

Property Tax Overview

Revenue Description

Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills (often referred to together as the 95 mills) for K-12 schools, and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vo-tech college. Taxable value is the market value of statutorily defined property times a statutory tax rate. This along with non-levy revenue, such as coal gross proceeds, federal forest receipts and a few others, makes up state property revenue.

The assessed value of residential and commercial real estate is the market value phased in over the reappraisal cycle. Agricultural land and timberland are valued on a productivity basis and their values are also phased in over the reappraisal cycle. Beginning January 1, 2015, residential and commercial property as well as agricultural land and timberland will reflect the impact of the new reappraisal on assessed values. The current reappraisal cycle is 6 years, during which increases in property values are phased in by 1/6th per year. Property that declines in value will be assessed immediately at its new reappraised value. Because of the immediate decline in the first year, taxable value in TY 2015 is expected to decline for class 4 residential and class 3 agricultural, with increases thereafter, shown in the following table. Class 10 timber is expected to be halved in taxable value the first year due to reappraisal, with no increases thereafter. Increases very similar to those in FY 2017 will continue into subsequent years due to the 1/6th of value per year phase-in.

| Reappraisal Effects by Fiscal Year | | |
|------------------------------------|-------------|------|
| Class of Property | Fiscal Year | |
| | 2016 | 2017 |
| Class 3 Agricultural | -5.5% | 4.2% |
| Class 4 Residential | -7.1% | 0.5% |
| Class 4 Commercial | 1.0% | 3.5% |

In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed on the basis of mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

This source also includes the state’s share of protested taxes paid by centrally assessed companies. Fifty percent of taxes paid under protest by centrally assessed firms are deposited in the general fund and the rest are deposited in a state special account. Should the state fail in its defense of the taxation of these companies, the protested taxes must be returned to the taxpayer. If the state prevails in the case, the money in the state special account is transferred to the general fund.

The state has established programs that lower property taxes for homeowners whose homesteads have increased above certain thresholds due to reappraisal and whose income falls below certain levels. These programs are known as taxpayer assistance programs.

Non-Levy Revenue

This source includes federal forest receipts, coal gross proceeds revenue, and other revenue which is distributed to statewide and local mills in each county. The mills to which non levy revenue is distributed are unique for each county and each non levy revenue source. The state’s portion of non-levy revenue is remitted to the state as a portion of the appropriate property tax.

Federal Forest Receipts

Revenue Description

Federal forest receipts are payments from the federal government in lieu of revenues from the sale of forest products of federal land. The federal government authorizes logging operations on forest lands

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located within the borders of Montana. The sale of timber generates revenue that the federal government shares with the state in the following year. The state sends the money to the county treasurer of the county in which the receipts were generated. Within thirty days, the county treasurer distributes the money to various county and state accounts.

Statutory References

Distribution – [17-3-211, MCA](#); [17-3-212, MCA](#)

Date Due – The state treasurer distributes the funds within 30 days after receiving full payment

Distribution

The county treasurer apportions federal forest receipts in the following manner. Not more than 20% and not less than 15% is distributed to county government for special projects on federal land. Of the remainder:

- 66 2/3% goes to the road fund of the county
- 33 1/3% goes to the following countywide accounts, based on the mill ratios of each to total mills in the prior year: county equalization accounts (55 mills), county transportation account, county retirement accounts

Coal Gross Proceeds Tax

Revenue Description

The state imposes a gross proceeds tax of 5% on the gross value of coal produced by all the coal mines in the state. The gross value of coal is computed as the tonnage of coal produced and sold times the contract sales price. The tax on the gross proceeds for coal is estimated in conjunction with the coal severance tax. Of the total gross proceeds revenue, a state share is distributed to the elementary and high school county equalization levies as they existed in FY 1990.

Statutory References

Tax Rate – [15-23-703\(1\), MCA](#)

Tax Distribution – [15-23-703\(3\), MCA](#)

Applicable Tax Rates

The amount of tax due is 5% of the value of production as measured by the contract sales price for production in the preceding calendar year. There are some exceptions, such as new underground mines which are taxed at 2.5% for the first 10 years, as well as certain county-granted tax abatements.

