

RAIL CAR TAX

Revenue Description

Section 15-23-101, MCA, provides for the central assessment of rail car companies' operating properties. The rail car tax is a tax assessed on a calculated taxable value of the rolling stock of freight line companies. Section 15-23-214, MCA, states that the tax shall be computed by multiplying the taxable value of the property by the average statewide mill levy for commercial and industrial property. Section 15-23-211, MCA, provides the definition of the average statewide mill levy. The general fund receives 100% of the rail car tax revenue.

Historical and Projected Revenue

Table 1 shows the historical and projected general fund revenue for the rail car tax.

Table 1			
Rail Car Tax - General Fund Revenue			
(\$ millions)			
Fiscal Year	General Fund	Percent Change	
A 1995	\$0.692	940.10%	
A 1996	\$0.780	12.74%	
A 1997	\$6.309	708.67%	
A 1998	\$2.054	-67.44%	
A 1999	\$2.074	0.96%	
A 2000	\$2.101	1.28%	
A 2001	\$1.556	-25.94%	
A 2002	\$1.490	-4.24%	
A 2003	\$1.484	-0.37%	
A 2004	\$1.568	5.64%	
F 2005	\$1.585	1.09%	
F 2006	\$1.621	2.24%	
F 2007	\$1.656	2.21%	

The large increase in general fund collections in FY 1997 stems from a settlement agreement reached with a group of rail car companies, which brought in revenue due from prior years. HB 128, HB 174, SB 111, and SB 200, passed during the 1999 legislative session, caused a decrease in FY 2001 general fund revenue primarily due to the decline in the class 12 tax rate.

The class 12 taxable valuation rate, which applies to railroad and airline property, is a composite rate reflective of the weighted average tax rate applied to all commercial and industrial property in the state. The class 12 taxable valuation rate for FY 2001 through FY 2004 decreased significantly from the FY 2000 tax rate due

to the impacts of HB 128, HB 174, and SB 200 on taxable valuations of classes 7, 8, and 9 properties. The class 7 taxable value decrease is attributable to HB 128; portions of class 7 properties that had an 8% tax rate moved into class 5, which has a 3% tax rate. The class 8 taxable value decrease is attributable to SB 200, which reduced the tax rate from 6% to 3%. The class 9 taxable value decrease is attributable to HB 128 and HB 174. These two bills formed a new property class 13, which has a 6% tax rate, and is comprised of telecommunication mileage, electrical energy generation property, and other real and personal property that previously were class 9 properties taxed at a 12% tax rate.

Forecast Methodology and Projected Calculation

Calculation of rail car tax liability is a three-step process. The first step is to project Montana's allocated market value of rail car companies. The second step is to calculate the taxable value by applying the class 12 taxable valuation rate to Montana's allocated market value. The third step is to apply the statewide average mill levy for commercial and industrial property to the taxable value.

Step 1: Calculate Montana Market Value

The first step to project total rail car tax revenues is to estimate Montana's allocated market value for rail car companies. As Table 2 shows, Montana's allocated market value has fluctuated in recent years. Montana allocated value in future years is expected to decline slightly from the FY 2005 amount of \$82.646 million, which is the January 1, 2004, market value. Montana allocated value from FY 2004 to FY 2005 decreased by 1.64%. It is anticipated that Montana's allocated values will continue to decrease by 1.64% each year in FY 2006 and FY 2007.

Table 2			
Actual and Projected Montana Allocated Value			
(\$ millions)			
	<u>Fiscal Year</u>	<u>MT Allocated Value</u>	<u>Percent Change</u>
A	1994	\$67.581	
A	1995	\$69.080	2.22%
A	1996	\$69.296	0.31%
A	1997	\$84.190	21.49%
A	1998	\$94.220	11.91%
A	1999	\$91.985	-2.37%
A	2000	\$95.627	3.96%
A	2001	\$105.616	10.45%
A	2002	\$89.657	-15.11%
A	2003	\$93.550	4.34%
A	2004	\$84.020	-10.19%
A	2005	\$82.646	-1.64%
F	2006	\$81.294	-1.64%
F	2007	\$79.964	-1.64%

