GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2027 Biennium

Bill#/Title:	**SB0542.03 (004): Generally revise property tax laws**
Primary Sponsor:	Wylie Galt
Status:	As Amended in House

☐ 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)	$486,700	$161,353,658	$74,420,896	$67,957,557	$69,192,739
State Special Revenue (02)	$0	$0	$0	$0	$0
SEPTR	$0	($41,570,000)	($59,946,000)	($69,264,000)	($69,264,000)
University	$0	($2,625,000)	($3,786,000)	($4,375,000)	($4,375,000)
Revenues					
General Fund (01)	$0	$0	$0	$0	$0
State Special Revenue (02)	$0	$0	$0	$0	$0
SEPTR	$0	($41,570,000)	($59,946,000)	($69,264,000)	($69,264,000)
University	$0	($2,625,000)	($3,786,000)	($4,375,000)	($4,375,000)
Net Impact General Fund Balance	($486,700)	($161,353,658)	($74,420,896)	($67,957,557)	($69,192,739)

Description of fiscal impact

Department of Revenue

SB 542, as amended on the House Floor, creates a tiered tax rate for residential and commercial class 4 property beginning TY 2026. The bill indexes the tax tiers to the median residential and commercial property value each reappraisal cycle. The bill also implements a tiered rate adjustment for all residential and commercial property retroactive for TY 2025. Agricultural property receives an ongoing rate reduction. The bill also added a $400 rebate for property taxes paid in TY 2024. The transition year reduces taxable value by about 8.4% and then in future years taxable value will be about 12.1% less than current law projections. Approximately 240,000 homeowners are expected to qualify for a total rebate of $95.413 million in FY 2026. Guaranteed tax base (GTB) aid adjustments for the taxable value changes in SB 542 will increased state general fund costs by $20.9 million in FY 2026 and by $13.7 million in FY 2027 with a like decrease in local property taxes for schools.

FISCAL ANALYSIS

Assumptions

Department of Revenue

Rebate

1. SB 542, 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 SB 542 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 2025

14. Under current law, class 3 agricultural land is taxed at 2.16%, class 4 residential property is taxed at 1.35%, and class 4 commercial property is taxed at 1.89% (1.4 times the residential rate).
15. SB 542 permanently reduces the tax rate on class 3 agricultural land to 2.05%.
16. For TY 2025 only, the class 4 residential and commercial rates are adjusted with a graduated tax rate base on the value of the property. For residential property, the first $50,000 of market value is taxed at 0.76%, the value between $50,000 and $500,000 is taxed at 0.95%, $500,000 to $750,000 is taxed at 1.15%, $750,000 to $1 million is taxed at 1.2%, $1 million to $1.5 million is taxed at 1.4%, $1.5 million to $2 million is taxed at 1.89%, and value over $2 million is taxed at 2.2%.
17. Multifamily residential dwellings that are leased at 150% or less of the county fair market rent are not subject to the 2.2% rate on value greater than $2 million. The tax rate on that portion of value is 1.89%.
18. For commercial property, the 1.89% tax rate is lowered to 1.4% for the first $400,000 of market value. The remaining value is taxed at 1.89%.
19. These sum of all these various changes reduces taxable value in TY 2025 by $459 million (8.4%).
20. This reduces the collections of the 95 equalization mills deposited in the SEPTR account by about $41.570 million.
21. The six mills for the university system will collect $2.625 million less, and the vo-tech mills will collect $400,000 less.

Transition Year Costs

22. The tight time constraints of retroactively applying this bill before assessment notice processing means the necessary system changes will need to be implemented and tested in one month. Taking the normal number of testing hours for this kind of project (38,400) divided into one month yields an estimated 240 positions necessary to complete the work. Multiplied by the average wage of a worker in property assessment yields a total cost of $1.1 million. This costs to the department will be displacing current employees from their assigned work to test and the normal work these employees would be doing will not be done until later.
23. These positions are unlikely to be hired since they are temporary for one month. It is likely to require the complete reorganization the entire Property Assessment staff for testing, which means no normal tasks will be accomplished in May 2025.

