



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: SB0102: Revise calculation of state education levies

Primary Sponsor: Becky Beard

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)	\$0	\$0	\$42,800,000	\$31,900,000
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	(\$43,000,000)	(\$32,000,000)
Revenues				
General Fund (01)	\$0	\$0	(\$200,000)	(\$100,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	(\$43,000,000)	(\$32,000,000)
Net Impact	<u>\$0</u>	<u>\$0</u>	<u>(\$43,000,000)</u>	<u>(\$32,000,000)</u>
General Fund Balance	<u>\$0</u>	<u>\$0</u>	<u>(\$43,000,000)</u>	<u>(\$32,000,000)</u>

Description of fiscal impact

SB 102 removes carry-forward revenue authority for the state equalization mills starting in tax year (TY) 2026. It also limits the yearly growth in revenue authority for these mills to three percent (3%). Beginning in FY 2028 the 3% limit will likely become binding reducing this revenue below present law (15-10-420, MCA) limitations for the 1.5 vo-tech mills (general fund) and state equalization mills deposited in the School Equalization and Tax Relief (SEPTR) state special revenue fund. The reductions to SEPTR lead to commensurate increased in state general fund education expenses. The revenue differential relative to present law will grow over time. SB 102 removal of the carry forward authority does not apply to local school district and countywide school district mills. Those mills are limited by the statutory school funding formula in Title 20, MCA. The decreased revenue in the SEPTR account creates a an increased school funding cost to the general fund.

FISCAL ANALYSIS

Assumptions

Department of Revenue

- 15-10-420, MCA, requires the Department of Revenue (DOR) to calculate the revenue authority derived from the 95 school equalization mills. Specifically, the 33 elementary equalization mills of 20-9-331, MCA, the 22 high school equalization mills of 20-9-331, MCA, and the 40 state equalization mills of 20-9-360, MCA. These mills are calculated simultaneously.
- Whenever the calculations of the 95 mills result in more than 95, the state 'banks' the mills under the carry forward provisions of 15-10-420(1)(b), MCA.

3. 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.
4. The state reappraises property on a two-year cycle. This can result in significant increases in the tax base in the first year of the reappraisal cycle.
5. This tax base growth places downward pressure on mills and historically results in a calculation of less than 95 mills. The state utilizes banked mills in reappraisal years.
6. Conversely, in odd fiscal years, the allowable growth under 15-10-420, MCA, results in a mill greater than 95. The state banks those mills in off-years of the reappraisal cycle.
7. State banked mills peaked at a high of 31.75 mills in FY 2017. Since then, the reappraisal year drawdowns have exceeded the off-year banking of mills.
8. In tax year (TY) 2025 (FY 2026) the state has 13.74 banked mills. The state is projected to use all these mills by TY 2029.
9. 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.
10. SB 102 applies to tax years beginning TY 2026, corresponding to FY 2027 collections. It is assumed the full 95 mills will be levied in FY 2026.
11. FY 2027 is an off-year of the reappraisal cycle. The 15-10-420, MCA, calculation will produce a number greater than 95, but be constrained by the 95 mill limit. The state will levy the full 95 mills in FY 2027.
12. The first year with a fiscal effect of SB 102 will be FY 2028.
13. The 15-10-420, MCA, inflationary factor is half of the three-year average rate of CPI inflation and is estimated to be 1.3% in FY 2028 and 1.2% in FY 2029.
14. The 10-year average amount ratio of newly taxable property to the total tax base is 3%. It is assumed this will be the same ratio in future years.
15. 15-10-420, MCA, grows the prior year revenue authority by the inflationary factor, then calculates the mill rate by removing newly taxable property from the tax base, dividing the authorized revenue into the tax base, and then adding the newly taxable property back in.
16. The combination of the inflationary factor and expected newly taxable property results in an increase in yearly revenue above 3%, therefore expected yearly growth is assumed to be 3% for FY 2028 and FY 2029 under the provisions of SB 102.
17. Expected current law collections are sourced from HJ 2 and are estimated to be \$512 million in FY 2026, \$517 million in FY 2027, \$575 million in FY 2028, and \$580 million in FY 2029.
18. Under SB 102, collections in FY 2028 are expected to be \$532 million, and FY 2029 collections are \$548 million.
19. The difference between current law and SB 102 is \$43 million in FY 2028 and \$32 million in FY 2029.
20. The 1.5 mills levied for the purposes of supporting vocational technical education are levied in Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark Counties.
21. Like the 95 mills, it is assumed the 3% growth factor will bind collections in FY 2028 and FY 2029.
22. Current law vo-tech mill collections are estimated at \$2.4 million in FY 2026, \$2.4 million in FY 2027, \$2.7 million in FY 2028 and \$2.7 million in FY 2029.
23. Under SB 102, collections in FY 2028 are expected to be \$2.5 million in FY 2028 and \$2.6 million in FY 2029.
24. The difference between current law and SB 102 is \$200,000 in FY 2028 and \$100,000 in FY 2029.
25. There are no administrative costs associated with this bill.

Office of Public Instruction

26. SB 102 removes the authority to carry-forward mills as provided in 15-10-420(1)(b)(i) for the statewide school equalization levies (20-9-331, 20-9-333, 20-9-360, MCA).
27. The school equalization mills are deposited in the School Equalization and Property Tax Reduction Account (SEPTR) state special revenue fund.
28. The SEPTR account is the second source of funding for K-12 education, any reduction will be borne by the state general fund.

29. SB 102 does not affect TY 2025 (FY 2026), additionally TY 2026 (FY 2027), is an off-cycle year for reappraisal. According to the DOR, the SB 102 calculation will not trigger a reduction in the 95 mills for FY 2027. This is not the case in FY 2028 and FY 2029. The reduction to SEPTR will lead to an increase in general fund expenditure.

Fiscal Analysis Table

Department of Revenue

	<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>				
<u>Expenditures</u>				
Transfers	\$0	\$0	\$0	\$0
Vo Tech	\$0	\$0	(\$200,000)	(\$100,000)
TOTAL Expenditures	\$0	\$0	(\$200,000)	(\$100,000)
<u>Funding of Expenditures</u>				
General Fund (01)	\$0	\$0	\$42,800,000	\$31,900,000
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	(\$43,000,000)	(\$32,000,000)
TOTAL Funding of Expenditures	\$0	\$0	(\$200,000)	(\$100,000)
<u>Revenues</u>				
General Fund (01)	\$0	\$0	(\$200,000)	(\$100,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	(\$43,000,000)	(\$32,000,000)
TOTAL Revenues	\$0	\$0	(\$43,200,000)	(\$32,100,000)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	\$0	\$0	(\$43,000,000)	(\$32,000,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	\$0	\$0

Significant Long-Term Impacts

Department of Revenue

1. Based on expectations of reappraisal, the state will run out of banked mill authority in TY 2029. At the point in which the state spends all banked authority, the major difference between current law and SB 102 is the 3% limitation on growth. Nevertheless, the accelerated elimination of banked mills has significant effects on compounded growth in TY 2029 and beyond.

BB

Sponsor's Initials

1-22-25

Date

RO

Budget Director's Initials

1/17/2025

Date