Legislative Fiscal Division

Revenue Estimate Profile

Property Tax

Revenue Description: Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills, 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 defined as the market value of statutorily defined property times a statutory tax rate. Property valued at market value includes personal property, utility property, railroad and airline property, and mineral net and gross proceeds. 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. The last reappraisal cycle took effect January 1, 2009.

Beginning January 1, 2009, residential and commercial property as well as agricultural land and timberland 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 was assessed immediately at its new reappraised value. The impact of the 2009 reappraisal on assessed values increased the market value of the average residence by 55.1%. The equivalent increases for commercial property were 34.5%, for agricultural land by 26.8%, and for timberland by 51.7%.

The 2009 legislature passed a reappraisal mitigation bill – HB 658. Beginning in tax year 2009, reappraisal values are phased in over the next six years. The new tax rates and the new homestead and comstead exemptions are shown in the accompanying table. In addition to mitigation through lower tax rates and higher exemptions, HB 658 also created an upper limit of $1.5 million in market value of residences for which the homestead exemption is available, increased the irrigation costs in valuing irrigated agricultural land, and increased the capitalization rate used to value timberland. MCA 15-10-420 limits the growth from year to year in property tax to one half the rate of inflation. Before HB 658, the calculation allowed each state mill to be rounded up to the nearest whole mill. HB 658 changed MCA 15-10-420 so that each state mill is to be rounded up to the nearest tenth of a mill. If the growth in taxable value exclusive of new property exceeds one-half the rate of inflation, then each state mill levy must be reduced to the point where expected revenue exceeds no more than half the rate of inflation. Newly taxable property was also redefined as current year value less prior year value.

Tax Rates and Exemptions Class 3 and Class 4

Tax Year	Tax Rate Class 3 & 4	Homestead Exemption	Comstead Exemption	Tax Rate Timber Land
2010	2.8%	39.5%	15.9%	0.3%
2011	2.7%	41.8%	17.5%	0.3%
2012	2.6%	44.0%	19.0%	0.3%
2013	2.5%	45.5%	20.3%	0.3%
2014	2.5%	47.0%	21.5%	0.3%

The homestead exemption applies up to a market value of $1.5 million for single family dwellings.

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.

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Property Tax

Revenue Estimate Methodology:

Data

The property tax received by the state is composed of two kinds of revenue. First there is property tax proper, i.e. each property has a taxable value which is multiplied by a mill levy (a tax rate per thousand dollars of taxable value) set by the government, in this case the state. The second kind of revenue is non-levy revenue that is distributed proportionally to each mill levy and is included as property tax revenue.

The state imposes five types of mill levies. These are the 33-mill elementary county equalization levy, the 22-mill high school county equalization levy, the 40-mill state equalization levy, the 6-mill university levy, and the 1.5-mill vocational technical college (vo-tech) levy. The first three (most often called the 95 mills for education) are applied to all property in the state and are deposited in the general fund. The 6-mill levy is applied to all property in the state and is deposited in a special account for university operations. The 1.5-mill levy is also deposited in the general fund and is applied to all property in the counties in which the five vo-tech colleges are located—Butte-Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark.

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 future 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 latest taxable value data is for tax year 2012 and the latest data for the non-levy revenue is FY 2012.

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, usually in October. 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 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. The table below shows growth rates for each class of property, for TIF and the resulting growth rates in net taxable value.

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Property Tax

Statewide Taxable Value by Fiscal Year							
		Taxable Value (Millions)			Growth Rates		
Class of Property	Class No.	2013	2014	2015	2013	2014	2015
Mine Net Proceeds	1	$4.189	$4.275	$4.331	7.7%	2.1%	1.3%
Gross Proceeds Metal Mines	2	31.132	33.820	35.056	35.4%	8.6%	3.7%
Ag Land	3	147.792	145.202	142.657	-1.8%	-1.8%	-1.8%
Residential and Commercial Real Estate	4	1,446.304	1,478.146	1,511.683	1.9%	2.2%	2.3%
Pollution Control Equiopment	5	45.673	48.816	52.176	12.4%	6.9%	6.9%
Non Centrally Assed Utilities	7	1.170	1.147	1.124	-2.0%	-2.0%	-2.0%
Business Personal Property	8	179.237	180.358	179.206	-4.1%	0.6%	-0.6%
Electrical Utilities	9	322.490	345.727	370.637	6.0%	7.2%	7.2%
Forest Land	10	6.349	6.308	6.268	-0.6%	-0.6%	-0.6%
Railroads and Airlines	12	72.349	76.657	81.222	1.4%	6.0%	6.0%
Telecomm and Electric Generation	13	197.605	208.267	219.505	2.2%	5.4%	5.4%
Wind Generation	14	15.550	31.099	31.099	-9.3%	100.0%	0.0%
C02/Qualifying Liquid Pipeline	15	-	-	-	NA	NA	NA
High Voltage DC Converter	16	-	-	-	NA	NA	NA
Total Taxable Value		$2,469.841	$2,559.824	$2,634.964	3.9%	3.6%	2.9%
Tax Increment Financing Values		47.037	47.037	45.359	1.6%	0.0%	-3.6%
Net Taxable Value		$2,422.804	$2,512.787	$2,589.604	2.2%	3.7%	3.1%
Net Votech Taxable Value		806.969	836.367	862.955	1.2%	3.6%	3.2%
Net 6-Mill Taxable Value		$2,469.841	$2,559.824	$2,634.964	2.2%	3.6%	2.9%
FY 2013 taxable values are tax year 2012 taxable values. The property was valued on January 1, 2012, and the revenue from these values is collected by the state in November and May of the following fiscal year. FY 2013 values are known, although preliminary.							

