



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **SB0337.01: Provide a 5 year prepaid property tax exemption during subdivision development**

Primary Sponsor: Greg Hertz 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 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
Expenditures				
General Fund (01)	\$57,632	\$55,467	\$90,000	\$145,206
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$14,900)	\$353,900	\$606,800	\$863,600
University	(\$900)	\$22,000	\$38,000	\$55,000
Revenues				
General Fund (01)	\$100	(\$4,900)	(\$7,900)	(\$10,900)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$14,900	(\$353,900)	(\$606,800)	(\$863,600)
University	\$900	(\$22,000)	(\$38,000)	(\$55,000)
Net Impact	<u>(\$57,532)</u>	<u>(\$60,367)</u>	<u>(\$97,900)</u>	<u>(\$156,106)</u>
General Fund Balance				

Description of fiscal impact

SB 337 provides for a property tax exemption on properties undergoing subdivision development. The exemption is for five years or until December 31 of the year a subdivision is complete, whichever is less. The exemption also expires on any lot that was part of the land split at the start of the property tax year beginning on January 1 after a habitable dwelling has been constructed on the lot. To qualify, a five-year property tax prepayment plus 5% fee must be paid based on the most recent tax year.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. SB 337 provides for a temporary property tax exemption for up to five years for property that is being developed as a new subdivision.
2. To receive the exemption, the applicant would need to submit a property tax prepayment to the county treasurer equal to five times the amount of property taxes and assessments due on the property in the most recent tax year, plus a 5% fee.
3. The clerk and recorder in each county would certify to the Department of Revenue the tax prepayment and 5% fee were paid to apply the exemption to the subdivision's lots.

4. Once a habitable dwelling is on a lot within the subdivision, the lot's exemption is removed the next tax year.
5. If the subdivision is completed prior to the five-year exemption window, which is defined as 95% of the lots having a habitable dwelling on them, then the exemption would be removed after December 31 of the year in which the subdivision was completed.
6. The exemption would be available beginning FY 2027.
7. It is estimated 2,770 new subdivision lots are created each year that would qualify for the exemption. Of these, 1,312 are currently classified as class 3 or 10 land that would benefit from the exemption. The remaining lots are already class 4 land and it is assumed these properties would not seek the exemption.
8. The exemption and five-year prepayment essentially treat these properties as they were before subdivision (plus the 5% fee) until a dwelling is completed on the lot, at which time the exemption would end, and the land would be classified residential.
9. SB 377 affects state property tax collections in numerous ways. First, the five-year prepayment would be collected on an estimated 1,312 lots every year. Second, these lots would not be taxed until a dwelling is constructed, meaning the taxable value increase of reclassification to class 4 land would not be realized until construction is complete or five years have passed.
10. It is assumed that a dwelling is constructed on a third of subdivision lots each year, so beginning FY 2027 1,312 lots would be exempted each year and beginning FY 2028 a third of each subdivision is completed.
11. The following table contains the projected status of subdivision lots by year. By FY 2030, the number of lots becoming taxable every year would roughly equal the number of new lots becoming exempt. The number of exempt lots would stabilize around 3,936. For the fiscal note forecast period, more lots are being exempted each year than are becoming taxable.

	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
New Subdivision Lots	1,312	1,312	1,312	1,312	1,312
Taxable Subdivision Lots	0	437	875	1,312	1,312
Exempt Subdivision Lots	1,312	2,187	3,061	3,936	3,936

12. The fiscal impact of SB 337 is the difference between the property tax prepayments and the forgone revenue of reclassifying lots as residential. The following table contains the estimated state tax prepayments, exempt lots, forgone taxable value and state tax collections, and the total fiscal impact. For the fiscal note forecast period, the fiscal impact to the state would increase every year because more lots are being exempted than are becoming taxable. This is expected to stabilize at about \$1.2 million in FY 2030 when lots becoming taxable equal lots being exempted.

