



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0528.01: Revise property tax rates for agricultural, residential, and commercial property**

Primary Sponsor: Ed Byrne 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 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	\$197,614,069	\$72,967,697	\$93,949,143	\$104,840,137
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$153,215,000)	(\$154,346,000)	(\$176,288,000)	(\$177,600,000)
University	(\$9,677,000)	(\$9,748,000)	(\$11,134,000)	(\$11,217,000)
Revenues				
General Fund (01)	(\$792,000)	(\$797,000)	(\$911,000)	(\$917,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$153,215,000)	(\$154,346,000)	(\$176,288,000)	(\$177,600,000)
University	(\$9,677,000)	(\$9,748,000)	(\$11,134,000)	(\$11,217,000)
Net Impact	<u>(\$198,406,069)</u>	<u>(\$73,764,697)</u>	<u>(\$94,860,143)</u>	<u>(\$105,757,137)</u>
General Fund Balance				

Description of fiscal impact

HB 528 reduces class 3 agricultural land, class 4 residential, and class 4 commercial property tax rates. The class 3 agricultural rate is reduced from 2.16% to 1.7%. The residential tax rate is reduced from 1.35% to 0.76% and the commercial property tax rate is set at 1.35% instead of 1.4 times the residential rate (currently 1.89%). The bill reduces the tax rate on the portion of a residential improvement above \$1.5 million from 1.89% to 1.35%. These changes reduce statewide taxable value by \$1.61 billion (29.4%) in FY 2026 when the bill would take effect. This reduces state revenue generated by the 95 school equalization mills, 6 university mills, and 1.5 vo-tech mills. The reduction in taxable value triggered by HB 528 also changes the relative distribution of taxable value in school districts. The revenue reduction for the state equalization mills reduce the funds dedicated to the state special revenue for school equalization and property tax relief (SEPTR) account. These changes increase state general fund expenditures. HB 528 will cost the state general fund \$198.4 million in FY 2026 and \$73.8 million in FY 2027. Local property taxes will decrease by \$45.2 million in FY 2026 and increase by \$80.6 million in FY 2027 and ongoing.

FISCAL ANALYSIS

Assumptions

Department of Revenue

- Under current law, the state assessed value of property is converted to taxable value by applying a base tax rate. The assessed (productivity) value of class 3 agricultural property receives a 2.16% tax rate. Class 4 residential property is 1.35%. The class 4 commercial property tax rate is 1.89%. Certain class 4 residential improvement value (as opposed to land) portion of a residential improvements above \$1.5 million receives a 1.89% rate.
- HB 528 would lower these rates to 1.7% (class 3), 0.76% (class 4 residential property), and 1.35% (class 4 commercial property). The bill would also reduce the tax rate on the market value residential improvements above \$1.5 million to 1.35%.
- To estimate the effects of HB 528 the bill's tax rates were applied to the FY 2025 market values of agricultural, residential, and commercial property, respectively, to estimate each property's FY 2025 taxable value under the bill.
- The differences in taxable value were calculated and grown by the respective HJ 2 class forecasts. The following table contains the taxable value difference by tax class.

Tax Class	TV Difference	% Difference
Residential	(\$1,383,665,000)	85.79%
Commercial	(\$194,769,000)	12.08%
Agricultural	(\$34,358,000)	2.13%

- Statewide, taxable value would be reduced by \$1.61 billion in FY 2026, \$1.62 billion in FY 2027, \$1.86 billion in FY 2028, and \$1.87 billion in FY 2029.
- The reduction in taxable value would decrease revenue generated by the 95 school equalization mills, 6 university mills, and 1.5 vo-tech mills. The following table contains the taxable value difference and estimated fiscal impact to each account.

Fund	FY 2026	FY 2027	FY 2028	FY 2029
TV Difference	(\$1,612,791,000)	(\$1,624,696,000)	(\$1,855,659,000)	(\$1,869,469,000)
SEPTR	(\$153,215,000)	(\$154,346,000)	(\$176,288,000)	(\$177,600,000)
University	(\$9,677,000)	(\$9,748,000)	(\$11,134,000)	(\$11,217,000)
Vo-tech	(\$792,000)	(\$797,000)	(\$911,000)	(\$917,000)

- As the tax rate changes fit within the parameters of the departments current systems and processes the administrative costs would handled as part of the current law biennial reappraisal changes.

Office of Public Instruction

- HB 528 changes adjust district and statewide taxable valuations (TV). Changes reducing TV will impact the calculation of district general fund guaranteed tax base (GTB) aid and county retirement GTB beginning in FY 2026.
- 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 528.
- 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 than \$2 million less than the prior year TV 95 mill revenue (20-9-336, MCA). This law requires the Office of Public Instruction (OPI) to decrease the amount of funding distributed for district general fund GTB by 85% and county retirement GTB by 15% of the amount of reduction lost to the state equalization and property tax reduction (SEPTR) account for the 95 mill revenue.
- The change in TV will adjust the district general fund GTB downward by \$73.8 million and will reduce county retirement GTB by \$13.0 million in FY 2026 pursuant to 20-9-366(5) in FY 2027.
- The following table provides information regarding TV changes and the related effects of section 20-9-366, MCA, when considering changes related to the school district general fund GTB decrease.

State FY	Current Law TV	Adjusted TV Chg	95 mill calculation	District GF GTB reduction 85%	GTB Multiplier
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FY 2025	\$4,495,734,393				
FY 2026	\$4,512,374,412	\$16,640,019	\$1,580,802		262%
FY 2027	\$3,599,001,171	(\$913,373,241)	(\$86,770,458)	(\$73,754,889)	165%

13. For purposes of this fiscal note, it is estimated that the school district general fund GTB multiplier would be required to be lowered to 165% in accordance with 20-9-336(3), and then raised to 166% in accordance with 20-9-336(5).

