



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: **SB0189: Lower residential, commercial, and agricultural property tax rates**

Primary Sponsor: **Mary Ann Dunwell**

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

	<b>FY 2026 Difference</b>	<b>FY 2027 Difference</b>	<b>FY 2028 Difference</b>	<b>FY 2029 Difference</b>
<b>Expenditures</b>				
General Fund (01)	\$207,458,555	\$69,535,986	\$91,610,227	\$103,783,445
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$162,830,000)	(\$164,065,000)	(\$187,625,000)	(\$189,050,000)
University	(\$10,284,000)	(\$10,362,000)	(\$11,850,000)	(\$11,940,000)
<b>Revenues</b>				
General Fund (01)	(\$792,000)	(\$798,000)	(\$911,000)	(\$918,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$162,830,000)	(\$164,065,000)	(\$187,625,000)	(\$189,050,000)
University	(\$10,284,000)	(\$10,362,000)	(\$11,850,000)	(\$11,940,000)
<b>Net Impact</b>	<b>(\$208,250,555)</b>	<b>(\$70,333,986)</b>	<b>(\$92,521,227)</b>	<b>(\$104,701,445)</b>
<b>General Fund Balance</b>				

### Description of fiscal impact

SB 189 would reduce class 3 and class 4 property tax rates. The class 3 agricultural rate would be reduced from 2.16% to 1.85%. The residential tax rate would be set at 0.76% (from 1.35%) and the commercial property tax rate would be fixed at 1.35% instead of being set at 1.4 times the residential rate (currently 1.89%). The bill would also remove the 1.4 tax rate multiplier on the portion of a residential improvement value above \$1.5 million. All residential property would be taxed at a 0.76% rate regardless of value. These changes would reduce statewide taxable value by \$1.71 billion (32%) in FY 2026 when the bill takes effect, reducing revenue generated by the 95 school equalization mills, 6 university mills, and 1.5 vo-tech mills.

The taxable value changes in SB 189 affect the calculation of school district general fund GTB, county retirement GTB, and the estimated revenue to support the SEPTR account. The estimated state general fund expenditure will increase is \$208.3 million in FY 2026 and \$70.3 million in FY2027. Local school property taxes will decrease by \$45.4 million in FY 2026 and increase by \$79.3 million in FY 2027 and beyond.

### FISCAL ANALYSIS

#### Assumptions

#### Department of Revenue

1. The 1.85%, 0.76% and 1.35% tax rates were applied to the FY 2025 market values of each agricultural,

residential, and commercial property, respectively, to estimate each property's FY 2025 taxable value under SB 189.

2. The difference in FY 2025 taxable value for each property was calculated and grown by the respective HJ 2 forecast for each tax class.
3. Statewide, taxable value would be reduced by \$1.71 billion in FY 2026, \$1.73 billion in FY 2027, \$1.98 billion in FY 2028, and \$1.99 billion in FY 2029.
4. The reduction in residential taxable value makes up 87% of the total taxable value change of SB 189. Commercial property makes up 12% and agricultural land 1%. The following table contains the taxable value changes by class in FY 2026.

Tax Class	Current Taxable Value	SB 189 Taxable Value	Difference
Residential	\$3,423,000,000	\$1,927,000,000	(\$1,496,000,000)
Commercial	\$682,000,000	\$487,000,000	(\$195,000,000)
Agricultural	\$161,000,000	\$138,000,000	(\$23,000,000)

5. The taxable value reduction would decrease revenue generated by the 95 school equalization mills, 6 university mills, and 1.5 vo-tech mills. The following table contains the estimated fiscal impact to these accounts.

Fund	FY 2026	FY 2027	FY 2028	FY 2029
TV Difference	(\$1,714,000,000)	(\$1,727,000,000)	(\$1,975,000,000)	(\$1,990,000,000)
School Equalization	(\$162,830,000)	(\$164,065,000)	(\$187,625,000)	(\$189,050,000)
University	(\$10,284,000)	(\$10,362,000)	(\$11,850,000)	(\$11,940,000)
Vo-tech	(\$792,000)	(\$798,000)	(\$911,000)	(\$918,000)

6. Administrative costs would be absorbed by the department.

#### Office of Public Instruction

7. SB 189 revises tax rates which affect school district and statewide taxable valuations (TV). Changes to TV results in recalculation of guaranteed tax base (GTB) aid beginning FY2026.
8. 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 SB 189.
9. 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 SEPTR account for the 95 mill revenue.
10. The following table provides information regarding the calculation for the amount of the adjustment related to changes in TV in SB 189.

State FY	Current Law TV	Reduction TV SB 189	Adjusted TV	Adjusted TV Change
FY 2026	\$4,512,374,412		\$4,512,374,412	
FY 2027	\$5,211,792,446	(\$1,713,739,252)	\$3,498,053,194	(\$1,014,321,218)

11. The change in TV is used to determine the adjustment to district general fund GTB related to TV changes pursuant to 20-9-336, MCA.

