# Fiscal Note 2025 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

| **Bill information:** | |
|---|---|
| HB0848 - Partial exemption for renting a dwelling under market rent (Dooling, Julie ) | |
| | |
| **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 | $384,466 | $345,260 | $350,511 | $355,874 |
| State Special Revenue | $0 | $0 | $0 | $0 |
| **Revenue:** | | | | |
| General Fund | ($9,531,000) | ($9,751,000) | ($10,706,000) | ($10,963,000) |
| State Special Revenue | ($599,000) | ($613,000) | ($673,000) | ($689,000) |
| **Net Impact-General Fund Balance:** | ($9,915,466) | ($10,096,260) | ($11,056,511) | ($11,318,874) |

**Description of fiscal impact:** HB 848 creates property tax exemptions for certain residential properties rented for less than fair market rent. The bill would create a 50% exemption for dwellings rented at least 25% below fair market rent, a 100% exemption for accessory dwelling units rented at 25% below fair market rent for the first five years after construction, and a 75% land value exemption for trailer courts with lot rents of $500 a month or less. The bill creates a fair market rent standard based on the mortgage payment for county, metropolitan, and micropolitan area median sale prices. The fair market rent standard would be the responsibility of the Department of Commerce/ Board of Housing. The Department of Revenue would require 3.00 FTE to implement this bill.

## FISCAL ANALYSIS

**Assumptions:**

### Department of Revenue (DOR)

1. HB 848 creates three property tax exemptions for certain properties rented at below "fair market" value.
2. Fair market rent would be determined by the Montana Board of Housing based on the mortgage payment required for median value homes for counties, metropolitan, and micropolitan areas.

*Conventional rental home below fair market value exemption*

3. The first property tax exemption HB 848 creates is a 50% assessed value exemption for a dwelling rented at least 25% below fair market rent.
4. Because the median home prices and the associated monthly mortgage payments are the basis for fair market rent in this bill, it is assumed that about 50% of dwellings rented would be rented at or below fair market rent.
5. Based on a sample of statewide sales price data of residential dwellings, about 30% of the sale prices were at least 25% below the median sale price. For this fiscal note, it is assumed that 30% of rented dwellings are rented at least 25% below fair market rent.
6. According to the U.S. Census Bureau's *American Community Survey*, about 30% of occupied dwellings are renter occupied; about 86% of dwellings in the state are occupied.
7. Using the percentages from assumptions #5 and #6, it is estimated that about 7.8% of rented residential dwelling units would qualify (7.8% = 86% * 30% * 30%). This represents approximately 41,000 properties.

*Auxiliary dwelling unit rental below fair market value exemption*

8. HB 848 creates a 100% exemption for newly constructed accessory dwelling units (ADU's) rented at least 25% below the median sales price for the first five years after construction. The full exemption would only apply to the building (improvement) value of the ADU and not the land underneath. Afterward, the ADU may receive the 50% exemption outlined in this bill (assumption #3) if it continues to meet the rental requirements.
9. The department estimates that about 200 of the qualifying rented dwelling properties in the state are ADU's constructed within the past five years.
10. The table below shows the estimated difference taxable value for TY 2023 through TY 2026 with the qualifying rented dwelling properties receiving exemptions:

| FY | TY | TV Difference ADU's (100% Exemption) | TV Difference Rented Dwellings (50% Exemption) |
|---|---|---|---|
| 2024 | 2023 | -$653,000 | -$94,676,000 |
| 2025 | 2024 | -$668,000 | -$96,904,000 |
| 2026 | 2025 | -$733,000 | -$106,365,000 |
| 2027 | 2026 | -$750,000 | -$108,888,000 |

*Trailer lot rented at below fair market value exemption*

11. HB 848 also creates an exemption for trailer courts with lot monthly lot rents of $500 or less. The $500 monthly lot rent must be adjusted using the PCE inflation factor each year. Qualifying trailer courts would receive a 75% exemption on the land value of the court.
12. The department estimates that about 1,000 trailer courts would qualify for this exemption. The table below shows the estimated difference in taxable value for TY 2023 through TY 2026 with the qualifying properties receiving this exemption:

| FY | TY | TV Difference Trailer Courts (75% Exemption) |
|---|---|---|
| 2024 | 2023 | -$4,487,000 |
| 2025 | 2024 | -$4,593,000 |
| 2026 | 2025 | -$5,041,000 |
| 2027 | 2026 | -$5,161,000 |

13. Combining the total difference in taxable value statewide with the exemptions outlined in this bill, the table below shows the estimated impact on state revenue.

| FY | TY | TV Difference | General Fund | MUS |
|---|---|---|---|---|
| 2024 | 2023 | -$99,816,000 | -$9,532,000 | -$599,000 |
| 2025 | 2024 | -$102,165,000 | -$9,757,000 | -$613,000 |
| 2026 | 2025 | -$112,140,000 | -$10,709,000 | -$673,000 |
| 2027 | 2026 | -$114,800,000 | -$10,963,000 | -$689,000 |

*DOR Administrative Costs*

14. The DOR Property Assessment Division would require 3.00 FTE (ongoing) to process applications. There would also be administrative costs for updating and maintaining systems to implement this bill.
15. Costs for mailing application forms would be $27,720 each year.
16. This bill would be effective retroactively beginning in TY 2023.

