



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0096	Title:	Lower the business and equipment tax
Primary Sponsor:	Tutvedt, Bruce	Status:	As Amended in House Committee-Revised

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$6,051,108	\$18,152,987	\$13,335,931	\$13,336,483
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$2,075,607)	(\$3,639,627)	(\$3,827,986)	(\$4,026,141)
State Special Revenue	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$8,126,715)</u>	<u>(\$21,792,614)</u>	<u>(\$17,163,917)</u>	<u>(\$17,362,624)</u>

Description of fiscal impact: This bill reduces the taxes assessed on class eight business equipment by providing a tax rate of 1.5% on the first \$10 million of taxable market value and 3% for all taxable market value in excess of \$10 million, and exempts the first \$250,000 in market value of this property owned by a taxpayer, beginning in TY 2014. Current law is assumed to provide a tax rate of 1.5% on the first \$3 million of taxable market value and 3% for all taxable market value in excess of \$3 million owned by a taxpayer in TY 2014 under the provisions of SB 372 (2011 session). Reimbursements are provided to the university system, local governments, local schools, and TIFs from the general fund for reductions in property tax revenue due to SB 96, as amended.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. This bill applies to property tax years beginning after December 31, 2013; and would therefore change property tax rates starting in TY 2014. This would lead to reimbursement changes beginning in FY 2014. FY 2014 tax payments for not lien-to-real property (strict personal property) would be reduced due to this bill reimbursed in FY 2014 (schools for administrative simplicity are reimbursed for this FY 2014 reduction in FY 2015).

- This bill removes current language that would increase the threshold from \$2 million to \$3 million and decrease the tax rate from 2% to 1.5% after a 4% year-to-year increase in state collections of individual income tax and corporate income tax collections in FY 2013. This change is anticipated to apply to TY 2014 property. The amended bill further converts the current \$20,000 market value threshold exemption into a full exemption on the first \$250,000 in market value owner by a taxpayer. These provisions are summarized in the following table:

Business Equipment - Class Eight Tax Rate Brackets, Threshold to Exemption and Relative Class 8 Reduction: Current Law and SB 96 as Amended in the House Taxation Committee						
	Duration	Rate	Bracket	Rate	Threshold to Exemption	Relative Reduction
Current Law	TY2013	2.00%	up to \$ 2,000,000, then	3%	\$20,000	
Current Law (SB 372)	TY2014 & after	1.50%	up to \$ 3,000,000, then	3%	\$20,000	0%
SB 96 as Amended	TY2014 & after	1.50%	up to \$ 10,000,000, then	3%	\$250,000	22.3%

Reduction in Taxable Value

- The predominant fiscal impact of this bill results from the reduction in class 8 taxable value beginning in TY 2014, and the reimbursements to local jurisdictions (local governments, tax increment financing districts, and local schools) for these reductions. For a sense of scale, the bill would reduce the class 8 tax base by approximately 22.3%. This change was modeled with the TY 2012 individual property tax record data base. The change is presented in the table below:

TY 2014/FY Taxable Value Reduction Under SB 96 as Amended			
	Current Law	SB 96 as Amended	Difference
Taxable Value	\$47,511,010	\$85,495,015	\$37,984,005

- This bill retains existing language that provides a reimbursement from the general fund to: local governments; tax increment financing districts; school districts; county school retirement funds; county transportation funds; and the Montana University System for class eight and class twelve revenue lost due to the class eight rate reductions.
- This fiscal note does not include impacts for revenue lost from a reduction in the class twelve tax rate, because in the past this impact has been small, Simulations with the property tax model suggest the maximum reduction in the class 12 tax rate would be about 1.87%. The class 12 tax rate in TY 2012 was 3.45% so the rate in TY 2012, if this bill had been in effect, would have been 3.38%. Since the TY 2014 tax base would be incorporated into the TY 2015 Class 12 tax rate calculation, the 1.87% (or less) reduction in class 12 impact would not occur until FY 2016.

