BILL SUMMARY
2nd Session of the 57th Legislature

Bill No.:	**HB 3048**
Version:	**INT**
Request Number:	**9216**
Author:	**Rep. Trey Caldwell**
Date:	**2/16/2020**
Impact:	**Tax Commission:**

Decrease to General Revenue: ($104.4 Million)
Increase to Ad Valorem Reimbursement: $104.4 Million

Increase in Reimbursement Claims: $40.4 Million

Research Analysis

HB3048, as introduced, reduces the apportionment of funds going to the General Revenue Fund (GR) in order to increase the amount of funds apportioned to the Ad Valorem Reimbursement Fund. Effective for fiscal year 2021 and future years, an additional 2.71% of individual and corporate income tax revenue will be apportioned to the Ad Valorem Reimbursement Fund from money that is currently going to the General Revenue Fund for the purpose of reimbursing eligible counties for loss of revenue associated with the homestead exemption for military veterans and their surviving spouses. Eligible counties are those where the number of exemptions claimed is greater than 0.8% of the total population of the county.

Prepared By: Quyen Do

Fiscal Analysis

Analysis provided by the Tax Commission:

HB 3048 proposes to amend 68 O.S. § 2352 and 62 O.S. § 193 modifying individual income tax and corporate income tax apportionment and adding claims that can be paid from the Ad Valorem Reimbursement Fund.

Section 1 of HB 3048 proposes to amend 68 O.S. § 2352 modifying individual income tax and corporate income tax apportionment. Currently, individual income tax is apportioned[1] as follows: (1) eighty-five and sixty-six one-hundredths percent (85.66%) to the General Revenue Fund ("GRF")[2], (2) eight and thirty-four one-hundredths percent (8.34%) to the Education Reform Revolving Fund, (3) five percent (5%) to the Teachers' Retirement System Dedicated Revenue Revolving Fund[3], and (4) one percent (1%) to the Ad Valorem Reimbursement Fund ("AVRF"). HB 3048 proposes changing apportionment of individual income tax revenues by decreasing the amount to be apportioned to the GRF to eighty-two and ninety-five one-hundredths percent (82.95%) and increasing the amount to be apportioned to the AVRF to three and seventy-one one-hundredths percent (3.71%)[4]. Individual income tax revenues for FY 2021 are forecasted to be three billion five hundred and seventy-six million three hundred and thirty-eight thousand dollars ($3,576,338,000)[5]. Based on this forecast, the AVRF would receive thirty-five million seven hundred and sixty-three thousand three hundred and eighty dollars ($35,763,380)[6] in FY 21 based on current law. Applying the changes proposed in HB 3048 the AVRF would receive one hundred and thirty-two million six hundred and eighty-two thousand three hundred and ninety dollars ($132,682,390)[7] in FY 21. This ninety-six million nine hundred and eighteen thousand seven hundred and fifty-nine dollar ($96,918,759) increase to AVRF is offset by a decrease to the GRF of ninety-six million nine hundred and eighteen thousand seven hundred and fifty-nine dollar ($96,918,759).

Net Revenue Impact of Subsection 1 of Section 1 of HB 3048
FY 21: $96,919,000 increase to the Ad Valorem Reimbursement Fund
$96,919,000 decrease to the General Revenue Fund

Currently, corporate income tax is apportioned[8] as follows: (1) seventy-seven and five-tenths percent (77.5%) to the General Revenue Fund ("GRF")[9], (2) sixteen and five-tenths percent (16.5%) to the Education Reform Revolving Fund, (3) five percent (5%) to the Teachers' Retirement System Dedicated Revenue Revolving Fund[10], and (4) one percent (1%) to the Ad Valorem Reimbursement Fund ("AVRF"). HB 3048 proposes changing apportionment of corporate income tax revenues by decreasing the amount to be apportioned to the GRF to seventy-four and seventy-nine one-hundredths percent (74.79%) and increasing the amount to be apportioned to the AVRF to three and seventy-one one-hundredths percent (3.71%)[11]. Corporate income tax revenues for FY 2021 are forecasted to be two hundred seventy-six million eight hundred and nineteen thousand dollars ($276,819,000)[12]. Based on this forecast, the AVRF would receive two million seven hundred and sixty-eight thousand one hundred and ninety dollars ($2,768,190)[13] in FY 21 based on current law. Applying the changes proposed in HB 3048 the AVRF would receive ten million two hundred and sixty-nine thousand nine hundred and eighty-four dollars ($10,269,984)[14] in FY 21. This seven million five hundred and one thousand seven hundred and ninty-four dollar ($7,501,794) increase to AVRF is offset by a decrease to the GRF of seven million five hundred and one thousand seven hundred and ninty-four dollar ($7,501,794).