For the most part, growth rates are based on historical growth since FY 2001 and on expected changes in tax rates in FY 2014 and 2015.

The growth rate for class 4 – residential and commercial real estate – is an estimate of the amount of new property expected to be added. The growth in new class 4 residential property is assumed to be 1.7% in FY 2013 and around 2.1% thereafter. The growth in commercial property is assumed to be around 2.7 percent, both the average since 2009. It is further assumed that as existing residential and commercial property values are phased in over the reappraisal cycle, the combination of declining tax rates and rising homestead and comstead exemptions will completely offset the growth in phased in value of existing property in each year of the forecast period. The only growth in class 4 taxable is assumed to be derived from new property.

Agricultural property is expected to decline in taxable value through FY 2013. The department phased in agricultural assessed values over the 6 year phase in cycle. Department rules required that changes in value between the 2002 reappraisal and the 2008 reappraisal phase in changes in value due to changes in productivity. The department failed to phase these values in but instead assigned the 2008 values immediately in tax year 2009. The department has devised a method to correct this by adjusting the phase in starting in tax year 2010 for the next 5 years. As a result taxable growth will be negative for agricultural land over the forecast period.

Timberland values are also expected to decrease slightly over the forecast period as some timberland is lost to development.

There are several projects in the planning stages or on hold – natural gas electrical generation plants (either in class 5 or class 9), industrial grade transmission lines (class 13), oil pipelines, specifically the Keystone pipeline (class 13) – that may add to the tax base in the forecast period. None of these have been explicitly added into the growth forecasts. Only known wind power projects have been incorporated in the estimate. The Montana Alberta Tie Line, if it gets built, will be split 50 percent between class 9 (electrical transmission) and class 14 (wind generation and transmission).

The market value of business equipment is expected to grow at 5.4% per year in the 2015 biennium. However, SB 372 from the 2011 legislative session reduced the tax rate from 3% to 2% for the first $2 million in market value of business equipment starting January 1, 2012. If income and corporation tax grow by more than 4% in FY 2013, the tax rate will drop to 1.5% on the market value of the first $3 million in business equipment on January 1, 2014. Both of these tax reductions will slow the growth in taxable value of business equipment substantially in the 2015 biennium.

The growth in net proceeds and gross proceeds taxable value is based on the projected growth in the mineral values. Net proceeds growth is based on the growth in taxable value of metals as derived from miscellaneous mines tax base. Gross proceeds growth is based on growth rate for metal mines gross proceeds tax base.

There are two new classes of property that have been added to the property tax base beginning in FY 2009. These are class 15, property associated with carbon sequestration, and class 16, property associated transmission lines that connect to other major electrical grids. Neither of these classes is expected to contain any property before the end of FY 2015.

For the classes of property that are reappraised annually, almost all will experience constant tax rates through 2013. Under the federal 4R act, the tax rate on railroads and airlines, the tax rate for class 12 is a weighted average of tax rates for all commercial and industrial property in the state. This includes business equipment, centrally assessed property and commercial real estate. As the tax rate for commercial property continues to decline while the other commercial and industrial tax rates are constant, the railroad and airline property tax rate also declines.

The figure below shows for FY 2013 through FY 2015 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 by Fiscal Year			
	Tax Rates		
Class of Property	2013	2014	2015
Mine Net Proceeds	100.0%	100.0%	100.0%
Gross Proceeds Metal Mines	3.0%	3.0%	3.0%
Ag Land	2.6%	2.5%	2.5%
Residential and Commercial Real Estate	2.6%	2.5%	2.5%
Pollution Control Equiopment	3.0%	3.0%	3.0%
Non Centrally Assed Utilities	3.0%	3.0%	3.0%
Business Personal Property, above threshold	3.0%	3.0%	3.0%
Business Personal Property, below threshold	2.0%	2.0%	1.5%
Electrical Utilities	12.0%	12.0%	12.0%
Forest Land	0.3%	0.3%	0.3%
Railroads and Airlines	3.5%	3.5%	3.5%
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%
	Exemptions		
Homestead Exemption for Residential Property	44.0%	45.5%	47.0%
Comstead Exemption for Commercial Property	0.19	0.203	0.215