Ongoing Homestead Program

24. Beginning TY 2026, SB 542 creates three distinct groups of residential property: primary residences and long-term rentals, residential for qualified agricultural property, and all other residential.
25. Primary residences and long-term rentals have four marginal tax rates. For value under the statewide median, the tax rate is 0.76%. For value between the median and two times the median, the tax rate is 0.9%. For value between two times the statewide median and four times the statewide median, the tax rate is 1.1%. For values exceeding four times the statewide median, the tax rate is 1.9%. For multifamily long-term rentals, the tax rate is always 1.1%.
26. Residential property associated with qualified agricultural land remains at 1.35% under SB 542.
27. All other residential property will have a tax rate of 1.9%.
28. 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 provisions of SB 542, values under 6 times the statewide median have a marginal tax rate of 1.5%, and any market value over $1.9 million will have a marginal tax rate of 1.9%.
29. 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 2026.
30. These properties had a TY 2024 total market value of $94.155 billion and an associated taxable value of $1.194 billion.
31. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be $113.140 billion with a taxable value of $1.434 billion. Under the provisions of SB 542, these properties would have a total estimated taxable value of $917 million, a decrease of $517 million.
32. Long-term rental properties also qualify for the preferential residential tax rates. These properties will need to apply to the Department of Revenue by March 1 to receive the beneficial tax rate.
33. 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.
34. 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. Under the provisions of SB 542, these properties would have a total estimated taxable value of $513 million, a decrease of $347 million.
35. The tax rate on residential property of qualified agricultural properties is held unchanged from current law at 1.35% by SB 542.
36. 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.
37. After applying the 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 the provisions of SB 542, these properties would have the same taxable value and there would be no change to the taxable value as a result of SB 542.
38. Residential property that was estimated to not be a primary residence, not be associated with any qualified agricultural property, and not estimated 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.
39. After applying the HJ 2 growth rates to these properties, the TY 2025 market value of these properties is estimated to be $66.266 billion, and the total taxable value is estimated to be $954 million. Under the provisions of SB 542, the total taxable value of these properties is estimated to be $1.259 billion, an increase of $305 million.
40. In TY 2024 commercial property had a statewide total market value of $34.708 billion and a total taxable value of $629 million.
41. After applying HJ 2 growth rates to these properties, the TY 2025 market value is estimated to be $37.778 billion with an associated taxable value of $686 million. Under the provisions of SB 542, these properties would have a total estimated taxable value of $593 million, a decrease of $95 million.
42. The following table summarizes the changes in taxable value in the previous assumptions.

Fiscal Note Request - As Amended in House *(continued)*

Class	Property Type	TY 2025- Current Law (millions)	TY 2025- 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

43. Additionally, agricultural property will decrease from an expected taxable value of $166 million to about $158 million, a decrease of $8 million.
44. It is assumed these same taxable value differences will apply to TY 2026, since 2026 is not a reappraisal year.
45. 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 2025 is also displayed.

Fund	FY 2025	FY 2026	FY 2027	FY 2028
SEPTR	($41,570,000)	($59,946,000)	($69,264,000)	($69,264,000)
University	($2,625,000)	($3,786,000)	($4,375,000)	($4,375,000)
Vo-Tech	($400,000)	($517,000)	($598,000)	($598,000)
Total	($44,595,000)	($64,249,000)	($74,236,000)	($74,236,000)

46. The amendment to the bill also included a provision allowing a one-year refund of foregone tax benefit to a property taxpayer that would have qualified for the homestead exemption but failed to properly apply.
47. It is assumed that every eligible household will receive the homestead rate so there are no anticipated rebates under this provision. To the extent that a property fails to get the homestead exemption and prove they should have received rate. the state general fund will reimburse the difference between the taxes paid under the homestead rate structure and the default residential structure.