Full-Year Reimbursement to Local Jurisdictions and the University System

- To calculate the reimbursement, this fiscal note uses TY 2012 (FY 2013) individual record class eight property information and millage rates provided by the Department of Revenue. To forecast TY 2014 class eight property values, this fiscal note uses the 5.4% market values growth rate for TY 2013 and TY 2014 implied by the SJ 2 class 8 taxable values estimates. The distribution of the ongoing reimbursements is presented below:

SB 96 as Amended Full TY 2014 / FY 2015 Distribution of Ongoing Reimbursements	
Jurisdictions	Full-Year Reimbursements
Local Governments	\$8,453,102
TIFs	\$1,195,226
Schools	\$7,931,722
6 Mill	\$227,905
Total Ongoing Reimbursements	\$17,807,955

7. The distribution of the reimbursements to local governments and tax increment finance districts would become a part of the entitlement share payment statutory appropriation base in FY 2015. Payments for local governments would then grow by the entitlement share payment growth rate per 15-1-121, MCA.
8. Reimbursements to schools would be through an increase in the base for school block grant payments under the provisions of 20-9-630, MCA (This would require coordination in HB 2).
9. The reimbursement for reductions in university 6 mill state special revenue is assumed to grow annually.

One-time Reimbursements for FY 2014 Strict Personal Property

10. Both current law and this bill contain language requiring a one-time reimbursement attributable to (strict) personal property that is not a lien on real property, as this tax revenue reduction occurs in the same fiscal year as the tax year (Note: most property tax is collected in the subsequent fiscal year). These payments are to be made in FY 2014 for local governments, TIFs and the university system, and in FY 2015 for schools. These are separate standalone payments for the revenue loss that is estimated to occur in FY 2014. These payments are as follows:

SB 96 as Amended Strict Personal Property (One-Time) TY 2014 Reimbursements Paid in FY 2014 and FY 2015	
Jurisdiction	One-time Reimbursements
Local Governments	\$5,075,904
TIFs	\$828,830
6 Mill	\$129,969
FY 2014 Reimbursements	\$6,034,703
FY 2015 School Reimbursements	\$4,635,531
Total One-time Reimbursements	\$10,670,234

Revenue Reductions to the State General Fund (95 mill and 1.5 mill) and University (6 mill) levies

11. This bill reduces revenue paid to the general fund from: the 40 mill equalization levy (20-9-360, MCA); the 33 mill elementary levy (20-9-331, MCA); and the 22 mill high school levies (20-9-333, MCA); as well as the weighted average (0.82 mills) of the 1.5 mill College of Technology levy (20-25-439, MCA) applicable to Cascade, Lewis and Clark, Missoula, Silver Bow, and Yellowstone county property. The state general fund revenue loss from the statewide average combined millage rate of 95.82 mills is estimated to be a reduction of \$3,639,627 in FY 2015. This reduction is assumed to grow annually at the 5.2% class eight market value growth rate underlying the SJ 2 revenue estimate, resulting in reductions in state revenue of approximately \$3,827,986 in FY 2016 and \$4,026,141 in FY 2017.

12. The state also experiences the reduction in taxes paid on non-lien to real (strict) personal property in FY 2014. This estimated to be 57.03% of the full year TY 2014 revenue loss (same as the 6 mill strict personal property to full-year 6 mill reimbursement shares) or \$2,075,607 in FY 2014.
13. The FY 2014 revenue loss to the University 6 mill levies is \$129,969 in FY 2014.

DOR Administrative Expenses

14. The department estimates the costs of implementing this bill in the property assessment system is \$16,405 in FY 2014.
15. This bill has coordination instructions rendering HB 472 void, if this bill and HB 472 pass.

