



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0027.02 (006): Remove automatic agricultural classification for certain parcels

Primary Sponsor: Sherry Essmann Status: As Amended in House Committee

☐ 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 Difference</u> | <u>FY 2027 Difference</u> | <u>FY 2028 Difference</u> | <u>FY 2029 Difference</u> |
|-----------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Expenditures | | | | |
| General Fund (01) | \$114,400 | \$711,391 | (\$53,760,791) | (\$50,437,969) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | \$0 | \$47,188,000 | \$47,398,000 |
| University | \$0 | \$0 | \$2,980,000 | \$2,994,000 |
| Revenues | | | | |
| General Fund (01) | \$0 | \$0 | \$256,000 | \$257,000 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | \$0 | \$47,188,000 | \$47,398,000 |
| University | \$0 | \$0 | \$2,980,000 | \$2,994,000 |
| Net Impact | <u>(\$114,400)</u> | <u>(\$711,391)</u> | <u>\$54,016,791</u> | <u>\$50,694,969</u> |
| General Fund Balance | | | | |

Description of fiscal impact

HB 27, as amended in House Taxation Committee, 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. 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 amendment keeps the annual income requirement for agricultural classification at \$1,500 for all types of land use for parcels less than 640 acres. For parcels 640 acres or greater, there is an additional income requirement of \$6 for every acre over 640. The amendment defines nonproductive forest land and provides that it be valued at three times the statewide average value of forest land. The amendment also defines sustenance land and adds it to qualified class 3 property. This would reclassify certain land that is currently non-qualified class 3 (ag) or class 4 (residential) tract land. In total, HB 27 would increase statewide taxable value by \$497 million (8%) in FY 2028. 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. The bill is effective January 1, 2027 and will affect property taxes beginning FY 2028. State GTB funding for schools will decrease by \$7.5 million in FY 2028 and \$3.0 million in FY 2029. Local school property taxes will reduce by like amounts.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. Currently, all parcels of land 160 acres or greater automatically receives agricultural land status and are valued at their productive, rather than market, value. Parcels between 20 and 160 acres are also valued at their productive value but must apply to qualify for full agricultural status. If they do not qualify, their tax rate is seven times the full agricultural tax rate.
2. HB 27 as amended in the House Taxation Committee would require all parcels under 640 acres to apply and qualify for full agricultural status or be reclassified to class 4 tract land. Parcels 640 acres or greater would be given a partial agricultural status and taxed at seven times the full agricultural rate if they are not in agricultural use. The taxable value of almost all parcels that do not qualify for agricultural status would increase under HB 27.
3. Forest land that is not in forest production currently and classified as class 3 agricultural or non-qualified agricultural property would be reclassified as class 10 property and be taxed at three times the statewide average for class 10 property. The statewide taxable value of this land would increase slightly.
4. HB 27 as amended in the House Taxation committee creates a "Sustenance" farms category for land that currently is classified as class 3 non-qualified or class 4 tract land the could be reclassified as class 3 agricultural land. The taxable value of these parcels would decrease.
5. The market value of each class 3 parcel in FY 2025 was estimated based on current land models developed by the Property Assessment Division. Parcels that would qualify as nonproductive forest land were valued at the statewide average class 10 value.
6. The value of nonproductive forest land was multiplied by three times the class 10 tax rate of 0.37% to estimate new taxable values.
7. The market values of remaining class 3 property were multiplied by the residential rate of 1.35% to estimate the taxable value this land if it were converted from class 3 to class 4.
8. 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.
9. The difference between the current taxable value of class 3 property and the class 4 and 10 taxable value estimates were calculated for each property.
10. The reclassification of nonproductive forest land from class 3 to 10 is estimated to increase statewide taxable value by \$0.29 million in FY 2028.
11. It is estimated that about 25% of current non-qualified agricultural land would be granted agricultural status after the application process. The other 75% would be reclassified as class 4 tract land be assessed at market value. This is expected to increase statewide taxable value by \$263 million in FY 2028.
12. It is estimated that about 98% of currently qualified agricultural land under 160 acres would remain qualified. These parcels have applied for and been granted agricultural status in the past, but land use changes and specific exclusions listed in the bill will disqualify a few properties. The 2% of these parcels that would move to class 4 tract land is estimated to increase statewide taxable value by \$4.4 million in FY 2025.
13. About half of parcels 160 acres or more are between 160 and 640 acres and half are 640 acres or more. Currently, all of these properties are classified as agricultural property. These properties have never been required to show that the land is being used primarily for agricultural purposes, and it is estimated that about 85% of both groups would remain agricultural and 15% would be reclassified as class 4 tract land or the newly created idle land depending on the size of the property.
14. Fifteen 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 the market taxable values and productive taxable values would be about \$116 million in FY 2028.
15. Fifteen percent of parcels that are 640 acres or more would become idle land valued at the statewide average grazing value and taxed at 7 times the agricultural rate. The difference between the agricultural taxable value and idle land taxable value would be about \$113 million in FY 2028.
16. Combined, the statewide taxable value increase of HB 27 is estimated to be about \$497 million in FY 2028. The increase in taxable value will affect revenue generated by the 95 mills of school equalization, 6 mills

for universities, and 1.5 mills for vo-tech schools. The following table contains the taxable value and revenue increase from each source for FY 2028 and 2029.

| Fund | FY 2028 | FY 2029 |
|------------|---------------|---------------|
| TV Change | \$497,012,000 | \$499,211,000 |
| SEPTR | \$47,188,000 | \$47,398,000 |
| University | \$2,980,000 | \$2,994,000 |
| Vo Tech | \$256,000 | \$257,000 |

17. It is estimated 52,000 landowners would initially apply for agricultural land classification, which would be processed over fiscal years 2027 and 2028. Approximately 8.00 FTE would be needed in each of those years to process these applications.
18. HB 27 requires the department to establish a periodic reapplication process, which will 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 2.00 FTE on an ongoing basis.

