

## 2025 Legislation and the Property Tax Implications on the City of Billings

### Key Issue

Recent 2025 Montana State Legislation, specifically Senate Bill 542 and House Bill 231 (assumed to be signed by the Governor), will reduce the City of Billings' property tax base. This necessitates City Council direction on developing the FY26 budget.

With a reduction in the value of Billings' tax base, does the City Council want staff to:

- Develop a budget assuming 2025 tax revenue is maintained; or,
- Develop a budget with \$9-\$10 million in property tax reductions over FY25; or,
- Explore a different option?

### Background

Both Senate Bill 542 and House Bill 231 have passed the legislature and will tax effect once signed by the Governor. These bills will impact our FY2026 property tax revenue.

Currently Billings tax base is made up primarily of Class 4 Residential property and Class 4 Commercial property. These property classes make up 88% of our tax base. Both HB231 and SB542 change the value of these property classes. Currently Class 4 Residential has a taxable value rate of 1.35% up to \$1.5 million in value, and Class 4 Commercial has a taxable value rate of 1.89%. The new bill will implement a tiered structure for both Class 4 Residential and Class 4 Commercial over a 2-year period.

<b>Year 1</b>		
<b>Class 4 Residential</b>		
<b>Min Prop Value</b>	<b>Max Prop Value</b>	<b>Rate</b>
0	400,000	0.76%
400,001	1,500,000	1.10%
1,500,001	greater than 1.5m	2.20%
<b>Class 4 Commercial</b>		
<b>Min</b>	<b>Max</b>	<b>Rate</b>
0	400,000	1.40%
400,001	Greater than \$400k	1.89%

<b>Year 2</b>		
<b>Class 4 Residential</b>		
<b>Max Prop Value</b>	<b>Est Max Prop Value</b>	<b>Rate</b>
Median Home	395,415	0.76%
2x median	790,830	0.90%
4x median	1,581,660	1.10%
greater than 4x		1.90%
<b>Class 4 Commercial</b>		
<b>Max Comm Value</b>	<b>Est Max Comm Value</b>	<b>Rate</b>
6x Median Comm	2,138,940	1.50%
greater than 6x		1.90%

The changes in the property tax values will reduce the value of one mill, levied in Billings to the following:

	<b>Current</b>	<b>FY2026</b>	<b>FY2027</b>
<b>DOR Taxable Value Estimate</b>	273,799,000	229,817,000	224,749,000
<b>Tax Revenue Generated by 1 mill</b>	273,799	229,817	224,749
<b>Change from FY25</b>	-	(43,805)	(48,873)
<b>% Change from FY25</b>	0.00%	-16.01%	-17.86%

The City of Billings Charter, sections 1.02-1.05.2, provide limitations on the City Council's ability to levy mills. These charter provisions limit the Council's authority to levy mills to a maximum of 203 mills.

However, both HB231 (Section 7) & SB542 (Section 4) contain the following language, "A local government with a charter form of government that includes a mill levy limit of a specific number of mills that may be imposed in the charter shall levy the number of mills in fiscal year 2026 and subsequent tax years that will generate the amount of property taxes assessed in fiscal year 2025, without amending or revising the charter."

The City Council has a challenging decision to make with respect to these two pieces of law. The tables below show 3 scenarios. First (Statutory Mill Levy Limitation) estimates the number of mills that would be needed in FY26 to maintain FY25 tax revenue. This would be consistent with the language in HB231 & SB542, and would require the City Council to levy 240.65 mills in FY26, establishing a new cap. Additionally, in FY27, because of the second year implementation and reduction in the value of a mill, it is estimated that the City would experience a \$1.2 million dollar tax revenue reduction:

**Statutory Mill Levy Limitation**

	<b>Current (FY25)</b>	<b>FY26</b>	<b>FY27</b>
<b>TV of one mill</b>	273,799	229,817	224,749
<b>Total Mills</b>	201.99	240.65	240.65
<b>Revenue</b>	55,304,660	55,304,660	54,085,847
<b>Revenue Change from FY25</b>	0	0	-1,218,813

The second chart (Charter Mill Levy Limitation) estimates the property tax revenue loss that would occur in Billings if the 203 mills allowed by the Charter were the maximum levied. This would require a reduction in tax expenditures of \$8.6 million in FY26, and an additional \$1 million in FY27, as year 2 tax rates are implemented.

**Charter Mill Levy Limitation**

	<b>Current (FY25)</b>	<b>FY26</b>	<b>FY27</b>
<b>TV of one mill</b>	273,799	229,817	224,749
<b>Total Mills</b>	201.99	203.00	203
<b>Revenue</b>	55,304,660	46,652,851	45,624,047
<b>Revenue Change from FY25</b>	0	-8,651,809	-9,680,613

The last chart (Revenue Neutral Relative to FY25), estimates the number of mills needed each year to maintain a flat property tax revenue. In order to accomplish this, a mill levy election would need to occur before 2027. If a mill levy election were to occur, to effect a change in FY26 tax revenue, a mill levy election would need to occur before September 4, 2025. That is the date by which City Council must set the number of mills for FY26.

