Fiscal Note 2027 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill#/Title:	**HB0155.02 (001): Revise class four residential and commercial property taxes**
Primary Sponsor:	Mark Thane
Status:	As Amended in House 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 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures				
General Fund (01)	$74,853,784	$64,181,990	$73,019,707	$73,476,764
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($53,082,000)	($53,619,000)	($61,671,000)	($62,296,000)
University	($3,353,000)	($3,386,000)	($3,895,000)	($3,835,000)
Revenues				
General Fund (01)	($450,000)	($455,000)	($525,000)	($530,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($53,082,000)	($53,619,000)	($61,671,000)	($62,296,000)
University	($3,353,000)	($3,386,000)	($3,895,000)	($3,935,000)
Net Impact	($75,303,784)	($64,636,990)	($73,544,707)	($74,006,764)
General Fund Balance				

Description of fiscal impact

HB 155, as amended in the House Taxation Committee, introduces a graduated tiered tax rate system for Class 4 residential property and a reduced 1.4% tax rate for the first $200,000 of value of Class 4 commercial property. All other commercial property would pay the current law 1.89% rate. The bill also changes the tax rates on vacant residential land and for certain multifamily residential units. In total, HB 155 would reduce statewide taxable value by $559 million (10%) in TY 2025 when the bill takes effect, reducing revenue generated by the 95 mills for school equalization, 6 university mills, and 1.5 vo-tech mills. There will be a state general fund cost of $75.3 million in FY 2026 and $64.6 million in FY 2027 and succeeding years related to changes in HB 155.

FISCAL ANALYSIS

Assumptions

Department of Revenue

1. Under current law, in class 4, the tax rate for most residential land and improvements is 1.35%. Residential improvements with a value greater than $1.5 million are taxed at a 1.89% rate for the improvement value over $1.5 million. Class 4 commercial (and industrial) property is taxed at 1.4 times the residential rate (1.89%).
2. HB 155, as amended, revises class 4 residential and commercial property taxation by establishing a graduated tax rate system for residential property in which the first $50,000 in market value is at a zero rate,

the value between $50,000 and $500,000 is taxed at 1%, $500,000 to $750,000 is taxed at 1.25%, $750,000 to $1 million is taxed at 1.3%, $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%.

3. The tiered tax rates reduce the taxable value of all class 4 residential property with an assessed value under $1.94 million.
4. The taxation of class 4 vacant land is also changed with a tax rate of 1% applied to all vacant residential lots with a value of $500,000 or less.
5. The tax rate for multi-family residential rental units with a value greater than $2 million is capped at 1.89% (instead of the 2% marginal residential rate) if the property certifies that the units are leased at 150% or less of the county fair market rent.
6. For commercial property, HB 155 reduces the tax rate on the first $200,000 of value of each commercial property to 1.4%. The remaining value is taxed at the current 1.89% rate commercial class 4 property.

Basis of the estimates – Residential Property

7. The TY 2024 taxable value of each class 4 residential and commercial property was grown by the respective HJ 2 growth rates to estimate TY 2025 taxable values.
8. The graduated tax rates were applied to each residential property according to its estimated TY 2025 market value to produce taxable values as they would be under HB 155.
9. Vacant lots valued at $500,000 or less were assigned a tax rate of 1%.
10. All residential property with an assessed market valued under $1.94 million would receive a lower taxable value and properties valued over $1.94 million would see their taxable value increase. Because most properties are beneath the threshold, the taxable value of residential property would be reduced by $525 million under HB 155, or 9.5% of total statewide taxable value.

Basis of Estimate - Multifamily Property

11. Under HB 155, multifamily rental dwellings with a value greater than $2 million can receive a lower tax rate of 1.89% on the value above $2 million if they certify to the DOR that the units are leased at or below 150% of the county fair market rent. There will be an estimated 726 of these properties in TY 2025. It was assumed half of these properties would be eligible for the reduced rate.

