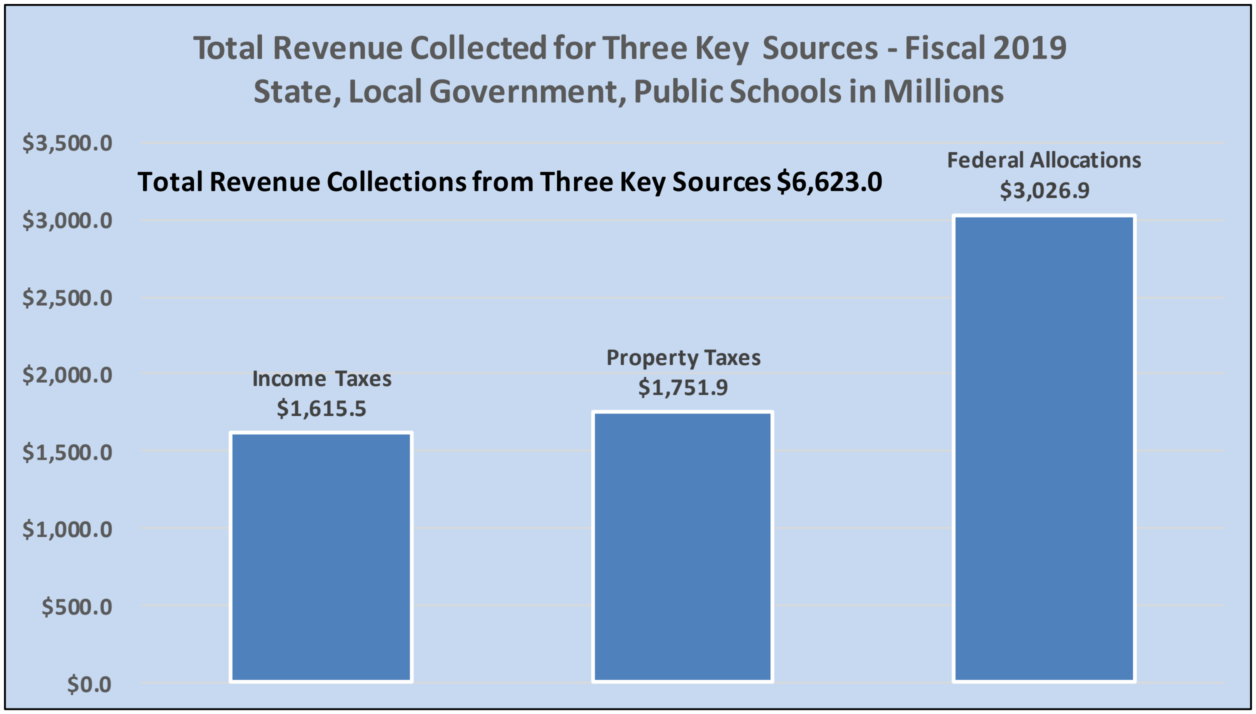
Last year, the Montana Infrastructure Coalition committed to providing independent analysis of property tax revenues and expenditures, largely in response to a budding narrative that property taxes were sufficiently funding local governments. A narrative has also been percolating that suggests that local governments are funded well enough that the state could redirect monies currently allocated to things like OPD and Entitlement Share.

The intent of this briefing is to provide the Revenue Interim Committee with a better understanding of property tax revenues and expenditures under the current tax structure, and how local governments are attempting to fund the critical infrastructure and services demanded by local residents and visitors in their communities.

You may recall from our public comment provided at a previous committee meeting late last summer, that Montana collects about $1.6 billion in income tax which goes predominantly to the state coffers, and $1.8 billion in property tax that goes to K-12 schools, city and county governments, and a small amount to higher education.