Office of Public Instruction

16. On-going school property tax revenue losses and reimbursements are presented in assumption #6 and the reductions are reimbursed through the school block grant payments program 20-9-630, MCA, (in HB 2).
17. There is a one-time loss of revenue to school districts in FY 2014 for strict personal property tax that is reimbursed through a one-time payment in FY 2015, as outlined in assumption #10.
18. The decrease in property tax revenue due to this bill for strict personal property in FY 2014 does not have a guarantee tax base aid (GTB) effect on school districts in FY 2014. GTB would have been determined prior to the effective date of the bill.
19. GTB changes to school districts due to changes in taxable value are offset by block grant reimbursements. Block grant payments are considered non-levy revenue for school district budgeting purposes. Non-levy revenues are considered prior to GTB calculation in school budgeting. Therefore, the reimbursement goes into school district base funding, with the net effect of reducing GTB costs to the state relative to current law by \$4.3 million in FY 2015, \$4.5 million in FY 2016, and \$4.5 million in FY 2017.
20. The reimbursement for lost FY 2014 revenue would be reimbursed to school districts as one-time-only block grant payment of \$3.781 million in FY 2015. (Assumption #10) Ongoing block grant payments of \$6.470 million would begin in FY 2015. (Assumption #6).
21. There would also be countywide retirement GTB and countywide transportation effects. The one-time-only payments for FY 2014 revenue reduction would be \$0.854 million paid to the county funds in FY 2015, and the ongoing reimbursement would be \$1.462 million beginning in FY 2015.

<u>Fiscal Impact:</u>	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Department of Revenue				
<u>Expenditures:</u>				
Operating Expenses	\$16,405	\$0	\$0	\$0
Transfer Local Govt (15-1-121)	\$0	\$8,453,102	\$8,453,102	\$8,453,102
Transfer Local Govt (One-time)	\$5,075,904	\$0	\$0	\$0
Transfer TIFs (15-1-121)	\$0	\$1,196,226	\$1,196,226	\$1,196,226
Transfer TIFs (One-time)	\$828,830	\$0	\$0	\$0
Transfer MUS (Ongoing)	\$0	\$227,905	\$239,699	\$252,107
Transfer MUS (One-time)	\$129,969	\$0	\$0	\$0
TOTAL Expenditures	\$6,051,108	\$9,877,233	\$9,889,027	\$9,901,435
<u>Funding of Expenditures:</u>				
General Fund (01)	\$6,051,108	\$9,877,233	\$9,889,027	\$9,901,435
TOTAL Funding of Exp.	\$6,051,108	\$9,877,233	\$9,889,027	\$9,901,435
Office of Public Instruction				
<u>Expenditures:</u>				
K-12 BASE Aid (GTB)	\$0	(\$4,291,500)	(\$4,484,819)	(\$4,496,675)
Block Grant Payments (Ongoing)	\$0	\$6,470,154	\$6,470,154	\$6,470,154
Block Grant Payments (OTO)	\$0	\$3,781,347	\$0	\$0
Co. Retire GTB & Transport (Ongoing)	\$0	\$1,461,569	\$1,461,569	\$1,461,569
Co. Retire GTB & Transport (OTO)	\$0	\$854,184	\$0	\$0
TOTAL Expenditures	\$0	\$8,275,754	\$3,446,904	\$3,435,048
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$8,275,754	\$3,446,904	\$3,435,048
TOTAL Funding of Exp.	\$0	\$8,275,754	\$3,446,904	\$3,435,048
<u>Revenues:</u>				
General Fund (01)	(\$2,075,607)	(\$3,639,627)	(\$3,827,986)	(\$4,026,141)
Property Tax (6 mill) SSR(02)	(\$129,969)	(\$227,905)	(\$239,699)	(\$252,107)
MUS Transfer SSR (02)	\$129,969	\$227,905	\$239,699	\$252,107
TOTAL Revenues	(\$2,075,607)	(\$3,639,627)	(\$3,827,986)	(\$4,026,141)

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

General Fund (01)	(\$8,126,715)	(\$21,792,614)	(\$17,163,917)	(\$17,362,624)
State Special Revenue (02)	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

- Local government revenues will be reimbursed through an increment to the entitlement share payment base, and schools would be reimbursed through the Title 20 school block grants provisions.

Office of Public Instruction

- As calculated in the school funding model, local school property taxes could increase statewide by \$5.6 million in FY 2015 and \$2.5 million in FY 2016 and beyond.

Sponsor's Initials

Date

Budget Director's Initials

Date