Basis of Estimate – Commercial Class 4 Property

12. The 1.4% tax rate was applied to the first $200,000 of each commercial property in the state, with the remainder being taxed at the current 1.89%.
13. The taxable value of all class 4 commercial property would be reduced by HB 155. The total statewide reduction in TY 2025 would be $34 million, about 0.6% of statewide taxable value.
14. The total statewide taxable value decrease in TY 2025 resulting from HB 155 would be $559 million (10% reduction).
15. The reduction in statewide taxable value would reduce revenue generated from the 95 mills for school equalization (SEPTR SSR), 6 mills for the university system (SSR), and 1.5 mills for vo-tech schools (general fund). Below is a table containing the estimated reduction and taxable value and the impact to the state mill accounts.

Fund	FY 2026	FY 2027	FY 2028	FY 2029
TV Change	($558,755,000)	($564,413,000)	($649,165,000)	($655,752,000)
SEPTR	($53,082,000)	($53,619,000)	($61,671,000)	($62,296,000)
University	($3,353,000)	($3,386,000)	($3,895,000)	($3,935,000)
Vo-tech	($450,000)	($455,000)	($525,000)	($530,000)

DOR Administrative Expense

16. The department would need ongoing 0.50 FTE for the processing of applications for multifamily dwellings greater than $2 million. Additional costs would be incurred for system changes.

Office of Public Instruction

17. Applicability of HB 155, as amended, is retroactively applied requiring the changes to apply to property tax years beginning after December 31, 2024, impacting school districts' budget setting mills beginning in FY 2026 and the guaranteed tax base aid (GTB) subsidy per mill calculations beginning in FY 2027.
18. HB 155, as amended, revises section 15-6-134, MCA, adjusting district and statewide taxable valuations (TV). Changes to TV will impact the calculation of GTB aid beginning FY 2026.
19. 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 determining the changes related to HB 155.
20. 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 or less than $2 million with different adjustments made depending on increased or decreased 95 mill revenue.
21. The decrease in statewide TV related to changes in tax rates in HB 155 is less than the 15.5% growth in TV, so pursuant to 20-9-336, MCA, the current year 95 mill revenue compared to the prior year 95 mill revenue is greater than the prior year by $7.3 million. The following table shows these calculations.

State FY	Adjusted TV	TV Change	95 mill calc	County Retirement 55%
FY 2025	$4,495,734,393			
FY 2026	$4,512,374,412	$16,640,019	$1,580,802	
FY 2027	$4,653,037,438	$140,663,026	$13,362,987	$7,349,643

22. When the difference in the 95 mill calculation between years based on prior year TV and current year TV is greater than $2 million, 55% of the additional revenue is to be distributed pursuant to 20-9-336, MCA. Current law, before any legislation is enacted, meets all the distribution maximums in 20-9-336, MCA, for all the "dials" therefore, the additional 95 mill revenue will be distributed to the SEPTR account with a like reduction to general fund expenditures for BASE aid funding.
23. Reductions to taxable value adjust the value of each mill levied. As a result, additional mills will be required to achieve the same level of funding for the formulaic and required BASE levy area of a district's general fund budget. District general fund GTB, described in section 20-9-366, MCA, will adjust positively, increasing state paid GTB and reducing local property taxes statewide. The estimated changes are in provided in the table below.

	FY 2026	FY 2027	FY 2028	FY 2029
District GF GTB	$15,695,131	$8,828,258	$9,484,987	$9,383,585
Local Property Taxes	($15,695,131)	($8,828,258)	($9,484,987)	($9,383,585)

1. Reductions to taxable value will adjust the value of each mill levied. As a result, additional mills will be required to achieve the same level of funding for the formulaic county retirement fund. County retirement GTB described under section 20-9-366, MCA, will adjust for qualifying districts. The estimated amounts are in provided in the table below.

