



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # HB0636

Title: Revise property tax rates for agricultural, commercial, and residential property

Primary Sponsor: Nave, Fiona

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 2022</u> <u>Difference</u> | <u>FY 2023</u> <u>Difference</u> | <u>FY 2024</u> <u>Difference</u> | <u>FY 2025</u> <u>Difference</u> |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Expenditures: | | | | |
| General Fund | \$6,368,000 | \$796,000 | \$794,000 | \$836,000 |
| State Special Revenue | \$0 | \$0 | \$0 | \$0 |
| Revenue: | | | | |
| General Fund | (\$22,744,000) | (\$23,161,000) | (\$25,596,000) | (\$26,073,000) |
| State Special Revenue | (\$1,436,000) | (\$1,463,000) | (\$1,617,000) | (\$1,647,000) |
| Net Impact-General Fund Balance: | <u>(\$29,112,000)</u> | <u>(\$23,957,000)</u> | <u>(\$26,390,000)</u> | <u>(\$26,909,000)</u> |

Description of fiscal impact: HB 636 reduces the tax rate for class 3 agricultural land from 2.16% to 2.14%, and the class 4 residential and commercial property from the current rate of 1.35% to 1.20%. The class 4 commercial tax rate would change from being 1.4 times the residential rate to 1.42 times residential rate. That is, the class 4 commercial tax rates would go from 1.89% to 1.704%. This change reduces taxable value in jurisdictions with this property causing increases in state Guaranteed Tax Base Aid (GTB) payments to certain school districts.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- HB 636 changes the tax rate for class 3 agricultural land to 2.14%, from 2.16%; class 4 residential property to 1.20%, from 1.35%; and the class 4 commercial property tax rate to 1.704% from 1.89%. The estimated statewide market values and taxable values for these property for TY 2021 is shown in the following table.

| Estimated Values for TY 2021 (\$ Millions) | | | | |
|---|----------------------------|---------------|----------------------|-------------|
| Tax Class | Market /Productivity Value | Taxable Value | Taxable Value HB 636 | Difference |
| Class 3 | \$7,116.785 | \$162.015 | \$160.514 | (\$1.500) |
| Class 4 Residential. | \$129,081.114 | \$1,725.285 | \$1,533.586 | (\$191.698) |
| Class 4 Commercial. | \$25,060.082 | \$469.618 | \$423.401 | (\$46.216) |
| Total | \$161,257.981 | \$2,356.917 | \$2,117.502 | (\$239.415) |

2. The changes in taxable value are multiplied by the state 95 mills and the six university mills. These results are presented in the following table.

| Estimated Impact to State Property Tax Revenue by Class (\$ Millions) | | | |
|--|---------------|----------------------|----------------|
| Tax Class | Taxable Value | General Fund Revenue | University SSR |
| Class 3 | (\$1.500) | (\$0.143) | (\$0.009) |
| Class 4 Residential | (\$191.698) | (\$18.211) | (\$1.150) |
| Class 4 Commercial. | (\$46.216) | (\$4.391) | (\$0.277) |
| Total | (\$239.415) | (\$22.744) | (\$1.436) |

3. The above estimates for TY 2021 are then multiplied by the estimated growth rates in HJ 2. The estimated impact to tax revenue for FY 2022 to FY 2025 is presented in the following table.

| Estimated Fiscal Year Impact to State Property Tax Revenue (\$ Millions) | | | | |
|---|------|---------------|--------------|----------------|
| TY | FY | Taxable Value | General Fund | University SSR |
| 2021 | 2022 | (\$239.415) | (\$22.744) | (\$1.436) |
| 2022 | 2023 | (\$243.803) | (\$23.161) | (\$1.463) |
| 2023 | 2024 | (\$269.433) | (\$25.596) | (\$1.617) |
| 2024 | 2025 | (\$274.454) | (\$26.073) | (\$1.647) |

4. Costs associated with HB 636 would be absorbed as part of the department’s annual updates and maintenance.

Office of Public Instruction (OPI)