Net Revenue Impact of Subsection 2 of Section 1 of HB 3048
FY 21: $7,502,000 increase to the Ad Valorem Reimbursement Fund
$7,502,000 decrease to the General Revenue Fund

Net Revenue Impact of Section 1 of HB 3048
FY 21: $104,421,000 increase to the Ad Valorem Reimbursement Fund
$104,421,000 decrease to the General Revenue Fund

Section 2 of HB 3048 proposes to amend 62 O.S. § 193 adding claims that can be paid from the Ad Valorem Reimbursement Fund. Currently, the monies apportioned to the AVRF shall be expended to reimburse counties for the loss of revenue for (1) the five (5) year manufacturing program, (2) the additional homestead exemption, and (3) agricultural buffer strips. This measure proposes to add reimbursements to eligible counties for loss of revenue associated with ad valorem exemptions afforded one hundred percent (100%) disabled veterans and surviving spouses of veterans killed in the line of duty. HB 3048 also proposes that claims related to these veteran exemptions shall be filed separately when the number of exemptions in each county is greater than eight-tenths percent (0.8%) of the county population according to the federal Decennial Census or most recent population estimate.

Based on the exemptions granted for the current tax year, applicable property values and millage rates, additional reimbursement amounts for ad valorem exemptions afforded one hundred percent (100%) disabled veterans and surviving spouses of veterans killed in the line of duty are estimated to be forty million four hundred thousand dollars ($40,400,000), with fourteen million twenty-two thousand dollars ($14,022,000) associated to the claims of counties where the number of exemptions in each county is greater than eight-tenths percent (0.8%) of the county population according to the federal Decennial Census or most recent population estimate. When the AVRF is insufficient to pay all county claims relating to the above-referenced exemptions, the claims connected with the five (5) year manufacturing program must be paid first. Remaining funds, if any, are distributed proportionally among the counties making reimbursement claims due to additional homestead exemptions granted. The estimate to fully reimburse all four (4) claim types relating to the above-referenced exemptions in FY 21 is approximately two hundred and five million dollars ($205,000,000).

Net Revenue Impact of Section 2 of HB 3048
FY 21: $40,400,000 increase in claims to the Ad Valorem Reimbursement Fund

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[1] Subject to the apportionment requirements for the Oklahoma Tax Commission and Office of Management and Enterprise Services Joint Computer Enhancement Fund, and subject to the apportionment requirements for the Oklahoma State Capitol Building Repair and Restoration Fund.
[2] Monies may be deducted from the General Revenue Fund in the event that more monies are needed to fund the baseline amount for the Teachers' Retirement System Dedicated Revenue Revolving Fund.
[3] Subject to meeting the baseline amount and may be partially funded from monies that would otherwise be apportioned to the General Revenue Fund to meet the baseline amount.
[4] The decrease to the GRF is directly offset by the increase to the AVRF.
[5] Based on the revenues certified at the December 2019 State Board of Equalization meeting.
[6] $3,576,338,000 x 1% = $35,763,380
[7] $3,576,338,000 x 3.71% = $132,682,139.80
[8] Subject to the apportionment requirements for the Rebuilding Oklahoma Access and Driver Safety Fund, the Oklahoma Tourism and Passenger Rail Revolving Fund and the Public Transit Revolving Fund from revenues that would have otherwise been apportioned to the General Revenue Fund, the Oklahoma Tax Commission and Office of Management and Enterprise Services Joint Computer Enhancement Fund, and subject to the apportionment requirements for the Oklahoma State Capitol Building Repair and Restoration Fund.
[9] Monies may be deducted from the General Revenue Fund in the event that more monies are needed to fund the baseline amount for the Teachers' Retirement System Dedicated Revenue Revolving Fund. There shall also be apportioned from these monies to the Revenue Stabilization Fund or to the Constitutional Reserve Fund the amount of revenue, if any, which exceeds the moving five-year average.
[10] Subject to meeting the baseline amount and may be partially funded from monies that would otherwise be apportioned to the General Revenue Fund to meet the baseline amount.

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[11] The decrease to the GRF is directly offset by the increase to the AVRF.
[12] Based on the revenues certified at the December 2019 State Board of Equalization meeting.
[13] $276,819,000 x 1% = $2,768,190
[14] $276,819,000 x 3.71% = $10,269,984.90

Prepared By: Mark Tygret

<u>Other Considerations</u>

None.