 million, compared with its tax year 1998 value of $1.94 million.

The second panel of the table shows the revenue reductions to the state general fund. The revenue reductions will not reflect a full year's worth of activity until fiscal 2001. The revenue reduction grows slightly during the 2003 biennium due to the continued decline in the livestock tax rate. The revenue reductions associated with the oil and natural gas legislation, the elimination of the telephone excise tax, and the motor vehicle tax rate cut are also shown.

The third panel shows new tax revenue to the general fund from the new telecommunications excise tax HB128 and from the electrical energy tax HB 174. New tax revenues will recover 69 percent of the general fund revenue loss in fiscal 2000 and 60 percent in fiscal 2001. Also shown are the estimates of the net revenue impacts of the legislative package on the general fund.

The last panel shows the state general fund reimbursements that will be made to various state and local accounts. Reimbursements are expected to grow by $53.1 million in the 2003 biennium when compared to the 2001 biennium, an increase of 67 percent. The lastline in the table shows the net impact of revenue reductions and reimbursements on the state general fund. The impact grows from $25.3 million in fiscal 2000 to nearly $90 million in fiscal 2003.

Table 1
Tax Policy Legislation
(In Millions)

Property Tax Changes	TY99	TY00	TY01	TY02
Statewide Changes in Taxable Values				
SB184 - Home and Business Real Estate	$ (76.1)	$ (89.0)	$ (90.5)	$ (91.4)
SB200 - Business Equipment Property	(41.0)	(111.3)	(121.1)	(130.7)
HB174 - Electrical Generating Property	-	(64.7)	(66.3)	(68.1)
HB128 - Telecommunications Property	-	(47.6)	(48.9)	(50.1)
Total Change in Taxable Value	$ (117.1)	$ (312.7)	$ (326.8)	$ (340.3)

Property Tax Revenue Reductions - State General Fund	FY00	FY01	FY02	FY03
Revenue Reduction 95 Mills				
SB184 - Home and Business Real Estate	$ (7.2)	$ (8.5)	$ (8.6)	$ (8.7)
SB200 - Business Equipment Property	(3.9)	(10.6)	(11.5)	(12.4)
HB174 - Electrical Generating Property	-	(6.1)	(6.3)	(6.5)
HB128 - Telecommunications Property	-	(4.5)	(4.6)	(4.8)
Total Revenue Reduction 95 Mills	$ (11.1)	$ (29.7)	$ (31.0)	$ (32.3)
Revenue Reduction 1.5 Mills	(0.0)	(0.4)	(0.4)	(0.4)
General Fund Property Tax Revenue Reduction	$ (11.2)	$ (30.1)	$ (31.5)	$ (32.8)
Oil & Gas Revenue Reduction (SB530,HB658,HB661)	$ (0.7)	$ (0.9)	$ (0.9)	$ (0.9)
Eliminate Telephone License Tax (HB128)	(3.2)	(6.7)	(7.0)	(7.3)
Motor Vehicle Revenue Reduction (SB260)	(5.3)	(11.4)	(12.0)	(12.6)
Total Property and Motor Vehicle Reduction	$ (20.4)	$ (49.1)	$ (51.4)	$ (53.6)

New Tax Revenue - State General Fund	FY00	FY01	FY02	FY03
Telephone Excise Tax (HB128)	$ 12.4	$ 25.9	$ 27.2	$ 28.5
Wholesale Energy Transaction Tax (HB174)	1.7	3.4	3.4	3.5
Total New Tax Revenue	$ 14.1	$ 29.4	$ 30.6	$ 32.0
Net Revenue Impact on General Fund	$ (6.3)	$ (19.7)	$ (20.7)	$ (21.7)

State General Fund Reimbursements	FY00	FY01	FY02	FY03
6 Mill Account - Total	$ 1.3	$ 3.0	$ 3.2	$ 3.3
Property Tax Reimbursement	0.7	1.8	1.9	1.9
Motor Vehicle Reimbursement	0.6	1.3	1.3	1.4
9 Mill Account - Total	$ 0.1	$ 0.2	$ 0.2	$ 0.2
Property Tax Reimbursement	-	-	-	-
Motor Vehicle Reimbursement	0.1	0.2	0.2	0.2
Local Governments and Schools - Total	$ 17.6	$ 57.2	$ 61.5	$ 64.1
Property Tax Reimbursement	12.9	54.9	57.4	59.8
BASE Aid for Schools	2.0	-	-	-
Motor Vehicle Reimbursement to Schools	-	2.2	4.1	4.3
Charter Cities and Industrial TIF's	2.8	-	-	-
Total General Fund Reimbursements	$ 19.0	$ 60.4	$ 64.9	$ 67.6
Net Impact on General Fund - Revenue Reductions and Reimbursements	$ (25.3)	$ (80.1)	$ (85.6)	$ (89.3)

Fiscal Impact on Tax Base

The tax policy initiatives affect three different tax bases: the property tax base, the motor vehicle tax base and the natural resource tax base.