**Department of Commerce/Board of Housing**

17. The board would collaborate with the Department of Revenue, and the Research & Information Services Bureau within the Department of Commerce to determine the fair market rents by estimating the median mortgage payment for three-bedroom dwelling as described in Section 2 of the bill.
18. Since the method for determining the fair market rent in Section 2 does not specify, the department would assume a 30-year fixed mortgage and a 10 percent down payment and would use the prime interest rate as of January 1 of the current year, to determine the mortgage payment for a three-bedroom dwelling at the median sales price.
19. While this annual fair market rent calculation will require a small amount of staff time, the estimated costs would not be significant and is estimated at 40 hours per fiscal year. There would not be a significant fiscal impact to the board or the Department of Commerce

| Fiscal Impact: | FY 2024 Difference | FY 2025 Difference | FY 2026 Difference | FY 2027 Difference |
|---|---|---|---|---|
| **FTE** (DOR) | 3.00 | 3.00 | 3.00 | 3.00 |
| **Expenditures:** | | | | |
| Personal Services (DOR) | $224,072 | $227,589 | $230,436 | $233,321 |
| Operating Expenses (DOR) | $160,394 | $117,671 | $120,075 | $122,553 |
| Equipment | $0 | $0 | $0 | $0 |
| **TOTAL Expenditures** | $384,466 | $345,260 | $350,511 | $355,874 |
| **Funding of Expenditures:** | | | | |
| General Fund (01) | $384,466 | $345,260 | $350,511 | $355,874 |
| State Special Revenue (02) | $0 | $0 | $0 | $0 |
| **TOTAL Funding of Exp.** | $384,466 | $345,260 | $350,511 | $355,874 |
| **Revenues:** | | | | |
| General Fund (01) | ($9,531,000) | ($9,751,000) | ($10,706,000) | ($10,963,000) |
| State Special Revenue (02) | ($599,000) | ($613,000) | ($673,000) | ($689,000) |
| **TOTAL Revenues** | ($10,130,000) | ($10,364,000) | ($11,379,000) | ($11,652,000) |
| **Net Impact to Fund Balance (Revenue minus Funding of Expenditures):** | | | | |
| General Fund (01) | ($9,915,466) | ($10,096,260) | ($11,056,511) | ($11,318,874) |
| State Special Revenue (02) | ($599,000) | ($613,000) | ($673,000) | ($689,000) |

**Effect on County or Other Local Revenues or Expenditures:**

1. The statewide taxable value is estimated to decrease by about $100 million, which is about 2%. Local governments could increase their mills to offset this reduction to their tax base. The tax shift would be larger in jurisdictions with a larger proportional share of properties qualifying for exemptions in HB 848.

2. Counties would have (minimal) costs for the mailing and notice requirements of this bill.

**Technical Notes:**

**Department of Revenue**

1. This bill currently allows for a two-tier application process: If applications are received prior to April 1, the exemption would apply for the entire tax year. If the application is received after April 1 but before October 1, the exemption would apply to the second half property tax payment. DOR valuation system nor county billing systems are set up to apply the HB 848 exemptions in this part-year manner.
2. This bill would also require the DOR to certify to each taxing jurisdiction by the first Monday in November, a revised total taxable value that includes new exemptions that had been granted after the initial certification of values in August. This would require additional work by the department and not be useful information as local taxing jurisdictions would have already set their mills for the year, and it is most likely that taxes would have already been billed. Local taxing jurisdictions would not have time to adjust their mill calculations to account for the reduced taxable value, so another certification would be unnecessary.
3. The determination of fair market rent is formula driven from the median sales price of a three-bedroom home by county, metropolitan, or micropolitan area. The bill does not give any guidance on the timeframe of sales that qualify for consideration. The calculation would be more straightforward if it were based on assessed value of homes, rather than sale price. This would avoid problems of sample size in smaller counties.
4. The Board of Housing does not have direct access to the data elements prescribed in Section 2 of the bill for the completion of the fair market rent calculation. The Department of Commerce Research and Information Services bureau can collaborate with the Department of Revenue via a memorandum of understanding to obtain the requisite data, or suggested proxy data sources, for the fair market rent calculation.
5. The fair market rent calculation methodology prescribed in Section 2 of the bill includes a variety of data elements that are either unobtainable, statistically inappropriate, or administratively infeasible.
6. New Section 5 requires the board to complete and provide to the Department of Revenue the fair market rent calculation for 2023 by July 1, 2023, and new Section 8 requires retroactive applicability to property tax years beginning January 1, 2023. Privacy considerations related to some of the data maintained at the Department of Revenue, completing the fair market rent calculation will require an amendment to an information sharing memorandum of understanding between the departments before information sharing can occur. Amending the MOU and completing the fair market calculation by July 1, 2023, is not administratively feasible. The board can complete the 2023 fair market calculation by January 1, 2024.

**NOT SIGNED BY SPONSOR**

| | | | |
|---|---|---|---|
| | | | 3-24-23 |
| *Sponsor's Initials* | *Date* | *Budget Director's Initials* | *Date* |