GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: **HB0231.04 (005, 018, 019, 020): Revise property tax rates for certain property**

Primary Sponsor: Llew Jones   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 2025 Difference	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures					
General Fund (01)	$462,700	$299,109,927	($87,928,084)	($31,545,458)	($35,518,903)
Revenues					
General Fund (01)	$0	($620,000)	($267,000)	($309,000)	($309,000)
Net Impact General Fund Balance	($462,700)	($299,729,927)	$87,661,084	$31,236,458	$35,209,903

Description of fiscal impact

HB 231, as amended in the Senate Taxation Committee, creates a tiered tax rate system for residential and commercial class 4 property beginning TY 2026. The bill indexes the tiers to median residential and commercial property values each reappraisal cycle. The amendment implements a retroactive TY 2025 rate drop to 0.76% for all residential property. The amendment also adds a up to $400 rebate based on property taxes paid to all jurisdictions in TY 2024 for the taxpayer's primary home. Approximately 240,000 homeowners are expected to qualify for a total rebate of $95.413 million. The transition year reduces taxable value by about 27% and then in future years taxable value will be about 12% lower than current law projections. HB 231 changes taxable values affecting school district general fund guaranteed tax base (GTB) aid distribution and county retirement GTB distribution increasing state general fund costs by $61.0 million in FY 2026 and decreasing costs by $148.1 million in FY 2027. Local property taxes will decrease by $61.0 million in FY 2026 and increase by $148.1 million in FY 2027.

FISCAL ANALYSIS

Assumptions

Department of Revenue

Rebate

1. HB 231 as amended creates a rebate equivalent to (up to $400) the property taxes paid by qualifying primary homeowners in Tax Year (TY) 2024.
2. The qualification criteria are essentially the same as the rebates contained in HB 222 (2023).
3. About 1.6% of the successful rebate claimants paid less than $400 in taxes in TY 2023. The average amount claimed by qualifying taxpayers who paid less than $400 in taxes was $250.49. It is assumed this percentage (1.6%) will apply to the TY 2024 based rebate claims
4. The TY 2022 rebate had about 217,000 approved claimants, and the TY 2023 rebate had about 226,000 approved claimants.

5. Based on the increased awareness the rebate program and new qualifying property in TY 2024, it is estimated that 240,000 homeowners will claim the rebate contemplated by HB 231.
6. With 1.6% of these claimants at $250.49 each and 98.4% receiving $400, results in $95.413 million in rebates.
7. The department will mail notices to potentially eligible properties by June 30, 2025. It is estimated that the department will also mail 310,000 postcards at $1.42 each for a total cost of $440,200 in FY 2025.
8. A follow-up mailing will be sent when the rebate application window is opened in August at a cost of $1.43 each. This will be an additional $443,300 in mailing cost in FY 2026.
9. The call-center at the department \will require an additional 1.00 FTE to address rebate related questions during the claim period in FY 2026.
10. The department will spend $45,000 on a public outreach program informing the public of the rebate with half of these costs being incurred in FY 2025 and the other half in FY 2026.
11. The department will spend $223,200 mailing checks to approved claimants in FY 2026.
12. Total expenditures for the rebate portion of HB 231 are anticipated to cost $462,700 in FY 2025 and $96.179 million in FY 2026.
13. Receiving the rebate automatically qualifies homeowners for the homestead reduced rate in TY 2026 unless they sell or move from the home.

Transition Year TY 2025

14. HB 231 as amended creates a retroactive rate change applied to residential class 4 property reducing the current rate of 1.35% to 0.76%. This reduces the taxable value of residential property from $3.417 billion to $1.924 billion, a decrease of about $1.494 billion.
15. This reduces 95 equalization mills revenue deposited in the SEPTR account by about $139.807 million.
16. The six university system mills will collect $8.830 million less, and the vo-tech mills will collect $620,000 less.

