



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: SB0032.02 (005): Generally revise property taxes

Primary Sponsor: Jeremy Trebas

Status: As Amended in Senate Committee

☐ 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) | \$1,260,232 | \$84,315,236 | \$66,937,872 | \$69,518,453 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | (\$59,573,000) | (\$57,658,000) | (\$59,542,000) |
| University | \$0 | (\$3,762,000) | (\$3,642,000) | (\$3,761,000) |
| Revenues | | | | |
| General Fund (01) | \$0 | (\$317,000) | (\$307,000) | (\$317,000) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | (\$59,573,000) | (\$57,658,000) | (\$59,542,000) |
| University | \$0 | (\$3,762,000) | (\$3,642,000) | (\$3,761,000) |
| Net Impact | <u>(\$1,260,232)</u> | <u>(\$84,632,236)</u> | <u>(\$67,244,872)</u> | <u>(\$69,835,453)</u> |
| General Fund Balance | | | | |

Description of fiscal impact

SB 32, as amended twice in the Senate Local Government Committee, makes two changes to the basis of property taxation. First, it sets the tax rate for most property classes at 1.65%, with a lower rate of 1.25% for class 4 owner-occupied residential property. Class 8 property is taxed at 1.5% for the first \$6 million of taxable value and 1.65% for any property over that value. Second, the basis of local non-school budget authority is changed from a revenue base to a mill base. Local governments would be permitted to levy the prior year's mills plus the mills necessary to raise an amount equal to inflation. The amendments also restore the current law investment provisions for certain class 18 (data center) property. These changes would reduce statewide taxable value by \$627.9 million in FY 2027 (from a base of \$5.44 billion) or 11.5%. The bill is effective beginning TY 2026 (FY 2027).

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) expense.

FISCAL ANALYSIS**Assumptions****Department of Revenue**

1. Primary residences that received a property tax rebate through HB 222 from the 2023 legislative session are the same properties that would receive the preferential 1.25% tax rate under SB 32. The 1.25% tax rate was applied to the TY 2024 market value of these properties to estimate new taxable values. The SB 32 tax rate of 1.65% was applied to all other class 4 property to estimate those taxable values.
2. The 1.65% tax rate of SB 32 was applied to the TY 2024 market values of all other property except classes 1 and 10, which remain unchanged. The tax rates were adjusted by property to reflect current abatements, and new taxable values were grown by HJ 2 forecasts for each tax class to estimate the taxable value differences over the next two biennia. The following table contains the statewide taxable value difference by tax class beginning TY 2026 (FY 2027) when the bill takes effect.

| Taxable Value Change by Class, SB 32 as Amended in the Senate Local Government Committee | | | |
|---|-----------------------|-----------------------|-----------------------|
| Class | FY 2027 | FY 2028 | FY 2029 |
| 1 | \$0 | \$0 | \$0 |
| 2 | -\$12,968,000 | -\$12,256,000 | -\$11,583,000 |
| 3 | -\$38,631,000 | -\$39,017,000 | -\$39,407,000 |
| 4 Primary Residence | -\$114,620,000 | -\$132,326,000 | -\$133,707,000 |
| 4 Other Residential | \$430,693,000 | \$496,073,000 | \$497,367,000 |
| 4 Commercial | -\$86,722,000 | -\$93,928,000 | -\$94,062,000 |
| 5 | -\$27,703,000 | -\$28,609,000 | -\$29,545,000 |
| 7 | -\$12,000 | -\$11,000 | -\$10,000 |
| 8 | -\$75,874,000 | -\$77,615,000 | -\$77,615,000 |
| 9 | -\$565,997,000 | -\$586,590,000 | -\$607,932,000 |
| 10 | \$0 | \$0 | \$0 |
| 12 | -\$35,726,000 | -\$35,486,000 | -\$35,392,000 |
| 13 | -\$89,318,000 | -\$86,961,000 | -\$84,667,000 |
| 14 | -\$9,422,000 | -\$9,422,000 | -\$9,422,000 |
| 15 | -\$1,249,000 | -\$1,249,000 | -\$1,249,000 |
| 17 | \$468,000 | \$468,000 | \$468,000 |
| Total | -\$627,081,000 | -\$606,929,000 | -\$626,756,000 |

