GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0390 - Provide for homestead exemption for primary residences (Essmann, Sherry)	
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 2023 Difference	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:					
General Fund	$227,277	$936,209	$225,532	$229,263	$233,087
State Special Revenue	$0	$0	$0	$0	$0
Revenue:					
General Fund	$0	$0	($16,230,000)	($16,423,000)	($16,612,000)
State Special Revenue	$0	$0	($1,020,000)	($1,032,000)	($1,044,000)
Net Impact-General Fund Balanc	($227,277)	($936,209)	($16,455,532)	($16,652,263)	($16,845,087)

Description of fiscal impact: HB 390 creates assessed value $50,000 "homestead exemption" against the value of a taxpayer's primary residence that they own and occupy. Property owners are not allowed to participate in both the homestead exemption and any of the other property tax exemption programs. The Department of Revenue (DOR) is tasked with mailing notice of the program to potentially eligible properties by the end of FY 2023. Taxable value reductions beginning in FY 2025 reduce general fund collections and Montana University System revenues from the state levied mills. The program will require 8.50 FTE in FY 2024 for initial application review and 2.00 FTE ongoing for maintenance and auditing.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. HB 390 sets a $50,000 assessed market value homestead exemption for qualifying Montana primary homes.
2. Property tax data was analyzed for class 4 residential improvements with unique mailing addresses. If a mailing address had more than one property associated with it, the higher value property was assumed to be

the primary residence. There are 344,323 class 4 residential improvements with unique mailing addresses in TY 2022.

3. The U.S. Census Bureau 2021 American Community Survey (ACS) estimates there are 311,861 owner-occupied housing units in Montana. It is assumed that the unique mailing address data overstates primary residences by the ratio of the ACS estimate to the DOR property count.
4. This implies a downward adjustment of 9.43% ((344,323-311,861) / 344,323) for the final estimates.
5. HB 390 does not allow property owners to use the Property Tax Assistance Program (PTAP), Montana Disabled Veterans Program (MDV), Intangible Land Value Assistance Program (ILV) or low-value mobile home exemption and also claim the homestead exemption.
6. In some cases for each program, except the mobile home exemption, the benefits of the homestead exemption outweigh the benefits of the program the property is currently enrolled in. The table below details the frequency of this finding. The DOR will apply the exemption that benefits the taxpayer the most.

Program	**PTAP**		**MDV**		**ILV**	
Sub-Category	Homestead	PTAP	Homestead	MDV	Homestead	ILV
Participants	3,172	18,355	12	3,017	14	152

7. After excluding the properties that are better off in each of the other property tax assistance programs, total class 4 market value in eligible primary residences for TY 2022 is $109.907 billion and has an associated taxable value of $1.510 billion. After applying the homestead exemption, market value drops to $94.175 billion with associated taxable value of $1.326 billion. The taxable value reduction is $183.593 million.
8. Applying the ACS primary home estimate adjustment, taxable value reduction is $166.084 million.
9. The annual (marginal) housing growth estimates implicit in the HJ 2 revenue estimate are 2,580 for TY 2023, 2,843 for TY 2024, 3,004 for TY 2025, and 2,922 for TY 2026. These are assumed to be owner-occupied primary housing units.
10. Total yearly taxable value differences are an additional $1.742 million in TY 2023, $1.919 million in TY 2024, $2.028 million in TY 2025, and $1.972 million in TY 2026.
11. HB 390 is first applicable in TY 2024, FY 2025 is the first fiscal year impacted by reduced taxable values.
12. The table below summarizes the state revenue effects of HB 390.

	TY 2024	**TY 2025**	**TY 2026**
TV Difference	($169,945,000)	($171,972,000)	($173,945,000)
General Fund	($16,230,000)	($16,423,000)	($16,612,000)
MUS	($1,020,000)	($1,032,000)	($1,044,000)

DOR Administrative Costs

13. Notification letters will be mailed to all eligible properties by July 1, 2023. At $0.66 per letter, mailing costs are $227,277 for FY 2023.
14. The DOR will contract with the software provider for the property tax database to develop and maintain a homestead exemption verification process. Costs associated are roughly $100,000 in FY 2024 for initial setup and then roughly $65,000 annually thereafter.
15. In preparation for the initial year of the program, the DOR will require 8.50 FTE to receive, verify, process, and manually enter approximately 312,000 applications into the property database during FY 2024. This personnel estimate is based on an estimate of 80% of applications submitted online and 20% via paper form. The review process for paper applications is expected to require significantly more time per application than review of online applications.
16. For future fiscal years, it is assumed that 27,500 applications will be submitted yearly between new homeowners and real estate transfers. With some additional auditing work to ensure program compliance, the DOR will require 2.00 FTE ongoing for program maintenance.

17. Decision letters will be mailed to all applicants. At $0.66 per letter, mailing costs are $205,828 in FY 2024 and $19,602 for future fiscal years.

Fiscal Impact: **Department of Revenue**	**FY 2023 Difference**	**FY 2024 Difference**	**FY 2025 Difference**	**FY 2026 Difference**	**FY 2027 Difference**
FTE	0.00	8.50	2.00	2.00	2.00
Expenditures:					
Personal Services	$0	$528,359	$124,676	$126,166	$127,680
Operating Expenses	$227,277	$407,850	$100,856	$103,097	$105,407
TOTAL Expenditures	$227,277	$936,209	$225,532	$229,263	$233,087
Funding of Expenditures:					
General Fund (01)	$227,277	$936,209	$225,532	$229,263	$233,087
State Special Revenue (02)	$0	$0	$0	$0	$0
TOTAL Funding of Exp.	$227,277	$936,209	$225,532	$229,263	$233,087
Revenues:					
General Fund (01)	$0	$0	($16,230,000)	($16,423,000)	($16,612,000)
State Special Revenue (02)	$0	$0	($1,020,000)	($1,032,000)	($1,044,000)
TOTAL Revenues	$0	$0	($17,250,000)	($17,455,000)	($17,656,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):					
General Fund (01)	($227,277)	($936,209)	($16,455,532)	($16,652,263)	($16,845,087)
State Special Revenue (02)	$0	$0	($1,020,000)	($1,032,000)	($1,044,000)

Effect on County or Other Local Revenues or Expenditures:

Department of Revenue

1. The statewide tax base in TY 2022 would be roughly $166 million less under HB 390 than under current law, which is approximately 4.6% of total statewide taxable value. All else equal, local mills will on average rise about 4.6% to offset the tax base reductions of HB 390. Taxing jurisdictions with a greater share of class 4 property are likely to see shifts greater than 4.6% and taxing jurisdictions with a more varied structure of taxable property will see lower shifts.

[signature]	2/9/2023	[initials]	2-8-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*