5. The on-going taxable value reduction is approximately 6.9% of statewide taxable value as presented in the Department of Revenue assumptions. The reduction would lower the statewide average taxable value per ANB changing the distribution of guaranteed tax base aid (GTB) payments.
6. Implementing the change in taxable value under HB 636 in the school funding model shows that state GTB payments would rise by \$6.368 million in FY 2022, \$0.796 million in FY 2023, \$0.794 million in FY 2024 and \$0.846 million FY 2025. Guaranteed tax base aid (GTB) subsidy per mill is based on the tax year two years prior to the fiscal year of funding. This lag creates the large increase in the year the bill is effective. GTB then adjusts to the more constant level.

| <u>Fiscal Impact:</u> | <u>FY 2022 Difference</u> | <u>FY 2023 Difference</u> | <u>FY 2024 Difference</u> | <u>FY 2025 Difference</u> |
|---|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Department of Revenue (DOR) and The Office of Public Instruction (OPI) | | | | |
| FTE | 0.00 | 0.00 | 0.00 | 0.00 |
| <u>Expenditures:</u> | | | | |
| Local Assistance - GTB (OPI) | \$6,368,000 | \$796,000 | \$794,000 | \$836,000 |
| TOTAL Expenditures | \$6,368,000 | \$796,000 | \$794,000 | \$836,000 |
| <u>Funding of Expenditures:</u> | | | | |
| General Fund (01) | \$6,368,000 | \$796,000 | \$794,000 | \$836,000 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| TOTAL Funding of Exp. | \$6,368,000 | \$796,000 | \$794,000 | \$836,000 |
| <u>Revenues:</u> | | | | |
| General Fund (01) | (\$22,744,000) | (\$23,161,000) | (\$25,596,000) | (\$26,073,000) |
| State Special Revenue (02) | (\$1,436,000) | (\$1,463,000) | (\$1,617,000) | (\$1,647,000) |
| TOTAL Revenues | (\$24,180,000) | (\$24,624,000) | (\$27,213,000) | (\$27,720,000) |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u> | | | | |
| General Fund (01) | (\$29,112,000) | (\$23,957,000) | (\$26,390,000) | (\$26,909,000) |
| State Special Revenue (02) | (\$1,436,000) | (\$1,463,000) | (\$1,617,000) | (\$1,647,000) |

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. Because HB 636 lowers the tax rates for class 3 and class 4 property statewide taxable value is reduced by approximately 6.9%. The shifts would vary in proportion to the share of class 3 and 4 property in a particular jurisdiction if permitted by local jurisdictions (local numerical mill levy caps and voted fixed mills would not necessarily rise). Most local mills would float up to compensate for this decrease in taxable value. In TY 2021 it is estimated that local mills would need to increase by 32.76 mills to generate the same revenue as before the law change for all local taxing jurisdictions.

Office of Public Instruction (OPI)

2. The on-going taxable value reduction due to HB 636 is approximately 6.9% of statewide taxable. The reductions are not directly reimbursed so, on average local mills would rise approximately 6.9% to offset the direct effects of the bill. The shifts would vary in proportion to the share of class 3 and 4 property in a school district. However, some of the reduction would be partially offset by an increase in guaranteed tax base aid (GTB) payment subsidy.

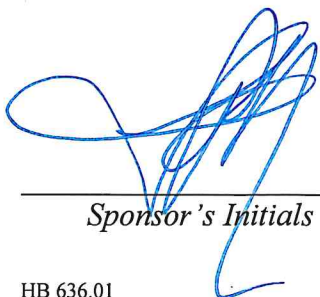
Technical Notes:

Department of Revenue

1. This bill is effective upon passage and approval and has a retroactive applicability date to tax years beginning after December 31, 2020 (TY 2021). This could result in a delay in the Department of Revenue sending out assessment notices for strict personal property mobile homes.

Office of Budget and Program Planning

2. Currently, per Section 9901 of the American Recovery Plan Act (ARPA) which adds New Section 602 to 42 U.S.C. 801, it is unknown if reductions to state taxes resulting in a reduction to net state tax revenue may jeopardize receipt of, or require repayment of State Recovery Funds contained in the ARPA.



Sponsor's Initials

Date

KA

Budget Director's Initials

3-18-21

Date