

# Montana Legislative Fiscal Division

## Revenue Source Profile

Updated through June 2014

### Property Tax and Non Levy Revenue

#### 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 1/6<sup>th</sup> 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

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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 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

## Summary of Legislative Action

### Comparison of Legislative and Executive Forecasts

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

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Property Tax (\$ Millions)				
	FY 2015	FY 2016	FY 2017	Total
Executive Forecast	\$247.860	\$244.380	\$253.170	\$745.410
Legislative Forecast	248.632	244.157	254.098	746.887
Difference	(\$0.772)	\$0.223	(\$0.928)	(\$1.477)
% Difference	-0.3%	0.1%	-0.4%	-0.2%

### 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 the values are measured. Coal gross proceeds are due to the state in the fiscal year two years after the calendar year in

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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.

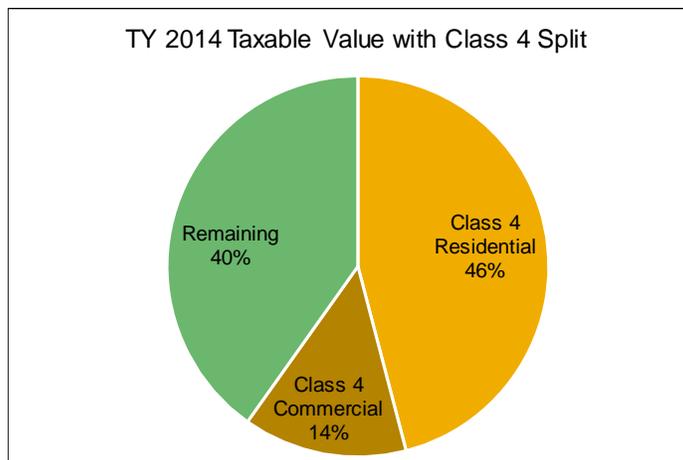
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Tax Rates and Exemptions by Property Tax Class			
Class of Property	Tax Rates		
	2015	2016	2017
Mine Net Proceeds	100.0%	100.0%	100.0%
Gross Proceeds Metal Mines	3.0%	3.0%	3.0%
Ag Land	2.5%	2.5%	2.5%
Residential and Commercial Real Estate	2.5%	2.5%	2.5%
Pollution Control Equipment	3.0%	3.0%	3.0%
Non Centrally Assed 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%
Exemptions			
Exemption Type	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.

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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	0.011	0.005	0.004
Property Tax in the General Fund	236.928	235.010	245.204
Non-Ley - Coal Gross Proceeds	7.826	8.277	8.494
Non-Ley - Federal Forest Receipts	0.440	0.423	0.416
Non-Ley - Miscellaneous Revenue	1.000	1.000	1.000
Protested Taxes	2.437	(0.553)	(1.015)
<b>Net Property Taxes - 95 Mills and 1.5 Mills</b>	<b>\$248.632</b>	<b>\$244.157</b>	<b>\$254.098</b>
6-Mill Property Tax Revenue - University Account	\$14.701	\$14.735	\$15.451
Nonley Revenue Associated with 6-Mills	1.191	1.259	1.288
Protested Taxes in Protest account	0.114	(0.080)	(0.126)
<b>Net Property Taxes in University Account</b>	<b>16.006</b>	<b>15.914</b>	<b>16.613</b>

### 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

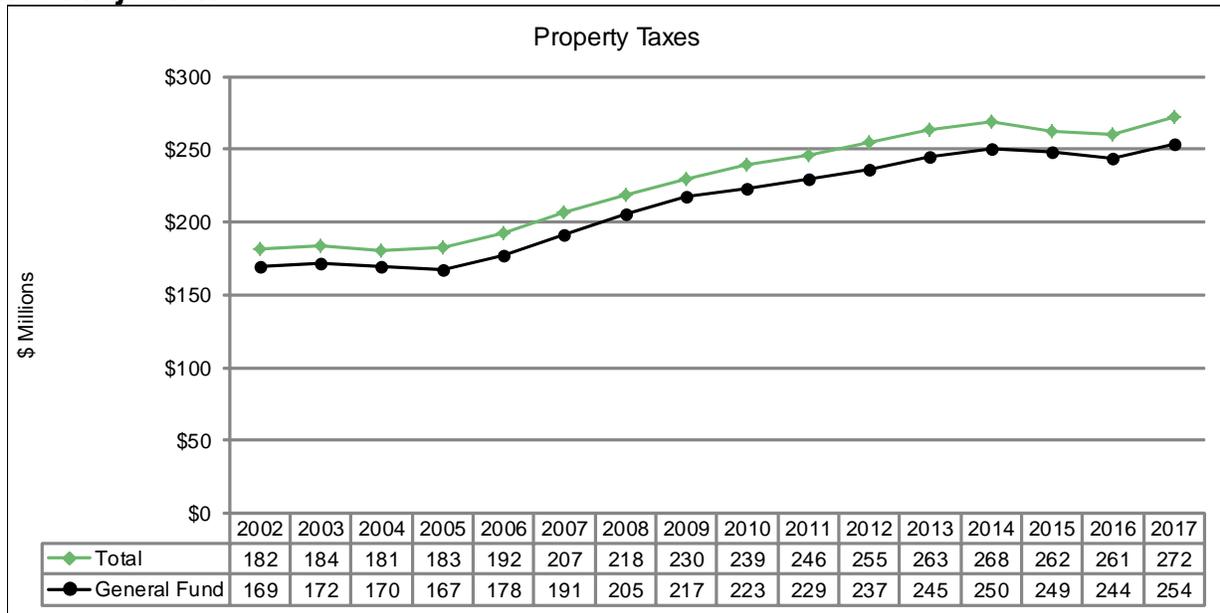
FY	Class 8 \$ Millions	Class 9 \$ Millions	Class 10 \$ Millions	Class 12 \$ Millions	Class 13 \$ Millions	Class 14 \$ Millions	Class 15 \$ Millions
A 2002	116.605	219.956	8.199	48.658	144.488		
A 2003	118.349	206.360	7.170	46.688	137.185		
A 2004	118.297	212.111	6.789	45.630	125.623		
A 2005	117.241	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

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### Revenue Projection



### Revenue History

