



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0027: Remove automatic agricultural classification for certain parcels

Primary Sponsor: Sherry Essmann 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

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
Expenditures				
General Fund (01)	\$114,400	\$711,391	(\$89,079,370)	(\$79,797,440)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	\$89,778,000	\$90,550,000
University	\$0	\$0	\$5,670,000	\$5,719,000
Vo Tech	\$0	\$0	\$355,000	\$358,000
Revenues				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	\$89,778,000	\$90,550,000
University	\$0	\$0	\$5,670,000	\$5,719,000
Vo Tech	\$0	\$0	\$355,000	\$358,000
Net Impact	<u>(\$114,400)</u>	<u>(\$711,391)</u>	<u>\$89,079,370</u>	<u>\$79,797,440</u>
General Fund Balance	<u>(\$114,400)</u>	<u>(\$711,391)</u>	<u>\$89,079,370</u>	<u>\$79,797,440</u>

Description of fiscal impact

HB 27 eliminates the non-qualified agricultural land classification and automatic agricultural classification for parcels of land that are 160 acres or more. Parcels of land 640 acres or more that don't qualify as agricultural use would be placed in a new idle land classification. This property would be valued at 20 times the agricultural rate that applies to grazing land. Parcels of land less than 640 acres that do not qualify for agricultural classification would be classified and valued as class 4 tract land.

The annual income criteria for qualification as agricultural land for all land use types, except grazing, from \$1,500 to \$4,000 for parcels under 640 acres. For parcels 640 acres or greater, the income requirement would be \$4,000 plus \$6 for each acre over 640. For grazing land, the base income requirement would remain at \$1,500 plus \$6 for every acre over 640.

The bill requires the Department of Revenue to periodically review property classified as agricultural land, and to requiring reapplication.

HB 27 excludes certain land uses from agricultural classification, including most conservation activities. Finally, the bill requires sales price to be disclosed on realty transfer certificates for all land sales except

qualified agricultural and timber land of 640 acres or more. Currently, all agricultural and timber land is exempt.

The bill is effective January 1, 2027, and will affect property taxes beginning FY 2028.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. The market value of each non-qualified and qualified agricultural parcel in FY 2025 was estimated based on current land models developed by the Property Assessment Division.
2. These estimated market values were multiplied by the residential class 4 tax rate of 1.35% to estimate the taxable value of agricultural land in the state if it was all converted to from class 3 to class 4.
3. Current taxable values were grown for future years according to the HJ 2 growth rates for class 3 property and the estimated class 4 taxable values were grown by the HJ 2 rates for class 4 property.
4. The difference between the current taxable value of agricultural land and the class 4 taxable value estimates was calculated for each property.
5. It is estimated that about 15% of current non-qualified agricultural land would be granted agricultural status after the application process. The majority, 85%, would be reclassified as class 4 tract land and assessed at market value. This is expected to increase statewide taxable value by \$304 million in FY 2028.
6. It is estimated that about 95% of currently qualified agricultural land under 160 acres would remain qualified. All these parcels have applied and been granted agricultural status in the past, but the increased income requirement, possible land use changes, and specific exclusions listed in the bill will disqualify some. The 5% of these parcels moving to class 4 tract land is estimated to increase statewide taxable value by \$12 million in FY 2028.
7. About half of parcels 160 acres or more are between 160 and 640 acres and half are 640 acres or more. Currently, all of them are classified as agricultural. These properties have never been required to show that the land is being used primarily for agricultural purposes, and it is estimated that about 80% of both groups would remain agricultural and 20% would fall into class 4 tract land or the newly created idle land depending on the size of the property.
8. Twenty percent of parcels between 160 and 640 acres would become class 4 tract land valued at market value and taxed at 1.35%. The difference between these market values and current productivity values would be about \$153 million in FY 2028.
9. Twenty percent of parcels that are 640 acres and greater would become idle land valued at the statewide average grazing value and taxed at 20 times the agricultural rate. The difference between the agricultural taxable value and idle land taxable value would be about \$476 million in FY 2028.
10. Combined, the statewide taxable value increase of HB 27 is estimated to be about \$945 million in FY 2028. The increase in taxable value will affect revenue generated by the 95 mills for school equalization, 6 mills for universities, and 1.5 mills for vo-tech schools in certain counties. The following table contains the estimated increase in revenue from each source for FY 2028 and 2029.

