



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: HB0231.02 (003): Revise property tax rates for certain property

Primary Sponsor: Llew Jones Status: As Amended in House 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 2025</u> <u>Difference</u>	<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>Expenditures</b>					
General Fund (01)	\$1,934,448	\$31,334,366	\$27,685,145	\$30,363,621	\$30,272,231
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$20,696,590)	(\$20,696,590)	(\$23,943,974)	(\$23,943,974)
University	\$0	(\$1,307,469)	(\$1,307,469)	(\$1,512,616)	(\$1,512,616)
<b>Revenues</b>					
General Fund (01)	\$0	(\$92,647)	(\$92,647)	(\$107,183)	(\$107,183)
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$20,696,590)	(\$20,696,590)	(\$23,943,974)	(\$23,943,974)
University	\$0	(\$1,307,469)	(\$1,307,469)	(\$1,512,616)	(\$1,512,616)
<b>Net Impact</b>	<u>(\$1,934,448)</u>	<u>(\$31,427,013)</u>	<u>(\$27,777,792)</u>	<u>(\$30,470,804)</u>	<u>(\$30,379,414)</u>
<b>General Fund Balance</b>					

### Description of fiscal impact

HB 231, as amended in the House Taxation Committee, changes the default tax rate on residential property from 1.35% to 1.9%, but creates preferential tax rates for primary homes and long-term rentals, and most commercial property while holding class 4 improvements on agricultural land at the current rate of 1.35%. The bill indexes the tax tiers to the median residential and commercial property value each reappraisal cycle. The amendment lowers the tax rate on qualifying homes and long-term rental property value under half the statewide median residential value to 0.9%. The 1.9% rate applies to property over three-and-a-half times the median. The 1.1% rate applies to the qualifying class 4 residential property between one-half (1/2) the median and three-and-a-half (3.5) times the median. Commercial property rates change from a flat 1.89% rate to two marginal rates of 1.5% and 1.9%. The 1.5% rate applies to commercial property under six-times the median commercial property, the 1.9% rate applies to property value over that criteria. The bill applies retroactively to tax year (TY) 2025. Properties which received a rebate in 2024, and properties enrolled in property tax assistance programs are automatically eligible for the homestead rate. On a statewide basis, these changes result in a roughly 4% decrease in taxable value, reducing state property tax collections.

As Amended, HB 231 changes impact the calculations and distribution of school district general fund GTB, county retirement GTB, and the estimated revenue to support the SEPTR account. The estimated increase in state general fund expenditure is \$1.9 million in FY 2025, \$31.4 million in FY 2026, and \$27.8 in FY 2027.

