



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0231: Revise property tax rates for certain property

Primary Sponsor: Llew Jones 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)	\$1,934,448	\$22,026,089	\$20,262,636	\$21,791,352	\$21,729,199
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$13,776,000)	(\$13,776,000)	(\$15,934,000)	(\$15,934,000)
University	\$0	(\$870,000)	(\$870,000)	(\$1,007,000)	(\$1,007,000)
Revenues					
General Fund (01)	\$0	(\$62,000)	(\$62,000)	(\$71,000)	(\$71,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$13,776,000)	(\$13,776,000)	(\$15,934,000)	(\$15,934,000)
University	\$0	(\$870,000)	(\$870,000)	(\$1,007,000)	(\$1,007,000)
Net Impact	<u>(\$1,934,448)</u>	<u>(\$22,088,089)</u>	<u>(\$20,324,636)</u>	<u>(\$21,862,352)</u>	<u>(\$21,800,199)</u>
General Fund Balance					

Description of fiscal impact

HB 231 increases tax rates on residential property from 1.35% to 1.9%, creates a preferential tax rate for primary homes and long-term rentals of 1.1%, and holds residential property on agricultural land constant at 1.35%. Commercial property rates change from a flat 1.89% to a two-tiered marginal rate of 1.5% and 2.1%. The bill applies retroactively to tax year (TY) 2025. Properties which received a rebate in 2024, and properties enrolled in property tax assistance programs are automatically eligible for the homestead rate. On a statewide basis, these changes result in a roughly 3% decrease in taxable value reducing state property tax collections.

The estimated state general fund impact related to school funding will be \$22.0 million in FY 2026 and \$20.3 million in FY 2027 and beyond. There is also a \$13.8 million reduction to revenue to the SEPTR account. HB 231 will also reduce local school property taxes by \$7.0 million in FY 2026 and \$4.2 million in FY 2027.

FISCAL ANALYSIS

Assumptions

Department of Revenue

- Under current law, Class 4 residential property has a tax rate of 1.35%. Under the provisions of HB 231, there would be three tax rates for residential property. These tax rates are 1.1% for primary residences and long-term rentals, 1.35% of residential property associated with qualified agricultural property, and 1.9% for

- all other property classified as residential. Primary residential value more than \$1.3 million will have a tax rate of 1.9% applied to it.
2. Under current law, Class 4 commercial property has a tax rate of 1.89%, or 1.4 times the rate for Class 4 residential property. Under the provisions of HB 231, the first approximately \$1.9 million in value has a tax rate of 1.5%, and any market value over \$1.9 million will have tax rate of 2.1%.
 3. HB 231 is effective retroactively to Tax Year 2025, meaning the tax rate changes are effective for FY 2026.
 4. HB 231 contains transition language that any home that qualified for the 2023 property tax rebate created under HB 222 of the 2023 Legislature or that is enrolled in the Property Tax Assistance Program or Montana Disabled Veterans program will automatically qualify for the reduced primary home rate in TY 2025 and TY 2026.
 5. These properties had a TY 2024 total market value of \$94.155 billion and an associated taxable value of \$1.194 billion.
 6. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be \$113.140 billion with a taxable value of \$1.434 billion. Under the provisions of HB 231, these properties would have a total estimated taxable value of \$1.196 billion, a decrease of \$238 million.
 7. Long-term rental properties also qualify for the reduced residential tax rate of 1.1%. These properties will need to apply to the Department of Revenue by March 1 to receive the beneficial tax rate.
 8. The American Community Survey published by the U.S. Census estimates shares of renter households by county. Based on these estimates, the TY 2024 market value of long-term rentals was \$51.968 billion with a taxable value of \$0.715 billion.
 9. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be \$62.393 billion with an associated taxable value of \$859 million. Under the provisions of HB 231, these properties would have a total estimated taxable value of \$700 million, a decrease of \$159 million.
 10. The tax rate on residential property of qualified agricultural properties is held unchanged from current law at 1.35% by HB 231.
 11. In TY 2024, residential properties associated with qualified agricultural properties had a total market value of \$10.297 billion, and a taxable value of \$0.140 billion.
 12. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be \$12.596 billion, with an associated taxable value of \$170.959 billion. Under the provisions of HB 231, these properties would have the same taxable value and there would be no change to the taxable value as a result of HB 231.
 13. In TY 2024 commercial property had a statewide total market value of \$34.708 billion and a total taxable value of \$0.629 billion.
 14. After applying HJ 2 growth rates to these properties, the TY 2025 market value is estimated to be \$37.778 billion with an associated taxable value of \$686 million. Under the provisions of HB 231, these properties would have a total estimated taxable value of \$618 million, a decrease of \$68 million.
 15. Residential property that was estimated to not be a primary residence, not be associated with any qualified agricultural property, and not estimated to be a long-term rental had a total TY 2024 statewide market value of \$51.935 billion, and a total taxable value of \$745 million.
 16. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be \$66.266 billion, and the total taxable value is estimated to be \$954 million. Under the provisions of HB 231, the total taxable value of these properties is estimated to be \$1.259 billion, an increase of \$305 million.