	FY 2026	FY 2027	FY 2028	FY 2029
Five Year Prepayment	\$15,900	\$16,200	\$16,300	\$16,500
SEPTR	\$14,900	\$15,100	\$15,200	\$15,400
University	\$900	\$1,000	\$1,000	\$1,000
Vo-tech	\$100	\$100	\$100	\$100
Exempt Lots		1,312	2,187	3,061

Average TV per Lot Current Law		\$2,965	\$2,994	\$3,023
Forgone Taxable Value		(\$3,889,000)	(\$6,546,000)	(\$9,256,000)
Forgone Revenue				
SEPTR		(\$369,000)	(\$622,000)	(\$879,000)
University		(\$23,000)	(\$39,000)	(\$56,000)
Vo-tech		(\$5,000)	(\$8,000)	(\$11,000)
Total Fiscal Impact				
SEPTR	\$14,900	(\$353,900)	(\$606,800)	(\$863,600)
University	\$900	(\$22,000)	(\$38,000)	(\$55,000)
Vo-tech	\$100	(\$4,900)	(\$7,900)	(\$10,900)

DOR Administrative Costs

13. The Department of Revenue would be required to develop new forms for the applicants and for the county to certify the prepayments. The department would require 0.50 FTE in FY 2026 and FY 2027 and 1.00 FTE, ongoing, beginning FY 2028, to process applications, and to review and maintain records.

Fiscal Analysis Table

	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>	<u>FY 2028 Difference</u>	<u>FY 2029 Difference</u>
<u>Fiscal Impact</u>				
FTE	0.50	0.50	1.00	1.00
TOTAL Fiscal Impact	0.50	0.50	1.00	1.00
<u>Expenditures</u>				
Personal Services	\$45,521	\$46,014	\$80,380	\$80,396
Operating Expenses	\$9,153	\$9,453	\$9,620	\$9,810
Equipment	\$2,958	\$0	\$0	\$0
Transfers	\$0	\$0	\$0	\$0
SEPTR	(\$14,900)	\$353,900	\$606,800	\$918,600
University	(\$900)	\$22,000	\$38,000	\$55,000
TOTAL Expenditures	\$41,832	\$431,367	\$734,800	\$1,063,806
<u>Funding of Expenditures</u>				
General Fund (01)	\$57,632	\$55,467	\$90,000	\$145,206
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	(\$14,900)	\$353,900	\$606,800	\$863,600
University	(\$900)	\$22,000	\$38,000	\$55,000
TOTAL Funding of Expenditures	\$41,832	\$431,367	\$734,800	\$1,063,806
<u>Revenues</u>				
General Fund (01)	\$100	(\$4,900)	(\$7,900)	(\$10,900)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$14,900	(\$353,900)	(\$606,800)	(\$863,600)
University	\$900	(\$22,000)	(\$38,000)	(\$55,000)
TOTAL Revenues	\$15,900	(\$380,800)	(\$652,700)	(\$929,500)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u>				
General Fund (01)	(\$57,532)	(\$60,367)	(\$97,900)	(\$156,106)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$29,800	(\$707,800)	(\$1,213,600)	(\$1,727,200)

University	<u>\$1,800</u>	<u>(\$44,000)</u>	<u>(\$76,000)</u>	<u>(\$110,000)</u>
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Effect on County or Other Local Revenues or Expenditures

Department of Revenue

1. Taxing jurisdictions in which eligible subdivisions are located would receive the five-year property tax prepayments plus 5% fee. The land would not be reclassified from agricultural to residential until a dwelling is completed, reducing taxable value.
2. About three quarters of eligible subdivisions are located in Yellowstone and Gallatin counties.

Significant Long-Term Impacts

Department of Revenue

1. For the fiscal note forecast period, the number of lots becoming exempt each year is greater than the number of lots built up and becoming taxable. This is expected to stabilize in FY 2030 with 3,936 exempt lots and a \$1.2 million fiscal impact to state property tax collections.

NO SPONSOR SIGNATURE

Sponsor's Initials

Date

2/25

Budget Director's Initials

Date

RD