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 by Fiscal Year			
	Revenue (Millions)		
General Fund Property Tax Revenue	2013	2014	2015
95 Mill Revenue	$230.166	$238.715	$246.012
1.5 Mill Revenue	1.210	1.255	1.294
Property Tax in the General Fund	$231.377	$239.969	$247.307
Nonlevy - Coal Gross Proceeds	7.876	7.457	8.181
Nonlevy - Federal Forest Receipts	3.771	0.476	0.445
Nonlevy - Miscellaneous Revenue	1.000	1.000	1.000
Protested Taxes in Protest account	(2.282)	(2.282)	(2.282)
Net Property Taxes - 95 Mills and 1.5 Mills	$241.741	$246.620	$254.651
6-Mill Property Tax Revenue - University Account	$14.940	$15.484	$15.939
Nonlevy Revenue Associated with 6-Mills	0.875	1.051	1.050
Protested Taxes in Protest account	(0.143)	(0.143)	(0.143)
Net Property Taxes in University Account	$15.672	$16.392	$16.846

Once net taxable values are determined, the mill levies are applied. To this are added forecasts of non-levy revenue. Non-levy revenues come from coal gross proceeds, federal forest receipts and miscellaneous revenue (such as interest on investments, penalty and interest on delinquent taxes). The tax on the gross proceeds for coal is 5% of gross value and is estimated in conjunction with the coal severance tax. In the 2011 legislative session, HB 266 lowered the tax rate on underground mines to 2.5% for ten years beginning in calendar year 2011. 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. In FY 1990, the elementary and high school county equalization levy was a combined 45 mills. For some of mines, 45 mills was as much as 49 percent of the consolidated mills of all jurisdictions, and for some other mines the 45 mills was as little as 20 percent of the consolidated mills for all jurisdictions.

Federal forest receipts are receipts from the federal government in lieu of revenues from the sale of forest products on federal land. By state law, two-thirds of this revenue is distributed to the county road fund in the counties with federal forestland and the remaining one-third is distributed to the county equalization mills and the county retirement and transportation mills. The share distributed to the 55 mills is the proportion that 55 mills is to all countywide mills in the prior year. This is assumed constant at 62.5% over the forecast period. The proportion that the 55 mills is to all countywide mills is multiplied times 1/3 of the federal forest receipts. The previous formula for distributing federal forest payments to counties was sunset in FY 2008. In the Emergency Economic Stabilization Act of 2008, a new formula for the distribution of forest receipts was enacted. The new formula for FY 2009 through 2013 considers acres of federal land within an eligible county, the average 3 highest 25% payments made to each eligible State for each eligible county, and an income adjustment based on the per capita personal income for each county. As before, not more than 20% but at least 15% must be used by county governments for projects on federal lands. The amount of federal forest receipts in total is expected to be around 2.5 times greater than the amount available previously. Thus the amount distributed to the 55 mills will also increase substantially. Beginning in FY 2014, because the federal law will sunset, it is assumed that the old method of distributing these monies will prevail – 25% of the value of timber sold averaged over the prior 3 years. As a result, the state share of federal forest receipts distributed to the 55 mills is expected to decline by around $0.47 million per year in FY 2014 compared with around $3.8 million in FY 2013.

Miscellaneous receipts distributed to the 95 mills include investment earnings, tax title sales, and penalties and interest on delinquent taxes. In FY 2011 miscellaneous non-levy revenue was $1.0 million, which is expected to remain constant in the future.

Once property tax revenue adjusted for non-levy revenue is determined, an adjustment is made for centrally assessed protested taxes. In FY 2012, certain electrical generation, transmission companies, pipeline companies and telecommunication companies protested a portion of their property taxes. Under state law, half of the protested taxes from these companies is deposited in a special account and half in the general fund. It is expected that $2.3 million will be deposited in the special account each of the next three years on behalf of the 95 mills and an additional $140,000 on behalf of the six mills.

Revenue Projection

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1989	114.445	114.445	Not App.
A	1990	133.620	112.375	-1.8%
A	1991	196.552	176.155	56.8%
A	1992	228.221	206.138	17.0%
A	1993	231.757	207.646	0.7%
A	1994	223.577	202.382	-2.5%
A	1995	226.945	205.843	1.7%
A	1996	226.235	204.083	-0.9%
A	1997	231.943	209.284	2.6%
A	1998	224.562	202.350	-3.3%
A	1999	225.681	202.775	0.2%
A	2000	215.866	194.196	-4.2%
A	2001	201.104	180.050	-7.3%
A	2002	181.923	169.339	-6.0%
A	2003	183.691	171.680	1.4%
A	2004	180.905	169.531	-1.3%
A	2005	182.588	167.270	-1.3%
A	2006	192.118	177.639	6.2%
A	2007	206.872	190.982	7.5%
A	2008	218.223	205.044	7.4%
A	2009	229.945	217.042	5.9%
A	2010	239.056	222.510	2.5%
A	2011	245.181	229.352	3.1%
A	2012	252.559	236.662	3.2%
F	2013	259.838	241.741	2.2%
F	2014	265.437	246.620	2.0%
F	2015	273.922	254.651	3.3%