17. The following table summarizes the changes in taxable value in the previous assumptions.

	Property Types	TY 2025- Current Law (millions)	TY 2025- Proposed Law (millions)	Difference
Residential	Primary Residence	\$1,433.54	\$1,195.52	(\$238.02)
Residential	Long Term Rental Improvements	\$859.50	\$700.33	(\$159.17)
Residential	Other Residential*	\$953.57	\$1,259.03	\$305.45
Commercial	Property Over Threshold	\$316.08	\$250.86	(\$65.22)
Commercial	Property Under Threshold	\$369.46	\$366.75	(\$2.71)
	Subtotal	\$3,932.15	\$3,772.49	(\$159.66)

18. Based on the weighted average state mills for the 95 equalization mills, the 6 university mills, and the 1.5 mills levied to help fund vocational and technical education in Silver-Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark counties, and accounting for some diversions as a result of existing tax increment financing districts, the total impact to the statewide mills is presented in the following table for TY 2025 – TY 2028 (FY 2026 – FY 2029).

TY	State Equalization	MUS	Vo-Tech	Total
2025	(\$13.78)	(\$0.87)	(\$0.06)	(\$14.71)
2026	(\$13.78)	(\$0.87)	(\$0.06)	(\$14.71)
2027	(\$15.93)	(\$1.01)	(\$0.07)	(\$17.01)
2028	(\$15.93)	(\$1.01)	(\$0.07)	(\$17.01)

DOR Costs

19. The department’s Property Assessment Division will require approximately 8.0 FTE in FY 2025 to process applications associated with primary residence and 10.0 FTE to process long-term rental applications for a total of 18.0 FTE.
20. In fiscal years beginning FY 2026, necessary FTE for primary homes is estimated at 3.0 FTE based on properties being sold or transferred requiring reapplication and new applications for primary residency. The long-term rental portion will require 10.0 FTE since all properties must annually reapply for this status.
21. In Tax Year 2027, all properties will be required to reapply for the primary home designation. This is to remedy any improper treatment applied to properties as a result of the transitional language in Section 2 of automatically granting the beneficial primary home rate to any property that qualified for a TY 2024 property tax rebate. This will necessitate an additional 10.0 FTE in FY 27 to process these reapplications, for a total FTE of 23.0 in FY 2027. Thereafter the necessary FTE returns to 13.0.
22. The department will require 1.0 additional FTE in legal services to deal with expected lawsuits and appeals surrounding primary home or long-term rental designation.
23. Mailing costs are estimated based on a cost of \$1.43 per letter. Determinations of property status will be mailed to all primary home applicants and long-term rental applicants each year. Mailing costs are estimated at \$429,000 in FY 25, \$121,550 in FY 26, \$371,800 in FY 27, \$121,550 in FY 28, and \$121,550 in FY 29.
24. The department will expend \$45,000 in each fiscal year to advertise this program to taxpayers.

Office of Public Instruction

1. HB 231 revises tax rates for certain class four residential and commercial property providing a lower tax rate for certain owner-occupied residential property and long-term rentals and provides a lower tax rate for a portion of commercial property value.
2. Retroactive applicability is applied requiring that these amendments would apply to property tax years beginning after December 31, 2024, impacting the budget setting mills of FY 2026 and the GTB subsidy per mill calculations for funding in FY 2027.
3. HB 231 amends section 15-6-134, MCA, the changes adjust district and statewide taxable valuations (TV). Changes to TV will impact the calculation of guaranteed tax base (GTB) aid beginning FY2026.

Fiscal Note Request - As Introduced

(continued)

4. 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 calculated prior to determination of the changes related to HB 213.
5. HB 231 decreases the statewide TV however the decrease in TV pursuant to HB 231 are less than the HJ 2 growth rates therefore the current year 95 mill revenue compared to the prior year 95 mill revenue is greater than the prior year 95 mill revenue. Adjusted increases of TV between years will generate the need to distribute an additional \$28.2 million to the various GTB mechanisms beginning in FY2027. The following table provides an overview of the calculation.