**Revenue Neutral Relative to FY25**

	<b>Current (FY25)</b>	<b>FY26</b>	<b>FY27</b>
<b>TV of one mill</b>	273,799	229,817	224,749
<b>Total Mills</b>	201.99	240.65	246.07
<b>Revenue</b>	55,304,660	55,304,660	55,304,660
<b>Revenue Change from FY25</b>	0	0	0

**Residential Taxpayer Impact**

Under any scenario, the median home in Billings will realize a property tax reduction relative to their 2025 property tax expense. The median home in Billings has a currently assessed value of \$309,900.

**Statutory Mill Levy Limitation**

	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Median Home Billings	309,900	350,000	350,000
TV Rate	1.35%	0.76%	0.76%
Taxable Value	4,183.65	2,660.00	2,660.00
Mills Levied (excluding GO)	201.99	240.65	240.65
	\$		
Total City Tax	845.06	\$ 640.13	\$ 640.13
		\$	\$
Change from FY25	\$ -	(204.93)	(204.93)

**Charter Mill Levy Limitation**

	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Median Home Billings	309,900	350,000	350,000
TV Rate	1.35%	0.76%	0.76%
Taxable Value	4,183.65	2,660.00	2,660.00
Mills Levied (excluding GO)	201.99	203	203
Total City Tax	845.06	539.98	539.98
		\$	\$
Change from FY25	\$ -	(305.08)	(305.08)

**Maintain 2025 Tax Revenue**

	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
Median Home Billings	309,900	350,000	350,000
TV Rate	1.35%	0.76%	0.76%
Taxable Value	4,183.65	2,660.00	2,660.00
Mills Levied (excluding GO)	201.99	240.65	246.07
	\$		
Total City Tax	845.06	\$ 640.13	\$ 654.55
		\$	\$
Change from FY25	\$ -	(204.93)	(190.51)

The property tax difference between implementing the statutory limitation and the charter limitation is \$100 per year for the median home.

The City of Billings would need to levy over 300 mills in order for the median home to not realize a property tax reduction under this legislation.

**Mill Levy Election**

MCA 7-6-4036 requires that the City Council set their mill levy by the first Thursday after the first Tuesday in September. For 2025, that will be September 2<sup>nd</sup>. If City Council desires to take a question to the citizens of Billings, the results of that election must be known by September 4<sup>th</sup> 2025 in order to be effective in FY26. The County election office requires 85 days notice, before an election occurs. Additionally, a change to the charter will require an ordinance, which require a first reading to occur approximately 14 days before sending notification to the County election office. At the first reading, ballot language must be finalized.

Legal Advertisement For First Reading approx.	5/15/2025
1st Reading of the Ordinance & Ballot Language	5/26/2025
2nd Reading of the Ordinance & Ballot Language, Resolution for the Election	6/9/2025
Special Election Date	9/2/2025
City Council Special Meeting Setting the number of mills	9/3/2025 or 9/4/2025

**Budget Impacts**

The preliminary FY26 budget was built based upon an assumption of a 4% increase in property tax revenue over FY25. This amounts to about \$2.3 million in new property tax revenue. With this legislation, the preliminary budget needs to be reduced by \$2.3 million to remain revenue neutral from FY25 to FY26. Depending upon which direction City Council chooses regarding the number of mills to be levied, the budget may need to be reduced an additional \$8.6 million dollars.

The impacts of reducing the budget by \$10 million caused by a reduction in property tax revenue will require reductions in multiple departments that are tax supported. If a \$10 million reduction were to be allocated proportionally to the departments based upon their budget size, reductions will need to be made in the following departments.

<b>Department</b>	<b>\$10M Reduction</b>
Police	3,702,453
Fire	3,155,612
Parks	842,151
Legal	379,221
Courts	242,230
Code Enforcement	134,635

Crime Prevention	129,025
Finance	244,811
Human Resources	126,781
Administration	159,879
Mayor & Council	44,878
Non-Departmental	165,488
Library	325,367
Met Transit	347,470

**Requested Action:**

City Council is requested to provide clear direction to staff at the May 5, 2025 meeting regarding the development of the FY26 budget. Specifically, please indicate whether staff should:

- Develop a budget with an approximate \$9-\$10 million property tax reduction compared to FY25 (Charter Mill Levy Limitation)?
- Develop a budget assuming FY25 property tax revenue is maintained (Statutory Mill Levy Limitation)?
- Explore a different option, such as pursuing a mill levy election to maintain revenue neutrality or some other mill levy election option?

Your timely guidance is crucial for staff to prepare a balanced budget for FY26.

**Budget and Finance Committee Recommendations:**

The Budget and Finance Committee met on Wednesday April 30<sup>th</sup> to review some of this information. After discussing the impacts to the City, the following recommendations were made by the committee to the City Council

- 1.) Develop a budget that reflects levying 203 mills, and reduce the property tax revenue by \$10.9 million in FY26. (3 for - 1 against)
- 2.) Put something on the ballot for voters to consider in September. (2 for – 2 against)
- 3.) Adjust the budget calendar to adopt a preliminary budget in June and a final budget in Aug/Sept once final property values are known. (4 for – 0 against)