Office of Public Instruction

19. HB 27, as amended, revises various sections in Title 15, Taxation. The changes adjust district and statewide taxable valuations (TV). Changes to TV will impact the calculation of guaranteed tax base (GTB) aid beginning FY 2028.
20. 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 27 as amended.
21. As amended, HB 27, increases the statewide TV by \$497 million which will increase the revenue received to the SEPTR account for the 95 equalization school mills.
22. 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 \$47.2 million in FY 2028 and \$47.4 million in FY 2029 thus increasing expenditures from the SEPTR account for BASE aid to schools. This will also decrease a like amount, of expenditures from the state general fund for BASE aid to schools.
23. 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 for various GTB "dials" of the school funding formula pursuant to 20-9-336, MCA. Any additional 95 mill revenue will be distributed to the SEPTR account with a like reduction to general fund expenditures for BASE aid funding.
24. HB 27, as amended, increases statewide TV by \$374.3 million in FY 2028. Adjusted increase of TV between years will generate an additional \$50.0 million state general fund to be distributed to schools through the various GTB mechanisms beginning in FY 2029. The following table provides an overview of the calculation.

| State FY | Adjusted TV | Adjusted TV Change | 95 mill calc | GTB Distributions GTB 55% |
|----------|-----------------|--------------------|--------------|------------------------------|
| FY 2028 | \$5,267,558,625 | | | |
| FY 2029 | \$6,224,998,699 | \$957,440,074 | \$90,956,807 | \$50,026,244 |

25. 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 created by changes in HB 27 as amended will be directed 100% to the SEPTR account with a like reduction of expenditures to the state general fund.

26. Increases in taxable value will adjust the value of each mill levied. As a result, local school mills will be adjusted 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 under section 20-9-366, MCA, will adjust for qualifying school districts. The amount to be distributed by the state will be decrease while the local school property taxes will increase for district general fund GTB as provided in the following table.

| | FY 2028 | FY 2029 |
|-----------------------------|----------------|----------------|
| District GF GTB | (\$5,377,260) | (\$209,153) |
| Local School Property Taxes | \$5,377,260 | \$209,153 |

27. State paid county retirement GTB distribution described under section 20-9-366, MCA, will adjust for qualifying districts. The amount to be distributed by the state will be reduced while local school property taxes will increase as shown in the table below.

| | FY 2028 | FY 2029 |
|-----------------------------|----------------|----------------|
| County Retirement GTB | (\$2,150,161) | (\$371,785) |
| Local School Property Taxes | \$2,150,161 | \$371,785 |

Fiscal Analysis Table

| | FY 2026 Difference | FY 2027 Difference | FY 2028 Difference | FY 2029 Difference |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <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 | \$574,463 | \$581,558 | \$147,189 |
| Operating Expenses | \$114,400 | \$113,264 | \$117,072 | \$36,780 |
| Equipment | \$0 | \$23,664 | \$0 | \$0 |
| Transfers | \$0 | \$0 | \$0 | \$0 |
| University | \$0 | \$0 | \$2,980,000 | \$2,994,000 |
| Vo Tech | \$0 | \$0 | \$256,000 | \$257,000 |
| Local Assistance | \$0 | \$0 | \$0 | \$0 |
| District GF GTB | \$0 | \$0 | (\$5,377,260) | (\$209,153) |
| County Retirement GTB | \$0 | \$0 | (\$2,150,161) | (\$3,271,785) |
| TOTAL Expenditures | \$114,400 | \$711,391 | (\$3,592,791) | (\$45,969) |
| <u>Funding of Expenditures</u> | | | | |
| General Fund (01) | \$114,400 | \$711,391 | (\$53,760,791) | (\$50,437,969) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | \$0 | \$47,188,000 | \$47,398,000 |
| University | \$0 | \$0 | \$2,980,000 | \$2,994,000 |
| TOTAL Funding of Expenditures | \$114,400 | \$711,391 | (\$3,592,791) | (\$45,969) |
| <u>Revenues</u> | | | | |
| General Fund (01) | \$0 | \$0 | \$256,000 | \$257,000 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | \$0 | \$47,188,000 | \$47,398,000 |
| University | \$0 | \$0 | \$2,980,000 | \$2,994,000 |
| TOTAL Revenues | \$0 | \$0 | \$50,424,000 | \$50,649,000 |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u> | | | | |
| General Fund (01) | (\$114,400) | (\$711,391) | \$54,016,791 | \$50,694,969 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | \$0 | \$0 | \$0 |
| University | \$0 | \$0 | \$0 | \$0 |

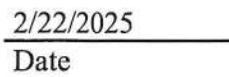
Effect on County or Other Local Revenues or Expenditures**Department of Revenue**

28. Statewide taxable value would be about \$497 million higher in FY 2028 and \$499 million higher in FY 2029. Local property taxes would be shifted from other properties to the agricultural properties falling into class 4 or idle land classification.
29. Taxing jurisdictions throughout the state will be affected differently depending on the makeup of their tax bases. Jurisdictions with lots of non-qualified land between 20 and 40 acres would experience a large increase in taxable value as these parcels are likely have relatively high market values and unlikely to qualify for agricultural status. Rural counties with many very large parcels that are not agricultural would also see an increase as the taxable value of those parcels will be about 7 times greater on average. Urban jurisdictions with little class 3 property will be minimally affected.
30. Local school property taxes will increase consistent with state distribution decreases for district general fund GTB and county retirement GTB for a total of \$7.5 million in FY 2028 and \$0.6 million in FY 2029.


Sponsor's Initials


Date


Budget Director's Initials


Date