Property Tax

Five bills reduce the property tax base in the state. The state will reimburse local jurisdictions for the impact of all of them except for the residential and commercial tax base reduction in SB 184. A short description of each bill follows:

Senate Bill 200 – Beginning in tax year 2000, SB200 reduces the tax rate for business equipment (class 8) from 6 percent to 3 percent and establishes an exemption from class 8 property taxes for owners with business equipment valued at $5,000 or less. The rate reduction to 3 percent for class 8 property will remain in effect until January 1, 2004. At that time and for each year in the future, the rate will remain at 3 percent unless in any year the observed year over year inflation-adjusted growth in Montana wage and salary income is at least 2.85 percent. If this condition is met, then the class 8 tax rate will fall by 1 percentage point per year until the tax rate reaches zero.

SB200 also phases in the elimination of the tax rate for livestock (class 6 property) from its current rate of 4 percent. The tax rate applied to class 6 will be 3 percent in tax year 2000, 2 percent in tax year 2001, 1 percent in tax year 2002, and 0 percent in tax year 2003 and beyond.

House Bill 128 – Beginning in tax year 2000, HB128 removes centrally assessed telecommunications property from class 9 (utilities), places it in a new class of property (class 13), and applies a tax rate of 6 percent. This property is currently taxed at a rate of 12 percent. Rural telecommunications property is removed from class 7, where it was taxed at 8 percent, and placed in class 5, where it will be taxed at 3 percent, beginning in tax year 2000.

House Bill 174 - Beginning in tax year 2000, HB174 removes centrally assessed electrical generation property from class 9 (utilities), places it in a new class of property (class 13), and applies a tax rate of 6 percent. This property is currently taxed at a rate of 12 percent. It is unknown whether this property will continue to be centrally assessed in the future.

The estimates of the HB174 property tax loss in Table 1 reflect an assumption about the upcoming sale of Montana Power Company electrical generating assets to Pennsylvania Power and Light. It is assumed that the sale will be completed before January 1, 2000, and that the value established for property tax purposes on that date will be the sale value of the assets, which is approximately 1.5 times its current value. As a result, the tax base reduction to state and local jurisdictions is estimated be around 25 percent, in spite of the tax rate falling by 50 percent. If the sale does not take place in calendar 1999, the result will be a larger revenue reduction than reported in Table 1 on the previous page.

House Bill 420 – Beginning in tax year 1999, HB 420 allows for the deduction of costs related to the transportation of minerals from the mine to the smelter when calculating gross proceeds taxes. Jurisdictions with metal mines in their property tax base will lose property tax revenue, but will be reimbursed by the state.

Senate Bill 184 – Three changes approved in SB184 will affect valuation of much of the real estate property in each taxing jurisdiction in the state. Beginning in tax year 1999, SB184: 1) phases-in the 1997 reappraisal of residential, commercial, agricultural and timberland property; 2) phases-in a reduction in the tax rate applied to this property; and 3) establishes homestead and commercial real estate exemptions.

The 1997 legislature in SB195 required a phase-in of the 1997 reappraisal over a 50 year period. SB184 reduces this phase-in period to 4 years beginning in tax year 1999. The difference between the reappraised value of a property and its tax year 1998 value will be phased in at 25 percent per year until it is fully effective in tax year 2002. The next reappraisal will be phased-in by 1/6 each year beginning January 1, 2003.

SB195 applied a phase-in rule for properties that rose in value and that fell in value as a result of the 1997 reappraisal. In a case settled in 1999, *Roosevelt v. State of Montana*, the Supreme Court ruled that a valuation phase-in rule for properties which fall in value is unconstitutional. As a result, the phase-in rule in SB184 applies only to those properties that rise in value. Properties which fall in value will be valued at their new appraised value immediately in tax year 1999. The fiscal impact associated with SB184 in Table 1 reflects both the impact of the *Roosevelt* decision as well as the impacts of SB184.

SB184 reduces the tax rate applied to class 4 (residential and commercial real estate) property. The class 4 tax rate is lowered to 3.7105 percent for tax year 1999 and is adjusted downward each year by .0835 percentage points until the rate reaches 3.46 percent in tax year 2002 and beyond. Since the rate for class 3 property (agricultural land) is equal in law to the rate on class 4 property, the class 3 rate will fall also. The tax rate on timberland is set at 0.79 percent for tax year 1999, and is lowered by 0.11 percentage points each year until it reaches 0.35 percent in tax year 2003 and beyond.