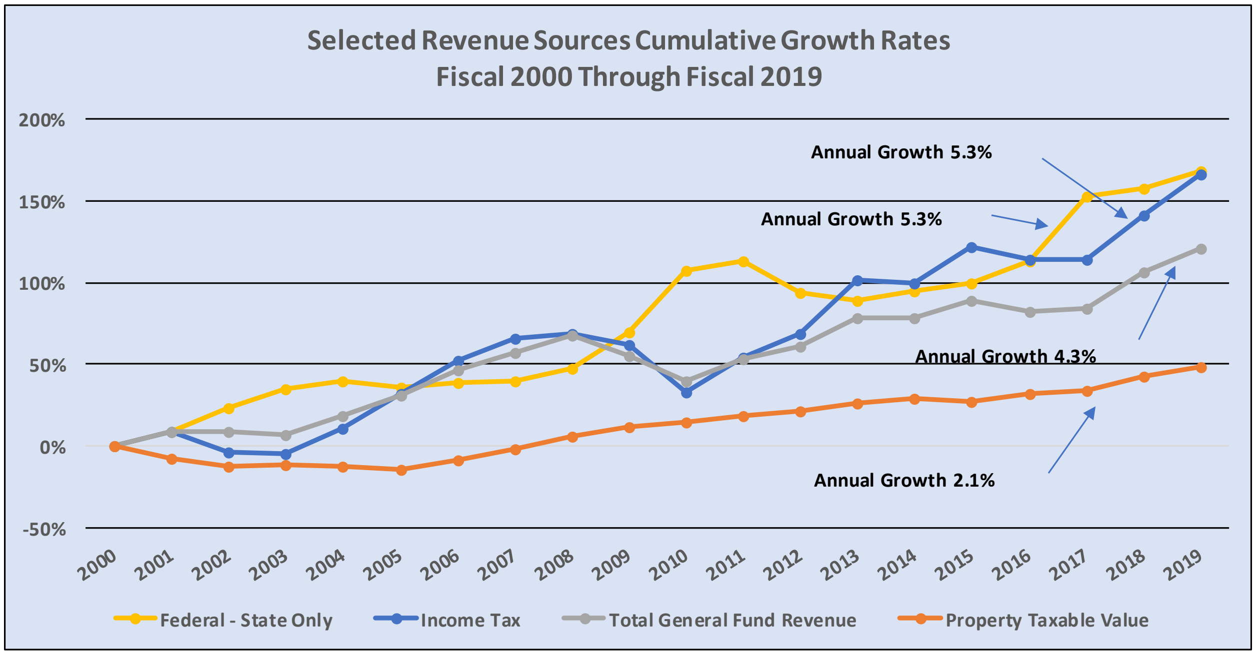


Source: *Statewide Accounting, Budgeting, and Human Resource System (SABHRS), Montana Department of Revenue, and US Census Bureau*

The growth trends in both income and property tax revenues are interesting and provide the basis for an understanding of the need for and function of voted mills.

The figure below illustrates that revenues from Montana's income tax have been growing at an average rate of over five percent (5.3 %) since 2000. That rate is closer to nine percent (9 %) when looking at trends over the past four years.