14. The estimated change in school district general fund GTB is provided in the table below.

	FY 2026	FY 2027	FY 2028	FY 2029
District GF GTB	\$31,502,246	(\$68,223,488)	(\$70,499,317)	(\$72,561,884)
Local School Property Taxes	(\$31,502,246)	\$68,223,488	\$70,499,317	\$72,561,884

15. The county retirement GTB subsidy per mill calculation will be affected beginning in FY 2027. The following table provides information regarding TV changes and the related effects of section 20-9-366, MCA, when considering changes related to the county retirement fund GTB decrease.

State FY	Current Law TV	Adjusted TV Chg	95 mill calculation	County Retirement reduction (15%)	County Retirement increase 55%
FY 2025	\$4,495,734,393				
FY 2026	\$4,512,374,412	\$16,640,019	\$1,580,802		
FY 2027	\$3,599,001,171	(\$913,373,241)	(\$86,770,458)	(\$13,015,569)	
FY 2028	\$3,637,510,484	\$38,509,313	\$3,658,385		\$2,012,112
FY 2029	\$4,040,182,894	\$402,672,410	\$38,253,879		\$21,039,633

16. Under current law the county retirement GTB multiplier is set at 189% for FY 2026 and for 305% for FY 2027 in accordance with section 20-9-366(5)(b), MCA. The county retirement GTB multiplier would need to be adjusted to 242% in FY 2027 to adjust the distribution of retirement GTB downward by \$13.0 million. The following table provides information related to total county retirement GTB funding for TV changes and revenue adjustments.

	FY 2026	FY 2027	FY 2028	FY 2029
County Retirement GTB	\$13,688,823	(\$12,357,814)	(\$10,928,539)	\$719,020
Local Property Taxes	(\$13,688,823)	\$12,357,814	\$10,928,539	(\$719,020)

17. The estimated change in school district general fund GTB and county retirement GTB is provided in the table below. This includes an adjustment for both GTB types for redistribution of TV and change in statewide TV. GTB calculations have a lag effect therefore the adjustment increases GTB in FY 2026 and decreases in years after. Local property taxes will decrease by \$45.2 million in FY 2026 and increase by \$80.5 million in FY 2027 and beyond.

	FY 2026	FY 2027	FY 2028	FY 2029
District GF GTB	\$31,502,246	(\$68,223,488)	(\$70,499,317)	(\$72,561,884)
County Retirement GTB	\$13,688,823	(\$12,357,815)	(\$10,928,540)	(\$719,021)
Local Property Taxes	(\$45,191,069)	\$80,581,303	\$81,427,857	\$73,280,905

Fiscal Analysis Table

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
<u>Fiscal Impact</u>				
<u>Expenditures</u>				
Transfers	\$0	\$0	\$0	\$0
University	(\$9,677,000)	(\$9,748,000)	(\$11,134,000)	(\$11,217,000)
Vo-Tec	(\$792,000)	(\$797,000)	(\$911,000)	(\$917,000)
Local Assistance	\$0	\$0	\$0	\$0
District GF GTB	\$31,502,246	(\$68,223,488)	(\$70,499,317)	(\$72,561,884)
County Retirement GTB	\$13,688,823	(\$12,357,815)	(\$10,928,540)	\$719,021
TOTAL Expenditures	<u>\$34,722,069</u>	<u>(\$91,126,303)</u>	<u>(\$93,472,857)</u>	<u>(\$83,976,863)</u>
<u>Funding of Expenditures</u>				
General Fund (01)	\$197,614,069	\$72,967,697	\$93,949,143	\$104,840,137
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$153,215,000)	(\$154,346,000)	(\$176,288,000)	(\$177,600,000)
University	(\$9,677,000)	(\$9,748,000)	(\$11,134,000)	(\$11,217,000)
TOTAL Funding of Expenditures	<u>\$34,722,069</u>	<u>(\$91,126,303)</u>	<u>(\$93,472,857)</u>	<u>(\$83,976,863)</u>
<u>Revenues</u>				
General Fund (01)	(\$792,000)	(\$797,000)	(\$911,000)	(\$917,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
University	(\$9,677,000)	(\$9,748,000)	(\$11,134,000)	(\$11,217,000)
SEPTR	(\$153,215,000)	(\$154,346,000)	(\$176,288,000)	(\$177,600,000)
TOTAL Revenues	<u>(\$163,684,000)</u>	<u>(\$164,891,000)</u>	<u>(\$188,333,000)</u>	<u>(\$189,734,000)</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$198,406,069)	(\$73,764,697)	(\$94,860,143)	(\$105,757,137)
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

1. The significant decrease in taxable value due to HB 528 would increase mills in jurisdictions (local governments) that operate under 15-10-420, MCA. Local tax burdens would generally be shifted from residential and commercial property to other types of property. For most agricultural land, the impact of the mill increase would be greater than the impact of the taxable value decrease. Most of these properties would see an increase in taxes because more would be shifted onto them than away from them, but the impact would be mitigated by the class 3 tax rate cut.

Office of Public Instruction

2. Local school property taxes will decrease by \$45.2 million in FY 2026 and increase by \$80.6 million and beyond.

Significant Long-Term Impacts

Department of Revenue

1. HB 528 would affect the state's carry-forward mill authority for school equalization. The reduction in taxable value would increase the state's mill allowance, resulting in more banked mills.

NOT SIGNED BY SPONSOR

Sponsor's Initials

Date



Budget Director's Initials

2/25/2025

Date