



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
HB0960 - Revise property tax laws to provide for recreational land classification (France, Tom)	
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	\$236,360	\$488,799	\$77,955	\$78,970
Revenue:				
General Fund	\$0	\$0	unknown	unknown
State Special Revenue	\$0	\$0	unknown	unknown
Net Impact-General Fund Balance:	(\$236,360)	(\$488,799)	unknown	unknown

Description of fiscal impact: HB 960 sets forth a new tax class for recreational land. HB 960 removes the automatic agricultural qualification of land greater than 640 acres in size. Land at least 640 acres in size would need to apply for agricultural status. If the land was not determined by the Department of Revenue (DOR) to be utilized for agricultural production, the land would instead 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 960 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

1. Currently, any parcels or contiguous parcels that are 160 acres or greater 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 960 creates a threshold at parcel (or contiguous parcel) sizes of 640 acres or greater where properties would need to apply for agricultural status. This means that properties between 160 and 640 acres are

automatically considered agricultural but properties 640 acres or greater would be considered class 19 undeveloped recreational property unless the owner applied to the DOR for agricultural status.

3. Applicants would need to demonstrate that the land is used primarily for raising and marketing products that are agricultural in nature, and that each owner has less than \$200,000 in federally adjusted gross income.
4. There are approximately 14,000 owners whose land ownership exceeds 640 acres and would need to apply to the DOR for agricultural status.
5. The total acres of agricultural land that would need to apply re-classification as agricultural is about 43.378 million acres, out of 50.132 million non-exempt acres of agricultural land in the state. This is roughly 87% of current agricultural land.
6. It is likely that at least some of these properties will not meet the requirements for classification as agricultural land and the land will be considered class 19. The land would be valued based on agricultural capacity and pay a tax rate seven times the class 3 rate.
7. Land transferred from class 3 to class 19 will increase general fund revenues raised from the 95 mills levied for school equalization and the 6 mills levied for the Montana University System.
8. The DOR does not currently collect information from these owners that would be necessary for the determinations under HB 960, so the fiscal impacts are unknown. There is roughly \$117 million in taxable value in this group of properties that would need to apply for agricultural status, so the upper limit of taxable value change would be \$702 million if no properties met the qualifications. That taxable value increase would represent about \$66.7 million for the general fund.
9. HB 960 applies to tax years beginning TY 2025.

DOR Administrative Costs

10. The DOR will require significant employee hours to implement the bill. It is assumed it will take an hour and a half to process an application. That represents 3.00 FTE which would be necessary in FY 2024 to process the early applications for agricultural classification. That number is increased to 6.00 FTE in FY 2025 to process the wave of bulk of applications ahead of TY 2025 implementation.
11. For FY 2026 onward, the DOR will require 1.00 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.


Fiscal Impact:	FY 2024	FY 2025	FY 2026	FY 2027
Department of Revenue	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	3.00	6.00	1.00	1.00
<u>Expenditures:</u>				
Personal Services	\$201,686	\$409,563	\$69,095	\$69,942
Operating Expenses	\$34,674	\$79,236	\$8,860	\$9,028
TOTAL Expenditures	<u>\$236,360</u>	<u>\$488,799</u>	<u>\$77,955</u>	<u>\$78,970</u>
<u>Funding of Expenditures:</u>				
General Fund (01)	\$236,360	\$488,799	\$77,955	\$78,970
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	<u>\$236,360</u>	<u>\$488,799</u>	<u>\$77,955</u>	<u>\$78,970</u>
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	unknown	unknown
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Revenues	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$236,360)	(\$488,799)	unknown	unknown
State Special Revenue (02)	\$0	\$0	\$0	\$0

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 classification transfer occurs. 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 960 reclassification could be treated as newly taxable property.

			3-30-23
<i>Sponsor's Initials</i>	<i>Date</i>	<i>Budget Director's Initials</i>	<i>Date</i>