

OFFICE OF THE GOVERNOR  
BUDGET AND PROGRAM PLANNING  
STATE OF MONTANA

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M E M O R A N D U M

TO: Derek Oestreicher, Deputy Attorney General  
Montana Department of Justice

FROM: Ryan Osmundson, Director  
Office of Budget and Program Planning

RE: Fiscal note for initiative "Real Property Tax Constitutional Limit"

DATE: December 6, 2021

In accordance with section 13-27-312, MCA, we are submitting the attached fiscal note for an initiative regarding Real Property Tax Constitutional Limit.

Please contact Amy Sassano if you have questions regarding the fiscal note.

c: Dana Corson, Director  
Elections & Voter Services  
Secretary of State



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2025 Biennium

<b>Bill #</b>	Ballot Initiative #9	<b>Title:</b>	
<b>Primary Sponsor:</b>		<b>Status:</b>	As Proposed

- 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

	<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>
<b>Expenditures:</b>				
General Fund	\$45,000	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	(\$23,380,000)	(\$32,593,000)	(\$27,334,000)
State Special Revenue	\$0	(\$1,469,000)	(\$2,048,000)	(\$1,717,000)
<b>Net Impact-General Fund Balance:</b>	<u>(\$45,000)</u>	<u>(\$23,380,000)</u>	<u>(\$32,593,000)</u>	<u>(\$27,334,000)</u>

**Description of fiscal impact:** Ballot Initiative 9 (BI 9) sets Tax Year (TY) 2019 values as the base value for all residential properties in the state. This value may only increase by the lesser of 2% or inflation each year unless the property is sold or significantly improved. The initiative also caps ad valorem taxes on residential property at one percent of the new value. The bill takes effect in TY 2024, first affecting Fiscal Year (FY) 2025 revenue. The effect of limiting market value growth will reduce state equalization (general fund) and university system (state special) revenue by the amount shown above, and cause mill shifting effects to other tax classes for local government taxing jurisdictions. The effect of limiting residential ad valorem taxes to 1% of market value has additional implications discussed in the fiscal note that cannot be quantified but are significant.

### FISCAL ANALYSIS

#### Assumptions:

- In simplified terms, under current law, property taxes are levied on a residential property based on the property's market value. The property is reassessed on the assessment date (January 1) every two years. All property is located multiple taxing jurisdictions (for instance State, County, rural mosquito district, a municipality, water, and sewer district, etc.). Class 4 residential tax rates are applied to market value to establish the property's taxable value. Local jurisdictions set mills by dividing their budgeted revenue authority by the sum of taxable value of all (taxable) property in their respective jurisdictions. An individual

property’s tax bill is therefore its taxable value times the sum of all the jurisdiction mills applicable to the property.

2. BI 9 makes two main changes to the present system of property taxation. First, it would change the basis of assessment to the property’s TY 2019 market value, with inflationary adjustment (up to 2% annually), unless the property is substantially modified or is sold. The sale or modification would change the valuation to the market value in the year of such change. This system of valuation is referred to as “acquisition value”. Second, the initiative would limit the property tax levied on residential property to one percent of the valuation.
3. The changes in BI 9 would begin in TY 2024 and first have an impact on FY 2025 property tax revenue.

**Acquisition Value as Basis for Assessed Valuation**

4. BI 9 sets TY 2019 as the base market value for all residential properties in the state. Class 4 residential property had a market value of \$114.226 billion in TY 2019.
5. It is assumed that class 4 residential market value will change as assumed in the assumptions adopted in HJ 2 in March 2021 by the Legislature.
6. The Department of Revenue reappraises class 4 residential property on a two-year cycle in odd years. Growth in even years consists of new construction -- assumed to grow with household formation growth (population). In odd years property value growth is a combination of reappraisal value (market increases) and new property.
7. Under the initiative the growth in market value for property that has not sold or undergone significant remodel is capped at the lessor of two percent (2%) or the inflation rate. Inflation is expected to exceed 2%
8. It is assumed that each year five percent (5%) of properties will be sold or undergo significant remodeling and will result in the assessment to reset to current market value. This is simulated by adding 5% of the difference between current law and the initial initiative baseline, before turnover, to the final baseline estimate.
9. Estimates for market value and taxable value for the fiscal note years are included in the table below. Taxable value for class 4 residential property is 1.35% of market value.

<b>Impact of the Change in Assessment Method -- Ballot Initiative 9</b>			
<b>(Millions \$)</b>			
<b>Current Law</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Market Value Growth	0.93%	8.08%	0.65%
Market Value	154,283	166,743	167,831
Taxable Value	2,083	2,251	2,266
<b>Ballot Initiative 9</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Initiative 9 Market Value Growth	3.77%	3.90%	3.65%
Initiative 9 Market Value	136,148	141,461	146,629
Initiative 9 Taxable Value	1,838	1,910	1,980
<b>Change</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Taxable value	(245.000)	(341.000)	(286.000)
State General Fund Revenue	(\$23.398)	(\$32.566)	(\$27.313)
University State Special Revenue	(\$1.470)	(\$2.046)	(\$1.716)

10. The state levies 95 mills for school equalization, and the five counties with Colleges of Technology (representing approximately 1/3 of statewide taxable value) levy 1.5 mills. These collections are deposited in the general fund. Six mills are levied on behalf of the Montana University System this is deposited in a state special revenue fund.