Ongoing Homestead Program

17. Beginning TY 2026, HB 231 creates three distinct groups of residential property: primary residences and long-term rentals, residential on qualified agricultural property, and all other residential.
18. Primary residences and long-term rentals have four marginal tax rate bands. For property valued under the statewide median, the tax rate is 0.76%. For the value between the median and two (2) times the median, the tax rate is 0.9%. For the value between two (2) times the statewide median and four (4) times the statewide median, the tax rate is 1.1%. For the value exceeding four (4) times the statewide median, the tax rate is 1.9%. For multifamily long-term rentals, the tax rate is always 1.1%.
19. Residential property associated with qualified agricultural land remains at 1.35% under HB 231.
20. All other residential property will have a tax rate of 1.9%.
21. 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 HB 231, value under six (6) times the statewide median has a marginal tax rate of 1.5%, and any market value over $1.9 million will have a marginal tax rate of 1.9%.
22. It is assumed that properties that received the property tax rebate in 2024 and any property associated with the Property Tax Assistance Program, or the Montana Disabled Veteran program will qualify for the homestead exemption in TY 2026.
23. These properties had a TY 2024 total market value of $94.155 billion and an associated taxable value of $1.194 billion.
24. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of this property is estimated to be $113.140 billion with a taxable value of $1.434 billion. Under HB 231, these properties would have a total estimated taxable value of $917 million, a decrease of $517 million.
25. Long-term rental properties also qualify for the preferential residential tax rates. These properties will need to apply to the Department by March 1 to receive the beneficial tax rate.
26. 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.

27. 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. These properties would have an estimated taxable value of $513 million, a decrease of $347 million.
28. The tax rate on residential property of qualified agricultural properties is held unchanged from current law at 1.35% by HB 231.
29. 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.
30. Applying 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 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.
31. Residential property that was estimated to not be a primary residence, not be associated with any qualified agricultural property, and not 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.
32. After applying the HJ 2 growth rates to these properties, the TY 2025 market value is estimated to be $66.266 billion, and the total taxable value is estimated to be $954 million. The total taxable value of these properties is estimated to be $1.259 billion, an increase of $305 million.
33. Commercial property in TY 2024 had a statewide market value of $34.708 billion and a taxable value of $629 million.
34. After applying HJ 2 growth rates to this property, the TY 2025 market value is estimated to be $37.778 billion with an associated taxable value of $686 million. Under HB 231, these properties would have a total estimated taxable value of $593 million, a decrease of $95 million.
35. The following table summarizes the changes in taxable value in the previous assumptions.

Class	Property Type	TY 2026- Current Law (millions)	TY 2026- Proposed Law (millions)	Difference (millions)
Residential	Primary Residence	$1,433.54	$916.55	($516.99)
Residential	Long Term Rental Improvements	$859.50	$512.67	($346.83)
Residential	Other Residential*	$953.57	$1,259.03	$305.45
Commercial	Property Under Threshold	$329.04	$261.14	($67.90)
Commercial	Property Over Threshold	$356.50	$329.64	($26.86)
	Subtotal	$3,932.15	$3,279.03	($653.12)

*Excludes Agricultural Related Residential Property

36. It is assumed these same taxable value differences will apply to TY 2026, since TY 2026 is not a reappraisal year.
37. Automatic qualification of certain fee land provisions of under HB 23, as amended, specifies that all residential property on fee land within the boundaries of a Native American Reservation receives the homestead exemption rate. It is assumed this will increase the magnitude of the loss of state revenues by half a percentage point (0.5%).
38. 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 2026-TY 2028 (FY 2027-FY 2029). The transition year of TY 2025 (FY 2026) is also displayed.

Fund	TY 2025	TY 2026	TY 2027	TY 2028
SEPTR	($139,807,000)	($59,697,000)	($68,976,000)	($68,976,000)
University	($8,830,000)	($3,772,000)	($4,358,000)	($4,358,000)
Vo-Tech	($620,000)	($267,000)	($309,000)	($309,000)

TOTAL	($149,257,000)	($63,736,000)	($73,643,000)	($73,643,000)

