GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0865.01: Revise government entity limitations on property tax increases**

Primary Sponsor: Ken Walsh

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)	$0	$0	$0	$0
Revenues				
General Fund (01)	$0	$0	$0	$0
Net Impact General Fund Balance	$0	$0	$0	$0

Description of fiscal impact

HB 865 makes several changes to 15-10-420, MCA, which addresses automatic adjustments to revenue authority of property tax entities besides schools. Under HB 865 taxing jurisdictions are allowed to grow revenue authority by the full average rate of inflation of the prior three years, up to 4%, rather than half the inflation rate under current law. Counties and municipalities may choose to establish a reserve account that receives an additional 10% of the non-class 4 newly taxable proceeds. The use of the reserve is triggered by the loss of a major portion of their tax based or can be used to fund technology to facilitate identifying new property in their jurisdictions.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. When the calculations of the 95 mills results in less than 95 mills, the state utilizes banked mills to target the full 95 equalization mills.
2. The state reappraises property on a two-year cycle.
3. This tax base growth places downward pressure on mills and historically results in a calculation less than 95 mills. The state utilizes banked mills in reappraisal years.
4. State banked mills peaked at a high of 31.75 mills in FY 2017. Since then, the reappraisal year draw-downs have exceeded the off-year banking of mills.
5. In Tax Year 2025 (FY 2026) the state equalization mills have 13.74 banked mills. The state is projected to use all these mills by TY 2029.

6. The above concepts also hold true for the 1.5 vocational technical education mills authorized by 20-25-439 MCA. In FY 2026, the banked mill authority is 0.17 mills.
7. The average increase to the inflationary factor is expected to increase the 95 mill revenue authority by about $6 million per year.
8. Based on newly taxable property being about 50% class 4 and 50% non-class 4, the weighted amount of newly taxable that may be excluded from the tax base when determining the maximum mill is about 57.5%.
9. This reduction in newly taxable exclusion results in a loss of revenue authority of about $5 million per year for the equalization mills.
10. The inflation increase is expected to slightly increase revenue authority greater than the limitation on newly taxable property reduction for the state equalization mills. Banked mills are expected to be exhausted in TY 2029 under current law, and there will be more mills levied under HB 865 relative to current law.
11. The vocational technical education mills are expected to follow a similar pattern.
12. The Department of Revenue will absorb costs associated with administering HB 865.
13. Counties and municipalities may use revenue from the reserve account to pay a fee to the department for technology enhancing the assessment of newly taxable property. This fee has not been established.

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

1. The changes to maximum mill authority will affect the growth in automatic revenue authority of cities and towns, counties, and special purpose districts. The magnitude of difference in outcome between current law and HB 865 depends on the presence of newly taxable property within the taxing district and the rate of inflation.
2. Counties, municipalities, and consolidated city governments are allowed to create a taxpayer reserve account, which is funded by mills levied against 10% of the non-class 4 newly taxable property. If a jurisdiction elects to utilize this account, they may deduct 50% of newly taxable property rather than 40%.

Significant Long-Term Impacts
Department of Revenue

1. The allowance for inflation is expected to provide for slightly more revenue authority relative to the limitation on newly taxable property for the state equalization mills. Banked mills are still expected to be exhausted in TY 2029. If the assumptions hold with regard to the differential between newly taxable property allowed growth, and inflationary authority growth , there may be more mills levied than there would be under current law, once the mills float down beneath the 95 mill cap.

NOT SIGNED BY SPONSOR

	3/31/25		3/30/2025
Sponsor's Initials	Date	Budget Director's Initials	Date