GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
SB0549 - Provide a 5 year prepaid property tax exemption during subdivision development (Hertz, Greg)	
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 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$86,249	$84,560	$85,672	$86,802
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$1,150	($428,630)	($785,280)	($965,100)
State Special Revenue	$70	($26,850)	($49,770)	($60,760)
Net Impact-General Fund Balance:	($85,099)	($513,190)	($870,952)	($1,051,902)

Description of fiscal impact: SB 549 provides for a property tax exemption on properties undergoing subdivision development. The exemption is for five years or until December 31 of the year the development is complete, whichever is less.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. SB 549 provides for a temporary property tax exemption for up to five years for property that is being developed as a new subdivision.
2. To receive the exemption, the applicant would need to prepay the same amount of taxes due the previous year and apply to the Department of Revenue for the exemption prior to January 1 of the year in which the exemption is sought.
3. Thereafter, to remain eligible for the exemption, the applicant would need to pay the same amount of taxes that were due on the property prior to development plus a 5% fee to the county treasurer prior to January 1 of

each year. The payment amount with the 5% additional fee must be distributed to funds and accounts in the same ratio as property tax collected on the property tax is distributed.

4. The clerk and recorder in each county would certify to the Department of Revenue that the taxes and 5% fee have been paid to continue applying the exemption to the subdivision's lots.
5. Once a habitable dwelling is on a lot within the subdivision, the lot's exemption is removed the next tax year.
6. If the subdivision is completed prior to the five-year exemption window, which is defined as 95% of the lots having a habitable dwelling on them, then the exemption would be removed after December 31 of the year in which the subdivision was completed.
7. The exemption would be available beginning in TY 2024.
8. It is estimated about 1,630 new subdivision lots are created each year that would qualify for the exemption.
9. Before being split into subdivision lots, these lots are typically classified and valued as agricultural land due to their size, which results in lower overall taxable value relative to what they would be valued at as residential subdivision lots. Some of the vacant lots could continue to be classified as agricultural land as the subdivision is developed as long as they continue to meet ownership contiguity requirements.
10. Assuming these properties were valued as agricultural land in TY 2023 before being subdivided for TY 2024, the table below shows the estimated total TY 2023 taxable value for the 1,630 subdivision lots, TY 2023 general fund and Montana University System (MUS) revenue, and the estimated amount of the developer's prepayment in each subsequent year with the additional 5% fee that would be general fund and MUS revenue.

General Fund and Montana University System Revenue from Prepayments - SB 549				
2023 TV	2023 GF	2023 MUS	GF with +5% Fee	MUS with +5% Fee
$12,000	$1,150	$70	$1,205	$75

11. Assuming approximately the same number of new subdivisions receive the exemption in each subsequent year, the table below shows the estimated total payments made by the developers that would go toward state revenue under SB 549. Because the developers are required to prepay the amount before the first of the tax year, the prepayment for an exemption in TY 2024 would be made in TY 2023 (FY 2024), and so on.

State Portion of Exemption Prepayments Under SB 549				
	TY 2023 (FY 2024)	TY 2024 (FY 2025)	TY 2025 (FY 2026)	TY 2026 (FY 2027)
General Fund Revenue	$1,150	$2,370	$3,720	$3,900
MUS Revenue	$70	$150	$230	$240

12. For fiscal note purposes, it is assumed that, on average, new subdivisions get 1/3 built out with habitable dwellings in the first year of development, another 1/3 the second year, and then fully completed by the end of the third year. In other words, the full subdivision would receive the exemption the first year, about 2/3 of the subdivision would be exempt the following year, and 1/3 of the subdivision would be exempt the next year. (1,630 exempt lots the first year, 1,087 the second year, and 543 lots the third year).
13. The table below shows the estimated amount of state tax revenue that would be paid under current law for the lots receiving the exemption under SB 549 each year for a development beginning in TY 2024.

