GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2021 Biennium

Bill #	SB0239
Title:	Provide for moratorium on property taxes for broadband fiber
Primary Sponsor:	Ellsworth, Jason W
Status:	As Amended in Senate 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 2020 Difference	FY 2021 Difference	FY 2022 Difference	FY 2023 Difference
Expenditures:				
General Fund	$91,415	$87,695	$88,936	$90,195
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	($461,000)	($922,000)	($1,383,000)
State Special Revenue	$0	($29,000)	($58,000)	($87,000)
Net Impact-General Fund Balance:	($91,415)	($548,695)	($1,010,936)	($1,473,195)

Description of fiscal impact: SB 239, as amended, provides a five-year property tax exemption for Class 5 and Class 13 fiber optic and coaxial cable facilities installed and placed in service on or after the effective date of this bill. After five years, the value is phased in at a rate of 20% per year until after year 10, when the property would become fully taxable. The tax savings from the abatement must be reinvested by the taxpayer, and reinvestment cost may not be passed on to the taxpayers' customers.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. The department estimates that between TY 2015 and TY 2018 there was an average annual value of $43.886 million in new Class 5 telecommunication non-personal property and $159.178 million in Class 13 telecommunication non-personal property in the state.
2. In TY 2018, the weighted average intangible personal property exemption for Class 5 telecommunication property was 15.10% and for Class 13 property was 60.94%. This percentage applied to the previous assumption, yields an updated market value of $37.259 million in Class 5 property and $62.169 million in Class 13 property.
3. Applying the Class 5 assessment rate of 3%; the Class 13 rate of 6%; and state mills to these values, produces an estimated impact of $0.490 million in state property tax revenue for the first year.

4. The amount of exempt property accumulates rapidly over the first five years. Property then begins to phase-out over the next five. In the eleventh year expiring exemptions begin to fully offset new property.
5. SB 239 has an effective date of July 1, 2019. This means that the first year the state would see an impact would be TY 2020 (FY 2021) as the first assessment date would be January 1, 2020. In FY 2022 the exempt property from FY 2021 would still be exempt, along with newly exempt property. Therefore, in the first five years, the impact in each subsequent year will be a multiple of the first year.
6. SB 239, as amended, imposes additional administrative and audit duties on the department for verification of the allocation of the tax savings and to ensure tax savings were not passed on to consumers over an 11-year period (9 years plus 2 years following the final year of the reduced taxes). The department estimates that this will require an additional 1.00 FTE and associated operating expenses.

Fiscal Impact: Department of Revenue	FY 2020 Difference	FY 2021 Difference	FY 2022 Difference	FY 2023 Difference
FTE	1.00	1.00	1.00	1.00
Expenditures:				
Personal Services	$75,085	$75,085	$76,212	$77,355
Operating Expenses	$16,330	$12,610	$12,724	$12,840
TOTAL Expenditures	$91,415	$87,695	$88,936	$90,195
Funding of Expenditures:				
General Fund (01)	$91,415	$87,695	$88,936	$90,195
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$91,415	$87,695	$88,936	$90,195
Revenues:				
General Fund (01)	$0	($461,000)	($922,000)	($1,383,000)
State Special Revenue (02)	$0	($29,000)	($58,000)	($87,000)
TOTAL Revenues	$0	($490,000)	($980,000)	($1,470,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($91,415)	($548,695)	($1,010,936)	($1,473,195)
State Special Revenue (02)	$0	($29,000)	($58,000)	($87,000)

Effect on County or Other Local Revenues or Expenditures:

1. The five-year exemption will decrease local taxable value, local mills will adjust upward to offset the effects of the accumulating exempt property. Taxes effectively will be shifted to other property in each respective jurisdiction as all taxpayers would see higher mills as a result of lowering taxable value. The estimated increase is 0.8 local mills statewide.

Long-Term Impacts:

1. SB 239, as amended, requires companies to reinvest the tax savings due to this bill, but the reinvestment is not specified. Therefore, no increase in the taxable values of this property is expected relative to the forecast.

NO SPONSOR SIGNATURE

Sponsor's Initials	Date	TL Budget Director's Initials	3/16/19 Date