GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2025 Biennium

Bill information:	
SB0542 - Constitutional amendment to limit property values and property taxes (Molnar, Brad)	
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	$0	Unknown	Unknown	Unknown
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	$0	$0	($185,479,000)
State Special Revenue	$0	$0	$0	($11,690,000)
Net Impact-General Fund Balance:	$0	Unknown	Unknown	Unknown

Description of fiscal impact: SB 542 proposes a constitutional amendment. If the bill passes, the bill text would be submitted to the general electorate for ratification. The initiative proposed by SB 542 makes two broad changes to the Montana property tax system. First, it rolls back property values for all real property to its Tax Year 2019 assessed value and limits growth to 2% per year. Second, the initiative would limit *ad valorem* taxes on property to 1% of (assessed) market value. The second aspect of the bill has much greater implications for the property tax system than the first, causing at least a 25% decrease in total property taxes levied in the state.

Significant uncertainty rests in how the Legislature would choose to modify tax structures to accommodate the constitutional change. The Department of Revenue is likely to incur costs associated with those implementation bills. Those costs cannot be estimated at this time.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. SB 542 proposes a constitutional amendment. If passed, the bill text would be submitted to the general electorate for ratification.

2. SB 542 sets the tax year 2019 value as the base value for all real property in the state and limits the reappraisal growth that may be assessed yearly upon that property to 2%.
3. Real property consists of most classes of property outside of class 8 business equipment. The largest component of real property is class 4 property.
4. Class 4 had a taxable value of $1.952 billion in TY 2019.
5. It is assumed that changes in the total property tax class taxable value contained in the HJ 2 revenue forecast is a useful proxy for appreciation.
6. The Department of Revenue currently reappraises class 4 property on a two-year cycle in even fiscal years.
7. Therefore, the current law growth rate of odd fiscal years is expected new construction.
8. The growth rate in even years is the combination of reappraisal value increases and expected new growth.
9. Under SB 542, the growth rate on market value for property that has not exchanged hands or undergone significant remodel is capped at 2%.
10. It is assumed that 5% of class 4 properties will be bought or sold during a year and/or undergo significant remodeling which will update their market value to actual value.
11. This is simulated by adding 5% of the difference between current law and the simulated values under SB 542 to the SB 542 tax base each year.
12. The table below details the percentage change in class 4 taxable value from FY 2020 through FY 2027, as well as the percentage that may be attributed to reappraisal. It models the taxable value of class 4 property under current law and under SB 542 and shows the general fund and state special revenue collections impacts.

Fiscal Year	2020	2021	2022	2023	2024	2025	2026	2027
Total Change		1.8%	14.8%	3.1%	37.4%	2.4%	9.8%	2.4%
Reappraisal Change		0.0%	11.6%	0.0%	35.0%	0.0%	7.4%	0.0%
Taxable Value (millions)								
Current Law	1,952.2	1,987.6	2,255.2	2,325.4	3,211.6	3,287.2	3,608.2	3,693.8
SB 452	1,952.2	1,987.6	2,097.5	2,211.3	2,353.5	2,500.8	2,665.7	2,836.7
Revenue ($ Million)								
General Fund	$0.000	$0.000	-$15.058	-$10.903	-$81.950	-$75.106	-$90.003	-$81.848
University System	$0.000	$0.000	-$0.946	-$0.685	-$5.149	-$4.719	-$5.655	-$5.142

13. Other classes of real property are also limited in the increase in value from reappraisal to 2%. Functionally, this only has tax implications for class 9 property (pipelines and non-electric generating property of electric utilities) based on HJ 2 overall taxable value estimates.
14. Other classes of property are either projected to decrease in value relative to their values in 2019, not appreciate more quickly than 2% per year, or are not real property.
15. It is assumed that 25% of the yearly growth in classes 9 has been due to new property and 75% due to appreciation in property value.
16. The table below shows expected class 9 property values under SB 542.

Fiscal Year	2020	2021	2022	2023	2024	2025	2026	2027
Class 9 TV ($M)	504.8	535.3	549.2	618.9	635.0	651.5	668.4	685.8
SB 542 TV ($M)		522.5	536.4	564.1	579.1	594.4	610.2	626.4
General Fund ($M)		-$1.214	-$1.219	-$5.227	-$5.336	-$5.447	-$5.560	-$5.675
SSR ($M)		-$0.076	-$0.077	-$0.328	-$0.335	-$0.342	-$0.349	-$0.357

17. If SB 542 passed and were submitted to the voters, it would appear on the 2024 ballot. The 2025 Legislature would be charged with implementing the provisions of the bill. It is likely the earliest year that revenue would likely be impacted is FY 2027.

18. The limitation on reappraisal value changes to 2% per year is estimated to cause the state general fund to lose approximately $88 million in FY 2027.
19. The 6 mills levied for the Montana University System will lose approximately $5.5 million in FY 2027.