3. The loss of taxable value would impact revenue collected from the 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 revenue reduction.

| Revenue Change by Fund SB 323 as Amended in Senate Local Government | | | |
|--|-----------------------|-----------------------|-----------------------|
| | FY 2027 | FY 2028 | FY 2029 |
| Taxable Value Difference | -\$627,081,000 | -\$606,929,000 | -\$626,756,000 |
| Revenue by Fund | | | |
| School Equalization | -\$59,573,000 | -\$57,658,000 | -\$59,542,000 |
| University | -\$3,762,000 | -\$3,642,000 | -\$3,761,000 |
| Vo-tech | -\$317,000 | -\$307,000 | -\$317,000 |

4. 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.

5. Additional costs will be required to develop an application process and mail decision letters to applicants.

Office of Public Instruction

6. As twice amended, SB 32 changes various sections of statute under Title 15 MCA (Taxation). This changes local and countywide school district and statewide taxable value (TV). Changes to TV will impact the calculation of guaranteed tax base (GTB) aid beginning FY2027. Note: The changes to the taxation of class 8 property reduces statewide taxable value by approximately \$2 million (0.33% of the total change under SB 32 as twice amended). That level of impact is assumed to be de minimis for GTB effects relative to the prior estimate.
7. The statewide present law (HJ 2) 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 32.
8. SB 32 decreases the statewide TV however, the decreases in TV pursuant to SB 32 are less than the HJ 2 growth rates therefore the current year 95 mill revenue compared to the prior year 95 mill revenue is greater than the prior year 95 mill revenue. Adjusted increases of TV between years will generate the need to distribute an additional \$4.8 million to various GTB mechanisms beginning in FY 2027. The following table provides an overview of the calculation.

| State FY | Adjusted TV | Adjusted TV Chg | 95 mill calc | County Retirement 55% | 55% Payment Year |
|----------|-----------------|-----------------|--------------|-----------------------|------------------|
| FY2025 | \$4,495,734,393 | | | | |
| FY2026 | \$4,512,374,412 | \$16,640,019 | \$1,580,802 | \$869,441 | FY 2027 |
| FY2027 | \$4,603,997,981 | \$91,623,569 | \$8,704,239 | \$4,787,331 | FY 2028 |

9. When the difference in the 95 mill calculation between years based on prior year TV and current year TV is greater than \$2 million, 55% of the additional revenue is to be distributed pursuant to 20-9-336, MCA. Current law, before any legislation is enacted, meets all the distribution maximums in 20-9-336, MCA, for all the "dials" therefore, any additional 95 mill revenue will be distributed to the SEPTR account with a like reduction to general fund expenditures for BASE aid funding.
10. Reductions to taxable value will adjust the value of each mill levied. As a result, additional mills will be required to achieve the same level of funding for the formulaic and required BASE levy area of a district's general fund budget. State general fund GTB described under section 20-9-366, MCA, will adjust for qualifying districts. The estimated amounts are in provided in the table below:

| | FY 2027 | FY 2028 | FY 2029 |
|----------------------|----------------|---------------|---------------|
| District GF GTB | \$11,325,284 | \$1,142,778 | \$1,360,432 |
| Local Property Taxes | (\$11,325,284) | (\$1,142,778) | (\$1,360,432) |

11. Reductions to taxable value will adjust the value of each mill levied. As a result, additional mills will be required to achieve the same level of funding for the formulaic county retirement GTB calculation. State retirement GTB (20-9-366, MCA), will adjust for qualifying districts. The estimated amounts are in provided in the table below:

| | FY 2027 | FY 2028 | FY 2029 |
|-----------------------|---------------|-------------|-------------|
| County Retirement GTB | \$5,407,980 | \$375,602 | \$603,972 |
| Local Property Taxes | (\$5,407,980) | (\$375,602) | (\$603,972) |

