Fiscal Note 2027 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill#/Title:	**SB0032: 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

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$1,260,232	$76,217,236	$59,115,872	$61,436,453
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	($59,632,000)	($57,732,000)	($59,613,000)
University	$0	($3,766,000)	($3,646,000)	($3,765,000)
Revenues				
General Fund (01)	$0	($316,000)	($305,000)	($314,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	($59,632,000)	($57,732,000)	($59,613,000)
University	$0	($3,766,000)	($3,646,000)	($3,765,000)
Net Impact General Fund Balance	($1,260,232)	($76,533,236)	($59,420,872)	($61,750,453)

Description of fiscal impact

SB 32 as amended and retained in the Senate Local Government Committee, makes two main changes to the basis of property taxation. The first by setting most property tax classes to a single 1.65% rate, with a lower rate of 1.25% for class 4 owner-occupied residential property. The second, by the basis for calculating and setting non-school local authority mill rate caps (see technical note). The amendments also restore new investment provisions for certain class 18 (green hydrogen facilities) property. These changes would reduce statewide taxable value by $627.7 million in FY 2027 (from a base of $5.44 billion) or 11.5%. The bill 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). The estimated state general fund impact related to school funding will be $76.4 million in FY 2027. Local property taxes will decease by $16.7 million in FY 2027 and by $1.5 million in future years.

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.

Class	TV Difference FY 27	TV Difference FY 28	TV Difference FY 29
1	$0	$0	$0
2	($13,000,000)	($12,300,000)	($11,600,000)
3	($38,600,000)	($39,000,000)	($39,400,000)
4 Primary Residence	($114,600,000)	($132,300,000)	($133,700,000)
4 Other Residential	$430,700,000	$496,100,000	$497,400,000
4 Commercial	($86,700,000)	($93,900,000)	($94,100,000)
5	($27,700,000)	($28,600,000)	($29,500,000)
7	$0	$0	$0
8	($76,700,000)	($78,500,000)	($78,500,000)
9	($566,000,000)	($586,600,000)	($607,900,000)
10	$0	$0	$0
12	($35,700,000)	($35,500,000)	($35,400,000)
13	($89,300,000)	($87,000,000)	($84,700,000)
14	($9,400,000)	($9,400,000)	($9,400,000)
15	($1,200,000)	($1,200,000)	($1,200,000)
17	$500,000	$500,000	$500,000
Total TV Difference	($627,700,000)	($607,700,000)	($627,500,000)

3. 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
TV difference	($627,700,000)	($607,700,000)	($627,500,000)
School Equalization	($59,632,000)	($57,732,000)	($59,613,000)
University	($3,766,000)	($3,646,000)	($3,765,000)
Vo-tech	($316,000)	($305,000)	($314,000)
Total State Impact	**($63,714,000)**	**($61,683,000)**	**($63,692,000)**

DOR Administrative Costs

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 and are presented in the DOR expenditure section of fiscal impact tables.

Office of Public Instruction

6. As 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.
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 that 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

	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	$122,273	$124,107
Operating Expenses	$447,889	$47,506	$48,219	$48,942
Equipment	$38,454	$0	$0	$0
Transfers	$0	$0	$0	$0
University	$0	($3,766,000)	($3,646,000)	($3,765,000)
Vo-Tech	$0	($316,000)	($305,000)	($314,000)
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**	**$12,819,236**	**($2,262,128)**	**($1,941,547)**
Funding of Expenditures				
General Fund (01)	$1,260,232	$76,217,236	$59,115,872	$61,436,453
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	($59,632,000)	($57,732,000)	($59,613,000)
University	$0	($3,766,000)	($3,646,000)	($3,765,000)
TOTAL Funding of Expenditures	**$1,260,232**	**$12,819,236**	**($2,262,128)**	**($1,941,547)**
Revenues				
General Fund (01)	$0	($316,000)	($305,000)	($314,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	($59,632,000)	($57,732,000)	($59,613,000)
University	$0	($3,766,000)	($3,646,000)	($3,765,000)
TOTAL Revenues	**$0**	**($63,714,000)**	**($61,683,000)**	**($63,692,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	($1,260,232)	($76,533,236)	($59,420,872)	($61,750,453)
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 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 as amended, would decrease statewide taxable value by $625 million. 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. The percent change in budget authority for a non-school taxing jurisdiction would be equal to its taxable value change plus an inflation adjustment. The taxable value changes would vary widely throughout the state, from a 15.76% increase in Madison County to an 81.47% decrease in Carter County.
3. 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 reduced the most. Counties with a large share of Class 4 property would see a smaller taxable value reduction, and some with lots of non-primary residential homes will experience a taxable value increase.
4. Taxes will be shifted from properties whose tax rates would decrease relatively more to properties whose tax rates would decrease relatively less or increase.

Office of Public Instruction

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

Local School Property Taxes	FY2026	FY2027	FY2028	FY2029
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. Despite granting full annual inflation, this is likely to reduce authorized revenue in jurisdictions for some time.

Technical Concerns

Department of Revenue

1. The structure of the inflation index is unusual as it ties mills to the FY 2025 level of base mills plus any**one year's**inflation (and only one year's inflation). Normally indexes work off the prior year's level as inflation is a cumulative process over time . The SB 32 inflation adjustment is not cumulative; the allowed mill levy always gets reset to the FY 2025 level before adding the single year inflation adjustment.(not the prior year's level). As time goes on the differential will be significant as the mill authority is set to the FY 2025 base not prior year's base (e.g., in FY 2030 the authorized mills would be FY 2025 mills plus the inflation from FY 2029 to FY 2030, the cumulative inflation between FY 2025 and FY 2029 would not be allowed).

JRT	2-3-25		2/3/2025
Sponsor's Initials	Date	Budget Director's Initials	Date