The 1997 reappraisal increased the statewide average value of residential property by 44.2 percent, the average value of class 4 commercial property by 24.1 percent, the average value of agricultural property by 6.9 percent, and the average value of timberland property by 128.1 percent. In order to forestall increases in the property tax bills applied to most home and business real estate, SB184 established a homestead exemption and a "comstead" exemption in the following magnitudes:

	Residential Property Exemption	Commercial Property Exemption
Tax year 1999	16.0 percent	6.5 percent
Tax year 2000	23.0 percent	9.0 percent
Tax year 2001	27.5 percent	11.0 percent
tax year 2002	33.0 percent	13.0 percent

The exemption percent applies to the phased-in, reappraised value of the property. The homestead exemption applies to all residential property, including vacant residential lots and rental multifamily dwellings, and the comstead exemption applies to all class 4 commercial property including vacant commercial lots. The homestead exemption, combined with the class 4 tax rate reduction, was designed to more than offset the upward impact of reappraisal on the average homeowner in Montana. As a result, average property tax revenue from homeowners for all governments will fall by approximately 6 percent from current levels. The comstead exemption, in combination with the class 4 tax rate reduction, was designed to just offset the effect of reappraisal on the average commercial real estate owner. As a result, total government receipts of property tax revenue received from owners of commercial real estate will be close to the amount that would have been received under previous law.

Agricultural land value increases due to reappraisal averaged 6.9 percent across the state or, when phased in over 4 years, by 1.73 percent per year. The tax rate reduction for agricultural land, however, will fall by 2.2 percent per year.
Timberland increases due to reappraisal averaged 128.1 percent, or 32 percent per year over the 4 year phase-in. In tax year 1999, there will be no offsetting tax rate reduction, and thus the average timberland tax bill will increase by at least 32 percent. Beginning in tax year 2000, the timberland tax rate will fall by almost 14 percent per year.

SB184 also requires that the valuation of land be tied to the valuation of improvements on the land. If the land is appraised at less than 75 percent of the appraised value of the improvements on the land, then the land is valued at its appraised value. If the appraised value of the land exceeds 75 percent of the appraised value of the improvements, then the land is valued at 75 percent of the appraised value of the improvements.

Motor Vehicle Tax Base

Senate Bill 260 – Beginning January 1, 2000, the tax rate on light vehicles will drop from 2 percent of the depreciated vehicle value to 1.4 percent of the depreciated vehicle value, a 30 percent reduction. For tax years 2001 and beyond, the tax rate will be adjusted downward to prevent increases in statewide taxable value of motor vehicles from generating additional revenue statewide.

SB260 increases the local option motor vehicle tax from 0.5 percent to 0.7 percent beginning January 1, 2000. Counties, with voter approval, may increase the local option tax, and if all should do so, the additional revenue would amount to around $7 million per year, split between county and city governments.

SB260 alters the distribution of motor vehicle tax revenue. The share of motor vehicle tax revenue distributed to the district courts was increased to 10 percent from 7 percent, in an effort to hold that account harmless. The remaining revenue will no longer be distributed to the statewide 40 mill equalization levy or the university 6 mill levy. The share of the motor vehicle revenue formerly captured by these levies will be distributed to all remaining state and local levies. The two state levies (46 mills) represent approximately 12 percent of the average consolidated levy in the state. Thus, the revenue loss to the remaining levies will average 20 percent in a full fiscal year.

Local governments and schools in which growth in vehicle values lags behind the statewide average growth in vehicle values will experience declining motor vehicle tax revenue in the future. Under the provisions of SB184, local governments and schools may permissively raise property tax millages to recoup the amount of motor vehicle revenue received in the prior year. The Office of Public Instruction will reimburse motor vehicle revenue losses to the general fund of all school districts' to fiscal 1999 levels. The first payment of $2.2 million will take place in fiscal 2001.

House Bill 540 submits to the qualified electors of Montana a proposal to switch from a tax based on the value of a light vehicle to a flat fee based on the age of the vehicle. Light vehicles are defined as all cars and trucks under one ton. Under HB 540, the registration fee on light vehicles that are 4 years old or less would be $195, five to ten years old would be $65, and 11 years or older would be $6. The proposal provides for a 24-month vehicle registration. Counties may continue to impose a local option tax of up to 0.5% of the value of the vehicle, or, with voter approval, impose a flat fee on top of the registration fee.

None of the registration fees would be distributed to the 95 mills for schools, 6 mills for the university system, or mill levies for public assistance programs in state-assumed counties. The school district general fund will be reimbursed up to the amount of motor vehicle fees deposited in the district general fund in FY 1999. HB540 directs that the registration fee be deductible for state income tax purposes. The new registration fee would most likely not be deductible for federal income tax purposes.

The proposal will be on the ballot in November, 2000. If approved by the electorate, the new fee structure will be effective on January 1, 2001.

Natural Resource Tax Base

Three bills alter the way oil and gas production is taxed and change the distribution of oil and gas tax revenues.