**One percent of Market Value Ad Valorem Cap**

11. A levy district is the combination of taxing jurisdictions that overlap in an area.
12. Individual taxing jurisdictions set mill rates so that the taxable value in their jurisdiction times the mill rate equals their budget.

13. With a one percent of market value property tax cap and the current class 4 residential tax rate of 1.35%, the maximum millage rate allowed under initiative 9 is 740.7 mills ((1/1.35) x 1000 = 740.7).
14. There were 1,404 unique levy districts in TY 21. 169 of those levy districts are currently levying more than 740.7 mills. This is 12% of levy districts.
15. If taxing jurisdictions do not change their mills by TY 2024, the reduced taxable value as a result of this initiative will cause 15% of levy districts to be over the cap in TY 2024, 17% of districts to be over the cap in TY 2025, and 15% of the districts to be over the cap in TY 2026.
16. The proportion of levy districts hitting the millage cap increases as the gap between present law taxable value and BI 9 taxable value grows over time.
17. Assuming mills must be equal across tax classes within a jurisdiction, other tax classes would also see lower mill rates and therefore property taxes. This cost is not quantifiable in this fiscal note. The effect of the mill cap will have the largest impact on local jurisdiction collections. A very broad estimate of this impact is presented in the local impact section.
18. The challenges of tracking mills and the revenue reduction due to the cap are not contemplated. Individual taxing jurisdictions are often in multiple levy districts. Some levy districts would need to reduce mills with the threshold and others may remain below the threshold.
19. For jurisdictions spanning multiple levy districts adjusting to the threshold, mills will have to be adjusted by different amounts. Changes to mill tracking software may be necessary to account for this complexity.
20. The fiscal analysis for the reductions in state revenue assumes that the 101 state mills set in statute would take priority if a mill cap were exceeded. If the state does not have priority over other taxing jurisdictions, exceeding the levy district threshold will also reduce state mill collections by a greater amount.

*DOR Costs*

21. The Department would be required to maintain current full market values and track the initiative proposed acquisition market value in the property tax database system. There would be systems changes for implementing these changes. These programming costs are estimated at \$45,000 in FY 2024.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>	<b><u>FY 2026</u></b>	<b><u>FY 2027</u></b>
<b>Department of Revenue</b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b>FTE</b>	0.00	0.00	0.00	0.00
<b><u>Expenditures:</u></b>				
Operating Expenses	\$45,000	\$0	\$0	\$0
<b>TOTAL Expenditures</b>	<b><u>\$45,000</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$45,000	\$0	\$0	\$0
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b><u>\$45,000</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	(\$23,380,000)	(\$32,593,000)	(\$27,334,000)
State Special Revenue (02)	\$0	(\$1,469,000)	(\$2,048,000)	(\$1,717,000)
<b>TOTAL Revenues</b>	<b><u>\$0</u></b>	<b><u>(\$24,849,000)</u></b>	<b><u>(\$34,641,000)</u></b>	<b><u>(\$29,051,000)</u></b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$45,000)	(\$23,380,000)	(\$32,593,000)	(\$27,334,000)
State Special Revenue (02)	\$0	(\$1,469,000)	(\$2,048,000)	(\$1,717,000)

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


1. Since the majority (83%) of property taxes are levied by local jurisdictions (local government entities and school districts), the initiative will have the greatest effect on local jurisdiction revenue. Quantifying local government and school effects is more difficult to estimate than the state effects. State mills are set at a maximum numerical level in statute. The mills for local units of government adjust automatically based on the jurisdiction’s revenue authority and tax base under 15-10-420, MCA. School district mills are based on the school funding requirements in Title 20, Chapter 9, MCA. This initiative limits both the growth of the tax base (taxable market value), as well as setting a maximum total mill rate for residential property. The interaction of the reduction to the tax base (which increases mills) and the cap on mills proposed in this initiative makes the calculation the true impact on local jurisdictions and taxpayers unknown.
2. Based on current allocations, the statewide reduction in local collections would be approximately five times the state impact, roughly \$150 million per year. That amount rises when the true market value of residential property growth exceeds the change in the consumer price index or 2%.
3. Until constrained by the mill cap, the implied revenue reductions would shift to all other non-residential property to the extent allowed by 15-10-420, MCA, and school funding statutes. As time passes, a greater proportion of levy districts are likely to reach this cap, causing additional loss of revenue authority in local property tax jurisdictions (see assumption 17).

**Long-Term Impacts:**

1. The gap between revenues under current law and the initiative will widen over time. The wedge will further grow as districts currently operating below the mill cap, reach the cap.

**Technical Notes:**

1. Since taxing jurisdictions set millage independent of each other, there is not currently a way to forecast the effect of total mills subject to a cap and the allocation of reductions required for jurisdictions that otherwise would have or currently have levies in excess of the initiatives cap.
2. Currently there is a taxable value multiplier of 1.4 on individual residences with values in excess of \$1.5 million in 15-6-134(3)(b), MCA. Since ad valorem tax rates cannot exceed 1% of market value, this multiplier will interact with cap on mills, bringing that levy district cap down for each dollar of property value greater than \$1.5 million if such property exists in the district.
3. BI 9 grants the department permissive language to reassess value annually (“may reassess values on January 1 of each year”). The permissive nature of the language allows for cases where the department is not required to lower market value if there were reductions in the value of property.

<i>Sponsor's Initials</i>	<i>Date</i>	 <i>Budget Director's Initials</i>	<i>12-6-21</i> <i>Date</i>
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