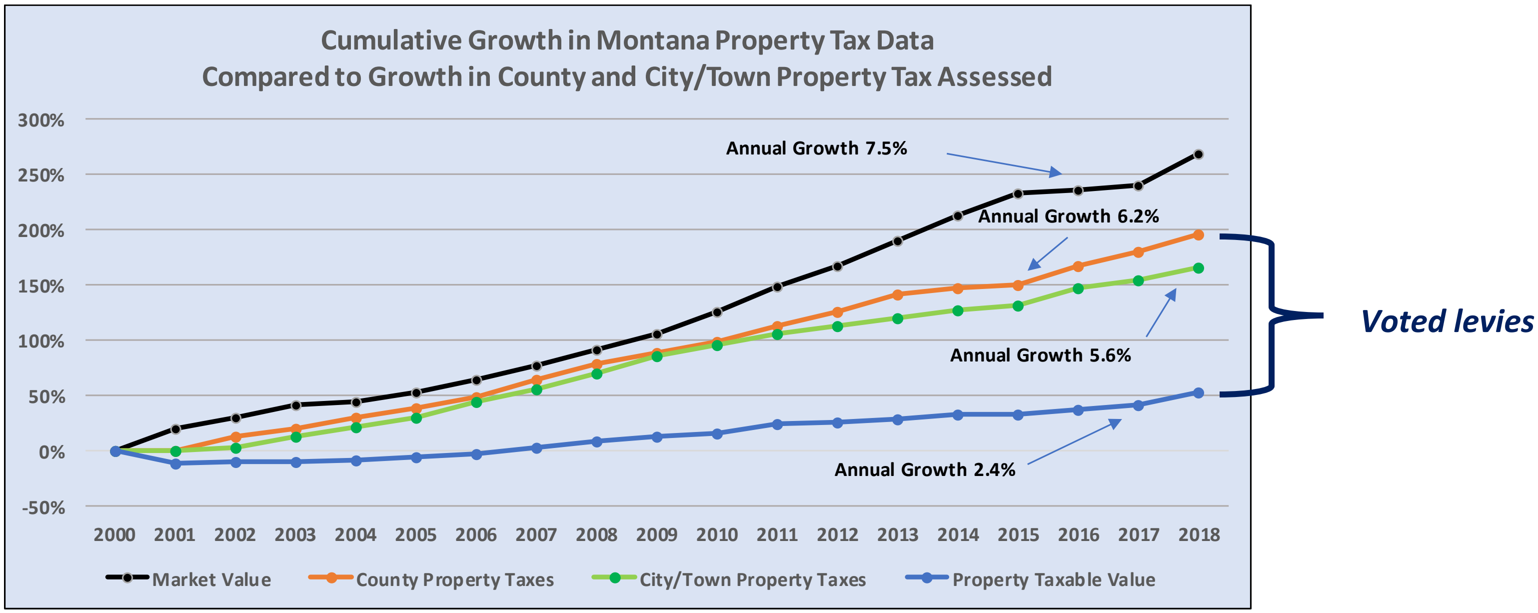
Conversely, the property tax base has been on a "natural" growth rate of about two percent (2.1 %) since 2000. This trendline is controlled predominantly by the legislature's desire to minimize property tax increases. In addition, the artificial cap imposed by the Legislature in 2009 (under 15-10-420, MCA) prohibits local governments from increasing base property taxes by more than ½ the rate of inflation averaged over the previous three years.



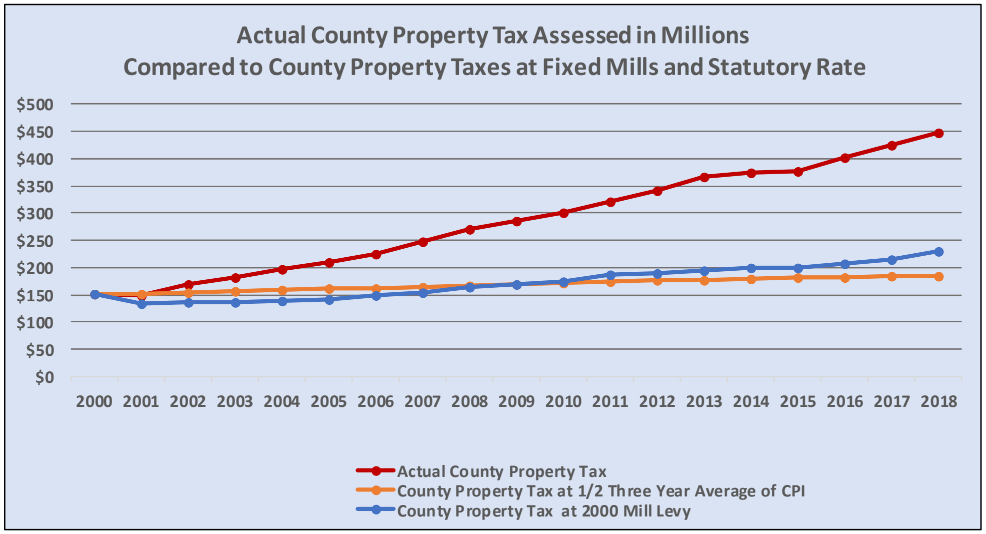
Source: *Statewide Accounting, Budgeting, and Human Resource System (SABHRS)*

