

Fiscal Estimate - 2021 Session

Original
 Updated
 Corrected
 Supplemental

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|-----------------------------|-----------------------------------|
| LRB Number 21-4737/1 | Introduction Number SB-623 |
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Description
 Repealing the personal property tax, granting rule-making authority, and making an appropriation

Fiscal Effect

State:

| | | |
|--|---|---|
| <input type="checkbox"/> No State Fiscal Effect | <input type="checkbox"/> Increase Existing Revenues | <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget |
| <input type="checkbox"/> Indeterminate | <input type="checkbox"/> Decrease Existing Revenues | <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| <input checked="" type="checkbox"/> Increase Existing Appropriations | | <input type="checkbox"/> Decrease Costs |
| <input type="checkbox"/> Decrease Existing Appropriations | | |
| <input type="checkbox"/> Create New Appropriations | | |

Local:

| | | |
|--|---|--|
| <input checked="" type="checkbox"/> No Local Government Costs | 5. Types of Local Government Units Affected | |
| <input type="checkbox"/> Indeterminate | <input type="checkbox"/> Towns <input type="checkbox"/> Village <input type="checkbox"/> Cities <input type="checkbox"/> Counties <input type="checkbox"/> Others <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts | |
| 1. <input type="checkbox"/> Increase Costs | 3. <input type="checkbox"/> Increase Revenue | |
| <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | |
| 2. <input type="checkbox"/> Decrease Costs | 4. <input type="checkbox"/> Decrease Revenue | |
| <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | |

| | |
|---|--|
| Fund Sources Affected | Affected Ch. 20 Appropriations |
| <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input checked="" type="checkbox"/> PRO <input type="checkbox"/> PRS <input checked="" type="checkbox"/> SEG <input type="checkbox"/> SEGS | 20.566(3)(a), 20.566(3)(b), 20.566(2)(hm), 20.566(2)(bm), 20.566(2)(a), and 20.835(1)(f) |

| | | |
|---|---|---------------------------|
| Agency/Prepared By DOR/ Craig Steinfeldt (608) 266-5705 | Authorized Signature Ann DeGarmo (608) 266-7179 | Date 10/27/2021 |
|---|---|---------------------------|

Fiscal Estimate Narratives

DOR 10/27/2021

| | | | | | |
|--|-----------|---------------------|--------|---------------|----------|
| LRB Number | 21-4737/1 | Introduction Number | SB-623 | Estimate Type | Original |
| Description Repealing the personal property tax, granting rule-making authority, and making an appropriation | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

The bill exempts all personal property under Chapter 70 beginning with January 1, 2022 property tax assessments. Under the bill, manufactured and mobile homes not otherwise exempt, advertising signs, buildings, improvements, and fixtures on leased lands, exempt lands, forest crop lands, and managed forest lands would be assessed as real property beginning with the tax exemption. Beginning in 2023, each taxing jurisdiction will receive a payment to compensate it for its loss in personal property equal to the property tax levied on the items made exempt. Annually, beginning in 2024, each taxing jurisdiction will receive a payment equal to the payment received in the previous year, increased by the annual percentage change in the consumer price index (CPI) for all urban consumers, U.S. City average for the 12 months ending June 30, except that the percentage shall not be less than zero.

For fiscal year 2022-23, the bill provides \$202,350,000 in the State aid; personal property tax exemption appropriation to compensate each taxing jurisdiction for its loss in personal property. The bill also provides administrative funding in the following amounts: FY 2022 GPR funding of \$1,310,225 and PR funding of \$22,580; FY 2023 GPR funding of \$120,365.

The bill creates a personal property tax exemption for railroad companies to comply with the requirements of the federal Railroad Revitalization and Regulatory Reform Act. The bill provides a GPR transfer from the general fund to the transportation fund of \$9,000,000 for FY 2023. Beginning in FY 2024 and each year after the transfer will increase by 1.25 percent.

The bill also establishes that railroad terminal aid payments resulting from taxes paid by any railroad company derived from or apportionable to repair facilities, docks, ore yards, piers, wharves, grain elevators, and their approaches or car ferries may not be less than the amount distributed in 2021, and beginning with amounts distributed in 2023, the amount may not be less than the amount distributed in 2021, adjusted by the inflation factor. The inflation factor is the U.S. CPI, U.S. city average for the 12 months ending December 31 of the year before the year of assessment, except that the amount shall not be less than zero.

The bill makes technical changes related to the repeal of the personal property tax to provide a process whereby manufacturing establishments located in this state that lease, but do not own real property in this state may continue to claim the manufacturing and agriculture income tax credit.

Current law also provides a general program revenue (GPR) transfer to the conservation fund based on equalized values of the state.

