GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title:	**SB0117: Revise government entity limitations on property tax increases**		
Primary Sponsor:	Daniel Zolnikov	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)	$0	$0	$0	$0
Revenues				
General Fund (01)	$0	$0	$0	$0
Net Impact General Fund Balance	$0	$0	$0	$0

Description of fiscal impact

SB 117 makes several changes to 15-10-420, MCA, which is the section of law dealing with automatic adjustments to revenue authority of property tax entities besides schools. Under SB 117, taxing jurisdictions are allowed to grow revenue authority by the full average rate of inflation of the prior three years, rather than half the inflation rate under current law. Taxing entities will only be able to exclude half of newly taxable property from their tax base when calculating the mill levy, rather than the full newly taxable property value under current law. These effects are offsetting in their allowance of growth and overall effect depends on factors specific to each jurisdiction. Finally, SB 117 limits the 15-10-420, MCA calculation growth to a cap of 4%. The state equalization mills and vocational technical education mills will see collections limited to 4% growth beginning FY 2028.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. 15-10-420, MCA requires the Department of Revenue (DOR) to calculate the revenue authority of the 95 equalization mills authorized via the 33 elementary equalization mills of 20-9-331, MCA, the 22 high school equalization mills of 20-9-331, MCA, and the 40 state equalization mills of 20-9-360, MCA. These mills are calculated simultaneously.
2. Whenever the calculations of the 95 mills result in more than 95, the state 'banks' the mills under the carry forward provisions of 15-10-420(1)(b), MCA.
3. When the calculations of the 95 mills results in less than 95 mills, the state utilizes banked mills to target the full 95 equalization mills.

4. The state reappraises property on a two-year cycle. This results in large increases in the tax base in odd tax years (even fiscal years).
5. This tax base growth places downward pressure on mills and historically results in a calculation less than 95 mills. The state utilizes banked mills in reappraisal years.
6. Conversely, in odd fiscal years, the allowable growth under 15-10-420, MCA, results in a mill greater than 95. The state banks mills in off-years of the reappraisal cycle.
7. State banked mills peaked at a high of 31.75 mills in FY 2017. Since then, the reappraisal year draw-downs have exceeds the off-year bankings of mills.
8. In Tax Year 2025 (FY 2026) the state equalization mills has 13.74 banked mills. The state is projected to use all these mills by TY 2029.
9. The above concepts also hold true for the 1.5 vocational technical education mills authorized by 20-25-439 MCA. In FY 2026, the banked mill authority is 0.17 mills.
10. SB 117 applies to Tax Years beginning TY 2026, corresponding to FY 2027 collections. It is assumed the full 95 mills will be levied in FY 2026.
11. FY 2027 is an off-year of the reappraisal cycle. The 15-10-420, MCA, calculation will produce a number greater than 95, but be constrained by the 95 mill limit. The state will levy the full 95 mills in FY 2027.
12. The first year with a fiscal effect of SB 117 will be FY 2028.
13. The 15-10-420, MCA, inflationary factor contained in SB 117 is the three-year average rate of inflation and is estimated to be 2.6% in FY 2028 and 2.4% in FY 2029.
14. The 10-year average ratio of newly taxable property to the total tax base is 3%. It is assumed this will be the same ratio in future years. Allowing half the property to be excluded from the taxbase yields a roughly 1.5% growth per year from newly taxable property.
15. In FY 2028, the calculation under 15-10-420(1)(a) will be less under SB 117 than current law, however the state would still be able to utilize banked mills to yield the full 95 mill levy.
16. The off-year of reappraisal in FY 2029 is still expected to yield a number greater than 95 mills, but there will be fewer mills banked in this year under SB 117 than current law.
17. The same assumptions also generally hold for the 1.5 mills levied for vocational-technical education.
18. The state is directed to calculate the number of mills to be levied for the 6 university mills contained in 15-10-109, MCA. However, those mills are not statutorily subject to 15-10-420, MCA and the ballot language approved by voters in 2018 only contemplates a fixed 6 mill levy. Therefore, the state calculation for these mills is a formality and the mills to be levied are always 6 mills and are not affected by SB 117.
19. There are no administrative costs associated with this bill.

Effect on County or Other Local Revenues or Expenditures
Department of Revenue

1. The changes to maximum mill authority will affect the growth in automatic revenue authority of cities and towns, counties, and special purpose districts. The magnitude of difference in outcome between current law and SB 117 depends on the presence of newly taxable property within the taxing district and the rate of inflation.
2. The 4% year over year limitation is likely to be frequently binding for taxing jurisdictions. The effect of moving from half of inflation to full inflation is countered by only allowing half of newly taxable property to be captured as new revenue authority and the full effect is ambiguous as to whether it increases or decreases revenue authority. This offsetting ambiguity means the 4% cap on automatic growth is likely the most consequential of the three changes to 15-10-420, MCA made by SB 117.

Significant Long-Term Impacts
Department of Revenue

1. Based on expectations of reappraisal, the state will run out of banked mill authority in TY 2029 under current law. That estimate is unchanged by SB 117 but the number of mills in TY 2029 is expected to be less than under current law.

Technical Concerns
Department of Revenue

1. The language added to the first sentence of 15-10-420(1)(a) reading "not to exceed 4%" is ambiguous in its subject. It is unclear if this 4% limitation is placed upon the "amount of property taxes actually assessed in the prior year plus the average rate of inflation for the prior three years" or if the 4% limitation applies to "the average rate of inflation for the prior three years". If the intent is to place a restriction on the inflation factor, (1)(c) may be a better place.

	1/24/25		1/24/2025
Sponsor's Initials	Date	Budget Director's Initials	Date