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

1. Under current law, class 4 residential property has a tax rate of 1.35%. HB 231 creates three distinct groups of residential property: primary residences and long-term rentals, residential for qualified agricultural property, and all other residential.
2. Primary residences and long-term rentals have three marginal tax rates. For value under half the statewide median, the tax rate is 0.9%. For value between half the statewide median and 3.5 times the statewide median, the tax rate is 1.1%. For values exceeding 3.5 times the statewide median, the tax rate is 1.9%. For multifamily long-term rentals, the tax rate is always 1.1%.
3. Residential property associated with qualified agricultural land remains at 1.35% under HB 231.
4. All other residential property will have a tax rate of 1.9%.
5. Under current law, class 4 commercial property has a tax rate of 1.89%, or 1.4 times the rate for class 4 residential property. Under the provisions of HB 231, the first approximately \$1.9 million in value has a tax rate of 1.5%, and any market value over \$1.9 million will have tax rate of 1.9%.
6. HB 231 is effective retroactively to Tax Year 2025, meaning the tax rate changes effect FY 2026 collections.
7. HB 231 contains transition language that any home that qualified for the 2023 property tax rebate created under HB 222 of the 2023 Legislature or that is enrolled in the Property Tax Assistance Program or Montana Disabled Veterans program will automatically qualify for the reduced primary home rate in TY 2025 and TY 2026.
8. These properties had a TY 2024 total market value of \$94.155 billion and an associated taxable value of \$1.194 billion.
9. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be \$113.140 billion with a taxable value of \$1.434 billion. Under the provisions of HB 231, these properties would have a total estimated taxable value of \$1.141 billion, a decrease of \$292 million.
10. Long-term rental properties also qualify for the preferential residential tax rates. These properties will need to apply to the Department of Revenue by March 1 to receive the beneficial tax rate.
11. The American Community Survey published by the U.S. Census Bureau provides estimates of the share of renter households by county. Based on these estimates, the TY 2024 market value of long-term rentals was \$51.968 billion with a taxable value of \$715 million.
12. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be \$62.393 billion with an associated taxable value of \$859 million. Under the provisions of HB 231, these properties would have a total estimated taxable value of \$700 million, a decrease of \$159 million.
13. The tax rate on residential property of qualified agricultural properties is held unchanged from current law at 1.35% by HB 231.
14. In TY 2024, residential properties associated with qualified agricultural properties had a total market value of \$10.297 billion, and a taxable value of \$140 million.
15. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be \$12.596 billion, with an associated taxable value of \$171 million. Under the provisions of HB 231, these properties would have the same taxable value and there would be no change to the taxable value as a result of HB 231.
16. Residential property that was estimated to not be a primary residence, not be associated with any qualified agricultural property, and not estimated to be a long-term rental had a total TY 2024 statewide market value of \$51.935 billion, and a total taxable value of \$745 million.
17. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be \$66.266 billion, and the total taxable value is estimated to be \$954 million. Under the provisions of HB 231, the total taxable value of these properties is estimated to be \$1.259 billion, an increase of \$305 million.

18. In TY 2024 commercial property had a statewide total market value of \$34.708 billion and a total taxable value of \$629 million.
19. After applying HJ 2 growth rates to these properties, the TY 2025 market value is estimated to be \$37.778 billion with an associated taxable value of \$686 million. Under the provisions of HB 231, these properties would have a total estimated taxable value of \$593 million, a decrease of \$92 million.
20. The following table summarizes the changes in taxable value in the previous assumptions.

	Property Types	TY 2025- Current Law (millions)	TY 2025- Proposed Law (millions)	Difference
Residential	Primary Residence	\$1,433.54	\$1,141.25	(\$292.30)
Residential	Long Term Rental Improvements	\$859.50	\$700.33	(\$159.17)
Residential	Other Residential*	\$953.57	\$1,259.03	\$305.45
Commercial	Property Under Threshold	\$316.08	\$250.86	(\$65.22)
Commercial	Property Over Threshold	\$369.46	\$342.24	(\$27.22)
	Subtotal	\$3,932.15	\$3,693.71	(\$238.45)

21. Based on the weighted average state mills for the 95 equalization mills, the 6 university mills, and the 1.5 mills levied to help fund vocational and technical education in Silver-Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark counties, and accounting for some diversions as a result of existing tax increment financing districts, the total impact to the statewide mills is presented in the following table for TY 2025 – TY 2028 (FY 2026 – FY 2029).

Fund	FY 2026	FY 2027	FY 2028	FY 2029
SEPTR	(\$20,696,590)	(\$20,696,590)	(\$23,943,974)	(\$23,943,974)
University	(\$1,307,469)	(\$1,307,469)	(\$1,512,616)	(\$1,512,616)
Vo-Tech	(\$92,647)	(\$92,647)	(\$107,183)	(\$107,183)
Total	(\$22,096,705)	(\$22,096,705)	(\$25,563,774)	(\$25,563,774)