Distribution

The county treasurer distributes the coal gross proceeds tax based on the relative proportions of mill levies for the state, counties, and school districts as these existed in FY 1990. However, coal gross proceeds from mines started after 1988 are distributed across mill levies in the same fashion as property taxes were distributed in the previous fiscal year.

Other Revenue

The county equalization account receives other revenue in addition to the types listed elsewhere. These include penalties and interest, back taxes, investment earnings, recreational fees, tax title and property sales, various state grants and fees, district court fines, county rents and lease income, and various revenue from federal sources such as PILT, Taylor Grazing and Bankhead Jones payments

Comparison of Legislative and Executive Forecasts

The difference between the legislative and executive forecasts is primarily due to the difference in protested tax estimates.

| Property Tax (\$ Millions) | | | | |
|-------------------------------|-----------|-----------|-----------|-----------|
| | FY 2015 | FY 2016 | FY 2017 | Total |
| Executive Forecast | \$247.860 | \$244.380 | \$253.170 | \$745.410 |
| Legislative Forecast | 249.834 | 245.351 | 255.344 | 750.529 |
| Difference | (\$1.974) | (\$0.971) | (\$2.174) | (\$5.119) |
| % Difference | -0.8% | -0.4% | -0.9% | -0.7% |

Forecast Risks

- Assessed Value of property
- Tax Rates for each class of property
- Homestead and comstead exemptions
- Tax Increment Financing (TIF) property values
- Abated property values
- Non levy revenue

Revenue Estimate Methodology

Data

The data required to produce forecasts of property tax received by the state are historical data on assessed and taxable value by class of property, the amount of property in tax increment financing (TIF) districts, the amount of local abatements conferred by local governments, and future growth rates for these variables. Also required is historical and estimate data on the non-levy components of property tax. These are gross proceeds revenue, federal forest revenue, and miscellaneous revenue allocated to the various state mill levies. The historical data on assessed and taxable value by property tax class, TIF taxable value, and abated taxable value are provided to the LFD and OBPP by the Department of Revenue on an annual basis.

TIF taxable value is required because state law allows a TIF district to apply the state 95 mills and 1.5 vo-tech mills to the increment in property value that occurred since the TIF was created, but allows the TIF district to keep the revenue associated with these mill levies. Thus the taxable value of the state must be adjusted downward by the value of TIF property for the 95 mills and the 1.5-mill levy. The 6-mill levy revenue derived from incremental TIF property does flow to the state special account for university operations, and thus the tax base for the 6-mill levy is not adjusted for the incremental taxable value in a TIF.

Montana law allows local governments (usually counties) to temporarily reduce the tax rate applied to the assessed value of property. This is called abated property. For instance, in tax year 2010, an electrical generation plant outside Hardin and another in Silver Bow County were granted a 10 year exemption on all personal and real estate property. The abatement applies to all local mills for those jurisdictions in which the properties are located. However, the tax rate reduction and the resulting partial exemption from property taxes does not apply to state mills. The taxable value data received by the department does not include the exempted property and thus for state property tax revenue purposes this property must be added back to the statewide taxable value. For the first time in tax year 2010, abated taxable values were available by class of property and were added back to each class of taxable value to form the tax base for the state mills. Previously these values had been added back without respect to class of property.

Assessed and taxable values are measured on January 1 of the tax year. The taxes are due to the state in the following November and May, i.e. in the fiscal year following the calendar year in which

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the values are measured. Coal gross proceeds are due to the state in the fiscal year two years after the calendar year in which the coal was produced. Federal forest receipts are received by the federal government in December of each year, and miscellaneous non-levy revenue (primarily interest) is deposited as earned.

Analysis

The latest year for which taxable value by class is available is the base from which future taxable values are derived. Growth rates are applied to the taxable value in each class of property. For the most part, growth rates are based on historical growth and on expected changes in tax rates in upcoming fiscal years. The table below shows growth rates for each class of property, for TIF and the resulting growth rates in net taxable value. Rates reflect both reappraisal and assumed growth rates for classes 3, 4, and 10.

