



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title: HB0894.01: Revising property appraisal to use an average value

Primary Sponsor: Sherry Essmann 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> |
|-----------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| Expenditures | | | | |
| General Fund (01) | \$0 | \$112,500 | \$244,509,705 | (\$25,241,682) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | \$0 | (\$178,968,000) | (\$149,107,000) |
| University | \$0 | \$0 | (\$11,303,000) | (\$9,417,000) |
| Revenues | | | | |
| General Fund (01) | \$0 | \$0 | (\$942,000) | (\$785,000) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | \$0 | (\$178,968,000) | (\$149,107,000) |
| University | \$0 | \$0 | (\$11,303,000) | (\$9,417,000) |
| Net Impact | <u>\$0</u> | <u>(\$112,500)</u> | <u>(\$245,451,705)</u> | <u>\$24,456,682</u> |
| General Fund Balance | | | | |

Description of fiscal impact

HB 894 changes the assessment of all property in Montana to a ten-year Olympic average where the highest and lowest value year are excluded. In an appreciating market, this lowers the market value of property since the prior years lower the average value as compared to the current year. Overall taxable value is expected to decrease and the state mills will bring in less revenue as a result. State fiscal impact related to changes in guaranteed tax base (GTB) aid for district general fund GTB and county retirement GTB as well as the lost 95 mill revenue in the state education and property tax reduction (SEPTR) account will increase by \$245.5 million in FY 2028 and decrease by \$24.5 million in FY 2029. Local school property taxes will decrease by \$65.5 million in FY 2028 and increase by \$174.3 million in FY 2029 and beyond.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. HB 894 changes the definition of market value from an annual value to a ten-year Olympic average. An Olympic average refers to an average where the highest and lowest value are excluded.
2. For properties that are appreciating in value, averaging the value over ten years lowers the applicable taxable value.
3. For depreciating properties or reappraisals that would result in value decreases, averaging the value over ten years increases the applicable taxable value.

4. Since class 4 residential and commercial values have grown the fastest of any class over the last ten years, they are the largest benefactors of HB 894.
5. HB 894 is applicable beginning tax year (TY) 2027.
6. Taxable values for TY 2024 were grown by the factors contained in HJ 2 up through TY 2028, and then the average taxable value by class was computed for TY 2027 by taking the average TV of TY 2018 through TY 2027 by county, dropping the highest and lowest valued year.
7. The same averaging for TY 2028 averaged values from TY 2019 through TY 2028.
8. Overall taxable value defined in HB 894 is expected to be 31% lower in TY 2027 and 25% lower in TY 2028.
9. This translates to a reduction of \$1.884 billion of taxable value in TY 2027 and a reduction of \$1.570 billion of taxable value in TY 2028.
10. The state mills levied on behalf of the state are summarized in the table below.

| Fund | FY 2028 | FY 2029 |
|------------|-----------------|-----------------|
| SEPTR | (\$178,968,000) | (\$149,107,000) |
| University | (\$11,303,000) | (\$9,417,000) |
| Vo-Tech | (\$942,000) | (\$785,000) |

11. The Department of Revenue expects \$112,500 in contracted service hours to implement the functionality of an Olympic average in the property tax software.

Office of Public Instruction

1. HB 894 changes adjust district and statewide taxable valuations (TV). Changes to TV will impact the calculation of guaranteed tax base (GTB) aid beginning in FY 2028.
2. The statewide present law taxable valuations are forecast to increase by 15.50% in FY 2026 and 1.07% in FY 2027, 11.07% in FY 2028 and 1.50% in FY 2029. These growth rates were calculated prior to determination of the changes related to HB 894.
3. Adjustments are to be made to the amount of state GTB distribution to school districts when state 95 mill revenue in the current year is more than \$2 million less than the prior year TV 95 mill revenue (20-9-336, MCA). This law requires the Office of Public Instruction (OPI) to decrease the amount of funding distributed for district general fund GTB by 85% and county retirement GTB by 15% of the amount of reduction lost to the SEPTR account for the 95 mill revenue.
4. The following table provides information regarding TV changes and the related effects of section 20-9-366, MCA, when considering changes related to the school district general fund GTB decrease. The total district general fund GTB would reduce by \$152 million.

| State FY | Adjusted TV | Adjusted Change | Adj % Change | 95 Mill Calc | District General Fund GTB (85%) |
|----------|-----------------|-------------------|--------------|-----------------|---------------------------------|
| FY2028 | \$5,267,558,625 | | | | |
| FY2029 | \$3,382,659,028 | (\$1,884,899,597) | -35.78% | (\$179,065,462) | (\$152,205,642) |

5. Qualifying school districts are eligible for school district general fund GTB based on the calculations determined in section 20-9-366, MCA. HB 894 adjusts TV downward beginning in FY 2028. This change in TV will adjust the general fund GTB multiplier pursuant to section 20-9-366(5), MCA, and will significantly adjust the GTB subsidy payment beginning in FY 2028. Section 20-9-366(5)(a) directs the school district general fund GTB multiplier to be set to 259% for FY 2025 and each succeeding fiscal year. An additional adjustment is to occur based on the requirements described in section 20-9-336(3), MCA.
6. For the purposes of this fiscal note, it is estimated that the school district general fund GTB multiplier would be reduced to 117% in accordance with 20-9-336(3), and then raised to 118% in accordance with 20-9-336(5). The estimated total change in school district general fund GTB is provided in the table below.

| | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|---------------------------|---------------|---------------|---------------|-----------------|
| Initial GF GTB model est. | \$274,506,776 | \$292,723,470 | \$293,600,377 | \$311,060,428 |
| HB 894 GF GTB model est. | \$274,506,776 | \$292,723,470 | \$341,915,472 | \$164,960,476 |
| Total change | \$0 | \$0 | \$48,315,095 | (\$146,099,952) |

7. County retirement GTB is reduced by 15% in the case of TV decreases and increases county retirement by 55% in the case of TV increases of the difference in related 95 mill change, 20-9-336, MCA. The estimated change in county retirement GTB is provided in the table below. GTB calculations have a lag effect therefore the adjustment increases GTB beginning in FY 2029.
8. 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 202% in FY 2029 to adjust the distribution of retirement GTB downward by \$26.9 million.
9. The following table provides information regarding TV changes and the related effects of section 20-9-366, MCA, when considering changes related to the county retirement fund GTB decrease:

| State FY | Adjusted TV | Adjusted Change | Adj % Change | 95 Mill Calc | District General Fund GTB |
|----------|-----------------|-------------------|--------------|-----------------|---------------------------|
| FY2028 | \$5,267,558,625 | \$55,766,179 | 1.07% | \$5,297,787 | |
| FY2029 | \$3,382,659,028 | (\$1,884,899,597) | -35.78% | (\$179,065,462) | (\$26,859,819) |

10. The total estimated county retirement GTB entitlement adjusted for HB 894 are shown below.

| | FY 2026 | FY 2027 | FY 2028 | FY 2029 |
|-------------------------------|--------------|---------------|---------------|----------------|
| Initial County Retirement GTB | \$90,783,229 | \$129,124,393 | \$129,727,490 | \$136,837,748 |
| Adjusted for TV change | \$90,783,229 | \$129,124,393 | \$146,954,100 | \$135,543,233 |
| Difference | | | \$17,226,610 | (\$1,294,515) |
| Multiplier Change FY 2029 | | | | \$108,589,018 |
| Difference | | | | (\$28,248,730) |

11. The estimated change in school district general fund GTB and county retirement GTB creates an effect on local property taxes including an adjustment for both GTB types for redistribution of TV and change in statewide TV. The GTB calculations have a lag effect therefore local school property taxes will decrease in FY 2028 and increase in FY 2029 and beyond as indicated in the table below.

| | FY 2028 | FY 2029 |
|------------------------|----------------|---------------|
| Property Tax (GF GTB) | (\$48,315,095) | \$146,099,952 |
| Property Tax (Ret GTB) | (\$17,226,610) | \$28,248,730 |
| Total | (\$65,541,705) | \$174,348,682 |

Fiscal Analysis Table

| | <u>FY 2026 Difference</u> | <u>FY 2027 Difference</u> | <u>FY 2028 Difference</u> | <u>FY 2029 Difference</u> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| <u>Fiscal Impact</u> | | | | |
| <u>Expenditures</u> | | | | |
| Operating Expenses | \$0 | \$112,500 | \$0 | \$0 |
| Transfers | \$0 | \$0 | \$0 | \$0 |
| University | \$0 | \$0 | (\$11,303,000) | (\$9,417,000) |
| Local Assistance | \$0 | \$0 | \$0 | \$0 |
| District GF GTB | \$0 | \$0 | \$48,315,095 | (\$146,099,952) |
| County Retirement GTB | \$0 | \$0 | \$17,226,610 | (\$28,248,730) |
| TOTAL Expenditures | \$0 | \$112,500 | \$54,238,705 | (\$183,765,682) |
| <u>Funding of Expenditures</u> | | | | |
| General Fund (01) | \$0 | \$112,500 | \$244,509,705 | (\$25,241,682) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | \$0 | (\$178,968,000) | (\$149,107,000) |
| University | \$0 | \$0 | (\$11,303,000) | (\$9,417,000) |
| TOTAL Funding of Expenditures | \$0 | \$112,500 | \$54,238,705 | (\$183,765,682) |
| <u>Revenues</u> | | | | |
| General Fund (01) | \$0 | \$0 | (\$942,000) | (\$785,000) |
| State Special Revenue (02) | \$0 | \$0 | \$0 | \$0 |
| SEPTR | \$0 | \$0 | (\$178,968,000) | (\$149,107,000) |
| University | \$0 | \$0 | (\$11,303,000) | (\$9,417,000) |
| TOTAL Revenues | \$0 | \$0 | (\$191,213,000) | (\$159,309,000) |
| <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures)</u> | | | | |
| General Fund (01) | \$0 | (\$112,500) | (\$245,451,705) | \$24,456,682 |
| 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. Overall taxable value is expected to decrease by 31% in TY 2027 and 25% in TY 2028. All else equal local mills will adjust upward by a similar amount.

Office of Public Instruction

2. Local school property taxes will decrease by \$65.5 million in FY 2028 and increase by \$174.3 in FY 2029 and future years.

Technical Concerns**Department of Revenue**

1. Class 1 and class 2 property represents annual production from miscellaneous and metal mines respectively. The change in market value from year to year is driven by quantity severed and market prices, not reappraisal of the same asset. HB 894 requires mines with very little or no production to pay taxes based on prior year production.
2. The bill provides no clarity about averaging changing property characteristics or newly constructed property. For example, if a property is agricultural, then subdivided into residential and a home is built on it, is the agricultural value of that land in prior years a part of the 10-year average? This is just one example of various edge cases that are unanswered by the broad language of HB 894.

Sponsor's Initials

Date

NOT SIGNED BY SPONSOR



Budget Director's Initials

4/2/2025

Date