Fiscal Note 2009 Biennium

GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Bill #	SB0210	**Title:**	Revise energy conservation and weatherization laws
Primary Sponsor:	Laslovich, Jesse	**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 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Expenditures:				
General Fund	$39,062	$33,610	$34,450	$0
Revenue:				
General Fund	($2,860,736)	($3,181,996)	($3,503,378)	$0
Net Impact-General Fund Balance	($2,899,798)	($3,215,606)	($3,537,828)	$0

Description of fiscal impact:

This bill amends 15-32-109, MCA, which provides a credit for energy conservation investments in a building. These amendments would be effective beginning with tax year 2007 and terminating at the end of 2010. For tax years 2007 through 2010, this bill

- increases the limit on the credit from $500 to $800,
- includes lighting in the investments that are eligible for the credit,
- makes the credit refundable for single taxpayers with adjusted gross income of $11,280 or less and married taxpayers with adjusted gross income of $14,590 or less, adjusted annually for inflation, and
- allows pass-through entities to claim the credit for investments in a residential rental building.

The increased credits will reduce general fund revenue by $2.9 million in FY 2008 increasing to $3.5 million in FY 2010. The legislation terminates January 1, 2010.

FISCAL ANALYSIS

Assumptions:

1. Under current law, taxpayers are allowed a credit of 25% of eligible expenditures, with the credit limited to $500. (A married couple counts as two taxpayers whether they file separate returns or a joint return.)

Thus, taxpayers with eligible expenditures of $2,000 or less are unaffected by the current cap, while taxpayers with eligible expenditures of more than $2,000 are limited to a credit of $500.

2. On 2005 returns, 4,692 taxpayers claimed $500 credits. Total credits claimed by capped taxpayers were $2,346,000.
3. Based on the distribution of credits less than $500, it is assumed that each $50 increase in the cap would reduce the number of capped taxpayers 10%. It is also assumed that the average credit claimed by taxpayers who would be removed from the cap by increasing it by $50 is $25 more than the original cap. For example, increasing the cap from $500 to $550 would reduce the number of capped taxpayers from 4,692 to 4,223, and the average credit claimed by the 469 taxpayers who are capped at $500 but not at $550 would be $525.
4. With a cap of $800, 1,607 taxpayers would claim credits equal to the cap. They would claim a total of $1,285,662 in credits. There would be 3,085 taxpayers who would be capped at $500 but not at $800. They would claim a total of $2,104,615 in credits (an average of $682). Total credits claimed by taxpayers who are capped under current law would be $3,390,277, an increase of $1,044,277.
5. On 2005 returns, taxpayers who met the income requirements to have the credit refunded under this bill claimed credits that were $226,365 more than their tax liability. Under this bill, that amount would have been refunded to taxpayers.
6. There are 113,810 rental units in Montana (American Community Survey). At least half of these units are owned by individuals, who can claim the credit for investments under current law. Even with a tax credit covering part of the costs, a landlord has an incentive to invest in energy efficiency only if the landlord can recover the costs through lower energy bills or higher rents. Landlords pay for all utilities in less than 20% of units and pay for some utilities in a higher, but unknown percent of units. For this fiscal note, it is assumed that 25% of rental units are owned by pass-through entities that pay for enough of the unit's heat and other utilities to have an incentive to invest in energy conservation.
7. In 2005, credits were claimed by 5.3% of homeowners. Assuming that pass-through entity landlords will have the same participation rate on units where the landlord pays some of the utilities, they would have claimed credits on 1,508 units in 2005 (113,810 x 25% x 5.3%). Assuming that the maximum credit would be claimed for each, credits would have been $1,206,400 (1,508 x $800).
8. If this bill had been in effect in 2005, credits would have been $2,477,042 higher ($1,044,277 + $226,365 + $1,206,400).
9. Use of the energy conservation credit has grown rapidly in recent years and is expected to continue to grow. This credit is not forecast separately in HJR 2, but it accounts for a large part of a group of credits that are forecast to grow by 15.49% from 2005 to 2007, 11.23% in 2008, and 10.10% in 2009 and 2010. Assuming that the increases due to this bill will grow at the same rates, this bill would increase credits by $2,860,736 in 2007 ($2,477,042 x 115.49%), by $3,181,996 in 2008 ($2,860,736 x 111.23%), and by $3,503,378 in 2009 ($3,181,996 x 110.10%).
10. Credits will be claimed on income tax returns filed in the spring following each tax year. The increases in credits for 2007 through 2009 will result in the same reductions in revenue for FY 2008 through FY 2010.
11. Department of Revenue auditors adjust approximately 25% of the claims for this credit that they examine. With the growth in use of this credit since it was last amended and the growth expected because of this bill, the department is not able to audit enough of the returns to ensure high taxpayer compliance with the law. To ensure adequate auditing with the increased credits, the department would need an additional half-time tax examiner with annual salary of $18,086 and annual benefits of $9,578. Total personal services costs would be $27,664 per year, increasing by 2.5% in FY 2010. Equipment costs to set up a new employee would be $5,900 in FY 2008. Operating costs would be $5,498 in FY 2008 and $5,946 per year in FY 2009, increasing by 2.5% in FY 2010. Total additional costs would be $39,062 in FY 2008, $33,610 in FY 2009, and $34,450 in FY 2010.

	FY 2008 Difference	FY 2009 Difference	FY 2010 Difference	FY 2011 Difference
Fiscal Impact:				
FTE	0.50	0.50	0.50	0.00
Expenditures:				
Personal Services	$27,664	$27,664	$28,356	$0
Operating Expenses	$5,498	$5,946	$6,095	$0
Equipment	$5,900	$0	$0	$0
TOTAL Expenditures	$39,062	$33,610	$34,450	$0
Funding of Expenditures:				
General Fund (01)	$39,062	$33,610	$34,450	$0
TOTAL Funding of Exp.	$39,062	$33,610	$34,450	$0
Revenues:				
General Fund (01)	($2,860,736)	($3,181,996)	($3,503,378)	$0
TOTAL Revenues	($2,860,736)	($3,181,996)	($3,503,378)	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($2,899,798)	($3,215,606)	($3,537,828)	$0

Long-Range Impacts:

1. This bill sunsets on January 1, 2010 and will have no impacts after FY 2010.

Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*