DOR Administrative Costs for Homestead Program

39. The DOR will require 7.50 initial FTE to implement the homestead portion of HB 231 in FY 2026. This estimate is based on automatically granting 220,000 applications with a 2-minute parcel review, and processing 20,000 additional applications and the anticipated appeals.
40. The long-term rental provisions will require 10.00 FTE in FY 2026 to process an estimated 54,300 long-term rental applications for the reduced property tax rate.
41. Based on roughly 20,000 properties applying each year for the homestead reduced rate and about 11,000 long-term rental property reapplications each year, an ongoing 5.50 FTE will be necessary.
42. The department will incur $75,000 of software vendor modification costs to implement this program in FY 2025.
43. The DOR will require an additional 1.00 FTE lawyer to handle classifications for the reduced rate appeals.
44. The department will expend $45,000 in FY 2026 advertising these programs.
45. There is a requirement to mail notice to potentially eligible rental properties by October, and there are mailing costs associated with determinations of applications and appeals. These mailing costs are anticipated to be $164,450 in FY 2026, $35,750 in FY 2027, $71,500 in FY 2028, and $71,500 in FY 2029.
46. The change in taxable value from TY 2025 to TY 2026 will require an extra appraisal notice to be sent out in FY 2026 to approximately 550,000 parcels. This will cost an additional $786,500.

Office of Public Instruction

47. HB 231, as last amended in Senate Tax Committee, 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.
48. A 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 guaranteed tax base (GTB) aid subsidy per mill calculations for funding in FY 2027.
49. HB 231 amends section 15-6-134, MCA, the changes adjust district and statewide taxable valuations (TV). Changes to TV will impact the calculation of GTB aid beginning FY 2026.
50. 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 applied prior to determination of TV changes related to HB 231, as amended.
51. HB 231, as amended, decrease statewide TV by $1.5 billion beginning in FY 2026. This change in TV will adjust the district general fund GTB multiplier pursuant to 20-9-366(5), MCA, and will significantly adjust the GTB subsidy per mill payment beginning in FY 2027.
52. Section 20-9-366(5)(a) directs the school district general fund GTB multiplier to be set at 259% for FY 2025 and each succeeding fiscal year. An additional adjustment occurs per 20-9-336(3), MCA, when 95 mill revenue is projected to be greater than $2 million less than the prior year 95 mill revenue projection.
53. The adjustments to TV per HB 231, as amended, and the $117.8 million adjustment, for the decreased 95 mill revenue projections are shown in the following table.

State FY	Adjusted TV	TV Change	94 mill calc	GF 85%
FY 2025	$4,495,734,393			
FY 2026	$4,512,374,412	$16,640,019	$1,580,802	NA
FY 2027	$3,052,952,259	($1,459,422,153)	($138,645,105)	($117,848,339)

54. For purposes of this fiscal note, it is estimated that the school district general fund GTB multiplier would be required to be lowered from 259% to 120% in accordance with 20-9-336(3) and then raised to 121% pursuant to 20-9-336(5). The estimated change in districts general fund GTB is provided below.

	FY2026	FY2027	FY2028	FY2029
District GF GTB	$49,814,179	($120,674,454)	($101,700,319)	($105,991,798)

Local Property Tax	($49,814,179)	$120,674,454	$101,700,319	$105,991,798

55. Qualifying counties are eligible for county retirement GTB based on the calculations determined in section 20-9-366(5)(b), MCA. HB 231, as amended, adjusts TV downward in FY 2026. This change in TV will adjust the county retirement GTB multiplier pursuant to section 20-9-336(3), MCA. When there is a reduction greater than $2 million in the 95 mill revenue projections between years, the county retirement GTB is reduced by 15% of the decrease in 95 mill revenue projected by adjusting the county retirement GTB multiplier and when the revenue between years is projected to be greater than $2 million, the county retirement GTB multiplier is adjusted to increase the amount of county retirement GTB to be distributed by the state by 55% of the additional amount of 95 mill revenue projected to be received over the prior year. The county retirement GTB subsidy per mill calculation will be affected by amended HB 231 beginning in FY 2027.
56. The following table shows TV changes and the related effects of section 20-9-366, MCA, when considering changes related to the county retirement GTB distributions.

