GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title:	**HB0155: Revise class four residential and commercial property taxes**
Primary Sponsor:	Mark Thane
Status:	As Introduced

☐ Included in the Executive Budget ☒ Needs to be included in HB 2 ☒ Significant Local Gov Impact

☐ Significant Long-Term Impacts ☒ Technical Concerns ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures					
General Fund (01)	$1,002,973	$75,583,940	$67,890,046	$77,125,077	$77,711,720
State Special Revenue (02)	$0	$0	$0	$0	$0
SEPTR	$0	($59,850,000)	($60,420,000)	($69,160,000)	($69,825,000)
Univ. 6 Mill	$0	($3,780,000)	($3,816,000)	($4,368,000)	($4,410,000)
Revenues					
General Fund (01)	$0	($447,000)	($453,000)	($519,000)	($524,000)
State Special Revenue (02)	$0	$0	$0	$0	$0
SEPTR	$0	($59,850,000)	($60,420,000)	($69,160,000)	($69,825,000)
Univ. 6 Mill	$0	($3,780,000)	($3,816,000)	($4,368,000)	($4,410,000)
Net Impact General Fund Balance	($1,002,973)	($76,030,940)	($68,343,046)	($77,644,077)	($78,235,720)

Description of fiscal impact

HB 155 introduces a graduated tiered tax rate system for Class 4 residential property and a $200,000 market value exemption for all commercial property under one ownership. All other commercial property above the exemption threshold would pay the current law 1.89% rate. The bill also changes the tax rates on vacant residential land and for multifamily residential units. In total, HB 155 would reduce statewide taxable value by $630 million (11.7%) in TY 2025 when the bill takes effect, reducing revenue generated by the 95 mills for school equalization, 6 university mills, and 1.5 vo-tech mills. The bill has retroactive applicability to the TY 2025 assessment date, requiring funding for FY 2025 expenditures and temporary 14.00 FTE and 1.00 ongoing FTE starting in FY 2026. There are substantial implementation challenges to meet the August 2025 certification of value deadline and in standing up the linkage of ownership to statewide parcels for the proposed commercial class 4 aggregate exemption (see technical notes). There will be a state general fund cost of $16.0 million in FY 2026 and $7.8 million in FY 2027 and succeeding years for taxable value changes to guaranteed tax base aid (GTB).

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. Under current law, in class 4, the tax rate for most residential land and improvements is 1.35%. Residential improvements with a value greater than $1.5 million are taxed at a 1.89% rate for the improvement value over $1.5 million. Class 4 commercial (and industrial) property is taxed at 1.4 times the residential rate (1.89%).
2. HB 155 revises class 4 residential and commercial property taxation by establishing a graduated tax rate system for residential property in which the first $50,000 in market value is at a zero rate, the value between $50,000 and $500,000 is taxed at 1%, $500,000 to $750,000 is taxed at 1.25%, $750,000 to $1 million is taxed at 1.3%, $1 million to $1.5 million is taxed at 1.4%, $1.5 million to $2 million is taxed at 1.89%, and value over $2 million is taxed at 2%.
3. The tiered tax rates reduce the taxable value of all class 4 residential property with an assessed value under $1.94 million.
4. The taxation of class 4 vacant land is also changed with a tax rate of 1% applied to all vacant residential lots with a value of $50,000 or less.
5. Multi-family residential rental units with a value greater than $2 million are taxed at 1.89% (instead of the 2% marginal residential rate) if the property certifies that the units are leased at 150% or less of the county fair market rent.
6. For commercial property, HB 155 exempts the first $200,000 of aggregate market value of commercial and industrial property owned by a person or business entity in the state. The remaining value is taxed at the current 1.89% rate commercial class 4 property.