Senate Bill 530 - SB 530 eliminates the distinction between pre-1985 and post-1985 production in oil and natural gas taxation and repeals the unit value calculation that has been used to distribute taxes from pre-1985 wells. Tax year 1999 is a transition year; the pre- and post-1985 distinction is eliminated effective January 1, 2000. SB 530 creates a new distinction between pre- and post-1999 production and adjusts the tax rates for many of the categories of oil and gas production. SB 530 allocates to the state all of the production taxes paid by working interests on new oil and gas production in the first 12 (or, in some cases, 18) months of production (i.e. during the "tax holiday" period).

Effective January 1, 2000, oil and gas production taxes are distributed to counties based on taxes received from production in the county. The county treasurer allocates the taxes to taxing units based on prior year mills, including the 95 mills for schools and 6 mills for the university system.

SB 530 repeals references to the local government severance tax on calendar 1995 production. School districts may not carry these tax payments in excess general fund reserves after January 1, 2000.

House Bill 658 - HB 658 creates a new category of oil production called "stripper well exemption", and eliminates the stripper oil incentive. Any stripper well that produces 3 barrels of oil a day or less falls into this category. Production from these wells is taxed a 0.5 percent of the gross taxable value of production for working interests and 14.8 percent for non-working interests. Schools and counties do not receive any of the taxes collected from working interests in the stripper well exemption category. The legislation applies to oil produced after June 30, 1999.

House Bill 661 - The maximum number of barrels that an oil well can produce in a day and still be classified as a stripper well is increased from 10 to 15 in HB 661. The tax rate on the first 10 barrels of production is set at 5.5 percent of the gross taxable value of production. The tax rate on production greater than 10 barrels is 9.0 percent. Non-working interests are taxed at 14.8 percent. HB 661 eliminates the distinction between stripper oil production from pre-1985 and post-1985 wells. The legislation applies to oil produced after June 30, 1999.

Three bills substantially change the way coal is taxed and alter the way in which coal tax revenue is distributed.

House Bill 260, House Bill 69, Senate Bill 220 – Beginning, July 1, 1999, HB 260 imposes a new coal license tax on the contract sales price of coal. At the same time, HB260 reduces the coal severance tax liability for coal producers by allowing a credit against the coal severance tax in the amount of 101.5 percent of coal license tax liability. Thus, coal producers will realize a reduction of 1.5 percent in tax liability on coal production. HB 69 and SB 220 redistribute coal severance tax revenue flowing into the corpus of the coal tax trust, eliminating the distribution to the permanent fund and redistributing this revenue to the treasure state endowment fund (TSEF).
The legislation provides a new distribution of coal severance taxes and specifies a distribution for the new coal license tax. Table 2 shows the distribution of the expected revenue to all accounts.

The first panel on the left shows expected current law (HJR2) projections of revenue and distribution of the coal severance tax. The middle panel of the table shows the new severance tax revenue after the coal license tax credit has been applied, and the new distribution amounts. The main difference in the new distribution percentages between current law and new law is that the permanent trust will receive no severance tax revenue in the future. This revenue is redistributed between the treasure state endowment fund and a new TSEF regional water account. In addition, the portion of severance taxes that used to go to the long range building program for payment of debt service associated with Nevada City and Virginia City will now be distributed to the general fund for the same purpose.

The upper panel on the right shows the expected revenue from the new coal license tax and a set of upfront distributions. The license tax rate will be 9.17 percent of the contract sales price for each ton of coal produced in the state. The tax will be collected quarterly and is due not later than 30 days after the end of the quarter in which the taxable production took place.

The coal license tax is distributed as follows: 1) $2.3 million per year during the 2001 biennium to the TSEF special

Table 2

Impact of HB260, HB69 and SB220 on Coal Severance Tax Revenue and Distribution

New HB260 Coal License Tax Revenue and Distribution

	HB260 Distributions of Coal License Tax		
Coal License Tax Dist	Biennium	FY00	FY01
Total Revenue	39,749,000	20,400,000	19,349,000
TSE Special Account	4,600,000	2,300,000	2,300,000
Ag seed capital	5,000,000	2,500,000	2,500,000
Industrial Tax Increment Dist	1,200,000	600,000	600,000
Total distribution	10,800,000	5,400,000	5,400,000
Net for redistribution	28,949,000	15,000,000	13,949,000

