Fiscal Note 2023 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill #	HB0372	**Title:**	Eliminate business equipment tax
Primary Sponsor:	Ler, Brandon	**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

	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	$22,713,259	$72,333,843	$72,330,271	$72,326,641
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($4,251,000)	($15,139,000)	($15,200,000)	($15,260,000)
State Special Revenue	($266,200)	($948,100)	($951,900)	($955,100)
Net Impact-General Fund Balance:	($26,964,259)	($87,472,843)	($87,530,271)	($87,586,641)

Description of fiscal impact: HB 372 eliminates class 8 business equipment from the property tax base. The legislation also reimburses local government jurisdictions for this reduction through entitlement share transfers and schools through reinstituted school block grants, all from the state general fund. The general fund reimbursements limit the tax burden shift to other property taxpayers in affected jurisdictions.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under present law, in TY 2020, there was $7.876 billion in market value of non-exempt class 8 property which had a taxable value of $161.389 million.
2. Eliminating this $161.389 million in taxable value would have translated into a loss of $15.002 million in general fund revenue, $939,000 in MUS revenue, $26.543 million in county revenue, $5.555 in city revenue, $30.403 million in school revenue, and $9.188 million in TIF revenue. However, the taxable value reductions would be offset with increase in mill levy hikes in most local jurisdictions.
3. The effective date of this legislation is after December 31, 2021. HB 372 would first apply to TY 2022 property. Class 8 property can be taxed as if it were real property (lien-to real) which is billed in November

and the following May, the subsequent fiscal year; and some class 8 property is "strict" personal property (not lien-to-real) which is billed in April, the fiscal year of billing. Therefore, class 8 receipts do not follow the typical subsequent fiscal year receipts pattern. With HB 372 there are revenue impacts in FY 2022. Only the "strict" personal property is affected in FY 2022, and only the "strict" personal property tax effects are reimbursed in FY 2022. The breakout of the known TY 2020 class 8 taxes paid between "strict" personal property (28.1%), which would be received in FY 2020, and the "billed as real" personal property (71.9%) as received in FY 2021 is presented below.

Revenue Reductions in TY 2020 with the Elimination Class 8 and Mills were Not Allowed to Adjust.

	General Fund	**MUS**	**County**	**Cities**	**Schools**	**TIFS**
Strict Personal Property	$4,217,000	$265,000	$7,894,000	$2,513,000	$8,889,000	$3,305,000
Lien-to-Real	$10,785,000	$674,000	$18,649,000	$3,042,000	$21,513,000	$5,883,000
Total	$15,002,000	$939,000	$26,543,000	$5,555,000	$30,403,000	$9,188,000

4. The TY 2020 effects are multiplied by estimated growth rates for class 8 property contained in HJ 2 to estimate the impacts for FY 2022 through FY 2025. The following table shows the estimated revenue reductions by tax year for the general fund and the MUS for TY 2022 through TY 2025 and the fiscal year distribution of those reductions:

Tax Year Effects	**TY 2022**		**TY 2023**		**TY 2024**		**TY 2025**
HJR2	0.40%		0.40%		0.00%		0%
General Fund	$15,122,000		$15,183,000		$15,243,000		$15,304,000
University SSR	$947,000		$951,000		$954,000		$958,000
Fiscal Year Shares	**FY 2022**	**FY 2023**	**FY 2023**	**FY 2024**	**FY 2024**	**FY 2025**	**FY 2025**
General Fund	$4,251,000	$10,871,000	$4,268,000	$10,915,000	$4,285,000	$10,958,000	$4,302,000
University SSR	$266,200	$680,800	$267,300	$683,700	$268,200	$685,800	$269,300
Fiscal Year Totals	**FY 2022**		**FY 2023**		**FY 2024**		**FY 2025**
General Fund	$4,251,000		$15,139,000		$15,200,000		$15,260,000
University SSR	$266,200		$948,100		$951,900		$955,100

5. This legislation reimburses the estimated loss in revenue to TIF districts, county governments, incorporated cities and towns, and local schools from the state general fund.
6. Per the provisions of this legislation, the reimbursements to TIFs, the MUS, county governments, city governments, and local schools are forecast to remain at their TY 2022 levels through the forecast period.