DOR Administrative Costs for Homestead Program

48. The DOR will require 7.50 initial FTE for the Homestead portion of SB 542 in FY 2026. This estimate is based on an estimate of automatically granting 220,000 applications with a 2-minute parcel review and processing 20,000 additional applications and expected appeals.
49. The long-term rental portion will take 10.00 FTE in FY 2026. This is based on an estimate of 54,300 long-term rentals applying for the reduced rate.
50. Based on roughly 20,000 properties applying each year for the homestead reduced rate each year and about 11,000 long-term rentals reapplying each year, the total ongoing FTE necessary for the program is 5.50.
51. The department will incur $75,000 of software vendor modification costs to implement this program.
52. The DOR will require one additional lawyer to handle anticipated appeals associated with classifications for the reduced rate.
53. The department will expend $45,000 in FY 2026 advertising these programs.
54. 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.
55. 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.

56. There is contingent language that if HB 528 passes and SB 542 passes, HB 528 is void.

Office of Public Instruction

57. House floor amendments modify Section 11, focusing on reimbursement pursuant to this section stating that the reimbursement must include any fines, penalties, or damages resulting from a judgment levy against the taxing entity in levying property taxes in accordance with Section 4 of the SB 542. These changes do not alter the Office of Public Instruction (OPI) fiscal impacts.
58. SB 542, as amended in House Taxation Committee, revises tax rates on various tax classes.
59. 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 SB 542, as amended.
60. Qualifying school districts are eligible for school district general fund GTB based on the calculations determined in section 20-9-366, MCA. HB 542 adjusts TV downward by approximately $437,575,000 beginning in FY 2026 and by $606,337,000 in FY 2027. 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 2027 and FY 2028.
61. Section 20-9-366(5)(a) directs the school district general fund GTB multiplier to be set to 259% for fiscal year 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.
62. The adjustments to TV per SB 542, as amended, and the $9.1 million adjustment to district GF GTB due to decreased 95 mill revenue projections related to the effects of 20-9-366, MCA, in FY 2028.
63. The calculated increase is not distributed in FY 2027 as the maximum county retirement GTB multiplier limit has been met under current law therefore, the revenue is deposited to the SEPTR account.

State FY	Adjusted TV	TV Change	95 mill calc	County Retirement GTB 55%	District GF GTB 85%
FY 2025	4,495,734,393				
FY 2026	4,512,374,412	16,640,019	1,580,802	NA	NA
FY 2027	4,774,217,756	261,843,344	24,875,118	13,681,315	
FY 2028	4,661,221,867	(112,995,889)	(10,734,609)		(9,124,418)

64. For the purposes of this fiscal note, it is estimated that the school district FY 2028 general fund GTB multiplier would be required to be lowered from current law 259% to 246% in accordance with 20-9-336(3) and then raised to 247% in accordance with 20-9-336(5). The estimated change in school district general fund GTB is provided in the table below.

	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**
District GF GTB	$13,961,837	$9,880,121	($3,010,150)	($3,286,213)
Local Property Tax	($13,961,837)	($9,880,121)	$3,010,150	$3,286,213

65. Qualifying counties are eligible for county retirement GTB based on the calculations determined in section 20-9-366(5)(b), MCA. SB 543, as amended, adjusts TV downward by approximately $437.6 million in FY 2026 and by $606.3 million in FY 2027. 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. 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.
66. The county retirement GTB subsidy per mill calculation will be affected beginning in FY 2027 and in FY 2028.

67. 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 GTB distributions.

State FY	Adjusted TV	TV Change	95 mill calc	County Retirement GTB > 55%	County Retirement GTB < 15%
FY 2025	4,495,734,393				
FY 2026	4,512,374,412	16,640,019	1,580,802	NA	NA
FY 2027	4,774,217,756	261,843,344	24,875,118	13,681,315	
FY 2028	4,661,221,867	(112,995,889)	(10,734,609)		(1,610,191)
FY 2029	5,177,219,128	515,997,261	49,019,740	26,960,857	

68. Under current law the 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 multiplier will not be increased in FY 2027 as the retirement GTB multiplier is at the maximum level and may not be increased. The county retirement GTB multiplier would need to be adjusted downward to 296% in FY 2028 to adjust the distribution of retirement GTB downward by $1.6 million.
69. In accordance with section 20-9-336, MCA, the county retirement GTB multiplier would need to be evaluated with the possibility of an increase in future years. The county retirement GTB multiplier will return to 305% which is the maximum rate for retirement GTB as per 20-9-336, MCA beginning in FY 2029. The following table shows the change in county retirement GTB related to SB 542, as amended in House Taxation Committee.

