GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **SB0032: Generally revise property taxes**

Primary Sponsor: Jeremy Trebas   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)	$1,260,232	$115,986,394	$128,740,688	$129,903,671
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	($114,146,000)	($126,871,000)	($128,016,000)
Revenues				
General Fund (01)	$0	($833,000)	($926,000)	($934,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	($114,146,000)	($126,871,000)	($128,016,000)
University	$0	($7,209,000)	($8,013,000)	($8,085,000)
Net Impact General Fund Balance	($1,260,232)	($116,819,394)	($129,666,688)	($130,837,671)

Description of fiscal impact

SB 32 makes two major changes to the basis of property taxation, by changing property tax class rates and to the basis for calculating and setting non-school local jurisdiction mill rate caps.

The tax rate for most property classifications is set to 1.50%. A reduced tax rate of 1.00% applies to qualifying " owner-occupied" class 4 residential property. These changes reduce statewide taxable value by $1.2 billion (from a HJ2 FY 2026 base of $5.55 billion) -- 21.6 percent.

SB 32 sets new limits on mill rates. The initial base revenue loss would not be recovered through upward adjustment in mills as in present law. The adjustments for inflation allow for marginal change from the new (lower) revenue base. The mill capping will affect local government authority differentially based on the magnitude of the taxable value reduction.

The state equalization mills are at their statutory caps so there is no effect on the mill rates, however the reduction in statewide taxable value reduces school equalization (95 mill), vo-tech (1.5 mills) and university (6 mill) collections. This increases general fund expense.

Local school and countywide school mills are regulated by the requirements in Title 20, MCA, and would "float" (up) to meet school district funding requirements. The change in the distribution of school district taxable value, however, leads to increases in state Guaranteed Tax BASE-aid (GTB) expenses.

The bill as currently drafted ties inflation adjustments to the FY 2025 base instead of rolling forward annually (see the technical note). The bill is effective beginning TY 2026 (FY 2027).

FISCAL ANALYSIS

Assumptions
DEPARTMENT OF REVENUE

1. The definition of "owner-occupied" homes in SB 32 is almost identical to the definition of "principal residence" used to qualify for the property tax rebate in HB 222 from the 2023 legislative session. In TY 2024, these rebate properties comprised 39.33% of all class 4 property market value. That share was used to estimate a new effective tax rate for class 4 property based on the proposed tax rate of 1% for owner-occupied homes and 1.5% for other class 4 property. The effective tax rate for all class 4 property under SB 32 would be 1.30%, compared to 1.42% under current law.
2. The taxable value of virtually all class 15 property is currently abated 50%, and certain types already receive a 1.50% tax rate, resulting in a current effective tax rate of 1.36% (compared to the statutory rate of 3%) for all class 15 property. SB 32 would lower the tax rate of all class 15 property to 1.5%, so, because it is all abated 50% already, the effective tax rate would be 0.75%.
3. Because of various abatements, the effective tax rates for certain classes of property do not match the statutory rate, but they are the accurate reflection of the true ratio of taxable value to market value. The 1.5% tax rate of SB 32 was adjusted for classes of property with abatements to account for them.
4. For each tax class, the HJ 2 estimate of TY 2025 taxable value was divided by the current effective tax rates to estimate TY 2025 market values.
5. These estimated market values were multiplied by the adjusted new tax rates to estimate new taxable values for each tax class under SB 32.
6. The following table summarizes the tax rates of each class of property and the resulting estimated differences in taxable value in TY 2025.

Tax Class	Current Effective Tax Rates	Tax Rate SB 32	TY 2026 TV Difference
1	100%	100%	$0
2	3.00%	1.50%	($14,408,000)
3	2.28%	1.50%	($55,658,000)
4	1.42%	1.30%	($288,714,000)
5	3.00%	1.41%	($30,772,000)
7	8.00%	1.50%	($12,000)
8	2.46%	1.50%	($92,742,000)
9	11.92%	1.49%	($578,374,000)
10	0.37%	0.37%	$0
12	2.77%	1.50%	($40,496,000)
13	5.91%	1.48%	($92,361,000)
14	1.67%	0.84%	($19,360,000)
15	1.36%	0.75%	($1,242,000)
17	0.90%	1.50%	$374,000
Total	1.68%	1.32%	($1,213,765,000)

7. The statewide effective property tax rate for all classes of property is estimated to be 1.68% in TY 2026 under current law. Under SB 32, the effective rate would be reduced to 1.32%, and statewide taxable value would decrease by about $1.2 billion.
8. Taxable values were grown for future years according to growth rates in HJ 2.
9. The loss of taxable value would impact revenue collected from the state 95 mills for school equalization, 6

mills for the state university system, and 1.5 mills for vo-tech schools in certain counties. Below is a table summarizing the estimated tax loss.

Fund	FY 2027	FY 2028	FY 2029
School Equalization	($114,146,000)	($126,871,000)	($128,016,000)
University	($7,209,000)	($8,013,000)	($8,085,000)
Vo-tech	($833,000)	($926,000)	($934,000)
Total State Impact	($122,188,000)	($135,810,000)	($137,035,000)

10. It is estimated that the Property Assessment Division would need 13.00 FTE to process about 230,000 initial applications for owner-occupied homes and 2.00 FTE in subsequent years for ongoing applications from home sales and new construction.
11. Additional costs will be required to develop an application process and mail decision letters to applicants.