Most of us recognize that our property taxes are rising at a higher rate than two percent per year. In fact, the total property tax burden for both cities and counties has been increasing by an average of around six percent (6.2 % for counties, and 5.6 % for cities/towns) over the last 20 years.

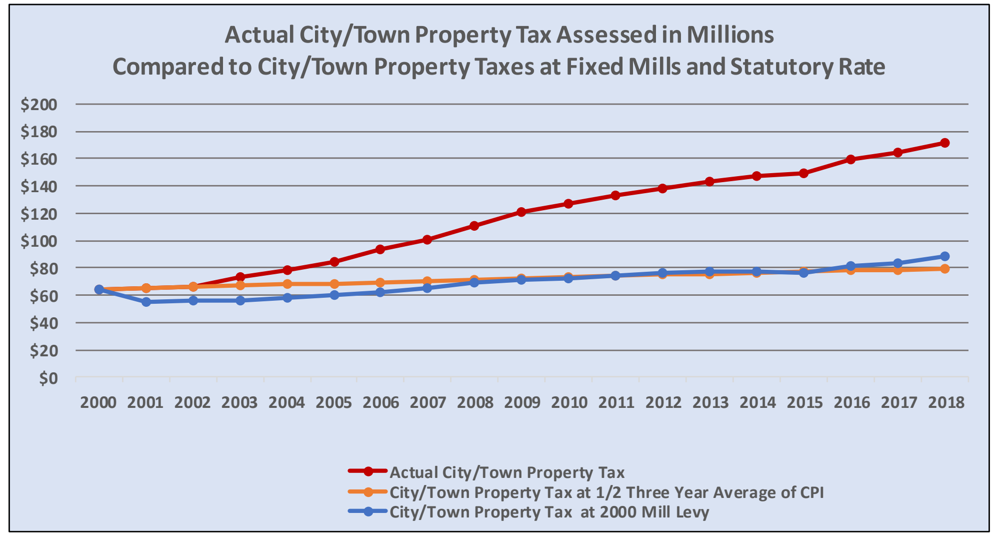
Because local governments are prohibited from raising property taxes by more than ½ the rate of inflation, the majority of this growth in revenues comes in the form of voted levies.



Source: *Statewide Accounting, Budgeting, and Human Resource System (SABHRS)*



Source: *Montana Department of Revenue, and Terry Johnson*



The difference between the property tax assessed under the limitations imposed by 15-10-420 and the total actual property tax is comprised of voted mills.

Voted levies are provided for under 15-10-425, MCA and typically provide funding for such projects and services as additional funds for public safety, construction and rehabilitation of schools, jails and other public infrastructure such as libraries.

Additionally, local governments are authorized to establish “special districts” (7-11-1002, MCA) to perform a single or limited range of functions. These typically include things like cemetery, museum, park, fair, solid waste, or road districts. Special districts do not include planning/zoning, irrigation, library, parking, resort area, lighting, rural fire, TIF, or weed management districts.

The property tax revenue generated by voted or special district levies is governed by the conditions specified in the ballot initiative or special district formation. Once established, they too are subject to the growth limitations under 15-10-420, MCA.

In sum, local governments struggle to provide the services and facilities demanded by their local residents with property tax revenues generated under the constraints imposed under 15-10-420. Many local governments then resort to voted levies to increase revenues to meet increasing demands. The legislature empowered local governments with the ability to request that additional revenue through a transparent vote of the local residents, and to direct that revenue to specific projects and purposes supported by the local community.