Fiscal Note 2027 Biennium

Governor's Office of Budget and Program Planning

Ballot Issue:	
Ballot Issue #2 -- A Constitutional Initiative Regarding Real Property Tax Limitations	
Status:	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

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Expenditures:				
General Fund	$0	Unknown	Unknown	Unknown
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	($432,150,000)	($479,330,000)	($488,860,000)
State Special Revenue	$0	($27,265,000)	($30,237,000)	($30,842,000)
Net Impact-General Fund Balance:	$0	Unknown	Unknown	Unknown

Description of fiscal impact: Ballot Issue #2 makes two changes to the property tax system. The first changes the basis of valuation, the second sets the maximum level of (consolidated mills) tax. The change to valuation sets the base valuation for all real property to its TY 2019 assessed value and then limits assessed value growth to 2% per year. Property resets to the current year's valuation only if sold or significantly improved. As in current law, valuations may be decreased if there is substantial damage. The tax limitation on a property's tax (all mills, all jurisdictions) cannot exceed 1% of assessed value. Because Montana property tax rates are different for distinct classes of property, the ballot issue's 1% tax limitation would result in the most significant revenue effect. The initiative's passage is estimated to decrease statewide property tax that could be levied by 88%.

There is significant uncertainty 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 implementation legislation. Those costs cannot be estimated at this time.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. BI 2 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%.

2. Real property consists of most classes of property outside of class 8 business equipment. The largest component of real property is class 4 property.

Estimate of the class 4 property effects

3. Class 4 had a taxable value of $1.952 billion in TY 2019.
4. It is assumed that changes in the total property tax class taxable value contained in the HJ 2 revenue forecast is a proxy for appreciation.
5. The Department of Revenue currently reappraises class 4 property on a two-year cycle in even fiscal years.
6. Therefore, the current law growth rate of odd fiscal years is expected new construction.
7. The growth rate in even years is the combination of reappraisal value increases and expected new growth.
8. Under BI 2, the growth rate on market value for property that has not changed hands or undergone significant remodeling is capped at 2%.
9. It is assumed that 5% of class 4 properties will be bought or sold during a year and/or undergo significant remodeling which would lead to reassessment to the contemporaneous full market value.
10. In this estimate the revaluation effect is simulated by adding 5% of the difference between current law and the simulated values under BI 2 to the BI 2 tax base each year.
11. The table below details the percentage change in class 4 taxable value from FY 2020 through FY 2029, as well as the percentage that is attributed to reappraisal. It models the taxable value of class 4 property under current law and under BI 2 and shows the general fund and state special revenue collections impacts.

Fiscal Year	Total Change	Reappraisal Change	Current TV (millions)	BI 2 TV (millions)	General Fund (millions)	University (millions)
2020	N/A	N/A	1,952.2	1,952.2	0.000	0.000
2021	1.8%	0.0%	1,987.6	1,987.6	0.000	0.000
2022	14.8%	11.6%	2,255.2	2,097.5	-$15.058	-$0.946
2023	3.1%	0.0%	2,325.4	2,211.3	-$10.903	-$0.685
2024	37.4%	35.0%	3,211.6	2,353.5	-$81.950	-$5.149
2025	2.4%	0.0%	3,287.2	2,500.8	-$75.106	-$4.719
2026	9.8%	7.4%	3,608.2	2,665.7	-$90.003	-$5.655
2027	2.4%	0.0%	3,693.8	2,836.7	-$81.848	-$5.142
2028	13.5%	11.1%	4,192.2	3,034.6	-$110.551	-$6.946
2029	2.4%	0.0%	4,291.9	3,240.2	-$100.444	-$6.311

Effects on all other real property

12. Other classes of real property are subject to the 2% reappraisal limitation. 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.
13. Other classes of property are projected to decrease in value relative to their values in 2019, not appreciate by more than 2% per year, or are not real property.
14. It is assumed that 25% of the yearly growth in class 9 has been due to new property and 75% due to appreciation in property value.
15. The table on the following page shows expected class 9 property values under BI 2.

Timing considerations

16. BI 2 will 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 necessary changes could be implemented in is Tax Year 2026. The revenue impacts therefore have impact starting in FY 2027.