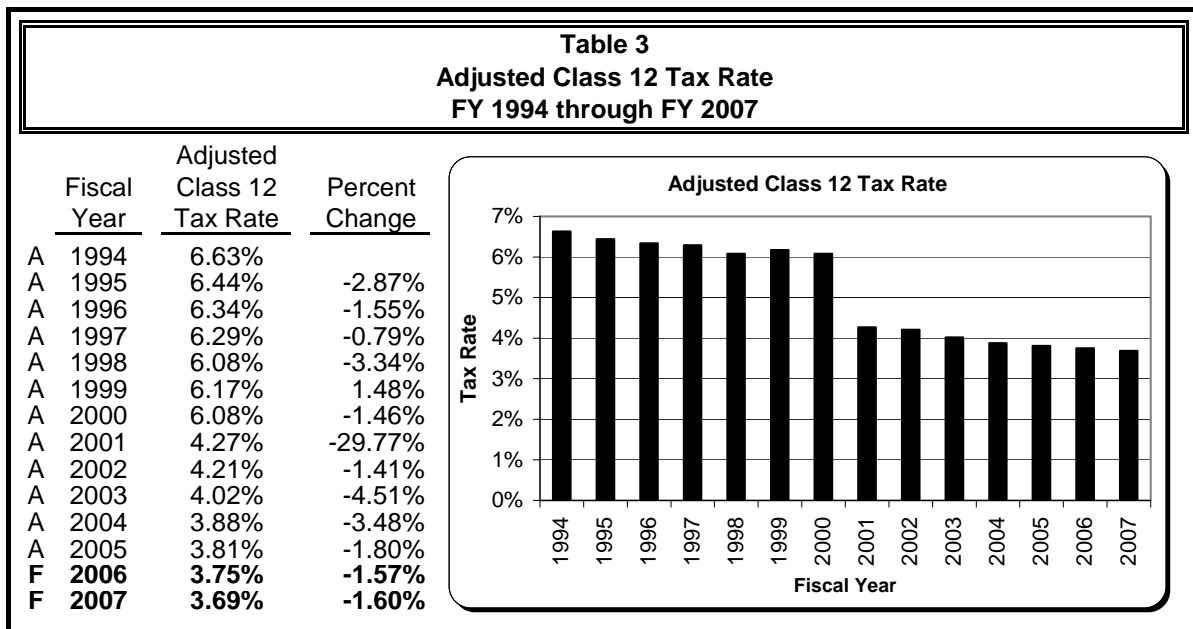
MT Allocated Value

Step 2: Calculate Class 12 Taxable Valuation Rate

The second step in calculating rail car tax liability is to calculate the taxable value by applying the class 12 taxable valuation rate to Montana’s allocated market value. The class 12 taxable valuation rate, which applies to railroad and airline property, is a composite rate reflective of the weighted average tax rate applied to all commercial and industrial property in the state. The class 12 tax rate calculation also includes an adjustment to class 4 commercial property based on the ratio of sales price to market value of class 4 commercial property.

The class 12 taxable valuation rate has significantly decreased since FY 2000 due to the impacts of HB 128, HB 174, and SB 200 on taxable valuations of classes 7, 8, and 9 properties.

The class 12 tax rate in FY 2005 (tax year 2004) was 3.81%. Using estimated commercial property valuations, the class 12 tax rate is estimated to be 3.75% in FY 2006 and 3.69% in FY 2007. Table 3 shows historical and projected class 12 tax rates from FY 1994 to FY 2007.



Step 3: Calculate Statewide Average Commercial/Industrial Property Mill Levy

The third step in calculating rail car tax liability is to determine the statewide average mill levy for commercial and industrial property. Section 15-23-211, MCA, provides a definition of the “average levy.” Prior to FY 2004, the rail car tax was calculated using 95% of the average commercial statewide mill levy. Under current law, the rail car tax calculation for FY 2004 and beyond is calculated at 100% of the average statewide mill levy.

Statewide, mill levies generally increased in FY 2001 through FY 2004. Local governments can have local elections to increase mill levies, or, under 15-10-420, MCA, may float mill levies to produce the same amount of property tax revenue as the taxing jurisdiction received in the previous year, plus a growth rate of one-half the rate of inflation. Because statewide taxable valuations under HB 128, HB 174, and SB 200 have decreased from their FY 2000 levels, mill levies are increased to offset some of this taxable value decline.

As Table 4 shows, the average mill levy applicable for FY 2004 was 474.43 mills. FY 2004 was the first year that the full average statewide mill levy is used to calculate the rail car tax; prior years used 95% of the levy. The change, from using 95% of the average commercial mill levy to using the full average commercial mill levy, explains much of the increase shown in Table 4 from FY 2003 to FY 2004.

Fiscal year average commercial mill levies are based on prior tax year information. For example, the FY 2005 mill levy is based on tax year 2003 property tax information. As Table 4 shows, the average statewide commercial mill levy for FY 2005 is 503.39. The FY 2006 average commercial mill levy has not yet been calculated by the Department of Revenue. This forecast assumes that the average statewide mill levy for FY 2006 and FY 2007 will grow at 5.6%, which is the average annual growth rate of the *full* average statewide commercial mill levy from FY 2001 to FY 2005.

Table 4 shows the applicable actual and projected average statewide mill levies for commercial and industrial property for FY 1994 through FY 2007.

Table 4 Average Statewide Mill Levy - Commercial and Industrial Property FY 1994 through FY 2007*		
Fiscal Year	Average Mill Levy	Percent Change
A 1994	295.06	
A 1995	314.34	6.53%
A 1996	327.84	4.29%
A 1997	351.13	7.10%
A 1998	359.94	2.51%
A 1999	365.34	1.50%
A 2000	363.54	-0.49%
A 2001	380.06	4.54%
A 2002	400.98	5.51%
A 2003	419.25	4.56%
A 2004	474.43	13.16%
A 2005	503.39	6.10%
F 2006	531.58	5.60%
F 2007	561.35	5.60%

*Under law, the average statewide mill levy (ASML) used in these calculations is required to go from 95% of the ASML to 100% beginning in fiscal 2004. This explains the significant increase in fiscal 2004.

Step 4: Calculate General Fund Revenue

As shown in Table 5, rail car tax revenue is determined by multiplying Montana's allocated rail car value by the class 12 tax rate, then multiplying by the average statewide mill levy for commercial and industrial property. General fund revenue is estimated at \$1.585 million in FY 2005, \$1.621 million in FY 2006, and \$1.656 million in FY 2007.

Table 5			
Calculation of Rail Car Tax General Fund Revenue			
FY 2005 through FY 2007			
Description	FY 2005	FY 2006	FY 2007
Total Montana Allocated Value	\$82,645,528	\$81,293,644	\$79,963,874
Multiply by Class 12 Tax Rate	3.81%	3.75%	3.69%
Taxable Value	\$ 3,148,795	\$ 3,048,512	\$ 2,950,667
Multiply by Mill Levy	0.50339	0.53158	0.56135
General Fund Revenue	\$ 1,585,072	\$ 1,620,527	\$ 1,656,352