	Current Law - Coal Severance HJR2			New Law Coal Severance Tax			Coal License Tax - HB260		
				HB69/SB220			HB260		
		FY00	FY01	Distribution	FY00	FY01	Distribution	FY00	FY01
		33,266,000	31,547,000		12,560,000	11,907,765		15,000,000	13,949,000
Permanent Trust	25.00%	8,316,500	7,886,750	0.00%	-	-	0.00%	-	-
TSEF	25.00%	8,316,500	7,886,750	37.50%	4,710,000	4,465,412	0.00%	-	-
TSE Regional Water Acct	0.00%	-	-	12.50%	1,570,000	1,488,471	0.00%	-	-
General Fund	25.49%	8,479,503	8,041,330	26.79%	3,364,824	3,190,090	32.96%	4,944,000	4,597,590
LRBP - Cash	12.00%	3,991,920	3,785,640	12.00%	1,507,200	1,428,932	16.99%	2,548,500	2,369,935
LRBP - Debt	1.30%	432,458	410,111	0.00%	-	-	1.74%	261,000	242,713
Parks Trust	1.27%	422,478	400,647	1.27%	159,512	151,229	1.70%	255,000	237,133
Arts Trust	0.63%	209,576	198,746	0.63%	79,128	75,019	0.86%	129,000	119,961
Water Develop	0.95%	316,027	299,697	0.95%	119,320	113,124	1.27%	190,500	177,152
Other Accounts	8.36%	2,781,038	2,637,329	8.36%	1,050,016	995,489	11.15%	1,672,500	1,555,314
Research &Com trust	0.00%	-	-	0.00%	-	-	33.33%	4,999,500	4,649,202
Totals	100.00%	33,266,000	31,547,000	100.00%	12,560,000	11,907,765	100.00%	15,000,000	13,949,000

	License and Severance Revenue-New Law		Net Impact		Impact for all Accounts		
	FY00	FY01	FY00	FY01		FY00	FY01
Permanent Trust	-	-	(8,316,500)	(7,886,750)			
TSEF	4,710,000	4,465,412	(3,606,500)	(3,421,338)	Net Impact	(5,706,000)	(5,690,235)
TSE Regional Water Acct	1,570,000	1,488,471	1,570,000	1,488,471			
General Fund	8,308,824	7,787,681	(170,679)	(253,650)			
LRBP - Cash	4,055,700	3,798,867	63,780	13,227	TSE,AG, TIF	5,400,000	5,400,000
LRBP - Debt	261,000	242,713	(171,458)	(167,398)			
Parks Trust	414,512	388,362	(7,966)	(12,285)	Difference	(306,000)	(290,235)
Arts Trust	208,128	194,980	(1,448)	(3,766)			
Water Develop	309,820	290,276	(6,207)	(9,420)	This is 1.5% of Total License Tax Revenue		
Other Accounts	2,722,516	2,550,803	(58,522)	(86,527)			
Research &Com trust	4,999,500	4,649,202	4,999,500	4,649,202			
Totals	27,560,000	25,856,765	(5,706,000)	(5,690,235)			

revenue holding account (17-5-703(4)(b)), (on July 1, 2001 this amount is dropped to $600,000 per year.); 2) $2.5 million per year to a new agricultural seed capital account; 3) $600,000 each year to the industrial tax increment financing district in Silver Bow County; and 4) the remaining amount of the coal license tax is distributed as in the second panel on the right. The accounts to which the remaining coal license revenue is distributed are the same as the accounts to which the severance tax is distributed, except that a new account is created, a research and commercialization expendable trust account. This account receives 1/3 of the new coal license tax revenue and will be used for loans or for matching funds for grants that are to be used for research and commercialization projects in Montana. The money will be administered and spent by the Board of Research and Commercialization with members appointed by the legislature and the Governor.

The purpose of the distributions of the remaining coal license tax revenue was to hold each non-trust account as harmless as possible. The net impact panel shows the extent to which this is expected to be successful. The largest revenue loser will be the permanent trust. The TSEF trust also loses revenue, but the revenue gains by its sub-accounts offsets much of this. The general fund and the other accounts lose a total of approximately $0.6 million for the biennium.

Fiscal Impact on State and Local Taxing Jurisdictions

The tax policy initiatives include three features which will mitigate the revenue impacts on state and local governments. The legislation 1) partially reimburses local taxing jurisdiction with payments out of the state general fund; 2) alters the rules regarding mill levy increases made by local taxing jurisdictions; and 3) institutes two new general fund taxes that will in part replace some of the revenue from the bills which reduced the various tax bases.

State Reimbursements

Schools districts, counties, cities, miscellaneous districts, and tax increment financing districts will be reimbursed by the state for property tax losses that are attributable to: 1) reductions in the tax rates on business equipment (SB200), 2) oil and gas production (SB530 and HB658), 3) telecommunications property (HB128) electrical generating facilities (HB174), and 4) mining transportation costs (HB420). The reimbursements will be calculated by the Department of Revenue for each jurisdiction as the difference between the amount of revenue actually received from this property in fiscal 1998 and the amount of revenue this property would have generated in fiscal 1998 had the bills been in effect. If the amount of the state reimbursement appropriation exceeds this amount, the additional amount will be reimbursed to each jurisdiction on a pro rata basis.