State FY	Adjusted TV Change	95 mill calculation	District GF GTB 85%	District GF GTB Multiplier
FY 2026				262%
FY 2027	(\$1,014,321,218)	(\$96,360,516)	(\$81,906,438)	159%

12. County retirement GTB is reduced by 15% in the case of TV decreases and increases by 55% in the case of TV increases of the amount of the difference related to 95 mill revenue change. The estimated change in county retirement GTB is provided in the table below. GTB calculation have a lag effect therefore, the adjustment increases GTB in FY 2026 and decreases in years after.

State FY	Adjusted TV	Adjusted TV Change	95 mill calculation	County Retirement 15%	County Retirement 55%	County Retirement GTB Multiplier
FY 2025	\$4,495,734,393					
FY 2026	\$4,512,374,412					189%
FY 2027	\$3,498,053,194	(\$1,014,321,218)	(\$96,360,516)	(\$14,454,077)		236%
FY 2028	\$3,535,482,363	\$37,429,169	\$3,555,771		\$1,955,674	236%
FY 2029	\$3,926,860,261	\$391,377,898	\$37,180,900		\$20,449,495	305%

13. 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 state costs for GTB in FY 2026 and decreases in years after. Local school property taxes will decrease by \$45.4 million in FY 2026 and increase by \$79.3 million in FY 2027 and beyond.

	FY 2026	FY 2027	FY 2028	FY 2029
District GF GTB	\$31,590,399	(\$79,018,615)	(\$81,542,876)	(\$83,976,493)
County Retirement GTB	\$13,830,156	(\$353,250)	(\$357,108)	(\$372,062)
Local School Property Taxes	(\$45,420,555)	\$79,371,865	\$81,899,984	\$84,348,555

## 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>
<b><u>Fiscal Impact</u></b>				
<b><u>Expenditures</u></b>				
Transfers	\$0	\$0	\$0	\$0
Vo Tech	(\$792,000)	(\$798,000)	(\$911,000)	(\$918,000)
University	(\$10,284,000)	(\$10,362,000)	(\$11,850,000)	(\$11,940,000)
Local Assistance	\$0	\$0	\$0	\$0
District GF GTB	\$31,590,399	(\$79,018,615)	(\$81,542,876)	(\$83,976,493)
County Retirement GTB	\$13,830,156	(\$14,712,399)	(\$13,560,897)	(\$372,062)
<b>TOTAL Expenditures</b>	<b><u>\$34,344,555</u></b>	<b><u>(\$104,891,014)</u></b>	<b><u>(\$107,864,773)</u></b>	<b><u>(\$97,206,555)</u></b>
<b><u>Funding of Expenditures</u></b>				
General Fund (01)	\$207,458,555	\$69,535,986	\$91,610,227	\$103,783,445
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$162,830,000)	(\$164,065,000)	(\$187,625,000)	(\$189,050,000)
University	(\$10,284,000)	(\$10,362,000)	(\$11,850,000)	(\$11,940,000)
<b>TOTAL Funding of Expenditures</b>	<b><u>\$34,344,555</u></b>	<b><u>(\$104,891,014)</u></b>	<b><u>(\$107,864,773)</u></b>	<b><u>(\$97,206,555)</u></b>
<b><u>Revenues</u></b>				
General Fund (01)	(\$792,000)	(\$798,000)	(\$911,000)	(\$918,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$162,830,000)	(\$164,065,000)	(\$187,625,000)	(\$189,050,000)
University	(\$10,284,000)	(\$10,362,000)	(\$11,850,000)	(\$11,940,000)
<b>TOTAL Revenues</b>	<b><u>(\$173,906,000)</u></b>	<b><u>(\$175,225,000)</u></b>	<b><u>(\$200,386,000)</u></b>	<b><u>(\$201,908,000)</u></b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u></b>				
General Fund (01)	(\$208,250,555)	(\$70,333,986)	(\$92,521,227)	(\$104,701,445)
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 SB 189 would increase mills in jurisdictions (local governments) that operate under 15-10-420, MCA. SB 189 reduction in Class 4 rates would reduce statewide taxable value by \$1.71 billion (32%) in FY 2026. Local tax burden would generally be shifted from residential and commercial property to all other types of property.
2. Local mills will float up to offset the loss in taxable value. The statewide average consolidated mill levies would increase by 165.1 in FY 2026.

**Office of Public Instruction**

1. Local and countywide school property taxes are regulated under the school funding formulas in Title 20, MCA. Because of the significant reduction in taxable value and the change in the distribution of taxable value due to SB 189 taxable value will be shift between school districts relative to present law. That will lead to additional changes to school district general fund GTB and county retirement GTB. Local school property taxes decrease by \$45.4 million in FY 2026 and increase by \$79.4 million in FY 2027 and beyond.

**Significant Long-Term Impacts**

**Department of Revenue**

1. SB 189 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.

NO SPONSOR SIGNATURE

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Sponsor's Initials

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Date

1/31/25



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Budget Director's Initials

1/30/2025

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Date