Fund	FY 2028	FY 2029
SEPTR	\$89,778,000	\$90,550,000
University	\$5,670,000	\$5,719,000
Vo-Tech	\$355,000	\$358,000

11. It is estimated about 52,000 landowners would initially apply for agricultural land classification, which would be processed over fiscal years 2027 and 2028. Approximately eight FTE would be needed each of those years.

12. HB 27 requires the department establish a periodic reapplication process, which will likely require agricultural property owners to apply every four years. The department would stagger the reapplication process so that a quarter would be processed each year, requiring two ongoing FTE.

Office of Public Instruction

13. HB 27 amends various sections of statute under Title 15 Taxation on agriculture land. These changes adjust district and statewide taxable valuations (TV). Changes to TV will impact the calculation of guaranteed tax base (GTB) aid beginning FY 2028 which will increase GTB distribution by \$10.6 million beginning in FY 2029.
14. The statewide present law taxable valuations are forecast to increase by 15.50% in FY 2026 and 1.07% in FY 2027.
15. Taxable Value changes associated with HB 27 will adjust the estimated amount of revenue received to the school equalization and property tax reduction (SEPTR) account under section 20-9-336, MCA. This account receives revenue as described in sections 20-9-331, 20-9-333, and 20-9-360, MCA. These sections levy funds for school district equalization aid in the amounts of 33, 22, and 40 mills respectively. Changes in TV prescribed in HB 27 will increase the amount of state revenue deposited to the SEPTR account by \$89.8 million in FY 2028 and \$90.5 million in FY 2029.
16. Estimated changes in TV initiate changes to school funding mechanisms per 20-9-336, MCA. Current law has capped the various "dials" within this statute so that the additional revenue will be directed 100% to the SEPTR account.
17. There will be a like reduction of expenditures to the state general fund.

Fiscal Analysis Table

	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>	<u>FY 2028</u> <u>Difference</u>	<u>FY 2029</u> <u>Difference</u>
<u>Fiscal Impact</u>				
FTE	0.00	8.00	8.00	2.00
TOTAL Fiscal Impact	0.00	8.00	8.00	2.00
<u>Expenditures</u>				
Personal Services	\$0	\$0	\$0	\$0
Dept. of Revenue	\$0	\$574,463	\$581,558	\$147,189
Dept. of Revenue	\$114,400	\$113,264	\$117,072	\$36,780
Operating Expenses	\$0	\$0	\$0	\$0
Equipment	\$0	\$0	\$0	\$0
Dept. of Revenue	\$0	\$23,664	\$0	\$0
Transfers	\$0	\$0	\$0	\$0
University	\$0	\$0	\$5,670,000	\$5,719,000
Vo Tech	\$0	\$0	\$355,000	\$358,000
Local Assistance	\$0	\$0	\$0	\$0
OPI Guaranteed Tax Base Aid (GTB)	\$0	\$0	\$0	\$10,568,591
TOTAL Expenditures	\$114,400	\$711,391	\$6,723,630	\$16,829,560
<u>Funding of Expenditures</u>				
General Fund (01)	\$114,400	\$711,391	(\$89,079,370)	(\$79,797,440)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	\$89,778,000	\$90,550,000
University	\$0	\$0	\$5,670,000	\$5,719,000
Vo Tech	\$0	\$0	\$355,000	\$358,000
TOTAL Funding of Expenditures	\$114,400	\$711,391	\$6,723,630	\$16,829,560
<u>Revenues</u>				
State Special Revenue (02)	\$0	\$0	\$0	\$0
Vo Tech	\$0	\$0	\$355,000	\$358,000
University	\$0	\$0	\$5,670,000	\$5,719,000
SEPTR	\$0	\$0	\$89,778,000	\$90,550,000
TOTAL Revenues	\$0	\$0	\$95,803,000	\$96,627,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$114,400)	(\$711,391)	\$89,079,370	\$79,797,440
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	\$0	\$0
University	\$0	\$0	\$0	\$0
Vo Tech	\$0	\$0	\$0	\$0

Technical Concerns

1. Qualifying districts are eligible for facilities (debt service) GTB aid based on the calculations determined in section 20-9-367, MCA. Adjusting the multiplier for this GTB type will require additional authority to the SSR, the fund receives revenue from the facilities and technology state special revenue account and is not considered equalization aid making this adjustment out of alignment with the purposes of the use of funds being repositied to the SEPTR account.
2. As written, the requirements of HB 27 are not able to be enacted when considered in conjunction with the requirements of section 20-9-336, MCA.

NOT SIGNED BY SPONSOR

Sponsor's Initials

Date



Budget Director's Initials

1/17/2025

Date