Schools and local governments will be partially reimbursed for property tax losses attributable to the homeowner and commercial real estate tax relief in SB184. Reimbursements will be distributed by the Department of Revenue on December 15 and June 15. These general fund reimbursements (see Table 1) amount to $12.9 million in fiscal 2000 and $54.9 million in fiscal 2001.

The state general fund will also reimburse the university 6-mill account for the fully reimbursable bills but not the DPHHS 9-mill account. The 9-mill account will be reimbursed only for the loss in motor vehicle revenue. Table 3 shows the revenue and reimbursement impacts of the property tax and motor vehicle legislation on the university account and the DPHHS account.

Special reimbursements will be made by the department out of the state general fund to the city of Billings and to the Silver Bow industrial tax increment financing district (TIF). The city of Billings will receive $2.15 million during the 2001 biennium, and Silver Bow's industrial TIF will receive $0.6 million during the biennium. The city of Billings will also receive its share of the SB184-related reimbursements mentioned above, but the industrial TIF in Silver Bow county will not.

Table 3
University 6 Mill Account
(In Millions)

	FY00	FY01	FY02	FY03
Revenue Reductions	(1.3)	(3.1)	(3.3)	(3.4)
Property Tax Revenue Reduction	(0.7)	(1.9)	(2.0)	(2.0)
Motor Vehicle Revenue Reduction	(0.6)	(1.3)	(1.3)	(1.4)
Reimbursements from General Fund	1.3	3.0	3.2	3.3
Property Tax Reimbursement	0.7	1.8	1.9	1.9
Motor Vehicle Reimbursement	0.6	1.3	1.3	1.4
Net Impact on University 6-Mill Account	(0.0)	(0.1)	(0.1)	(0.1)

Department of Public Health & Human Services 9-Mill Account

	FY00	FY01	FY02	FY03
Revenue Reductions	(0.7)	(1.3)	(1.3)	(1.4)
Property Tax Revenue Reduction	(0.6)	(1.1)	(1.1)	(1.2)
Motor Vehicle Revenue Reduction	(0.1)	(0.2)	(0.2)	(0.2)
Reimbursements from General Fund	0.1	0.2	0.2	0.2
Property Tax Reimbursement	-	-	-	-
Motor Vehicle Reimbursement	0.1	0.2	0.2	0.2
Net Impact on 9-Mill Account	(0.6)	(1.1)	(1.1)	(1.2)

Additional reimbursements will be made by the Office of Public Instruction (OPI) to school districts in the state. In fiscal 2000, OPI will distribute $1.98 million in additional guaranteed tax base aid to school districts as a result of changes in the tax base caused by the homeowner and business real estate tax relief in SB184. In fiscal 2001, OPI will distribute $2.2 million in reimbursements to be deposited in school districts' general fund to compensate for losses in motor vehicle revenue due to SB260.

Rules Regarding Mill Levy Changes

Senate Bill 184 limits the property tax collections of the state, school districts and local governments to the prior year amount (excluding revenue from applying mills to net and gross proceeds), plus revenue from any new property, less any reimbursements. This amount may be collected permissively, and any revenue requirements in excess of these amounts must be submitted to the voters in the jurisdiction. The state mills must be adjusted downward if the tax base increases due to reappraisal. State mandated mills (95 mills, the 6-mill university levy, the 1.5 mill vo-tech levy and the 9-mill welfare levy) may not exceed their current statutory levels.

Local governments may combine funds when measuring the amount of revenue collections in the prior year. For school districts, the prior year limitation applies to the combined funds of district transportation, adult education, bus depreciation, and non-operating funds. The levies school general fund, debt service fund, building reserve fund, tuition fund, and county retirement and transportation funds are not subject to the tax limitations under SB 184. However, the mill levies for the district general fund, debt service fund, and building reserve fund are subject to voter approval under the provisions of Title 20, MCA.

Property tax collections received by all governments may be increased due to growth in the property tax base from the following sources:

- annexation of real property and improvements into a taxing unit;
- construction, expansion, or remodeling of improvements;
- transfer of property into a taxing unit;
- subdivision of real property;
- reclassification of property;
- transfer of property from tax-exempt to taxable status; and
- revaluation caused by expansion, addition,

replacement, or remodeling of improve-ments.

If a reappraisal occurs and the resulting taxable values in a jurisdiction are higher than the year before, then each jurisdiction, including the state, will be required to lower its mills.

Under old law, local mills were calculated by dividing a revenue target by currently existing property taxable value. The definition of currently existing taxable value was the value of existing property in the prior year less deletions of property plus new property added in the prior year. Under this legislation, current year mills will be calculated by dividing property tax revenue from the prior year by the current tax base net of deletions, but without regard to new property. As a result, jurisdictions with relatively high rates of property deletions may permissively raise mills to achieve prior year property tax revenues. New property tax revenue will thus come from these mills applied to new property in the jurisdictions.