DOR Administrative Costs

7. Annual savings as a result of HB 372 include $7,150 associated with reporting reminder letters and $6,500 associated with assessment notices beginning in FY 2022.
8. Additionally, there would be approximately $284,000 annual savings associated with not needing 4.00 FTE starting in FY 2023, and 50% of those savings in FY 2022.

Office of Public Instruction

9. On-going school property tax revenue losses and reimbursements are presented in the Department of Revenue's assumption section and the reductions are reimbursed through the school block grant payments program described in section 4 of HB 372 and will need to be appropriated in HB 2.
10. The decrease in property tax revenue due to this bill for strict personal property in FY 2022 does not have a guarantee tax base aid (GTB) effect on school districts in FY 2022. The GTB subsidy per mill would have been determined prior to the effective date of the bill.

11. 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 (NLR) for school district budgeting purposes. Non-levy revenues are considered prior to GTB calculation in school budgeting. HB 372 requires in new section 1 that *the school district deposit the block grant in a budgeted fund of the district.* This language permits a district to receive the block grant to a fund that may or may not be levied by the district or a fund which is inclusive of the GTB calculations. With these considerations the OPI is not able to determine an offsetting saving to the state regarding GTB as it relates to the receipt of the block grant described in the bill.

Fiscal Impact:	**FY 2022 Difference**	**FY 2023 Difference**	**FY 2024 Difference**	**FY 2025 Difference**
Department of Revenue				
FTE	(2.00)	(4.00)	(4.00)	(4.00)
Expenditures:				
Personal Services (DOR)	($122,773)	($248,471)	($251,439)	($254,453)
Operating Expenses (DOR)	($29,678)	($45,656)	($46,290)	($46,906)
Transfers to MUS (DOA)	$265,000	$939,000	$939,000	$939,000
Transfers to Counties (DOR)	$7,894,000	$26,543,000	$26,543,000	$26,543,000
Transfers to Cities (DOR)	$2,513,000	$5,555,000	$5,555,000	$5,555,000
Transfers to Schools (OPI)	$8,889,000	$30,403,000	$30,403,000	$30,403,000
Transfers to TIFs (DOR)	$3,305,000	$9,188,000	$9,188,000	$9,188,000
TOTAL Expenditures	$22,713,549	$72,333,873	$72,330,271	$72,326,641
Funding of Expenditures:				
General Fund (01)	$22,713,259	$72,333,873	$72,330,271	$72,326,641
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$22,713,259	$72,333,873	$72,330,271	$72,326,641
Revenues:				
General Fund (01)	($4,251,000)	($15,139,000)	($15,200,000)	($15,260,000)
State Special Revenue (02)	($266,200)	($948,100)	($951,900)	($955,100)
TOTAL Revenues	($4,517,200)	($16,087,100)	($16,151,900)	($16,215,100)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($26,964,259)	($87,472,873)	($87,530,271)	($87,586,641)
State Special Revenue (02)	($266,200)	($948,100)	($951,900)	($955,100)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. The foregone tax revenue associated with the reduction to local taxable value is reimbursed through entitlement share transfers. The reimbursements are anticipated to offset the mill increases that would have resulted otherwise for jurisdictions that operate under the 15-10-420, MCA, mill levy limitation.

Office of Public Instruction

2. As calculated in the school funding model, local school property taxes could decrease statewide by $4,565,000 in FY 2022 and $403,000 in FY 2023 and beyond.

<u>Technical Notes:</u>

Office of Public Instruction

1. New Section 1(3) requires block grants to be distributed in November and May with the distribution of Guarantee Tax Base Aid. Guarantee Tax Base Aid is now distributed in December, beginning in FY 2020.
2. If the intent is for the block grant to be used to create property tax relief, section 1(4) states *the school district must deposit the block grant in a budgeted fund of the district.* Should a district choose to place these funds into a non-mill levied fund there will be no property tax savings *(i.e.*, Flexibility Fund). Additionally, there are three budgeted funds (Bus Depreciation, Technology Acquisition & Building Reserve Funds) where NLR's can be used to increase the budget authority rather than lower property taxes.
3. Section 1 of HB 372 directs the Office of Public Instruction to distribute block grants per 15-1-123, MCA. Since all of the school block grant statutes were repealed in the 2017 regular and special sessions, coordination with HB 2 is necessary.

NOT SIGNED BY SPONSOR

	2/18/21	KA	2/16/21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*