Basis of the estimates – Residential Property

7. The TY 2024 taxable value of each class 4 residential and commercial property was grown by the respective HJ 2 growth rates to estimate TY 2025 taxable values.
8. The graduated tax rates were applied to each residential property according to its estimated TY 2025 market value to estimate taxable values under HB 155.
9. Vacant lots valued at $50,000 or less were assigned a tax rate of 1%.
10. All residential property with an assessed market valued under $1.94 million would receive a lower taxable value and properties valued over $1.94 million would see their taxable value increase. Because most properties are beneath the threshold, the taxable value of residential property would be reduced by $538 million under HB 155, or almost 11% of total statewide taxable value.

Basis of estimate - Multifamily Property

11. Under HB 155, multifamily rental dwellings with a value greater than $2 million can receive a tax rate of 1.89% on the entire property instead of the graduated tax rates if they certify to the DOR that the units are leased at or below 150% of the county fair market rent. There will be an estimated 726 of these properties in TY 2025. However, the entire property would be taxed at 1.89%, forgoing the lower tiered tax rates on the value less than $1.5 million. The breakeven value at which a property owner would be indifferent between the tiered rates and the 1.89% rate is $11.523 million, which reduces the count of potential properties receiving the preferential 1.89% rate from 726 to 120. It was assumed half of the 120 properties would be eligible for the 1.89% rate.

Basis of Estimated – Commercial Class 4 Property

12. The total statewide market value of class 4 commercial property owned by the same person or entity was summed, then reduced by the $200,000 exemption in HB 155 to determine the total statewide taxable market value for each owner. The value was apportioned proportionately to each owners' properties throughout the state. The new taxable market values were multiplied by 1.89% to determine the taxable value of these properties under HB 188.

13. The taxable value of all class 4 commercial property would be reduced by HB 155. The total statewide reduction in TY 2025 would be $92 million, about 1.7% of statewide taxable value.
14. The total statewide taxable value decrease in TY 2025 resulting from HB 155 would be $630 million (11.7% reduction).
15. The reduction in statewide taxable value would reduce revenue generated from the 95 mills for school equalization (SEPTR SSR), 6 mills for the university system (SSR), and 1.5 mills for vo-tech schools (general fund). Below is a table containing the estimated reduction and taxable value and the impact to the state mill accounts.

Fund	FY 2026	FY 2027	FY 2028	FY 2029
TV Change	($630,000,000)	($636,000,000)	($728,000,000)	($735,000,000)
SEPTR	($59,850,000)	($60,420,000)	($69,160,000)	($69,825,000)
University	($3,780,000)	($3,816,000)	($4,368,000)	($4,410,000)
Vo-tech	($447,000)	($453,000)	($519,000)	($524,000)

DOR Administrative Expense

16. This bill would require one-time only 14.00 FTE in FY 2025 to review and establish the aggregation of commercial and industrial property ownership. Additional costs would be incurred for system changes. An ongoing 1.00 FTE would be required for the maintenance of commercial and industrial property aggregation.

Office of Public Instruction

17. Applicability of HB 155 is retroactively applied requiring the changes to apply to property tax years beginning after December 31, 2024, impacting school districts' budget setting mills beginning in FY 2026 and the guaranteed tax base aid (GTB) subsidy per mill calculations beginning in FY 2027.
18. HB 155 amends section 15-6-134, MCA, adjusting district and statewide taxable valuations (TV). Changes to TV will impact the calculation of GTB aid beginning FY2026.
19. The statewide present law taxable valuations are forecast to increase by 15.50% in FY 2026 and 1.07% in FY 2027. These growth rates were applied prior to determining the changes related to HB 155.
20. Adjustments are to be made to the amount of state GTB distribution to school districts when state 95 mill revenue in the current year is more or less than $2 million with different adjustments made depending on increased or decreased 95 mill revenue.
21. The decrease in statewide TV related to changes in tax rates in HB 155 is less than the 15.5% growth in TV, so pursuant to 20-9-336, MCA, the current year 95 mill revenue compared to the prior year 95 mill revenue is greater than the prior year by $11.2 million. The following table shows these calculations.