	FY 2026	FY 2027	FY 2028	FY 2029
County Ret. GTB	$6,469,419	$2,132,498	$2,330,628	$2,268,216
County Property Taxes	($6,469,419)	($2,132,498)	($2,330,628)	($2,268,216)

Fiscal Analysis Table

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact				
FTE	0.50	0.50	0.50	0.50
TOTAL Fiscal Impact	**0.50**	**0.50**	**0.50**	**0.50**
Expenditures				
Personal Services	$48,081	$48,081	$48,802	$49,534
Operating Expenses	$9,153	$9,153	$9,290	$9,429
Vo Tech	($450,000)	($455,000)	($525,000)	($530,000)
University	($3,353,000)	($3,386,000)	($3,895,000)	($3,835,000)
Transfers	$0	$0	$0	$0
Local Assistance	$0	$0	$0	$0
District GF GTB	$15,695,131	$8,828,258	$9,484,987	$9,383,585
County Retirement GTB	$6,469,419	$2,132,498	$2,330,628	$2,268,216
TOTAL Expenditures	**$18,418,784**	**$7,176,990**	**$7,453,707**	**$7,345,764**
Funding of Expenditures				
General Fund (01)	$74,853,784	$64,181,990	$73,019,707	$73,476,764
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($53,082,000)	($53,619,000)	($61,671,000)	($62,296,000)
University	($3,353,000)	($3,386,000)	($3,895,000)	($3,835,000)
TOTAL Funding of Expenditures	**$18,418,784**	**$7,176,990**	**$7,453,707**	**$7,345,764**
Revenues				
General Fund (01)	($450,000)	($455,000)	($525,000)	($530,000)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	($53,082,000)	($53,619,000)	($61,671,000)	($62,296,000)
University	($3,353,000)	($3,386,000)	($3,895,000)	($3,935,000)
TOTAL Revenues	**($56,885,000)**	**($57,460,000)**	**($66,091,000)**	**($66,761,000)**
Net Impact to Fund Balance (Revenue minus Funding of Expenditures)				
General Fund (01)	($75,303,784)	($64,636,990)	($73,544,707)	($74,006,764)
State Special Revenue (02)	$0	$0	$0	$0
SEPTR	$0	$0	$0	$0
University	$0	$0	$0	($100,000)

Effect on County or Other Local Revenues or Expenditures

Department of Revenue

1. HB 155 would reduce statewide taxable value by $559 million (10.0%) in TY 2025. Local taxing districts will be affected depending on the makeup of their tax base. Almost all jurisdictions will see a decrease in taxable value from class 4 property and a resulting shift in taxes to other classes.
2. Residential property valued above the $1.94 million threshold of taxable value neutrality will generally have taxes shifted onto them, and all property below the threshold will have taxes shifted from them.

Office of Public Instruction

3. Local school districts and countywide school mills will adjust to meet school district revenue requirements as required by the state's school funding formula in Title 20, MCA.
4. Local school property taxes associated with school district general fund GTB will decrease by $22.2 million in FY 2026 and by $10.9 million in FY 2027 and in ensuing years related to changes in property tax values statewide.

League of Cities and Counties

5. This bill will replace the existing tax rates for Class 4 properties with exemptions and graduated tax rates for Class 4 properties. The changes in tax rates lowers taxable value but will have limited impact on municipalities, as 15-10-420, MCA, requires municipalities to set mills based on the actual taxes assessed in the prior year plus half the rate of inflation over the previous 3-years average.
6. HB 155 may have unquantifiable impacts on the amount of revenues generated by levies not subject to the 15-10-420, MCA, inflationary limitation, as the graduated tax rates and values in other classes of properties may generate similar revenues as under current law.

MACO

7. With an assumption that there is no change to 15-10-420, MCA, local governments will adjust their mills to meet their budgets within their authorized revenue authority.

Technical Concerns

Department of Revenue

1. Subsection 3(c) requires dwelling units must be leased at 150% or less of the county fair market rent to receive the 1.89% tax rate. It is not clear how this applies to the other units of the building. The department would interpret the section as requiring that all units in the building must be leased at or below 150% of the market rent, unless otherwise clarified.
2. It is not clear how HB 155, as amended, would apply to mixed-use properties. Such property have both residential and commercial uses. It is assumed that the residential portion would receive the tiered residential tax rates, and the commercial portion would receive the commercial rates. Clarification is needed on how tax rates should be applied in these cases.

	2-5-25		2/5/2025
Sponsor's Initials	Date	Budget Director's Initials	Date