OFFICE OF PUBLIC INSTRUCTION

12. The sections of Title 15 - Taxation amended in SB 32 affect the district and statewide taxable valuations (TV). The affects of the changes to TV in this bill impact the calculation of guaranteed tax base aid beginning for public K-12 school districts beginning in FY 2027.
13. The decrease to School Equalization Aid (SEPTR) account revenue will be a like increase to general fund costs for BASE Aid.

Fiscal Analysis Table

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
FTE	13.00	2.00	2.00	2.00
TOTAL Fiscal Impact	**13.00**	**2.00**	**2.00**	**2.00**
Expenditures				
Personal Services	$773,889	$120,466	$121,894	$123,342
Operating Expenses	$447,889	$47,506	$47,858	$48,220
Equipment	$38,454	$0	$0	$0
Local Assistance	$0	$0	$0	$0
Guaranteed Tax Base Aid (GTB)	$0	$1,672,422	$1,699,936	$1,716,109
TOTAL Expenditures	**$1,260,232**	**$1,840,394**	**$1,869,688**	**$1,887,671**
Funding of Expenditures				
General Fund (01)	$1,260,232	$115,986,394	$128,740,688	$129,903,671
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	($114,146,000)	($126,871,000)	($128,016,000)
TOTAL Funding of Expenditures	**$1,260,232**	**$1,840,394**	**$1,869,688**	**$1,887,671**
Revenues				
General Fund (01)	$0	($833,000)	($926,000)	($934,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	($114,146,000)	($126,871,000)	($128,016,000)
University	$0	($7,209,000)	($8,013,000)	($8,085,000)
TOTAL Revenues	**$0**	**($122,188,000)**	**($135,810,000)**	**($137,035,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	($1,260,232)	($116,819,394)	($129,666,688)	($130,837,671)
State Special Revenue (02)	$0	$0	$0	$0

SEPTR	$0	$0	$0	$0
University	$0	($7,209,000)	($8,013,000)	($8,085,000)

Effect on County or Other Local Revenues or Expenditures

1. Local taxing jurisdictions (except schools) would be limited to levying their FY 2025 mills plus the single year inflation adjustment, so mill levies would no longer be based on prior year budget authority.
2. SB 32 would decrease statewide taxable value by about $1.2 billion. Because the bill fixes local mill levies at the FY 2025 level plus inflation, local governments would be unable to float mills up to offset the loss in taxable value.
3. In FY 2025, local taxing jurisdictions subject to these rules raised $ 1.062 billion of revenue off $4.719 billion of taxable value, for a statewide average mill levy of 225.74 for local taxing jurisdictions subject to these rules. This is the base mill levy to which the inflation adjustment would be added.
4. Assuming inflation is 3%, the inflation adjustment for FY 2026 would be $31.959 million. Statewide taxable value in FY 2026 is projected to be $4.302 billion under SB 32, so 7.43 mills would be needed to reach the inflation adjustment.
5. The FY 2025 mill levy of 225.74 plus the inflation adjustment mill of 7.43 equals a statewide average mill levy of 233.17 for local governments. Because of the lower taxable value, this would generate $1,003,069,000, which is $62,244,000 less than FY 2025 statewide collections.
6. The impact to individual counties and local governments differs greatly. The percent loss of taxable value under SB 32 varies from 3.5% in Lake County to 83.6% in Carter County. Generally, taxing jurisdictions whose tax base is comprised largely of centrally assessed property would see a greater decrease in taxable value because those tax rates would be cut the most. Counties with a large share of Class 4 property would be less affected because the Class 4 rate is being cut relatively less (and raised for non-owner-occupied homes).
7. Taxes will be shifted from properties whose tax rates would decrease relatively more to properties whose tax rates would decrease relatively less. The following table contains the statewide share of taxable value for each tax class under current law and SB 32 in TY 2025 and an indication of whether that class of property's share of the tax base (and therefore share of taxes paid) would increase or decrease.

Tax Class	Share of Tax Base Current Law	Share of Tax Base LC0072	Percentage Point Change
1	0.10%	0.13%	0.03%
2	0.56%	0.35%	-0.20%
3	2.94%	2.47%	-0.47%
Owner-occupied Class 4	28.03%	33.29%	5.26%
Other residential Class 4	32.96%	39.15%	6.18%
Commercial Class 4	13.74%	16.32%	2.58%
Total Class 4	74.74%	88.76%	14.02%
5	1.09%	0.69%	-0.39%
7	0.00%	0.00%	0.00%
8	4.21%	3.28%	-0.93%
9	11.61%	1.85%	-9.76%
10	0.09%	0.11%	0.02%
12	1.60%	1.10%	-0.49%
13	2.30%	0.74%	-1.57%
14	0.70%	0.45%	-0.25%
15	0.05%	0.04%	-0.01%
17	0.01%	0.02%	0.01%

8. Overall taxes would decrease because of the loss in taxable value and cap on mill increases. Classes 1, 4, 10, and 17 would see their share of total property tax collections increase as all other properties' shares decrease.

Significant Long-Term Impacts

1. Despite granting full annual inflation this is likely to reduce authorized revenue in jurisdictions for some time.

Technical Concerns

1. As the bill is written, the mills required to raise the revenue of the inflation adjustment can only be added to the FY 2025 base mills. The inflation adjustment is not cumulative; the allowed mill levy always gets reset to the FY 2025 level before adding the single year inflation adjustment.

NO SPONSOR SIGNATURE

Sponsor's Initials	Date	Budget Director's Initials	Date
	1/15/25	RC	1/14/2025