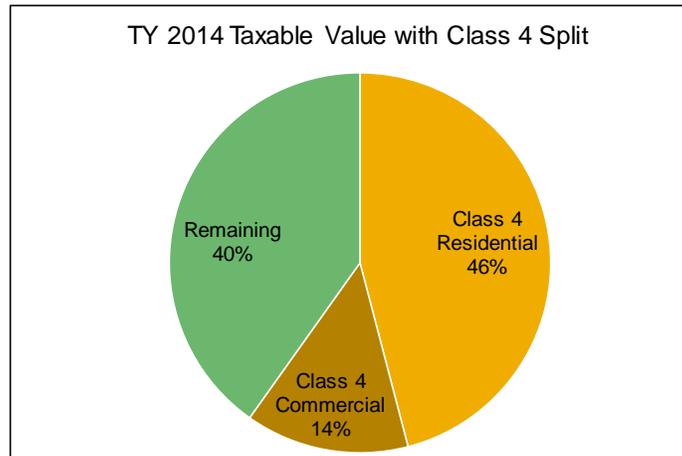
| Statewide Taxable Value by Fiscal Year | | | | | | |
|--|-----------------------------|-------------|-------------|--------------|--------|-------|
| Class of Property | Taxable Value (\$ Millions) | | | Growth Rates | | |
| | 2015 | 2016 | 2017 | 2015 | 2016 | 2017 |
| 1 Mine Net Proceeds | \$3.791 | \$4.014 | \$4.181 | 15.9% | 5.9% | 4.2% |
| 2 Gross Proceeds Metal Mines | 25.555 | 27.062 | 28.188 | -14.0% | 5.9% | 4.2% |
| 3 Ag Land | 143.467 | 135.260 | 140.585 | -1.2% | -5.7% | 3.9% |
| 4 Residential and Commercial Real Est | 1,521.371 | 1,478.052 | 1,534.847 | 2.9% | -2.8% | 3.8% |
| 5 Pollution Control Equipment | 44.566 | 46.430 | 48.371 | -1.1% | 4.2% | 4.2% |
| 7 Non Centrally Assed Utilities | 1.182 | 1.167 | 1.152 | -1.7% | -1.3% | -1.3% |
| 8 Business Personal Property | 146.332 | 153.795 | 161.639 | -10.2% | 5.1% | 5.1% |
| 9 Electrical Utilities | 374.692 | 396.631 | 419.854 | 5.9% | 5.9% | 5.9% |
| 10 Forest Land | 6.215 | 3.128 | 3.097 | -1.0% | -49.7% | -1.0% |
| 12 Railroads and Airlines | 72.873 | 76.460 | 81.767 | -2.2% | 4.9% | 6.9% |
| 13 Telecomm and Electric Generation | 170.052 | 173.103 | 176.209 | -9.3% | 1.8% | 1.8% |
| 14 Wind Generation | 31.347 | 31.347 | 31.347 | -2.4% | 0.0% | 0.0% |
| 15 C02/Qualifying Liquid Pipeline | 1.757 | 1.757 | 1.757 | 84.4% | 0.0% | 0.0% |
| 16 High Voltage DC Converter | - | - | - | NA | NA | NA |
| Total Taxable Value | 2,543.202 | 2,528.206 | 2,632.994 | 0.8% | -0.6% | 4.1% |
| Tax Increment Financing Values | 49.385 | 49.821 | 51.069 | -2.0% | 0.9% | 2.5% |
| Net Taxable Value | \$2,493.817 | \$2,478.385 | \$2,581.925 | 0.9% | -0.6% | 4.2% |
| Net Votech Taxable Value | 826.434 | 821.221 | 855.220 | 1.2% | 3.6% | 3.2% |
| Net 6-Mill Taxable Value | \$2,592.587 | \$2,578.027 | \$2,684.064 | 0.8% | -0.6% | 4.1% |

FY 2015 taxable values are tax year 2014 taxable values. The property was valued on January 1, 2014, and the revenue from these values is collected by the state in November and May of the following fiscal year. FY 2015 values are known, although preliminary.