State FY	Adjusted TV	TV Change	95 mill calc
FY2025	$4,495,734,393		
FY2026	$4,512,374,412	$16,640,019	$1,580,802
FY2027	$4,630,578,744	$118,204,332	$11,229,412
FY2028	$4,889,891,154	$259,312,410	$24,634,679
FY2029	$4,963,239,521	$73,348,367	$6,968,095

22. When the difference in the 95 mill calculation between years based on prior year TV and current year TV is greater than $2 million, 55% of the additional revenue is to be distributed pursuant to 20-9-336, MCA. Current law, before any legislation is enacted, meets all the distribution maximums in 20-9-336, MCA, for all the "dials" therefore, the additional 95 mill revenue will be distributed to the SEPTR account with a like reduction to general fund expenditures for BASE aid funding.
23. Reductions to taxable value adjust the value of each mill levied. As a result, additional mills will be required to achieve the same level of funding for the formulaic and required BASE levy area of a district's general fund budget. District general fund GTB, described in section 20-9-366, MCA, will adjust positively

increasing state paid GTB and reducing local property taxes statewide. The estimated changes are in provided in the table below:

	FY2026	FY2027	FY2028	FY2029
District GF GTB	$16,088,272	$7,830,378	$8,390,019	$8,315,251
Local Property Taxes	($16,088,272)	($7,830,378)	($8,390,019)	($8,315,251)

Fiscal Analysis Table

	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact					
FTE	14.00	1.00	1.00	1.00	1.00
TOTAL Fiscal Impact	**14.00**	**1.00**	**1.00**	**1.00**	**1.00**
Expenditures					
Personal Services	$833,419	$83,515	$83,515	$84,768	$86,040
Operating Expenses	$128,142	$9,153	$9,153	$9,290	$9,429
Equipment	$41,412	$0	$0	$0	$0
Transfers	$0	$0	$0	$0	$0
University 6 Mill	$0	($3,780,000)	($3,816,000)	($4,368,000)	($4,410,000)
Vo-Tech 1.5 Mill	$0	($447,000)	($453,000)	($519,000)	($524,000)
Local Assistance	$0	$0	$0	$0	$0
District General Fund GTB	$0	$16,088,272	$7,830,378	$8,390,019	$8,315,251
TOTAL Expenditures	**$1,002,973**	**$11,953,940**	**$3,654,046**	**$3,597,077**	**$3,476,720**
Funding of Expenditures					
General Fund (01)	$1,002,973	$75,583,940	$67,890,046	$77,125,077	$77,711,720
State Special Revenue (02)	$0	$0	$0	$0	$0
Univ. 6 Mill	$0	($3,780,000)	($3,816,000)	($4,368,000)	($4,410,000)
SEPTR	$0	($59,850,000)	($60,420,000)	($69,160,000)	($69,825,000)
TOTAL Funding of Expenditures	**$1,002,973**	**$11,953,940**	**$3,654,046**	**$3,597,077**	**$3,476,720**
Revenues					
General Fund (01)	$0	($447,000)	($453,000)	($519,000)	($524,000)
State Special Revenue (02)	$0	$0	$0	$0	$0
SEPTR	$0	($59,850,000)	($60,420,000)	($69,160,000)	($69,825,000)
Univ. 6 Mill	$0	($3,780,000)	($3,816,000)	($4,368,000)	($4,410,000)
TOTAL Revenues	**$0**	**($64,077,000)**	**($64,689,000)**	**($74,047,000)**	**($74,759,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)					
General Fund (01)	($1,002,973)	($76,030,940)	($68,343,046)	($77,644,077)	($78,235,720)
State Special Revenue (02)	$0	$0	$0	$0	$0
Univ. 6 Mill	$0	$0	$0	$0	$0
SEPTR	$0	$0	$0	$0	$0

Effect on County or Other Local Revenues or Expenditures

Department of Revenue

1. HB 155 would reduce statewide taxable value by $630 million (11.7%) in TY 2025. Local taxing districts will be affected depending on the makeup of their tax base. Almost all jurisdictions will see a decrease in taxable value from class 4 property and a resulting shift in taxes to other classes.
2. Residential property valued above the $1.94 million threshold of taxable value neutrality will generally have taxes shifted onto them, and all property below the threshold will have taxes shifted from them.

