



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:

HB0906 - Revise laws related to agricultural property taxation (Knudsen, Casey)

Status: As Amended in House Committee

- 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

	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>	<u>FY 2026</u> <u>Difference</u>	<u>FY 2027</u> <u>Difference</u>
Expenditures:				
General Fund	\$2,164,196	\$153,915	\$155,909	\$157,939
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	unknown	unknown	unknown
State Special Revenue	\$0	unknown	unknown	unknown
Net Impact-General Fund Balance:	<u>(\$2,164,196)</u>	<u>unknown</u>	<u>unknown</u>	<u>unknown</u>

Description of fiscal impact: HB 906 as amended revises the criteria for classification as agricultural land and that owners of parcels of at least 160 acres in size be eligible for U.S. Department of Agriculture (USDA) farm service agency payments to qualify as agricultural land. Parcels that previously qualified as agricultural land could be reclassified as class 4 residential tract land. Class 4 land has a higher taxable value. However, there is no data available to estimate the magnitude of this classification change. The increase in taxable value due to the HB 906 criteria and resulting land classification change is unknown. There would be significant administrative costs to the Department of Revenue (DOR) to process applications for the new agricultural land classification.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Currently any parcels or contiguous parcels that are 160 acres or greater are automatically considered class 3 agricultural property and are valued based on their productive capacity so long as they are not devoted to a residential, commercial, or industrial use.
- HB 906 removes the automatic agricultural classification for these parcels. The bill changes the criteria for classifying agricultural land to whether the owner is eligible for USDA farm service payments.
- As amended in the House Taxation committee adds clarifying language, that reflects the Department's interpretation of the bill as introduced.

4. The Department does not collect information on parcels relating to their eligibility for these USDA payments.
5. There are approximately 28,000 different owners of roughly 139,000 parcels of land currently qualifying as agricultural land due to their acreage being at least 160 acres.
6. The acreage of agricultural land that would need to apply for agricultural status would be 48.110 million acres, out of 50.132 million acres of non-exempt agricultural land, roughly 96% of agricultural land.
7. It is likely that at least some of these properties will not meet the requirements of HB 906. That land would therefore be re-classified to class 4 residential land as the land would not qualify as agricultural land as defined in 15-7-202, MCA, nor as non-qualified agricultural land under 15-6-133(1)(c), MCA.
8. This would require valuation of the land based on sales price of an arm’s length transaction (market value rather than the productivity value).
9. In general, these comparable sales valuations will result in a significantly higher market valuation than the productive agricultural valuation. While the class 4 tax rate of 1.35% is lower than the agricultural tax rate of 2.16%, the difference in market value would lead to a higher taxable value for those reclassified parcels.
10. The increased taxable value would increase general fund collections from the 95 mills levied for school equalization and the state special revenue 6 mills levied for the Montana University System.
11. The DOR has no data to estimate which landowner’s property would continue to qualify as agricultural land under HB 906. Because of this the Department cannot quantify the change in property tax collections.

DOR Administrative Costs

12. The Department will require 27.00 FTE in FY 2024 to verify owner eligibility for USDA farm service payments, update records, and develop land models to value properties removed from agricultural status. This is based on an assumed application review time of an hour and a half.
13. The DOR would then require an ongoing 2.00 FTE to review parcels, audit property owners, and process new applications from ownership changes. These costs are detailed in the accounting table below.

<u>Fiscal Impact:</u>	<u>FY 2024 Difference</u>	<u>FY 2025 Difference</u>	<u>FY 2026 Difference</u>	<u>FY 2027 Difference</u>
Department of Revenue				
FTE	27.00	2.00	2.00	2.00
<u>Expenditures:</u>				
Personal Services	\$1,815,170	\$136,521	\$138,189	\$139,883
Operating Expenses	\$349,026	\$17,394	\$17,720	\$18,056
TOTAL Expenditures	\$2,164,196	\$153,915	\$155,909	\$157,939
<u>Funding of Expenditures:</u>				
General Fund (01)	\$2,164,196	\$153,915	\$155,909	\$157,939
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$2,164,196	\$153,915	\$155,909	\$157,939
<u>Revenues:</u>				
General Fund (01)	unknown	unknown	unknown	unknown
State Special Revenue (02)	unknown	unknown	unknown	unknown
TOTAL Revenues	unknown	unknown	unknown	unknown
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	unknown	unknown	unknown	unknown
State Special Revenue (02)	unknown	unknown	unknown	unknown

Effect on County or Other Local Revenues or Expenditures:

1. The increased taxable value associated with property transferring from class 3 agricultural property to class 4 residential property could decrease local mills in taxing jurisdictions where the classification transfer occurs. Local mills might not decrease from the increase in taxable value attributable to the law change in HB 906 as the taxable value in due to the HB 906 reclassification could be treated as newly taxable property.

Technical Notes:

1. Currently, the definition of non-qualified agricultural land (15-6-133, MCA), is “land of 20 acres or more but less than 160 that is not eligible for valuation, assessment, and taxation as agricultural land under 15-7-202(1), MCA.” The upper limit was likely set due to the automatic agricultural status conferred to parcels 160 acres or larger. If the intent is that parcels greater than 160 acres not receiving USDA farm service payments should be treated as non-qualified agricultural land, the definition in 15-6-133, MCA, requires a change.
2. Realty Transfer Certificates (RTC) are how the DOR receives sales information for use in comparable sales models to value class 4 property. Agricultural land is not included on RTC’s by statute. The DOR does not have information on sales of parcels greater than 160 acres. If the intent of the bill is that parcels of land 160 acres or greater that do not receive USDA farm service payments should be considered residential land, that exclusion from RTC’s should be removed so the DOR can develop models that accurately value this land.
3. The effective date of January 1, 2024, is too short a timeframe for the DOR to research and develop an application for agricultural status that mirrors the requirements of the USDA, as well as process 28,000 expected applications. It is recommended to make this bill effective January 1, 2025, to allow both the DOR and property owners sufficient time to adapt to the bill.

NOT SIGNED BY SPONSOR

Sponsor’s Initials

Date



Budget Director’s Initials



Date