Taxable Value and State Taxes Paid Under Current Law (TY 2024 Exemption)			
	TY 2024	TY 2025	TY 2026
Number of Exempt Subdivision Lots	1,630	1,087	543
Taxable Value	$4,515,000	$3,304,000	$1,691,000
General Fund Revenue	$431,000	$316,000	$162,000
MUS Revenue	$27,000	$20,000	$10,000

14. Assuming about the same number of new subdivisions apply for the exemption in each subsequent year, and dwellings are built at about the same rate, the table below shows the estimated taxable value of the residential subdivision land and the estimated state revenue generated under current law for properties that would be exempt under SB 549. The total number of exempt lots increases in the first years of implementation as new subdivision developments become exempt each year.

Taxable Value and State Taxes Paid Under Current Law (TY 2024-2026 Exemptions)			
	TY 2024	TY 2025	TY 2026
Number of Exempt Subdivision Lots	1,630	2,717	3,260
Taxable Value	$4,515,000	$8,260,000	$10,147,000
General Fund Revenue	$431,000	$789,000	$969,000
MUS Revenue	$27,000	$50,000	$61,000

15. The table below shows the estimated total difference in state revenue generated between current law and under the provisions of SB 549. (FY 2024 shows an increase in revenue because of the timing of the prepayment of taxes for the first year of the exemption).

Total Difference in State Revenue Under SB 549				
	TY 2023 (FY 2024)	TY 2024 (FY 2025)	TY 2025 (FY 2026)	TY 2026 (FY 2027)
General Fund Revenue	$1,150	-$428,630	-$785,280	-$965,100
MUS Revenue	$70	-$26,850	-$49,770	-$60,760

16. Any new construction besides habitable dwellings within the subdivision would also be exempt under SB 549; this amount would further decrease revenue compared to current law.

DOR Administrative Costs

17. The Department of Revenue would be required to develop new forms for the applicants and for the county to use each subsequent year to notify the Property Assessment Division (PAD) whether the taxes and fee have been paid in order for the property to continue receiving the exemption.
18. The PAD would require 1.00 FTE to process exemption applications, review the certifications from the county, and maintain property records to either apply or remove the exemption accordingly for each year.

Fiscal Impact:	**FY 2024 Difference**	**FY 2025 Difference**	**FY 2026 Difference**	**FY 2027 Difference**
Department of Revenue				
FTE	1.00	1.00	1.00	1.00
Expenditures:				
Personal Services	$74,691	$75,863	$76,812	$77,774
Operating Expenses	$11,558	$8,697	$8,860	$9,028
TOTAL Expenditures	$86,249	$84,560	$85,672	$86,802
Funding of Expenditures:				
General Fund (01)	$86,249	$84,560	$85,672	$86,802
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$86,249	$84,560	$85,672	$86,802
Revenues:				
General Fund (01)	$1,150	($428,630)	($785,280)	($965,100)
State Special Revenue (02)	$70	($26,850)	($49,770)	($60,760)
TOTAL Revenues	$1,220	($455,480)	($835,050)	($1,025,860)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($85,099)	($513,190)	($870,952)	($1,051,902)
State Special Revenue (02)	$70	($26,850)	($49,770)	($60,760)

Effect on County or Other Local Revenues or Expenditures:

1. The exemption in SB 549 requires taxpayers qualifying for the subdivision development exemption to make payments based on the prior year tax amount, plus a 5% fee in any subsequent years in which they receive the exemption, instead of based on mills levied each tax year. It is assumed that local governments would increase their mills to account for the small reduction relative to what their tax base otherwise would have been if it is not offset by the 5% fee. The differential would most likely grow over the 5-year exemption period. This would result in a tax shift to other properties in the taxing jurisdiction.
2. Based on the taxable value potentially receiving the exemption in TY 2026 (see assumption #14) and the extended HJ 2 projection for TY 2026 the statewide average tax shift would be 0.223% statewide taxable value. Areas with high growth and more new subdivision development activity would experience a greater proportionate tax shift than areas with little to no subdivision development activity.
3. SB 549 would defer the newly taxable value growth of the property conversion until the exemption expired.

NO SPONSOR SIGNATURE

	3/28/23	RO	3-28-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*