GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0303	**Title:**	Revise business equipment tax laws: Business Investment Grows (BIG) Jobs Act
Primary Sponsor:	Kassmier, Joshua	**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	$2,234,000	$3,290,400	$3,290,500	$3,290,500
State Special Revenue	($27,000)	($42,400)	($42,500)	($42,500)
Revenue:				
General Fund	($424,000)	($666,000)	($667,000)	($667,000)
State Special Revenue	($27,000)	($42,400)	($42,500)	($42,500)
Net Impact-General Fund Balance:	($2,658,000)	($3,956,400)	($3,957,500)	($3,957,500)

Description of fiscal impact: HB 303 increases the current exemption for class 8 business equipment from $100,000 to $200,000. The change in the threshold lowers taxable value. The legislation also reimburses local jurisdictions for this reduction with transfers from the state general fund. The 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 non-exempt class 8 property had a $7.876 billion in market value and a taxable value of $161.389 million.
2. Had the provisions of this bill been in effect, there would have been an estimated taxable value of $154.005 million (a reduction of $7.384 million).
3. This reduction in taxable value would have translated to an estimated loss of $658,000 in general fund revenue, $41,000 in Montana University System (MUS) revenue, $1.264 million in county revenue, $272,000 in city revenue, $1.370 million in local school revenue, and $342,000 in Tax Increment Financing (TIF) revenue.

4. HB 303 would first apply to TY 2022 property. Class 8 property can be is 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 following fiscal year pattern. With HB 303 there are revenue impacts in FY 2022. Only the "strict" personal property is affected in FY 2022 by the increased exemption, and only the "strict" personal property tax effects are reimbursed in FY 2022.
5. The breakout of the known TY 2020 class 8 taxes paid between "strict" personal property, which would be received in FY 2020, and the "billed as real" personal property as received in FY 2021 is presented below:

	General Fund	MUS	County	Cities	Schools	TIFS
Strict Personal Property	($420,000)	($26,000)	($771,000)	($228,000)	($924,000)	($284,000)
Lien-to-Real	($238,000)	($15,000)	($494,000)	($44,000)	($446,000)	($58,000)
Total	($658,000)	($41,000)	($1,264,000)	($272,000)	($1,370,000)	($342,000)

6. 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	$663,000		$666,000		$666,000		$666,000
University SSR	$42,200		$42,400		$42,400		$42,400
Fiscal Year Distribution	**FY 2022**	**FY 2023**	**FY 2023**	**FY 2024**	**FY 2024**	**FY 2025**	**FY 2025**
General Fund	$424,000	$240,000	$426,000	$241,000	$426,000	$241,000	$426,000
University SSR	$27,000	$15,300	$27,100	$15,400	$27,100	$15,400	$27,100
Fiscal Year Totals	**FY 2022**		**FY 2023**		**FY 2024**		**FY 2025**
General Fund	$424,000		$666,000		$667,000		$667,000
University SSR	$27,000		$42,400		$42,500		$42,500

7. This legislation reimburses the above estimated loss in revenue to TIF districts, county governments, incorporated cities and town, and local schools from the state general fund.
8. Per the provisions of this legislation, the reimbursements to TIF's, the MUS, county governments, city governments at the TY 2022 level occur via the entitlement share reimbursements. Schools are reimbursed by the Office of Public Instruction at their TY 2022 levels via school block grants.
9. The administrative costs to implement this legislation keep with current annual processes and will result in no significant additional cost.

Office of Public Instruction (OPI)

10. On-going school property tax revenue losses and reimbursements are presented in the Department of Revenue assumptions. The reductions are reimbursed through the school block grant payments program described in section 4 of HB 303 and would need to be appropriated in HB 2.
11. 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.

12. GTB impacts on 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 303 requires in new section 4(4) 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 described in section 4 of HB 303 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**
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Transfers to MUS	$27,000	$42,400	$42,500	$42,500
Transfers to Counties (DOR)	$771,000	$1,264,000	$1,264,000	$1,264,000
Transfers to Cities (DOR)	$228,000	$272,000	$272,000	$272,000
Transfers to Schools (OPI)	$924,000	$1,370,000	$1,370,000	$1,370,000
Transfers to TIFs (DOR)	$284,000	$342,000	$342,000	$342,000
TOTAL Expenditures	$2,234,000	$3,290,400	$3,290,500	$3,290,500
Funding of Expenditures:				
General Fund (01)	$2,234,000	$3,290,400	$3,290,500	$3,290,500
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$2,234,000	$3,290,400	$3,290,500	$3,290,500
Revenues:				
General Fund (01)	($424,000)	($666,000)	($667,000)	($667,000)
State Special Revenue (02)	($27,000)	($42,400)	($42,500)	($42,500)
TOTAL Revenues	($451,000)	($708,400)	($709,500)	($709,500)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($2,658,000)	($3,956,400)	($3,957,500)	($3,957,500)
State Special Revenue (02)	($27,000)	($42,400)	($42,500)	($42,500)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. The tax revenue associated with the reduction to local taxable value are reimbursed through entitlement share transfers. The reimbursements are anticipated to offset the revenue reductions that otherwise could have developed for jurisdictions that operate under the 15-10-420, MCA, mill levy limitations.

Technical Notes:

Office of Public Instruction

1. Section 4(3) of HB 303 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. Section 4(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 budget authority rather than lower property taxes.
3. Section 4 of HB 303 directs the Office of Public Instruction to distribute block grants per 15-1-123, MCA. Since all of the prior school block grant statutes were repealed in the 2017 regular and special sessions, coordination with HB 2 is necessary.

JK	2-8-21	KA	2/8/21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*