The figure below shows the tax rates for all classes of property as well as the values for the homestead and comstead exemptions.

| Tax Rates and Exemptions by Property Tax Class | | | |
|--|------------|--------|--------|
| Class of Property | Tax Rates | | |
| | 2015 | 2016 | 2017 |
| Mine Net Proceeds | 100.0% | 100.0% | 100.0% |
| Gross Proceeds Metal Mines | 3.0% | 3.0% | 3.0% |
| Ag Land | 2.5% | 2.5% | 2.5% |
| Residential and Commercial Real Estate | 2.5% | 2.5% | 2.5% |
| Pollution Control Equipment | 3.0% | 3.0% | 3.0% |
| Non Centrally Assesd Utilities | 8.0% | 8.0% | 8.0% |
| Business Personal Property, above threshold | 3.0% | 3.0% | 3.0% |
| Business Personal Property, below threshold | 1.5% | 1.5% | 1.5% |
| Electrical Utilities | 12.0% | 12.0% | 12.0% |
| Forest Land | 0.3% | 0.3% | 0.3% |
| Railroads and Airlines | 3.3% | 3.3% | 3.3% |
| Telecomm and Electric Generation | 6.0% | 6.0% | 6.0% |
| Wind Generation | 3.0% | 3.0% | 3.0% |
| C02/Qualifying Liquid Pipeline | 3.0% | 3.0% | 3.0% |
| High Voltage DC Converter | 2.3% | 2.3% | 2.3% |
| Exemption Type | Exemptions | | |
| | 2015 | 2016 | 2017 |
| Homestead Exemption for Residential Property | 47.0% | 47.0% | 47.0% |
| Comstead Exemption for Commercial Property | 21.5% | 21.5% | 21.5% |

Even with exemptions, class 4 is by far the largest property tax class, representing 60% of taxable value in TY 2014.



Once non-levy revenue forecasts are added property tax proper forecasts, an adjustment is made for centrally assessed protested taxes. The following table shows the projected property tax revenue from the property tax base and non-levy revenue.

| Property Tax Revenue in General Fund and University Account (\$ Millions) | | | |
|--|--------------|--------------|--------------|
| Revenue Type | 2015 | 2016 | 2017 |
| 95 Mill Revenue | \$236.917 | \$235.005 | \$245.200 |
| 1.5 Mill Revenue | <u>1.213</u> | <u>1.199</u> | <u>1.250</u> |
| Property Tax in the General Fund | 238.130 | 236.204 | 246.450 |
| Non-Levy - Coal Gross Proceeds | 7.826 | 8.277 | 8.494 |
| Non-Levy - Federal Forest Receipts | 0.440 | 0.423 | 0.416 |
| Non-Levy - Miscellaneous Revenue | 1.000 | 1.000 | 1.000 |
| Protested Taxes | 2.437 | (0.553) | (1.015) |
| Net Property Taxes - 95 Mills and 1.5 Mills | \$249.834 | \$245.351 | \$255.344 |
| 6-Mill Property Tax Revenue - University Account | \$14.701 | \$14.735 | \$15.451 |
| Nonlevy Revenue Associated with 6-Mills | 1.191 | 1.259 | 1.288 |
| Protested Taxes in Protest account | 0.114 | (0.080) | (0.126) |
| Net Property Taxes in University Account | 16.006 | 15.914 | 16.613 |