	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**
County Retirement GTB	$6,894,099	$3,843,767	$907,986	$2,410,115
Local Property Tax	($6,894,099)	($3,843,767)	($907,986)	($2,410,115)

70. The following table shows the state and local GTB impact of SB 542 as amended in House Taxation Committee.

	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**
District GF GTB	$13,961,837	$9,880,121	($3,010,150)	($3,286,213)
County Retirement GTB	$6,894,099	$3,843,767	$907,986	$2,410,115
Local Property Tax	($20,855,936)	($13,723,888)	$2,102,164	$876,098

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	$1,512,552	$604,087	$611,818	$619,667
Operating Expenses	$486,700	$2,002,170	$146,921	$183,903	$185,170
University	$0	($2,625,000)	($3,786,000)	($4,375,000)	($4,375,000)
Transfers	$0	$0	$0	$0	$0
Local Assistance	$0	$0	$0	$0	$0
Property Tax Assistance	$0	$95,413,000	$0	$0	$0
County Retirement GTB	$0	$6,894,099	$3,843,767	$907,986	$2,410,115
District GF GTB	$0	$13,961,837	$9,880,121	($3,010,150)	($3,286,213)
TOTAL Expenditures	**$486,700**	**$117,158,658**	**$10,688,896**	**($5,681,443)**	**($4,446,261)**
Funding of Expenditures					
General Fund (01)	$486,700	$161,353,658	$74,420,896	$67,957,557	$69,192,739
State Special Revenue (02)	$0	$0	$0	$0	$0
SEPTR	$0	($41,570,000)	($59,946,000)	($69,264,000)	($69,264,000)
University	$0	($2,625,000)	($3,786,000)	($4,375,000)	($4,375,000)
TOTAL Funding of Expenditures	**$486,700**	**$117,158,658**	**$10,688,896**	**($5,681,443)**	**($4,446,261)**
Revenues					
State Special Revenue (02)	$0	$0	$0	$0	$0
SEPTR	$0	($41,570,000)	($59,946,000)	($69,264,000)	($69,264,000)
University	$0	($2,625,000)	($3,786,000)	($4,375,000)	($4,375,000)
TOTAL Revenues	**$0**	**($44,195,000)**	**($63,732,000)**	**($73,639,000)**	**($73,639,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)					
General Fund (01)	($486,700)	($161,353,658)	($74,420,896)	($67,957,557)	($69,192,739)
State Special Revenue (02)	$0	$0	$0	$0	$0
SEPTR	$0	$0	$0	$0	$0
University	$0	$0	$0	$0	$0

Effect on County or Other Local Revenues or Expenditures

Department of Revenue

1. The amendment to SB 542 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. The entitlement share reimbursement will also cover fines and judgement levies potentially associated with the mill override section.
2. Overall taxable value will be approximately 8.4% 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 raised on certain residential property, the change in mills depends on the makeup of property in the jurisdiction. On average local mills will float upward by about 12.1%.

Office of Public Instruction

1. Local property taxes for schools with decrease by $20.9 million in FY 2026 and by $13.7 million in FY 2027 due to GTB effects in SB 542, as amended in House Taxation Committee.

Technical Concerns

Department of Revenue

1. There are significant structural challenges with implementing the tiered residential tax rate for TY 2025. Current timelines leave about at maximum one month for full implementation and bug testing for a functionality that will need to be programmed by the software vendor. Normally this kind of project scope would have 1-3 months for vendor development and 9-12 months of testing. Delays in the assessment process will cascade into delays in taxing jurisdiction budgeting processes and statutory timelines.
2. If the entitlement share payments are triggered, local governments will need to provide mill levy information to the Department of Revenue in order for the department to calculate their reimbursements.

NO SPONSOR SIGNATURE	4/28/25		4/28/2025
Sponsor's Initials	Date	Budget Director's Initials	Date