In order to allow school districts some flexibility in designing their budgets while the changes in the property tax base occurs, SB 184 allows school districts to anticipate non-levy revenues from tuition, motor vehicle fees, oil and gas production taxes, coal gross proceeds, property tax reimbursements, and corporate license taxes in funding the district general fund budget.

The impacts of the legislative package on local property tax revenue will vary between jurisdictions, depending on the mix of property in the jurisdiction. Jurisdictions with a high proportion of their tax base in reimbursable business property and a small proportion in unreimbursed residential and small business real estate, will not realize much revenue loss in the short run. Consequently they will raise mills minimally. Just the opposite is the case in a jurisdiction where residential and small business real estate make up a large proportion of the tax base.

Jurisdictions with a high proportion of residential property that experienced high rates of appreciation due to reappraisal will also raise mills minimally. Jurisdictions with a high proportion of their total revenue stream consisting of motor vehicle revenue may be forced to raise mills substantially.

The long run impacts on local jurisdictional budgets will be more severe. All jurisdictions will experience a flattening revenue stream from motor vehicles, and reimbursements for property tax losses will essentially be frozen. In addition, the SB195 and HB20 reimbursements, passed in previous legislative sessions, will continue to fall 10 percentage points per year. Any appreciation of existing property will not produce new revenue. The property tax base will yield new revenue only from new property.

The impacts on school districts' general fund will be less severe than for other school funds or other jurisdictions. The changes in the tax base that are created by the property tax legislation will be ameliorated to a large extent by the Guaranteed Tax Base (GTB) mechanism for school funding. As a district loses tax base relative to the statewide average, its GTB payment from the state increases, or it becomes more likely to be a GTB recipient.

Table 4 shows the impact of the legislation on all local governments and schools for fiscal 2000 through fiscal 2003, under the assumption that the state will continue funding reimbursements.

Table 4
Local Government and School District Accounts
(In Millions)

	FY00	FY01	FY02	FY03
Local Government and School Accounts	(45.60)	(93.05)	(97.77)	(102.55)
Property Tax Revenue Reduction (mills frozen)	(38.6)	(78.3)	(81.9)	(85.5)
Motor Vehicle Revenue Reduction	(7.0)	(14.7)	(15.8)	(17.0)
Reimbursements from General Fund	17.6	57.2	61.5	64.1
Property Tax Reimbursement	12.9	54.9	57.4	59.8
BASE Aid for Schools	2.0	-	-	-
Motor Vehicle Reimbursement to Schools	-	2.2	4.1	4.3
Charter Cities and Industrial TIF's	2.8	-	-	-
Net Impact on Local Gov't/School Accounts	(27.97)	(35.89)	(36.25)	(38.45)

Fiscal Impact of New Taxes

The legislature passed one bill eliminating a tax and two bills creating two new excise taxes. The excise taxes are expected to contribute to the state general fund over $14 million in fiscal 2000 and over $29 million in fiscal 2001. A short description of each bill follows:

House Bill 128 repeals the telephone company license tax (1.8 percent) and imposes a new telephone excise tax of 3.75 percent on the sales price of retail telecommunications. The telephone excise tax is imposed on telephone service consumers (except internet service consumers per HB192) and is to be collected by all centrally assessed telephone companies. Rural telephone cooperatives and local exchange carriers will also collect the tax if they were subject to competition upon passage of the act. Rural telephone cooperatives and local exchange carriers who are not currently subject to competition, but become subject to competition in the future, will remain exempt from collection of the tax. Also exempt are purchases of telephone services by the federal government, calls made on pay phones, or calls using pre-paid calling cards. The tax will be collected quarterly, and payment of the tax is due no later than 60 days after the end of the quarter to which the tax applies. The revenue from the telephone excise tax will be deposited in the state general fund.

House Bill 174 - Beginning January 1, 2000, HB174 also imposes a new wholesale energy transaction (WET) tax upon electricity transmitted and sold within Montana. The tax rate is set at 0.015 cents (0.15 mills) per kilowatt hour. If the electricity is produced in the state and sold out of state, the taxpayer is the person(s) owning the electrical generation property, and the tax is collected by the transmission services provider. If the electricity is produced in the state for in-state delivery, or is produced outside the state for in-state delivery, the taxpayer is the distribution services provider, and the tax is collected by the transmission services provider.

The WET tax does not apply to: 1) electricity transmitted through the state that is neither produced nor consumed in the state; 2) electricity generated in the state by an agency of the federal government for delivery outside the state; 3) electricity delivered to a distribution services provider that is a municipal utility or a rural electric cooperative that opts out of competition under HB390 (1997 legislature); 4) electricity delivered to a purchaser that receives its power directly from a transmission or distribution facility owned by an entity of the U.S. government; 5) electricity meeting certain contractual requirements that is delivered by a distribution services provider that was first served by a public utility after December 31, 1996; and 6) electricity that has been subject to the transmission tax in another state.