### ***DOR Costs***

22. The department's Property Assessment Division will require approximately 8.0 FTE in FY 2025 to process applications associated with primary residence and 10.0 FTE to process long-term rental applications for a total of 18.0 FTE.
23. In fiscal years beginning FY 2026, 3.00 FTE based are needed to process properties being sold or transferred that require reapplication and new applications for primary residency. The long-term rental property portion will require 10.0 FTE since all properties must annually reapply for this status.
24. In Tax Year 2027, all properties will be required to reapply for the primary home designation. This is to remedy any improper treatment applied to properties as a result of the transitional language in Section 2 of automatically granting the beneficial primary home rate to any property that qualified for a TY 2024 property tax rebate. This will necessitate an additional 10.00 FTE in FY 2027 to process reapplications, for 23.00 FTE in FY 2027. Thereafter the staffing requirements returns to 13.00 FTE.
25. The starting in FY 2026 the department will require an additional 1.00 FTE in legal services to deal with expected lawsuits and appeals surrounding primary home or long-term rental designation.
26. Mailing costs are estimated based on a cost of \$1.43 per letter. Determinations of property status will be mailed to all primary home applicants and long-term rental applicants each year. Mailing costs are estimated at \$429,000 in FY 2025, \$121,550 in FY 2026, \$371,800 in FY 2027, \$121,550 in FY 2028, and \$121,550 in FY 2029.
27. The department will expend \$45,000 in each fiscal year for informational outreach to increase taxpayer awareness of these property tax programs.

### **Office of Public Instruction**

28. HB 231, as amended, revises tax rates for certain class 4 residential and commercial property providing a

lower tax rate for certain owner-occupied residential property and long-term rentals and provides a lower tax rate for a portion of commercial property value.

29. Retroactive applicability is applied requiring that these amendments would apply to property tax years beginning after December 31, 2024, impacting the budget setting mills of FY 2026 and the GTB subsidy per mill calculations for funding in FY 2027.
30. Changes in section 8 (15-6-134, MCA) adjust district and statewide taxable valuations (TV). Changes to TV will impact the calculation of guaranteed tax base (GTB) aid beginning FY 2026.
31. 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 HB 231.
32. HB 231 decreases the statewide TV, however the decrease in TV pursuant to HB 231 is 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 \$25.3 million to the various GTB mechanisms beginning in FY2027. The following table provides an overview of the calculation.

State FY	Adjusted TV	Adj TV Chg	95 mill calc	County Retirement 55%
FY2025	\$4,495,734,393			
FY2026	\$4,512,374,412	\$16,640,019	\$1,580,802	
FY2027	\$4,995,778,555	\$483,404,143	\$45,923,394	\$25,257,866

33. 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.
34. 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.

	FY2026	FY2027	FY2028	FY2029
District GF GTB	\$6,653,467	\$3,895,276	\$4,202,056	\$4,124,430
Local Property Taxes	(\$6,653,467)	(\$3,895,276)	(\$4,202,056)	(\$4,124,430)

35. 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 retirement GTB calculation. State retirement GTB described under section 20-9-366, MCA, will adjust for qualifying districts. The estimated amounts are in provided in the table below.

	FY2026	FY2027	FY2028	FY2029
District Retirement GTB	\$2,725,235	\$885,155	\$982,469	\$943,215
County Local Property Taxes	(\$2,725,235)	(\$885,155)	(\$982,469)	(\$943,215)

36. The total local school property tax reduction related to the district general fund GTB and the county retirement GTB are shown in the following table.

	FY 2026	FY 2027	FY 2028	FY 2029
District GF GTB	(\$6,653,467)	(\$3,895,276)	(\$4,202,056)	(\$4,124,430)
County Retirement GTB	(\$2,725,235)	(\$885,155)	(\$982,469)	(\$943,215)
Total Local School Property Taxes	(\$9,378,702)	(\$4,780,431)	(\$5,184,525)	(\$5,067,645)



