



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0912 - Provide for recreational land classification for property tax purposes (Butcher, Edward B)	
Status:	
	As Introduced

<input checked="" type="checkbox"/> Significant Local Gov Impact	<input checked="" type="checkbox"/> Needs to be included in HB 2	<input type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input type="checkbox"/> Significant Long-Term Impacts	<input type="checkbox"/> 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	\$709,078	\$1,447,916	\$155,909	\$157,939
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	\$0	unknown	unknown
State Special Revenue	\$0	\$0	unknown	unknown
Net Impact-General Fund Balance:	(\$709,078)	(\$1,447,916)	unknown	unknown

Description of fiscal impact: HB 912 creates a new tax class for recreational land. HB 912 removes the automatic agricultural qualification of parcels of 160 or more acres. Owners of land parcels of at least 160 acres that previously qualified as agricultural land would need to re-apply for agricultural status. If the land were determined by the Department of Revenue (DOR) to not to be utilized for agricultural production, the land would be re-classified into class 19, undeveloped recreational property. The land would be valued based on agricultural productivity but pay a tax rate seven times the class 3 rate. The increase in taxable value due to the HB 912 criteria and resulting land classification change is unknown. There would be significant administrative costs for the DOR to process applications for the new undeveloped recreational land classification.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- Currently, any parcels or contiguous parcels that are 160 acres or more 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.

2. HB 912 removes the automatic agricultural classification for these parcels. Any parcel that is 160 acres or greater must apply to the DOR for classification as agricultural property.
3. Applicants would need to demonstrate that the land is being utilized for agricultural production in a manner that generates at least the productive capacity that the average Montana farmer or rancher could achieve. The bill provides several guidelines for the DOR to consider in determining agricultural property status.
4. 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.
5. The total acres of agricultural land that would need to apply re-classification as agricultural is about 48.110 million acres, out of 50.132 million non-exempt acres of agricultural land in the state. This is roughly 96% of current agricultural land.
6. It is likely that at least some of these properties would not meet the requirements of HB 912. This land would be re-classified into class 19, recreational land. The taxable value for these properties would be taxed at seven times the class 3 agricultural rate. This reclassification would increase taxable value.
7. The land moved from current law class 3 to new class 19 will increase general fund revenues from the 95 mills school equalization levies, and the university 6-mill levy state special revenue.
8. The DOR does not currently collect the ownership utilization information that would be necessary for the reclassification that would be required under HB 912. The fiscal impact is therefore unknown. There is roughly \$138 million in taxable value in this group of properties which would need to re-apply for agricultural status, so the upper limit of taxable value change would be \$828 million if all the property were reclassified. That maximum taxable value increase would represent about \$78.7 million for the general fund.
9. HB 912 applies to tax years beginning TY 2025.


DOR Administrative Costs

10. The DOR will require significant employee effort hours to implement the bill. It is assumed it will take an hour and a half to process each application. That represents 9.00 FTE which would be necessary in FY 2024 to process the early wave of applications for agricultural re-classification. That number is increased to 18.00 FTE in FY 2025 to process the bulk of applications in preparation for the TY 2025 implementation.
11. For FY 2026 onward the Department would require 2.00 FTE for audit and review of properties, as well as processing new applications from transfers of ownership. These costs are presented in the accounting detail table below.

<u>Fiscal Impact:</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>
<u>Department of Revenue</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	9.00	18.00	2.00	2.00
<u>Expenditures:</u>				
Personal Services	\$605,056	\$1,228,688	\$138,189	\$139,883
Operating Expenses	\$104,022	\$219,228	\$17,720	\$18,056
TOTAL Expenditures	\$709,078	\$1,447,916	\$155,909	\$157,939
<u>Funding of Expenditures:</u>				
General Fund (01)	\$709,078	\$1,447,916	\$155,909	\$157,939
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$709,078	\$1,447,916	\$155,909	\$157,939
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	Unknown	Unknown
State Special Revenue (02)	\$0	\$0	Unknown	Unknown
TOTAL Revenues	\$0	\$0	Unknown	Unknown
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$709,078)	(\$1,447,916)	Unknown	Unknown
State Special Revenue (02)	\$0	\$0	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 19 recreational property could decrease mills in taxing jurisdictions where the re-classifications occur. Local mills might not decrease from the increase in taxable value attributable to the law change in HB 912 as the taxable value increase due to the HB 912 reclassification could be treated as newly taxable property.

Sponsor's Initials	Date	 Budget Director's Initials	3-30-23 Date
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