The WET tax is collected quarterly and is due 60 days after the end of the quarter to which the tax applies. The revenue from the tax is deposited in the general fund.

Fiscal Impact on Taxpayer Classes

The legislation passed by the Fifty-sixth Legislature reduced taxes for homeowners, owners of vehicles, business equipment and commercial real estate, livestock, and owners of electrical generating and telecommunications property. The homeowner and commercial real estate tax relief will be phased in beginning in tax year 1999 (fiscal 2000). The remaining tax relief will begin January 1, 2000.

Table 5 shows estimates of the impact of the property tax legislation on property tax liability for each class of property. The impact is derived under the assumption that all local taxing jurisdictions adjust mills in response to changes in the tax base, and that the sum of the new property tax revenue plus reimbursements equals prior year revenue.

Only class 1 (net proceeds) was not directly affected by legislation altering the property tax base. The taxable value of gross proceeds was reduced by HB420, which increased transportation deductions for metal mines. Liability for these classes rise indirectly because of mill levy increases by local jurisdictions.

Agricultural land property taxes increase relative to liability under current law by 2.4 percent. The net amount of taxable value in agricultural land falls, due to reductions in the tax rate that overwhelm the increase in value due to reappraisal. The reduction in agricultural taxable value produces an increase in tax liability because of higher local mills.

Residential real estate experiences an average reduction in tax liability of 6.2 percent. On average, residences will be valued higher than under previous law due to reappraisal. However, tax rate reductions and the homestead exemption more than adjust for the increase in value due to reappraisal. In tax year 2000 (fiscal 2001), the average reduction in taxable values for all homesteads in the state is 10.6 percent. The reduction in tax liability is less because of the increase in local mills.

Commercial real estate experiences an increase in average tax liability of 1.6 percent. On average, commercial real estate will be valued higher than under current law due to reappraisal. Tax rate reductions and the establishment of a comstead exemption reduce the taxable value of commercial real estate by 3.2 percent in tax year 2000 (fiscal 2001). The change in the property tax liability for commercial real estate is positive due to increases in local mills.

Table 5
Legislative Reductions in Property Tax Liability
Fiscal 2001

Property Class		Percent Change Fom Current Law
Class 1	Net Proceeds	5.0%
Class 2	Gross Proceeds	5.3%
Class 3	Agricultural Land	2.4%
Class 4R	Residential Real Estate	-6.2%
Class 4C	Commercial Real Estate	1.6%
Class 5	Co-ops, Pollution Control	4.9%
Class 6	Livestock	-31.5%
Class 7	Independent Telephone	-75.6%
Class 8	Business Equipment	-42.4%
Class 9	Utilities	-10.9%
Class 10	Timberland	4.5%
Class 12	Railroads and Airlines	-17.3%
	All Classes	-9.6%

Assumes local jursidictions increase mills to recoup unreimbursable taxable value loss: Excludes impacts of SB100 on property tax liability. Source is DOR - TPR

The above describes the average change in tax liability for the average homeowner and average commercial real estate owner in the state. The impact on any one owner will depend on the magnitude of the change in value of the property due to reappraisal, and on the local mill levy increase. Some jurisdictions contain property that had a large appreciation in value, and the average tax bill for the homes in those jurisdictions may very well increase in spite of the homestead exemption and tax rate cut.

The property owned by telephone cooperatives and pollution control property will experience an increase in property tax liability due to increases in local mills. Beginning in tax year 2000, the property in this class will contain the property now in the class, plus most of the property now in class 7 (independent telephone) which was reclassified by HB128.

In fiscal 2001, livestock owners will experience a reduction in tax liability of 31.5 percent. The tax rate on livestock falls by 25 percent in tax year 2000, and by 50 percent in tax year 2001. The reduction in tax liability in fiscal 2001 is an average of both years, since some livestock owners pay taxes in March instead of November and May.

The reduction in tax liability for business equipment owners will average 42.4 percent in fiscal 2001. The tax rate was cut in half, but the increase in local mills will mitigate some of the tax relief.

Utility property will experience a 10.9 percent reduction in tax liability. Even though the tax rates for both electrical generating and telecommunications property will fall by 50 percent, this property makes up only a small share of all the property in class 9. In addition, the assumed sale of Montana Power Company electrical generating property will have an upward impact on the market value of these assets. A large portion of the remaining property in class 9 is made up of electrical transmission and distribution property, all of which remains at a tax rate of 12 percent.

Railroad and airline property will also experience a tax liability reduction indirectly. The tax rate on airline and railroad property will fall because it is a weighted average of the rates which apply to commercial real estate, business equipment, utilities, and other business property.