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Testimony in Support of

House Bill No. 1176

House Finance and Taxation Committee

January 14, 2025

TESTIMONY OF

Joe Morrissette, Director, Office of Management and Budget

Good morning, Chairman Headland and members of the House Finance and Taxation Committee. I am Joe Morrissette, Director of the Office of Management and Budget, and I am here to testify in support of House Bill 1176 and explain the calculations behind the credit amount provided in this bill.

House Bill 1176 provides a sustainable plan to provide real property tax relief and reform. This is a plan we can afford now, that will grow to provide more relief over time, and will reduce general fund ongoing expenditures as distributions from the Legacy Fund increase.

Property Tax Relief – Primary Residence Credit

This bill provides the framework for a $483.4 million property tax credit plan, funded from both the General Fund and the Legacy Earnings Fund to provide a total primary residence credit of $1,550 per qualifying residence per year for the 2025-27 biennium.

Section 2 of the bill creates a Legacy Property Tax Relief Fund, and a new plan for allocation of dollars in the Legacy Earnings Fund. Current law provides for amounts in the Legacy Earnings Fund to be allocated as follows:

- First $102.6 million for debt service payments on outstanding legacy bonds.
- Next $225 million to the general fund to offset the cost of previous tax relief.
- Next $100 million to the Legacy Earnings Highway Distribution Fund.
- *Remaining amounts split evenly between the general fund and the Strategic Investment and Improvements Fund (SIIF).*

The proposed Legacy Property Tax Relief Fund replaces the bottom stream that is now split between the general fund and SIIF. As the Legacy Earnings Fund allocations grow over time, the amount available in the Legacy Property Tax Relief Fund will grow each biennium. The amount in this fund to be used to provide property tax relief for the 2025-27 biennium is $173.4 million. Based on 155,000 qualifying primary residences, this will provide for a primary residence credit of $550 per year.

The remaining $1,000 credit is funded from the General Fund and covered through a $310 million transfer from the General Fund to the Legacy Property Tax Relief Fund authorized in Section 21 of the bill. Compared to the current 2023-25 biennium, this a general fund increase of $206.8 million to increase the general fund component from $500 to $1,000 per primary residence. This significant investment is affordable as we prioritize available resources within our state General Fund budget.

The proposed language in Section 3 of the bill, on page 3 lines 15-20, provides legislative intent that once the legacy property tax credit reaches $2,000, estimated to occur during the 2027-29 biennium, additional dollars in the Legacy Property Tax Relief Fund are used to "replace a portion or all" of the General Fund cost of the primary residence credit. The bill does not specify how this reduction would take place or if the primary residence credit would increase at the same time the General Fund cost is being reduced.

The table below assumes once the total property tax credit grows above $2,000, additional funding is split evenly between reducing the general fund cost and increasing the total credit. Based on future oil tax allocations to the Legacy Fund of between $1.3 and $1.5 billion per biennium and an assumed rate of return of 6.5% per year, the Legacy Property Tax Relief Fund credits could grow as shown below. Actual increases will depend upon actual oil tax allocations, actual Legacy Fund earnings and future policy decisions of the Legislative Assembly.

Biennium	Credit from General Fund	Credit from Legacy Earnings	Total Credit
2025-27	$1,000	$550	$1,550
2027-29	$983	$1,051	$2,034
2029-31	$676	$2,295	$2,971
2031-33	$390	$3,220	$3,610
2033-35	$79	$3,841	$3,921
2035-37	$0	$4,257	$4,257
2037-39	$0	$5,241	$5,241

This may be the only proposal you consider this session that provides for a diminishing General Fund cost over time. This is an important component to ensure sustainability and reduce our long-term General Fund ongoing expenditures. For the 2025-27 biennium, the full $483.4 million cost of this program is included in Gov. Kelly Armstrong's executive budget recommendation, the details of which will be released tomorrow.

Property Tax Relief – Homestead Tax Credit Program

Section 5, on page 7, of the bill expands the existing homestead tax credit program to increase the income limit for the maximum credit from $40,000 to $50,000 and increases the overall income limit from $70,000 to $80,000. At an income level below $50,000, the credit provides an exemption for the first $250,000 of true and full value. This exemption amount is increased from $200,000 under current law. At income levels between $50,000 and $80,000, the credit provides an exemption for the first $125,000 of true and full value. This exemption amount is increased from $100,000 under current law.

Section 6, on page 7, of the bill increases the renter refund component of the Homestead Tax Credit Program from $400 to $600 per qualifying applicant.

My understanding is the cost of these changes is expected to result in the expenditure of the full amount appropriated for the Homestead Tax Credit Program for the 2023-25 biennium of $72.4 million. This amount is also included in the Gov. Armstrong executive budget recommendation for the 2025-27 biennium.

Mr. Chairman and committee members, I ask for your support for HB 1176 and would be happy to answer any questions.