GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0253 - Provide for homestead exemption for primary residences (Stafman, Ed)	
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	$1,998,971	$203,660	$206,013	$208,408
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$360,000	$543,000	$194,000
State Special Revenue	$0	$290,000	$353,000	$369,000
Net Impact-General Fund Balance:	($1,998,971)	$156,340	$336,987	($14,408)

Description of fiscal impact: HB 253 creates a $25,000 assessed market value "homestead" exemption for a resident taxpayer's primary residence. This reduces taxable value in all jurisdictions with primary home residential property. The bill relaxes the hard numerical caps of the state statutory mill's, while retaining the 15-10-420, MCA, authorized revenue limitation with the intent of achieving revenue neutrality. The statutory requirement to round mills in the levy calculations yields a minor increase in state general fund and university 6-mill after their upward adjustment. The Department of Revenue will require 25.00 FTE in FY 2024 to update the property records of homeowner with qualified applications. Property growth and rotation of homeownership will require 2.50 FTE to maintain these records on an ongoing basis.

FISCAL ANALYSIS

Assumptions:

Department of Revenue(DOR)

1. Under current law, the former homestead exemption, which applied to all class 4 residential improvements was rolled into the class 4 residential property tax rate when Montana moved to biennial reappraisal.
2. HB 253 sets a $25,000 assessed market value homestead exemption for qualifying Montana primary homes.

3. The U.S. Census Bureau's 2021 American Community Survey (ACS) estimates there are 311,861 owner-occupied housing units in Montana. In TY 2022 the department's property data system had 323,940 class 4 residential improvements with unique mailing addresses. It is assumed that DOR the unique mailing address data overstates primary residences by the ratio of the ACS estimate to the DOR property count. That is a
4. downward adjustment of 3.73% ((323,940-311,861) / 323,940). Improvements with mailing addresses in common were further filtered to avoid double counting primary homes the property with a higher market value is considered the primary residence.
5. The estimated market value for all TY 2022 for primary residences is $109.237 billion with an associated $1.474 billion in taxable value. Applying the $25,000 market value exemption for the selected "primary" residences yields a new total market value of $101.190 billion and a taxable value of $1.370 billion. That is a taxable value reduction from current law, in TY 2022, of $104.899 million. After the over count adjustment the difference in taxable value is $100.988 million.
6. The taxable value of qualifying properties in Tax Increment Financing (TIF) districts is $1.966 million.
7. The 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.
8. The homestead exemption is applied to each of these units. Total yearly additional taxable value difference due to the homestead exemption are $871,000 for TY 2023, $960,000 for TY 2024, $1.014 million for TY 2025, and $986,000 for TY 2026. It further assumed these will not be within TIF districts.
9. HB 253 first to TY 2024 property affecting FY 2025 revenue and budgets.
10. Removing the cap on the state 95 mills, 6 mills for the Montana University System, and 1.5 mill Vo-tech mills crates uncertainties (See Technical Note #1). For this estimate it is assumed that mills to float to fully offset property taxes would have generated before the homestead exemption, subject to 15-10-420, MCA, rounding rules (round up to the nearest tenth). This generates a small general fund and state special revenue increase.
11. The total taxable value base expected for the two biennia of the fiscal note are detailed below, as well as the expected collections from the 95 state equalization mills. Then the new tax base is established, and the millage adjustments to raise the otherwise foregone revenue .

Fiscal Year	Total TV Forecast (millions)	95 Mill Tax (millions)	TV Difference	HB 235 Taxable Value (millions)	Equivalent Mill
2025	$4,584.517	$435.529	$100.853	$4,483.664	97.2
2026	$4,927.078	$468.072	$101.867	$4,825.211	97.1
2027	$5,040.920	$478.887	$102.853	$4,938.067	97.0

12. As is shown above, holding the state 95 mill collections constant and reducing the taxable value with the HB 235 the homestead exemption, results in just over a 2 mill increase on all property.
13. The same calculation for the 6 university mills is shown below. The 6-mill tax base is larger because TIFDs do not retain the 6 mills levied against the taxable value increment in the district.