## Fiscal Analysis Table

	<u>FY 2025</u> <u>Difference</u>	<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>Fiscal Impact</b>					
FTE	18.00	14.00	24.00	14.00	14.00
<b>TOTAL Fiscal Impact</b>	<b>18.00</b>	<b>14.00</b>	<b>24.00</b>	<b>14.00</b>	<b>14.00</b>
<b>Expenditures</b>					
Personal Services	\$1,182,450	\$1,015,617	\$1,630,519	\$1,040,949	\$1,053,905
Operating Expenses	\$698,754	\$294,692	\$640,672	\$301,356	\$313,890
Equipment	\$53,244	\$41,412	\$29,580	\$0	\$0
Transfers	\$0	\$0	\$0	\$0	\$0
Vo Tech	\$0	(\$92,647)	(\$92,647)	(\$107,183)	(\$107,183)
University	\$0	(\$1,307,469)	(\$1,307,469)	(\$1,512,616)	(\$1,512,616)
Local Assistance	\$0	\$0	\$0	\$0	\$0
District GF GTB	\$0	\$6,653,467	\$3,895,276	\$4,202,056	\$4,124,430
County Retirement GTB	\$0	\$2,725,235	\$885,155	\$982,469	\$943,215
<b>TOTAL Expenditures</b>	<b>\$1,934,448</b>	<b>\$9,330,307</b>	<b>\$5,681,086</b>	<b>\$4,907,031</b>	<b>\$4,815,641</b>
<b>Funding of Expenditures</b>					
General Fund (01)	\$1,934,448	\$31,334,366	\$27,685,145	\$30,363,621	\$30,272,231
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$20,696,590)	(\$20,696,590)	(\$23,943,974)	(\$23,943,974)
University	\$0	(\$1,307,469)	(\$1,307,469)	(\$1,512,616)	(\$1,512,616)
<b>TOTAL Funding of Expenditures</b>	<b>\$1,934,448</b>	<b>\$9,330,307</b>	<b>\$5,681,086</b>	<b>\$4,907,031</b>	<b>\$4,815,641</b>
<b>Revenues</b>					
General Fund (01)	\$0	(\$92,647)	(\$92,647)	(\$107,183)	(\$107,183)
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$20,696,590)	(\$20,696,590)	(\$23,943,974)	(\$23,943,974)
University	\$0	(\$1,307,469)	(\$1,307,469)	(\$1,512,616)	(\$1,512,616)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$22,096,706)</b>	<b>(\$22,096,706)</b>	<b>(\$25,563,773)</b>	<b>(\$25,563,773)</b>
<b>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</b>					
General Fund (01)	(\$1,934,448)	(\$31,427,013)	(\$27,777,792)	(\$30,470,804)	(\$30,379,414)
State Special Revenue (02)	\$0	\$0	\$0	\$0	\$0
SEPTR	\$0	\$0	\$0	\$0	\$0
University	\$0	\$0	\$0	\$0	\$0

## Effect on County or Other Local Revenues or Expenditures

## Department of Revenue

- At the statewide level, taxable value is estimated to be about 4% lower than current HJ 2 estimates. The changes to local jurisdictions depend on the makeup of residential and commercial property within the jurisdiction. To the extent that taxable value increases or decreases, local mills will generally adjust down or up respectively.

## Office of Public Instruction

- Local school property taxes would decrease by approximately \$9.4 million in FY 2026 and \$4.7 million in FY 2027.

## MACO

- The ongoing impacts will vary depending on the county and the makeup of the properties and their tax class and valuation.

**Significant Long-Term Impacts**

**Department of Revenue**


1. Property tax rates for class 4 property would be indexed to statewide residential and commercial property median values and adjust each reappraisal cycle.

**Technical Concerns**


**Department of Revenue**

1. This bill has an immediate effective date and retroactive applicability to TY 2025. This will require the department to complete all the initial work and all system changes and incur those costs during FY 2025. It would be challenging for the department to get this bill implemented in the current tax year.

  
Sponsor's Initials

  
Date

  
Budget Director's Initials

  
Date