Net effects of the changes in the basis of assessment

17. The limitation on reappraisal value changes for real property to 2% per year is estimated to cause the state general fund to lose approximately $87.5 million in FY 2027, $116.3 million in FY 2028, and $106.3 million in FY 2029.

18. The 6 mills levied for the Montana University System will lose approximately $5.5 million in FY 2027, $7.3 million in FY 2028, and $6.7 million in FY 2029.

Fiscal Year	Class 9 TV (millions)	BI 2 TV (millions)	General Fund (millions)	University (millions)
2020	504.8	504.8	0.000	0.000
2021	535.3	522.5	-$1.214	-$0.076
2022	549.2	536.4	-$1.219	-$0.077
2023	618.9	564.1	-$5.227	-$0.328
2024	635.0	579.1	-$5.336	-$0.335
2025	651.5	594.4	-$5.447	-$0.342
2026	668.4	610.2	-$5.560	-$0.349
2027	685.8	626.4	-$5.675	-$0.357
2028	703.6	643.0	-$5.763	-$0.364
2029	721.9	660.0	-$5.882	-$0.371

Ad Valorem Cap at 1% of Market Value

19. Non-school local taxing jurisdictions set mill rates based on the taxable value in their jurisdiction and their anticipated budget, subject to mill limitations in 15-10-420, MCA.
20. Property in the state is covered by overlapping jurisdictions, each with independent taxing authority. These overlapping jurisdictions form levy districts, which delineate areas of the state where all property is subject to the same consolidated mill rate. The consolidated mill rate is what is constrained by the 1% tax cap. Each levy district is, at the very least, subject to (various) county government mills, countywide local school mills, elementary and high school district mills, the statewide school equalization mills and the University 6 mill levy. Property may also be subject to city mills as well as other local jurisdiction and special district mills.
21. The percentage of assesed value paid in tax is calculated by multiplying the tax rate set by the Legislature and the consolidated mill rate. This is also known as the effective tax rate. As an example, Class 4 residential property has a tax rate of 1.35%. If the consolidated mill rate that applied to a property were 600 mills, the property would pay 0.8% of its value in taxes (0.0135*600/1000).
22. The maximum number of mills that may be levied against each tax class is 1000 multiplied by 1% , divided by the tax rate. For example, on residential property, the maximum mill rate is 740.7 (1000 X 0.01 / 0.0135).
23. Class 1 Miscellaneous Mines Net Proceeds has the highest tax rate on real property at 100%. The maximum mill levy that could be levied against this property is 10 mills.
24. 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 change to the property tax system.
25. By definition, all properties in the same levy district must have the same mill rate. Therefore, the property in a levy district with the highest tax rate will set the mill level that applies to all (other) properties in the district.
26. The table below lists the number of levy districts that are constrained by the tax rate of each tax class.

Class	**Description**	**Tax Rate**	**Max Mill**	**Levy Districts**
1	Miscellaneous Mines	100.00%	10.0	7
2	Metal Mines	3.00%	333.3	6
3	Agricultural Land	2.16%	463.0	32
3: Non-qualified	Non-Qualified Ag Land	15.12%	66.1	843
4: Res.	Residential	1.35%	740.7	24
4: Com.	Commercial	1.89%	529.1	21
5	Pollution Control & Cooperatives	3.00%	333.3	69
9	Pipeline & Transmission Lines	12.00%	83.3	226
10	Forestland	0.31%	3225.8	2
12	Airlines and Railroads	3.06%	326.8	10
13	Electric Generation & Telecom	6.00%	166.7	52

Fiscal Note Request – Ballot Issue 2 as Proposed

27. Of the 1,292 levy districts there are 1,252 with consolidated mill levies greater than the 1% limitation proposed by BI 2, based on property in the levy district.
28. Most property will be constrained by the mill limits on class 3 non-qualified agricultural property, or class 9 pipeline and transmission property.
29. Applying the BI 2 (implied) maximum mills by levy district yields a collection of $250.911 million in TY 2022, instead of the $2.083 billion that was levied in TY 2022. This is a reduction of 88%. It is assumed general fund collections will be reduced by this proportion.
30. Expected 95 mill collections, after the adjustments for the decreased rate of appreciation of property under BI 2, are $391.822 million for FY 2027, $412.730 million in FY 2028, and $434.921 million in FY 2029.
31. An 88% reduction in these revenue estimates results in revenue declines of $344.626 million in FY 2027, $363.016 million in FY 2028, and $382.533 million in FY 2029.
32. An 88% reduction in the 6 mill Montana University System levies, after equivalent adjustments, results in a decrease of $21.766 million for FY 2027, $22.927 million in FY 2028, and $24.160 million in FY 2029.