State FY	Adjusted TV	TV Change	94 mill calc	County Retire GTB 15%	County Retire GTB 55%
FY 2025	$4,495,734,393				
FY 2026	$4,512,374,412	$16,640,019	$1,580,802	NA	
FY 2027	$3,052,952,259	($1,459,422,153)	($138,645,105)	($20,796,766)	
FY 2028	$3,974,898,619	$921,946,360	$87,584,904		$48,171,697
FY 2029	$4,481,132,135	$506,233,516	$48,092,184		$26,450,701

57. Under current law the county retirement GTB multiplier is set at 189% for FY 2026 and 305% for FY 2027 in accordance with section 20-9-366(5)(b), MCA. The county retirement GTB multiplier would need to be adjusted to 215% in FY 2027 to adjust the distribution of county retirement GTB downward by $20.8 million.
58. In accordance with section 20-9-336, MCA, the GTB multiplier would need to be evaluated with the possibility of increase in future years. The GTB multiplier will return to 305% in FY 2028, which is the maximum rate for county retirement GTB as per 20-9-336, MCA. The following table shows the change in county retirement GTB related to HB 231, as amended.

	FY2026	FY2027	FY2028	FY2029
County Retire GTB	$11,191,925	($27,423,739)	$703,126	$1,012,132
Local Property Tax	($11,191,925)	$27,423,739	($703,126)	($1,012,132)

59. The following table shows the state and local GTB impacts of HB 231 as last amended in Senate Tax Committee.

	FY2026	FY2027	FY2028	FY2029
District GF GTB	$49,814,179	($120,674,454)	($101,700,319)	($105,991,798)
County Retire GTB	$11,191,925	($27,423,739)	$703,126	$1,012,132
Local Property Tax	($61,006,104)	$148,098,193	$100,997,193	$104,979,666

Fiscal Analysis Table

	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact					
FTE	0.00	19.50	6.50	6.50	6.50
TOTAL Fiscal Impact	**0.00**	**19.50**	**6.50**	**6.50**	**6.50**
Expenditures					
Personal Services	$0	$1,506,228	$597,763	$605,494	$613,343
Operating Expenses	$462,700	$1,997,595	$142,346	$179,241	$180,420
TOTAL Expenditures	**$462,700**	**$3,503,823**	**$740,109**	**$784,735**	**$793,763**
Funding of Expenditures					
General Fund (01)	$462,700	$299,109,927	($87,928,084)	($31,545,458)	($35,518,903)
TOTAL Funding of Expenditures	**$462,700**	**$299,109,927**	**($87,928,084)**	**($31,545,458)**	**($35,518,903)**
Revenues					
General Fund (01)	$0	($620,000)	($267,000)	($309,000)	($309,000)
TOTAL Revenues	**$0**	**($620,000)**	**($267,000)**	**($309,000)**	**($309,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)					
General Fund (01)	($462,700)	($299,729,927)	$87,661,084	$31,236,458	$35,209,903

Effect on County or Other Local Revenues or Expenditures

Department of Revenue

1. The amendment to HB 231 contains a mechanism that allows certain fixed mill jurisdictions to float their mills in order to raise the same amount of dollars after taxable values are lowered. Additionally, the bill contains an entitlement share disbursement for four years to certain affected fixed mill jurisdictions if the fixed mill alteration is declared invalid.
2. Overall taxable value will be approximately 27.4% lower in TY 2025. All else equal mills will float upward by an equivalent amount.
3. In TY 2026 and future years, taxable value is estimated to be about 12.1% lower. Since rates are higher on certain residential property, the local change in mills depends on the distribution of property in the jurisdiction. On average local mills will float upward by about 12.1%.

Office of Public Instruction

4. Local school property taxes will decrease by approximately $61.0 million in FY 2026 and increase by $148.1 million in FY 2027 and beyond related to adjustments to district general fund GTB and county retirement GTB per HB 231 as last amended in Senate Tax Committee.

Technical Concerns

Department of Revenue

1. There is a potential equalization issue associated with granting the homestead rate to property on fee land within a reservation since that benefit may extend even to vacant land. No other vacant land in the state would qualify for the reduced rate.

Office of Public Instruction

2. HB 2 contains two separate appropriations that will require adjustment related to previous versions of HB 231. There is a $20.7 million language appropriation to increase BASE aid each year of the 2027 Biennium, if HB 231 is passed and approved. There is also a $36 reduction in FY 2027 BASE aid needed that was

appropriated for current law adjustments related to 20-9-336, MCA, that would need to be adjusted to changes provided in HB 231.

NOT SIGNED BY SPONSOR

			5/6/2025
Sponsor's Initials	Date	Budget Director's Initials	Date