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> |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| <u>Fiscal Impact</u> | | | | |
| FTE | 13.00 | 2.00 | 2.00 | 2.00 |
| TOTAL Fiscal Impact | 13.00 | 2.00 | 2.00 | 2.00 |
| <u>Expenditures</u> | | | | |
| Personal Services | \$773,889 | \$120,466 | \$122,273 | \$124,107 |
| Operating Expenses | \$447,889 | \$47,506 | \$48,219 | \$48,942 |
| Equipment | \$38,454 | \$0 | \$0 | \$0 |
| University | \$0 | \$3,762,000 | \$3,642,000 | \$3,761,000 |
| Vo-Tech | \$0 | \$317,000 | \$307,000 | \$317,000 |
| Transfers | \$0 | \$0 | \$0 | \$0 |
| Local Assistance | \$0 | \$0 | \$0 | \$0 |
| District GF GTB | \$0 | \$11,325,284 | \$1,142,778 | \$1,360,432 |
| County Retirement GTB | \$0 | \$5,407,980 | \$375,602 | \$603,972 |
| TOTAL Expenditures | \$1,260,232 | \$20,980,236 | \$5,637,872 | \$6,215,453 |
| <u>Funding of Expenditures</u> | | | | |
| General Fund (01) | \$1,260,232 | \$84,315,236 | \$66,937,872 | \$69,518,453 |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | (\$59,573,000) | (\$57,658,000) | (\$59,542,000) |
| University | \$0 | (\$3,762,000) | (\$3,642,000) | (\$3,761,000) |
| TOTAL Funding of Expenditures | \$1,260,232 | \$20,980,236 | \$5,637,872 | \$6,215,453 |
| <u>Revenues</u> | | | | |
| General Fund (01) | \$0 | (\$317,000) | (\$307,000) | (\$317,000) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | (\$59,573,000) | (\$57,658,000) | (\$59,542,000) |
| University | \$0 | (\$3,762,000) | (\$3,642,000) | (\$3,761,000) |
| TOTAL Revenues | \$0 | (\$63,652,000) | (\$61,607,000) | (\$63,620,000) |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u> | | | | |
| General Fund (01) | (\$1,260,232) | (\$84,632,236) | (\$67,244,872) | (\$69,835,453) |
| 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. Local taxing jurisdictions (except schools) would be allowed to levy their prior year mills plus the year's inflation adjustment. Mill levies would not be based on prior year revenue authority. Mills would no longer need to float, meaning jurisdictions subject to 15-10-420, MCA, would be unable to float mills up for the taxable value reduction of SB 32. In the short run, the percent change in revenue authority would be equal to taxable value change plus the adjustment for inflation.
2. Likewise, these jurisdictions would not be required to float mills down in response to future taxable value increases. Mills would not likely be lower than the prior year, regardless of taxable value growth. Eventually, local governments would likely be collecting more revenue, without a vote, than under present law as taxable value is expected to continue to increase.

3. The taxable value changes of SB 32 would vary widely throughout the state, from a 15.77% increase in Madison County to an 81.47% decrease in Carter County. Generally, taxing jurisdictions whose tax base is comprised largely of centrally assessed property would see greater decrease in taxable value because those tax rates would be reduced the most. Counties with large share of class 4 property would see a smaller taxable value reductions, and some with lots of non-primary homes could experience an increase in taxable value.
4. Taxes would shift from properties whose tax rates decrease relative to properties whose tax rates decrease less.

Office of Public Instruction

5. The local school property taxes could decrease as indicated in the following table.

| Local School | FY2026 | FY2027 | FY2028 | FY2029 |
|-----------------------|--------|----------------|---------------|---------------|
| Property Taxes | | | | |
| District GF GTB | | (\$11,325,284) | (\$1,142,778) | (\$1,360,432) |
| County Retirement GTB | | (\$5,407,980) | (\$375,602) | (\$603,972) |

Significant Long-Term Impacts

Department of Revenue

1. In the short run, SB 32 would reduce authorized revenue for local government jurisdictions that operate under 15-10-420, MCA. In the long run, mills could increase with inflation. Assuming taxable value continues to increase, these jurisdictions eventually would be able collect more revenue, without a vote, under SB 32 than under current law.

NO SPONSOR SIGNATURE

2/25

Sponsor's Initials

Date



Budget Director's Initials

2/25/2025

Date