



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2027 Biennium

Bill#/Title: HB0412.01: Provide exemption for certain modifications to residential property

Primary Sponsor: Jane Gillette 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</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)	\$0	\$394,000	\$820,000	\$1,234,000
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b>Revenues</b>				
General Fund (01)	\$0	(\$2,000)	(\$3,000)	(\$5,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$371,000)	(\$771,000)	(\$1,161,000)
University	\$0	(\$23,000)	(\$49,000)	(\$73,000)
<b>Net Impact</b>	<u>\$0</u>	<u>(\$396,000)</u>	<u>(\$823,000)</u>	<u>(\$1,239,000)</u>
<b>General Fund Balance</b>				

### Description of fiscal impact

#### Department of Revenue

HB 412 creates an exemption of market value of additions to existing residential structures. It is estimated that statewide taxable value would be reduced by \$3.9 million in FY 2027 when the bill takes effect, increasing to \$8.1 million in FY 2028 and \$12.2 million in FY 2029. The reduction in taxable value would reduce revenue collected from the state 95 mills for school equalization, 6 mills for the university system, and 1.5 mills for vo-tech schools.

### FISCAL ANALYSIS

#### Assumptions

#### Department of Revenue

- Under current law, the department captures the market value of additions to existing residential homes as part of the regular appraisal process.
- Under HB 412, the market value of additions would not be added to the total market value of the property until it sold, subject to a cap of 15% of the market value of the existing structure before the exemption.
- The department does not currently collect data on the portion of market value of residential structures that were additions. However, these additions are captured in the department's calculation of newly taxable property every year.
- In FY 2025, the total taxable value of newly taxable residential improvements was \$63.1 million. It is estimated that 5%, or \$3.2 million, of this newly taxable property was the result of additions that would be exempt under HB 412.

5. The taxable value of exempt additions was grown by the HJ 2 forecast for residential property to estimate the additional exemption each year. The exemption only expires when a home is sold, so the exemptions would accumulate every year, with each year's exempt taxable value added to the total taxable value exemption of prior years beginning in FY 2027.
6. In FY 2025, about 3.5% of residential homes were sold. It is assumed that ratio will remain constant over the course of the next two biennia. The total exempt taxable value each year was reduced by 3.5% to reflect the amount that would become taxable because properties were sold.
7. The following table contains the taxable value that would be exempt under HB 412 and the effect on state mill accounts.

Fund	FY 2027	FY 2028	FY 2029
TV Exempt	(\$3,903,000)	(\$8,115,000)	(\$12,225,000)
School Equalization	(\$371,000)	(\$771,000)	(\$1,161,000)
University	(\$23,000)	(\$49,000)	(\$73,000)
Vo-tech	(\$2,000)	(\$3,000)	(\$5,000)

8. Administrative costs are expected to be minimal and will be absorbed by the department.

#### **Office of Public Instruction**

9. Reductions to the state 95-mill account (SEPTR) are in the first instance offset from the general fund. Significant shifts in taxable value also generate guaranteed tax BASE aid expense. The changes to taxable value implied by HB 412 are not likely to generate significant shifts in state GTB payments or expense in the near-term.

## Fiscal Analysis Table

## Department of Revenue

	<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>				
<b>Expenditures</b>				
Transfers	\$0	\$0	\$0	\$0
SEPTR Offset OPI	\$0	\$371,000	\$771,000	\$1,161,000
University 6-mill Offset	\$0	\$23,000	\$49,000	\$73,000
<b>TOTAL Expenditures</b>	<b>\$0</b>	<b>\$394,000</b>	<b>\$820,000</b>	<b>\$1,234,000</b>
<b>Funding of Expenditures</b>				
General Fund (01)	\$0	\$394,000	\$820,000	\$1,234,000
<b>TOTAL Funding of Expenditures</b>	<b>\$0</b>	<b>\$394,000</b>	<b>\$820,000</b>	<b>\$1,234,000</b>
<b>Revenues</b>				
General Fund (01)	\$0	(\$2,000)	(\$3,000)	(\$5,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$371,000)	(\$771,000)	(\$1,161,000)
University	\$0	(\$23,000)	(\$49,000)	(\$73,000)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$396,000)</b>	<b>(\$823,000)</b>	<b>(\$1,239,000)</b>
<b>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</b>				
General Fund (01)	\$0	(\$396,000)	(\$823,000)	(\$1,239,000)
State Special Revenue (02)	\$0	\$0	\$0	\$0
SEPTR	\$0	(\$371,000)	(\$771,000)	(\$1,161,000)
University	\$0	(\$23,000)	(\$49,000)	(\$73,000)

## Effect on County or Other Local Revenues or Expenditures

## Department of Revenue

1. Since expansions to existing property are captured in newly taxable and 15-10-420, MCA excludes newly taxable property from mill levy calculations, the exemption contained in HB 412 is a reduction in the growth of revenue authority for taxing jurisdictions rather than a tax shift onto other property taxpayers.
2. HB 412 is estimated to reduce total newly taxable value in the state by about 2.5%, which implies a yearly reduction in taxing jurisdiction revenue **growth** of a similar magnitude.

## Significant Long-Term Impacts

## Department of Revenue

1. The effects of HB 412 compound over time since the exemption lasts until the property is sold.

NOT SIGNED BY SPONSOR

Sponsor's Initials

Date

2/14/25



Budget Director's Initials

2/12/2025

Date