Fiscal Year	Total TV Forecast (millions)	6 Mill Tax (millions)	TV Difference	HB 235 Taxable Value (millions)	Equivalent Mill
2025	$4,638.486	$27.831	$102.819	$4,535.667	6.2
2026	$4,981.379	$29.888	$103.833	$4,877.546	6.2
2027	$5,095.556	$30.573	$104.819	$4,990.737	6.2

14. The table with the 6-mill calculations show a 0.2 mill increase on all property is needed to offset the taxable value reduction of the homestead exemption.
15. The same calculations for the 1.5 Vocational-Technical Education mills are shown below. These mills are only assessed in Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark counties. The taxable value difference in these counties is estimated $40.857 million in TY 2022. It is assumed that the proportion

of new housing contained in these counties is equal to the proportion of taxable value difference in TY 2022 as compared to the state as a whole.

Fiscal Year	Total TV Forecast (millions)	1.5 Mill Tax (millions)	TV Difference	New TV (millions)	Equivalent Mill
2025	$1,436.656	$2.155	$41.597	$1,395.059	1.6
2026	$1,540.684	$2.311	$42.007	$1,498.677	1.6
2027	$1,570.130	$2.355	$42.406	$1,527.724	1.6

16. Holding revenue collections for the 1.5 Vocational-Technical Education mills constant yields a 0.1 mill increase for all property subject to the mill levy.
17. The rounding up of mills yields as stipulated in 15-10-420 MCA, results in small marginal revenue differences it is not possible to stay perfectly revenue neutral due to this rounding. Increases in tax collections due to rounding are detailed below by mill type.

Fiscal Year	General Fund (95 Mills)	University System (6 Mills)	General Fund (1.5 Mills)
2025	$283,000	$290,000	$77,000
2026	$456,000	$353,000	$87,000
2027	$105,000	$369,000	$89,000

DOR Administrative Costs

18. The department in preparation for the initial year of the program will require 25.00 FTE to receive, verify , process, and manually enter over 311,000 applications manually into department's property database during FY 2024. It is estimated that it will take between 5 and 10 minutes to process each record.
19. For future fiscal years, it is assumed that 27,500 applications will be submitted yearly between new homeowners and real estate transfers. The DOR will require 2.50 FTE yearly for this volume of applications.
20. The DOR will mail decision letters to all applicants. At $0.56 per letter, mailing costs are $174,623 in FY 2024 and $15,400 for all future fiscal years.

Fiscal Impact:	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Department of Revenue				
FTE	25.00	2.50	2.50	2.50
Expenditures:				
Personal Services	$1,535,398	$162,169	$164,033	$165,924
Operating Expenses	$463,573	$41,491	$41,980	$42,484
TOTAL Expenditures	$1,998,971	$203,660	$206,013	$208,408
Funding of Expenditures:				
General Fund (01)	$1,998,971	$203,660	$206,013	$208,408
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$1,998,971	$203,660	$206,013	$208,408
Revenues:				
General Fund (01)	$0	$360,000	$543,000	$194,000
State Special Revenue (02)	$0	$290,000	$353,000	$369,000
TOTAL Revenues	$0	$650,000	$896,000	$563,000
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($1,998,971)	$156,340	$336,987	($14,408)
State Special Revenue (02)	$0	$290,000	$353,000	$369,000

Effect on County or Other Local Revenues or Expenditures:

1. Overall taxable value in the state is expected to decrease by approximately $100 million which is about 2.2% of the taxable value in the state. All else equal, mills will need to be about 2.2% higher across the state for local governments to maintain equivalent budgets. This shifts property taxes from property owners of qualifying residential property to all other property taxpayers. The shift would be greater in districts with above average shares of qualifying residential property and lower in districts with less than average qualifying residential property.

Technical Notes:

1. The maximum mill calculations for the 95 mill school equalization and the university 6 mill levies were calculated to remain revenue neutral. However, the language in the amendment to 15-10-420, MCA uncapping the state mills could allow State to tap into its reserve mill authority (15-10-420(1)(b), MCA).
2. The bill does not provide a definition for ownership which would require the DOR to adopt rules to interpret the entities are eligible for the HB 235 homestead exemption.
3. Clarifying language on the HB 235 homestead exemption's interactions with other state property tax assistance programs. These programs, as well as HB 253, reference reductions to appraised value. The order in which exemptions are applied or considered applicable has implications for the final taxable value for taxpayers participating in these programs.

NOT SIGNED BY SPONSOR

Sponsor's Initials *Date*

Budget Director's Initials

1-23-23

Date