Personal Property Aid Fiscal Estimate

Based on 2021 equalized values and 2021-22 property tax levies estimated at \$12.45 billion to compute a gross tax rate, the department estimates the bill's revenue loss and state aid payments to local taxing jurisdictions at \$190,881,000 for FY 2023. The 2021-22 property tax levy estimate uses the 2020-21 gross levies multiplied by 3.6 percent—the average annual growth for total levies between 2018 and 2020. The actual levy change in 2021-22 will vary by each taxing jurisdiction and could be higher or lower than 3.6 percent.

The department estimate includes two aid payment reductions based on the bill's provision of taxing specific property on leased land as real property. First, the aid payment estimate is reduced by \$2.82 million for advertising signs on leased land. The estimate is based on at least 9,896 signs with a statewide average value of \$15,000, and the 2021-22 estimated statewide gross tax rate. Advertising signs valued with the income approach in highly visible markets could have values in the range of \$40,000. The second aid payment reduction is \$16.31 million, and it is for manufactured and mobile homes not otherwise exempt and buildings on leased and exempt lands. The mobile home and buildings on leased land estimate is based on 2021

equalized value data and the estimated 2021-22 tax rate for each taxing jurisdiction.

Tax Incremental Districts

The bill will reduce the increment value of most tax increment districts (TID). For uniformity with new TID districts, the department will need to re-determine each TID's base value. Compared to current law, future TIDs will have less taxable property upon which increment may be generated. Since a breakdown of increment value is not available by property class, the impact on increment value is indeterminate.

Railroad Personal Property Exemption and Terminal Aid Payments

The railroad personal property tax exemption general fund transfer is estimated at \$9,000,000 in FY 2023.

Railroad terminal aid payments based on 2021 values and distributed in FY 2022 are estimated at \$1,687,100.

Manufacturing and Agriculture Credit

The bill has no fiscal effect on the manufacturing and agriculture credit as the bill does not change eligibility for the credit.

Conservation Fund Transfer

Under the bill, FY 2022 GPR transfers to the conservation fund would have declined by an estimated \$1,576,700 due to lower equalized values. The FY 2022 conservation fund transfer totaled \$111,123,100 for forestry programs managed by the Department of Natural Resources.

Administrative Costs

The bill provides sufficient funding to cover the departments administrative costs to re-determine TID bases, update computer programs and revise forms.

Long-Range Fiscal Implications

Personal Property Aid Fiscal Estimate

Under the bill, beginning in FY 2024, the amount distributed to taxing jurisdictions in the previous year will increase by an estimated CPI of 2.81 percent or \$5,361,900 to \$196,242,900 and by an estimated CPI 2.87 percent or \$5,628,300 to \$201,871,200 for FY 2025. The CPI estimates are based on the average quarterly IHS Markit seasonally adjusted forecast for October 2021.

Railroad Personal Property Exemption and Terminal Aid Payments

Under the bill, railroad transfer from the general fund to the transportation fund will increase by \$112,500 to \$9,112,500 in FY 2024, \$113,900 to \$9,226,400 in FY 2025, and an annual increase of 1.25 percent each year thereafter

Railroad terminal aid payments distributed in FY 2023 are estimated to remain at \$1,687,200 due to 2021 amounts being established minimums, while payments distributed in FY 2024 are estimated to increase by 2.84 percent or \$49,200 to \$1,783,200. The estimated increases are based on seasonally adjusted average quarterly CPI estimates from the IHS Markit forecast for October 2021.

Fiscal Estimate Worksheet - 2021 Session

Detailed Estimate of Annual Fiscal Effect

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| Description Repealing the personal property tax, granting rule-making authority, and making an appropriation | | | |
| I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect): | | | |
| \$1,432,670 | | | |
| II. Annualized Costs: | | Annualized Fiscal Impact on funds from: | |
| | | Increased Costs | Decreased Costs |
| A. State Costs by Category | | | |
| State Operations - Salaries and Fringes | \$20,500 | | \$ |
| (FTE Position Changes) | | | |
| State Operations - Other Costs | 9,000,000 | | -1,576,700 |
| Local Assistance | 190,881,000 | | |
| Aids to Individuals or Organizations | | | |
| TOTAL State Costs by Category | \$199,901,500 | | \$-1,576,700 |
| B. State Costs by Source of Funds | | | |
| GPR | 199,901,500 | | -1,576,700 |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.) | | | |
| | Increased Rev | | Decreased Rev |
| GPR Taxes | \$ | | \$ |
| GPR Earned | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| TOTAL State Revenues | \$ | | \$ |
| NET ANNUALIZED FISCAL IMPACT | | | |
| | <u>State</u> | | <u>Local</u> |
| NET CHANGE IN COSTS | \$198,324,800 | | \$ |
| NET CHANGE IN REVENUE | \$ | | \$ |
| Agency/Prepared By | | | |
| DOR/ Craig Steinfeldt (608) 266-5705 | | Authorized Signature | Date |
| | | Ann DeGarmo (608) 266-7179 | 10/27/2021 |