Ad Valorem Cap at 1% of Market Value

20. Local taxing jurisdictions set a mill rate based on the taxable value in their jurisdiction and their forecasted budget for the next year, subject to mill limitations in 15-10-420, MCA.
21. Property in the state of Montana is subject to several overlapping taxing jurisdictions, and at the very least is subject to a county mill, an elementary and high school district mill, and the statewide school equalization mills. It may also be subject to city mills and/or special district mills.
22. These overlapping taxing jurisdictions form levy districts, which denote areas of the state where all property pays the same consolidated mill rate.
23. The percentage of market value paid in taxes can be found by multiplying the tax rate set by the Legislature by the consolidated mill rate. As an example, Class 4 residential property has a tax rate of 1.35%. If the consolidated mill rate were 600 mills, the property would pay 0.8% of its value in taxes (0.0135*600/1000).
24. The maximum number of mills that may be levied against each tax class is therefore 1000 multiplied by 1% divided by the tax rate. For example, on residential property, the maximum consolidated mill rate is 740.7 (1000 X 0.01 / 0.0135).
25. Class 9 property has the highest tax rate currently in statute at 12%. The maximum mill that could be levied against this property is 88.3 mills.
26. A limitation of taxes that may be assessed against property will come in the form of a limitation on the consolidated mill rate barring further overhaul of the property tax system.
27. In TY 2022, 36.4% of real properties was located (overlapping) jurisdictions, and/or was in a property class that resulted in paying greater than 1% of their market value in ad valorem property taxes.
28. If these properties were limited to 1% of their market value in taxes, total property tax collected statewide would have been $1.573 billion rather than $2.083 billion. This a reduction in tax collections of roughly 25%.
29. It is assumed this 25% reduction in property tax collections will hold true in FY 2027 as well.
30. Expected 95 mill collections after the adjustments for the decreased rate of appreciation of property under SB 542 is $391.822 for FY 2027.
31. A 25% reduction in this collection results in $97.956 million loss to the general fund.
32. A 25% reduction in the 6 mills for the Montana University System after equivalent adjustments results in a decrease of $6.187 million for FY 2027.
33. These estimates are likely underestimate of the impact of the 1% limitation. All else being equal, lower market values drive mills up as they fund equivalent budgets. The downward pressure on assessed value from the rollback and reappraisal limitation of SB 542 would cause upward pressure on mills. Making the 1% of assessed value tax limitation binding.

DOR Administrative Costs

34. The costs to the Department of Revenue are unknown, currently.
35. While many costs would be covered as part of annual change processes at no additional cost, others, like changes to the Department's property tax data system, could be significant and require more implementation clarity. For instance, system changes for the procedures for allocating taxes in overlapping jurisdictions cannot be estimated currently.
36. However, changes in the property data system could be considerable. Nonetheless, there is insufficient guidance on operational factors and changes, those factors would be specified in any implementation bill passed by the Legislature, subsequent to passage of an initiative.

Fiscal Impact:	**FY 2024 Difference**	**FY 2025 Difference**	**FY 2026 Difference**	**FY 2027 Difference**
FTE	0.00	Unknown	Unknown	Unknown
Expenditures:				
Personal Services	$0	Unknown	Unknown	Unknown
Operating Expenses	$0	Unknown	Unknown	Unknown
Equipment	$0	Unknown	Unknown	Unknown
TOTAL Expenditures	$0	Unknown	Unknown	Unknown
Funding of Expenditures:				
General Fund (01)	$0	Unknown	Unknown	Unknown
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$0	Unknown	Unknown	Unknown
Revenues:				
General Fund (01)	$0	$0	$0	($185,479,000)
State Special Revenue (02)	$0	$0	$0	($11,690,000)
TOTAL Revenues	$0	$0	$0	($197,169,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	$0	Unknown	Unknown	Unknown
State Special Revenue (02)	$0	Unknown	Unknown	Unknown

Effect on County or Other Local Revenues or Expenditures:

1. The table below shows TY 2022 tax collections by taxing jurisdiction type and the reduction due to a 25% drop in their collections. It is likely that by FY 2027 the reductions would be significantly larger.

	County	Local Schools	County-Wide Schools	Cities and Towns	Fire and Miscellaneous
TY 2022 Collections	$587,697,349	$675,085,981	$124,370,782	$234,949,526	$92,582,726
1% Cap Reductions	($146,924,000)	($168,771,000)	($31,093,000)	($58,737,000)	($23,146,000)

2. Total reduction in local property tax revenues based on TY 2022 data would be around $428.7 million. These reductions would growth over time.
3. The cost of operational changes to local government billing systems are unknown.

Long-Term Impacts:

1. The impact of SB 542 will grow larger over time as the gap between the true market value of property and the SB 542 assessed value widens.
2. Since this constitutional amendment caps ad valorem taxes, it is likely that local governments will shift taxes towards special fees that are not proportional to property value. This may shift tax burdens around in unexpected ways.

Technical Notes:

1. It is likely that mill levies will need to be applied uniformly to property in a taxing jurisdiction. If mills are limited on one type of property, they will likely need to be limited to the same amount on other property in that same jurisdiction. If this is the case, the change in expected revenue due to the 1% cap will be much larger than what is estimated in the fiscal note.
2. Mill levies are set by individual taxing jurisdictions independently from each other. There would be no way to determine which jurisdiction causes the mill levy to exceed the 1% limitation, so it assumed there would be a proportional decrease in each jurisdiction's mills.

NO SPONSOR SIGNATURE	3.20.23	3-29-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*