Office of Public Instruction

3. Local school districts and countywide school mills will adjust to meet school district revenue requirements as required by the state's school funding formula in Title 20, MCA.
4. Local school property taxes associated with school district general fund GTB will decrease by $16.0 million in FY 2026 and by $7.8 million in FY 2027 in ensuing years related to changes in property tax values statewide.

League of Cities and Counties

5. This bill will replace the existing tax rates for Class 4 properties with exemptions and graduated tax rates for Class 4 properties. The changes in tax rates lowers taxable value but will have limited impact on municipalities, as 15-10-420, MCA, requires municipalities to set mills based on the actual taxes assessed in the prior year plus half the rate of inflation over the previous 3-years average.
6. HB 155 may have unquantifiable impacts on the amount of revenues generated by levies not subject to the 15-10-420, MCA, inflationary limitation, as the graduated tax rates and values in other classes of properties may generate similar revenues as under current law.

MACO

7. With an assumption that there is no change to 15-10-420, MCA, local governments will adjust their mills to meet their budgets within their authorized revenue authority.

Technical Concerns

Department of Revenue

1. Subsection 3(b) sets vacant residential lots valued at $50,000 or less tax rate at 1%. It is assumed that vacant lots valued over $50,000 would be taxed according to the tiered tax rate system. This could create equity issues as a $50,000 lot would be fully taxed at 1%, while a $50,001 lot would receive the $50,000 exemption and only be taxed 1% on the $1 that is above the exemption threshold. Similarly, a $50,000 vacant lot would be fully taxed at 1%, but the same lot with a $500 shed on it would only be taxed 1% on the $500 that is above the exemption threshold.
2. Subsection 3(c) creates uncertainty on how multifamily dwelling units, valued at $2 million or more, are to be taxed. These units can receive a tax rate of 1.89% if they are leased at 150% or less of the county fair market rent. As written, the 1.89% rate would apply to the entire property, forgoing the benefit of the lower rates on the value under $1.5 million. If the intent is to provide the graduated tax rates that apply to other class 4 property this should be clarified.
3. Subsection 3(c) also requires dwelling units must be leased at 150% or less of the county fair market rent to receive the 1.89% tax rate. It is not clear how this applies to the other units of the building. The department would interpret the section as requiring that all units in the building must be leased at or below 150% of the market rent, unless otherwise clarified.
4. Subsection 4(b) provides that the first $200,000 market value for commercial and industrial property of a person or business entity is exempt from taxation. This exemption applies to all property owned by a person or business, statewide, and not on an individual-by-individual property basis. More detail is needed on how to aggregate these properties by ownership. Guidance similar to Administrative Rules of Montana 42.21.158 (5) and (6) for Class 8 personal property, would clarify how this provision should be administered.
5. It is not clear how HB 155 would apply to mixed-use properties. Such property have both residential and commercial uses. It is assumed that the residential portion would receive the tiered residential tax rates, and the commercial portion would receive the $200,000 exemption. Clarification is needed on how tax rates should be applied in these cases.

6. This bill has an immediate effective date and retroactive applicability to to the current tax year (TY 2025). This would require the department to complete recalcification work and information system changes during the ongoing fiscal year (FY 2025). These costs would need to be appropriated.
7. Implementing this bill, particularly the required implementation schedule and the classification and valuation presented in technical notes #4, #5,and #6 would be extremely difficult to implement this tax year.

	1/28/25		1/28/2025
Sponsor's Initials	Date	Budget Director's Initials	Date