Revenue Estimate Assumptions

| FY | Class 1 \$ Millions | Class 2 \$ Millions | Class 3 \$ Millions | Class 4 \$ Millions | Class 5 \$ Millions | Class 6 \$ Millions | Class 7 \$ Millions |
|--------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| A 2002 | 7.843 | 11.015 | 139.057 | 954.102 | 35.668 | 12.459 | 0.189 |
| A 2003 | 8.691 | 10.669 | 138.900 | 1,002.874 | 35.382 | 6.167 | 0.216 |
| A 2004 | 7.808 | 8.800 | 140.240 | 1,034.656 | 32.725 | 0.000 | 0.995 |
| A 2005 | 8.032 | 10.428 | 139.902 | 1,076.985 | 34.024 | 0.000 | 0.974 |
| A 2006 | 2.694 | 13.045 | 140.988 | 1,129.794 | 34.611 | 0.000 | 0.953 |
| A 2007 | 3.252 | 21.106 | 141.002 | 1,183.821 | 35.078 | 0.000 | 1.068 |
| A 2008 | 3.840 | 18.849 | 141.329 | 1,244.916 | 35.418 | 0.000 | 1.096 |
| A 2009 | 4.013 | 24.540 | 142.099 | 1,296.595 | 35.155 | 0.000 | 1.214 |
| A 2010 | 4.002 | 23.837 | 161.073 | 1,368.081 | 37.502 | 0.000 | 1.266 |
| A 2011 | 3.181 | 18.291 | 153.566 | 1,396.074 | 38.994 | 0.000 | 1.298 |
| A 2012 | 3.888 | 20.725 | 150.429 | 1,418.797 | 40.642 | 0.000 | 1.194 |
| A 2013 | 4.189 | 31.132 | 147.792 | 1,446.304 | 45.673 | 0.000 | 1.170 |
| A 2014 | 3.272 | 29.723 | 145.199 | 1,479.183 | 45.072 | 0.000 | 1.202 |
| F 2015 | 3.791 | 25.555 | 143.467 | 1,521.371 | 44.566 | 0.000 | 1.182 |
| F 2016 | 4.014 | 27.062 | 135.260 | 1,478.052 | 46.430 | 0.000 | 1.167 |
| F 2017 | 4.181 | 28.188 | 140.585 | 1,534.847 | 48.371 | 0.000 | 1.152 |

| FY | Class 8 \$ Millions | Class 9 \$ Millions | Class 10 \$ Millions | Class 12 \$ Millions | Class 13 \$ Millions | Class 14 \$ Millions | Class 15 \$ Millions |
|--------|------------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| A 2002 | 116.605 | 219.956 | 8.199 | 48.658 | 144.488 | | |
| A 2003 | 118.349 | 206.360 | 7.170 | 46.688 | 137.185 | | |
| A 2004 | 118.297 | 212.111 | 6.789 | 45.630 | 125.623 | | |
| A 2005 | 117.241 | 219.993 | 6.791 | 45.074 | 120.485 | | |
| A 2006 | 123.055 | 238.767 | 6.794 | 44.267 | 122.846 | | |
| A 2007 | 135.613 | 248.320 | 6.816 | 41.577 | 130.476 | 2.556 | |
| A 2008 | 138.658 | 264.324 | 6.822 | 43.004 | 152.942 | 2.590 | |
| A 2009 | 151.317 | 260.190 | 6.816 | 43.567 | 154.611 | 2.944 | |
| A 2010 | 169.606 | 254.253 | 6.988 | 46.901 | 154.314 | 6.780 | |
| A 2011 | 182.310 | 280.633 | 6.519 | 51.836 | 174.430 | 17.889 | |
| A 2012 | 186.854 | 304.226 | 6.390 | 71.336 | 193.267 | 17.143 | |
| A 2013 | 181.188 | 322.490 | 6.349 | 72.349 | 197.605 | 15.550 | |
| A 2014 | 162.972 | 353.968 | 6.277 | 74.501 | 187.546 | 32.105 | 0.953 |
| F 2015 | 146.332 | 374.692 | 6.215 | 72.873 | 170.052 | 31.347 | 1.757 |
| F 2016 | 153.795 | 396.631 | 3.128 | 76.460 | 173.103 | 31.347 | 1.757 |
| F 2017 | 161.639 | 419.854 | 3.097 | 81.767 | 176.209 | 31.347 | 1.757 |