State FY	Adjusted TV	Adj TV Chg	95 mill calc
FY2026	\$4,512,374,412		
FY2027	\$5,051,226,626	\$538,852,214	\$51,190,960

6. 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, any additional 95 mill revenue will be distributed to the SEPTR account with a like reduction to general fund expenditures for BASE aid funding.
7. Reductions to taxable value will 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. State general fund GTB described under section 20-9-366, MCA, will adjust for qualifying districts. The estimated amounts are in provided in the table below:

	FY 2026	FY 2027	FY 2028	FY 2029
District GF GTB	\$4,824,927	\$2,924,249	\$3,157,152	\$3,088,487
Local School Property Taxes	(\$4,824,927)	(\$2,924,249)	(\$3,157,152)	(\$3,088,487)

8. Reductions to taxable value will 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 retirement GTB calculation. State retirement GTB described under section 20-9-366, MCA, will adjust for qualifying districts. The estimated amounts are in provided in the table below:

	FY 2026	FY 2027	FY 2028	FY 2029
County Retirement GTB	\$2,135,441	\$1,323,616	\$1,428,895	\$1,407,259
County Local School Property Taxes	(\$2,135,441)	(\$1,323,616)	(\$1,428,895)	(\$1,407,259)

9. The total local school property tax reduction related to the district general fund GTB and the county retirement GTB are shown in the following table.

	FY 2026	FY 2027	FY 2028	FY 2029
District GF GTB	(\$4,824,927)	(\$2,924,249)	(\$3,157,152)	(\$3,088,487)
County Retirement GTB	(\$2,135,441)	(\$1,323,616)	(\$1,428,895)	(\$1,407,259)
Total Local School Property Taxes	(\$6,960,368)	(\$4,247,865)	(\$4,586,047)	(\$4,495,746)

Fiscal Analysis Table

	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact					
FTE	18.00	14.00	24.00	14.00	14.00
TOTAL Fiscal Impact	18.00	14.00	24.00	14.00	14.00
Expenditures					
Personal Services	\$0	\$0	\$0	\$0	\$0
Dept. of Revenue	\$1,182,450	\$1,015,617	\$1,630,519	\$1,040,949	\$1,056,563
Dept. of Revenue	\$698,754	\$294,692	\$640,672	\$301,356	\$313,890
Operating Expenses	\$0	\$0	\$0	\$0	\$0
Equipment	\$0	\$0	\$0	\$0	\$0
Dept. of Revenue	\$53,244	\$41,412	\$29,580	\$0	\$0
Transfers	\$0	\$0	\$0	\$0	\$0
Vo Tech	\$0	(\$62,000)	(\$62,000)	(\$71,000)	(\$71,000)
University	\$0	(\$870,000)	(\$870,000)	(\$1,007,000)	(\$1,007,000)
Local Assistance	\$0	\$0	\$0	\$0	\$0
District General Fund GTB	\$0	\$4,824,927	\$2,924,249	\$3,157,152	\$3,088,487
County Retirement GTB	\$0	\$2,135,441	\$1,323,616	\$1,428,895	\$1,407,259
TOTAL Expenditures	\$1,934,448	\$7,380,089	\$5,616,636	\$4,850,352	\$4,788,199
Funding of Expenditures					
General Fund (01)	\$1,934,448	\$22,026,089	\$20,262,636	\$21,791,352	\$21,729,199
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$13,776,000)	(\$13,776,000)	(\$15,934,000)	(\$15,934,000)
University	\$0	(\$870,000)	(\$870,000)	(\$1,007,000)	(\$1,007,000)
TOTAL Funding of Expenditures	\$1,934,448	\$7,380,089	\$5,616,636	\$4,850,352	\$4,788,199
Revenues					
General Fund (01)	\$0	(\$62,000)	(\$62,000)	(\$71,000)	(\$71,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$13,776,000)	(\$13,776,000)	(\$15,934,000)	(\$15,934,000)
University	\$0	(\$870,000)	(\$870,000)	(\$1,007,000)	(\$1,007,000)
TOTAL Revenues	\$0	(\$14,708,000)	(\$14,708,000)	(\$17,012,000)	(\$17,012,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)					
General Fund (01)	(\$1,934,448)	(\$22,088,089)	(\$20,324,636)	(\$21,862,352)	(\$21,800,199)
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	\$0	\$0	\$0
University	\$0	\$0	\$0	\$0	\$0

Effect on County or Other Local Revenues or Expenditures

Department of Revenue

- At the statewide level, taxable value is estimated to be about 3% lower than current HJ 2 estimates. The changes to local jurisdictions depend on the makeup of residential and commercial property within the jurisdiction. To the extent that taxable value increases or decreases, local mills will generally adjust down or up respectively.

Office of Public Instruction

- Local school property taxes would decrease by approximately \$7.0 million in FY 2026 and \$4.3 million in FY 2027.

MACO

1. The ongoing impacts will vary depending on the county and the makeup of the properties and their tax class and valuation.

Technical Concerns

Department of Revenue

1. This bill has an immediate effective date and retroactive applicability to TY 2025. This would require the department to complete all the initial work and all the system changes in FY 2025 and incur those costs during FY 2025. It would be challenging for the department to get this bill implemented for the current tax year.



Sponsor's Initials

1-28-25

Date



Budget Director's Initials

1/28/2025

Date