GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	SB0375	**Title:**	Limit property tax increases for certain individuals
Primary Sponsor:	Regier, Keith	**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	$83,260	$139,316	$141,089	$142,888
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	($664,000)	($735,000)	($748,000)
State Special Revenue	$0	($42,000)	($46,000)	($47,000)
Net Impact-General Fund Balance:	($83,260)	($803,316)	($876,089)	($890,888)

Description of fiscal impact: SB 375 provides for a new property tax assistance program for those people 80 years or older who own and reside in their residential property for at least seven months of the year. This property tax assistance program would freeze the "ad valorem" property taxes for a qualifying applicant at what they were in the base year, which is the year prior to the applicant applying (or the current year if the taxes would have been lower than in the prior year). This is to be accomplished by reducing the tax rate applied to the primary residence and up to one acre of land by the amount necessary to arrive at a taxable value that would result in the "ad valorem" property taxes remaining the same.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. The department analyzed property taxes taxpayers who filed for the Elderly Homeowner Renter credit (available to taxpayers 62 or older) in TY 2018 and TY 2019 and paid property taxes in both those years. Based on those records 72.73% of taxpayers had property taxes increases. Those with increases had average increases of $238.47.
2. Census Bureau estimates for Montana show there were 106,957 households with a member over 65 years of age. The Census Bureau also reports that 20.08% of the Montana population over 65 are also over 80 years

of age. Applying those factors (106,957 X 20.08%) gives you 21,477 households over 80, of which 72.73% had a tax increase (15,620). The estimate of the average increase is $ 238.47.

3. Based on those figures, it is estimated eligible participants will receive a total benefit of $3.725 million.
4. In FY 2021, state 95 equalization mills represented 15.57% of total taxes due for all class 4 residential property. Similarly, the Montana University System (MUS) six mills represented 0.98% of all revenue billed.
5. SB 375 applies to tax year beginning with TY 2022 first affecting FY 2023 receipts.
6. Using the relative portions of general fund and MUS property tax revenue as well as the class 4 residential growth rates in HJ 2, the estimated reduction in property tax revenue as a result of SB 375 is listed in the table below.

Tax Year	General Fund	University 6 mill	Total
TY 2019	($580,000)	($36,000)	($616,000)
TY 2020	($590,000)	($37,000)	($628,000)
TY 2021	($652,000)	($41,000)	($693,000)
TY 2022	($664,000)	($42,000)	($706,000)
TY 2023	($735,000)	($46,000)	($781,000)
TY 2024	($748,000)	($47,000)	($795,000)

DOR Administrative Costs

7. With an estimated 15,619 eligible households applying for the program benefits, and a department estimate of 15 minutes per form to process and enter each application, calculate the tax rate adjustment, and update the record, this will require an additional 2.00 FTE. A new form would also need to be created at a cost of $1,000 in the first year.

Fiscal Impact:	**FY 2022 Difference**	**FY 2023 Difference**	**FY 2024 Difference**	**FY 2025 Difference**
Department of Revenue				
FTE	1.00	2.00	2.00	2.00
Expenditures:				
Personal Services	$60,926	$123,298	$124,769	$126,260
Operating Expenses	$22,334	$16,018	$16,320	$16,628
TOTAL Expenditures	$83,260	$139,316	$141,089	$142,888
Funding of Expenditures:				
General Fund (01)	$83,260	$139,316	$141,089	$142,888
TOTAL Funding of Exp.	$83,260	$139,316	$141,089	$142,888
Revenues:				
General Fund (01)	$0	($664,000)	($735,000)	($748,000)
State Special Revenue (02)	$0	($42,000)	($46,000)	($47,000)
TOTAL Revenues	$0	($706,000)	($781,000)	($795,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($83,260)	($803,316)	($876,089)	($890,888)
State Special Revenue (02)	$0	($42,000)	($46,000)	($47,000)

Effect on County or Other Local Revenues or Expenditures:

1. It is estimated SB 375 would reduce local property tax revenues by $3.108 million. However, because of the timing of certification, and tax jurisdiction mill setting (see technical notes), it is unlikely mills would adjust to recover the reduction in taxable value generated by SB 375. Local jurisdictions would likely see reduced revenue.

Technical Notes:

Department of Revenue

1. SB 375 presents difficulty for the department to administer. The DOR is responsible for property valuation and not taxation. While the department can estimate what the ad valorem taxes were in the base year, actual taxes are calculated and billed in county systems. Therefore, reduction in taxable value for participants will be based on estimated taxes and not actual taxes collected.
2. SB 375 would require a process order that is contrary to the normal business processes. The department values property and then applies statutory tax rates to arrive at taxable value. The Department of Revenue then provides assessed value information to taxpayers in the spring via assessment notices. The Department of Revenue then send certifies (by jurisdiction) taxable value by the first Monday in August to counties. Taxing jurisdictions use the certified taxable values to set their required mill levies. Counties then apply the mills to each taxpayer's taxable value to arrive at the taxpayer's ad valorem property tax liability which sets the taxpayers tax bill. Mill levies are the last piece of the equation to be determined. SB 375 as written would require the Department of Revenue to wait until late fall before it would have the updated mill levies in order to calculate what the final taxable value needed to keep ad valorem property taxes the same as in the base year for the qualified applicants. This would result in a reduction in taxable value on these properties relative to the certified taxable value used to set mills.
3. SB 375 does not address mill levy change over time such as newly voted mill levies or changing tax bases. In the case of newly voted levies, would the burden be shared among all taxing jurisdictions including the qualifying property or would different taxable values need to be calculated for the same property in each different taxing jurisdiction?
4. This may be easier to administer at the county level, as the counties do property tax billing and collections. Therefore, it may be more efficient to flag these qualifying exemptions within the county system through the download provided by Department of Revenue and have the base year taxes frozen as opposed to attempting to freeze taxes using the taxable value of the property.

		KA	3-22-21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*