GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0690		Title:	Provide an exemption for certain owner-occupied residential property
Primary Sponsor:	Galloway, Steven		Status:	As Introduced

☒Significant Local Gov Impact ☒Needs to be included in HB 2 ☒Technical Concerns

☐Included in the Executive Budget ☐Significant Long-Term Impacts ☐Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	$1,000	$2,790,512	$0	$2,730,079
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	($11,334,000)	($10,334,000)
State Special Revenue	$0	$0	($716,000)	($653,000)
Net Impact-General Fund Balance:	($1,000)	($2,790,512)	($11,334,000)	($13,064,079)

Description of fiscal impact: HB 690 creates a property tax exemption for certain owner occupied residential properties equal to the portion of market value in excess of the January 1, 2021 market value of the property. The exemption does not apply to otherwise qualifying property that is sold to someone other than an immediate family member, has new construction, is remodeled or reclassified.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. The HB 690 starting point for the exemption is tax year (TY) 2021 value for qualifying owner-occupied residential property. That means reappraisal cycles after TY 2021. Therefore, the first year HB 690 will impact property tax revenues will be in TY 2023/FY2024.
2. It is assumed that the TY 2023 reappraisal cycle will be similar to the TY 2021 reappraisal cycle, and therefore, the TY 2021 reappraisal analysis is used to estimate the impact of HB 690.
3. For the TY 2021 reappraisal cycle 520,244 residential properties were identified that could be eligible for the exemption. Assuming all properties qualified for an exemption, this would reduce statewide taxable value by $189.977 million.

4. The Census Bureau estimates that 68.88% of homes in Montana are owner occupied.
5. Department of Revenue data shows that 4.03% of residential properties are sold in a typical year, and that 95.97% of properties are unsold in a given year.
6. It is further assumed that 5% of properties will contain new construction, be remodeled, or be reclassified and ineligible for the HB 690 exemption.
7. That results in an estimated 326,707 properties that will qualify for this exemption which will reduce taxable value by $119.308 million in the first year of the reappraisal cycle.
8. For the second year of the cycle, the estimated reduction from current law is adjusted to account for sales, remodeling, new construction, and reclassification. Therefore, it is estimated that taxable value reduction will be equal to $108.778 million in the second year.
9. The general fund 95-mill and University System 6-mill property tax revenue reduction are listed in the following table for FY 2024 and FY 2025.

	FY 2024	FY 2025
General Fund	($11,334,000)	($10,334,000)
MUS	($716,000)	($653,000)

10. Assuming there are 326,707 properties that will apply for this exemption and each exemption application will take 15 minutes to process, the department estimates an additional 43.00 FTE will be needed to implement HB 690 at the beginning of each reappraisal cycle implementation at a cost of $2.791 million in FY 2023 and $2.730 million in FY 2025.
11. A new form would need to be created at a cost of $1,000.

Fiscal Impact:	**FY 2022 Difference**	**FY 2023 Difference**	**FY 2024 Difference**	**FY 2025 Difference**
Department of Revenue				
FTE	0.00	43.00	0.00	43.00
Expenditures:				
Personal Services	$0	$2,331,831	$0	$2,385,864
Operating Expenses	$1,000	$458,681	$0	$344,215
TOTAL Expenditures	$1,000	$2,790,512	$0	$2,730,079
Funding of Expenditures:				
General Fund (01)	$1,000	$2,790,512	$0	$2,730,079
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$1,000	$2,790,512	$0	$2,730,079
Revenues:				
General Fund (01)	$0	$0	($11,334,000)	($10,334,000)
State Special Revenue (02)	$0	$0	($716,000)	($653,000)
TOTAL Revenues	$0	$0	($12,050,000)	($10,987,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($1,000)	($2,790,512)	($11,334,000)	($13,064,079)
State Special Revenue (02)	$0	$0	($716,000)	($653,000)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. Because HB 690 lowers the taxable value for class 4 residential property relative to what it would have been otherwise, mills will float up to compensate for this decrease in taxable value. In TY 2021, it is estimated that mills would need to increase by 27.06 mills to generate the same amount of revenue for local taxing jurisdictions.

Technical Notes:

Department of Revenue

1. As the bill is currently written, any property that sells after the effective date of this bill would never be eligible to receive the exemption and any property that has new construction or has been remodeled would also never be eligible for receiving the exemption.
2. The term 'remodeling' is not defined but is assumed that this would mean any change made to a property that results in an increase in the property's value, which could be a broad range of events.
3. There is no sunset or termination date or limitation in the current bill on when someone can apply for the exemption. Therefore, someone could apply for this exemption several years in the future. The department would have to keep and maintain what the 2021 value of the property was, but would also have to look back at each of those years to ensure that the property was not sold or did not have any new construction or remodeling occur over that period of time. Over time these costs could become substantial.

NOT SIGNED BY SPONSOR

	3/30/21	KA	3-30-21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*