GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
SB0511 - Revise government entity limitations on property tax increases (Zolnikov, Daniel)	
Status:	As Amended in Senate 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

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	$0
Net Impact-General Fund Balance:	$0	$0	$0	$0

Description of fiscal impact: SB 511 changes the mill levy calculation found in 15-10-420, MCA relaxing the ½ of three-year average inflation adjustment to the full average of three-year inflation. Offsetting that change, the growth due to newly taxable property is modified and jurisdiction revenue growth is limited. The Senate Taxation Committee amendments adds a 4% limit to the average rate of inflation, changes the amount of newly taxable value included in the mill calculation to 50%, and changes the overall revenue growth limit from the mill levies to 4.75%. There is no fiscal impact to the state in the two biennia window of the fiscal note.

FISCAL ANALYSIS

Assumptions:

1. SB 511 revises the calculations for the maximum number of mills a government entity may impose.
2. Under current law, a government entity may increase their mills sufficient to increase property taxes assessed the prior year by one-half the average annual rate of inflation for the prior three years, levied against the current year's taxable value (excluding the amount of newly taxable property). This mill amount is applied to all taxable value (including newly taxable) in the jurisdiction. The current law calculation is shown below.

$$\frac{Previous\ Year's\ Revenue\ Adj.by\ 50\%\ Average\ Rate\ of\ Inflation}{Current\ Year's\ Taxable\ Value\ -\ Newly\ Taxable\ Value} = Maximum\ Mills$$

3. SB 511 changes the one-half average annual inflation to the average inflation rate over the prior three years. The bill as amended limits the full average rate of inflation to be no higher than 4%.

4. This bill as amended changes the amount of newly taxable property subtracted out of the current year's taxable value used in the mill calculation from the full amount to 50% of the newly taxable property amount.
5. The equation below shows what the new calculation would be under SB 511.

$$\frac{Previous\ Year's\ Revenue\ Adj.\ by\ 100\%\ Average\ Rate\ of\ Inflation\ (or\ 4\%)}{Current\ Year's\ Taxable\ Value\ -50\%\ Newly\ Taxable\ Value} = Maximum\ Mills$$

6. A 4.75% cap set by SB 511 limits total assessed property tax increase to no more than 4.75%.
7. A government entity may carry forward mills to a subsequent year if the maximum authorized is not levied.
8. The state mills are subject to 15-10-420, MCA, and therefore subject to the provisions of this bill, but are limited to their respective mill amount (95 state equalization mills, 1.5 vo-tech mills, and 6 University mills).
9. The state revenue generated from the "95- mills" is not anticipated to change due to SB 511 through FY 2027.
10. This bill would be effective beginning in TY 2024 and first affect FY 2025 budgets.

Department of Administration

11. The Local Government Services Bureau reports that there is not a cost to the bureau to implementing this bill.

Effect on County or Other Local Revenues or Expenditures:

1. The changes to maximum mill authority in SB 511 will affect the amount of revenue local governments are able to generate from property taxes. The magnitude of the impact will vary by jurisdiction based on the interaction of multiple factors: taxable value within the jurisdiction, inflation, amount of newly taxable property in each jurisdiction, carry forward authority, voted mill levies, permissive mill levies, and whether the mill calculation would lead to revenue exceeding the 4.75% revenue growth limit.
2. The amount of newly taxable property fluctuates each year and varies by taxing jurisdiction. If a jurisdiction has a large influx of newly taxable property in one year, for example, limiting the amount of newly taxable value to 50% would make the maximum allowed mills lower compared to current law where they are able to subtract all the newly taxable value in the mill calculation.

Long-Term Impacts:

1. The state banked mills are not anticipated to run out within the fiscal note time window. However, using estimated taxable value growth, newly taxable amounts, and inflation rates, the number of banked mills is estimated to be lower under this bill than they would be under current law by the end of FY 2027. Typically, the state "spends" banked mills in reappraisal years, and banks mills in the non-reappraisal years.
2. The table below estimates the amount of carry forward mills for each of the state mill levies under current law and under the provisions of SB 511 through FY 2027.

Projected Carry Forward Authority for State Mills					
		2024	2025	2026	2027
95 Mills	Present Law	13.35	16.42	14.3	16.03
	SB 511		16.26	13.83	13.61
1.5 Mills	Present Law	0.10	0.15	0.12	0.15
	SB 511		0.15	0.11	0.11
6 Mills	Present Law	0.28	0.46	0.32	0.42
	SB 511		0.45	0.30	0.29

3. Because the maximum mill calculation for state and local governments are calculated using the prior year's actual assessed revenue, the limitation effects of this bill will compound over time.

NO SPONSOR SIGNATURE 4.4.23

Sponsor's Initials | *Date* | *Budget Director's Initials* | 4-5-23 *Date*