DOR Administrative Costs

33. The costs to the Department of Revenue are unknown and heavily dependent on the Legislature's implementing language if the initiative were to pass.

Office of Public Instruction

34. Limitations on the number of permissible mills will have an impact on county retirement GTB under 20-9-368, MCA, debt service GTB under 20-9-371, MCA, and general fund GTB under section 20-9-367, MCA. Currently with the variables available, this amount is undeterminable, but would cause additional general fund expenditures for school equalization and would have additional negative impact to general fund balance. Redistribution of additional GTB funds would be subject to future legislative appropriation.

	FY 2026 Difference	FY 2027 Difference	FY 2028 Difference	FY 2029 Difference
Fiscal Impact:				
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	($432,150,000)	($479,330,000)	($488,860,000)
State Special Revenue (02)	$0	($27,265,000)	($30,237,000)	($30,842,000)
TOTAL Revenues	$0	($459,415,000)	($509,567,000)	($519,702,000)
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 an 88% drop in collections.

	County	Local Schools	County-Wide Schools	Cities & Towns	Fire & Misc.
TY 2022 Collections	$587,697,349	$675,085,981	$124,370,782	$234,949,526	$92,582,726
1% Cap Reductions	-$516,908,000	-$593,770,000	-$109,390,000	-$206,649,000	-$81,431,000

2. Total reduction in local property tax revenues based on TY 2022 data would be approximately $1.508 billion.
3. The cost of operational changes to local government billing systems is unknown.

Long-Term Impacts:

1. The impact of BI 2 to state and local governments will grow larger over time as the gap between the true market value of property and BI 2 assessed values widens.
2. Since the constitutional amendment would cap *ad valorem* taxes, it is likely that local governments will shift taxes towards special fees, to the extent possible.

Technical Notes:

Department of Revenue

1. The revenue reductions estimated for BI 2 are largely due to differential tax rates for each tax class. Property in jurisdictions with higher tax rate classes would have lower maximum mill levies. For instance, the average effective tax rate on class 9 property is about 6%, while the average effective tax rate on residential property is 0.78%. If the initiative were to pass, implementing legislation would likely seek to address this wide range of tax rates. If the dispersion of tax rates were narrowed, relative tax burdens would likely shift to classes of property with lower tax rates and would, to some degree, offset revenue reductions as presented in this fiscal note. The 1% limit would likely still constrain some tax shifting.
2. Mill levies are set by individual taxing jurisdictions independently from each other. Determining which jurisdiction in a levy district causes mill levies to exceed the 1% limitation is unclear. It is assumed mills would be adjusted proportionally to remain below the 1% limit.

Office of Public Instruction

3. It is unclear how BI 2 would affect current law exclusion of certain school mills and school mill elections from 15-10-420, MCA and 15-10-425, MCA, limitations.
4. Currently, under the state's school funding formula (generally Title 20, Chapter 9. MCA,) the computation of the school general fund net levy requirement, sets the number of mills for the BASE area of a district's general fund budget. The calculation of BASE budgets and general fund budget limits (20-9-308, MCA), require that the trustees of a district adopt a general fund budget that is at least equal to the BASE budget established for the district. How BI 2's limitations affect school funding and school equalization considerations (minimum and maximum budgets and overall required school equity) is unknown.
5. School new mill levies, approved by election, may cause conflicts with BI 2. (See 20-9-308, 20-9-353, 20-9-502(2)(b), and 20-9-533, MCA).
6. Bond elections described in Title 20, Chapter 9, Part 4, will conflict with BI 2.
7. Limitations on the number of permitted mills will cause revenue shortfalls for districts that are unable to levy to fulfil their school funding requirements.

		[signature]	5-23-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*