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January 24, 2020

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Darryl L. James,
Executive Director
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Rep. Alan Redfield, Chairman,
Sen. Dick Barrett, Vice-Chairman, and
Members of the Revenue Interim Committee

**Subject: Legislative Week
Observations on Local Government Trends Analyses**

It was good to see Revenue Committee members in Helena last week, and to be able to catch up with several of you over the course of the week. I know many of my members appreciated the opportunity to continue some important dialogue, and we hope it was a productive week for you as well.

I appreciated the opportunity to provide a brief overview of our concerns related to state and local government revenue trends. I also want to take the opportunity to provide a little more detail in writing after hearing several other presentations throughout the week – most particularly the breakout session in Room 317 on Tuesday afternoon.

I was prepared to provide verbal comments at the meeting, but given the late hour and the glazed look of several legislators I spoke with in the hall during your break around 4:00 p.m. that afternoon, I decided that written comments may be more appropriate (or just more appreciated). So, I offer the following for your consideration at your convenience.

I was struck by the conversation session participants had early in the afternoon about constituent priorities. First, I believe they correctly identified Public Safety, Education, Healthcare and a stable government to deliver core services as the highest priorities. Those appear to be the same priorities for constituents whether they are speaking to state or local officials.

I also took note of where infrastructure investment fell in the list of priorities. But as Rep. Ballance noted, people often mean different things when they're referring to "infrastructure." When one of your constituents wants to express concerns about potholes in their neighborhood street, a broken ADA ramp at the elementary school, or a funny smell or taste in their tap water, they're not likely to call you. They're going to call their school district or city/county government official(s).

This is an important point for two reasons:

- 1) your constituents understand that the state builds very little infrastructure in their communities, moreover that their local government and schools are responsible for building and maintaining that critical infrastructure.
- 2) it provides the Infrastructure Coalition with an opportunity to remind the Legislature that we have not asked the state to solve critical infrastructure funding problems, but rather have asked that the Legislature provide additional tools to local governments to address that mounting need in our local communities.

This observation on the roles of state and local governments rolls into a further observation of the data and graphics provided by LFD throughout the week. The aggregated state/local revenue and expenditure figures offered in the LFD presentations distort the data. For instance, the aggregated data suggested that social services expenditures are the highest budget expense. That may be true for the state, but not for local governments where public safety is by far the largest expenditure.

The Infrastructure Coalition appreciates the efforts of LFD, and we give credit to the staff for building a unique new tool in a short timeframe. We believe the tool provides an interesting, high-level view of revenue and expenditure trends at the state level. Unfortunately, we have found that reliance on Census data causes the model to fall short of providing an accurate picture of both revenues and expenditures at the local level. The aggregated Census data doesn't help you or the average Montana taxpayer understand either the growth in their property taxes or how those revenues are expended at the local level. For instance, the LFD presentation to you last week suggested that property taxes have risen an average of five percent (5 %) per year over the past 20 years. Our own independent analysis suggests that number is close to correct, but doesn't explain how that occurs. Income tax revenue for the state fluctuates with the economy and tracks fairly closely with personal/corporate income trends. Twenty years ago, the Legislature capped property tax increases at half the rate of inflation (averaged over the previous three years) plus newly taxable properties and increases in property values. That combined growth rate is closer to 2.4 percent over the last 20 years.

The difference between the 2.4 percent growth rate and the five percent rate quoted by LFD comes in the form of voted levies. The taxpayers in their local jurisdiction have approved additional property taxes to pay for specific projects and/or services within that defined district. While that difference may not be important when looking at overall trends, it is critical to understanding the mechanics of our existing tax structure and in the consideration of any property tax reform proposals.

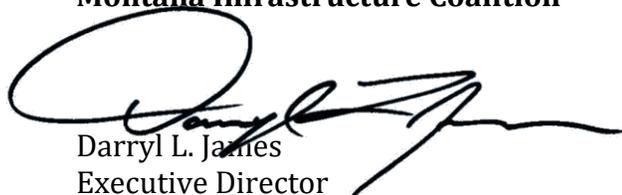
If the consensus is that the property tax burden is too high, but the property tax burden has increased primarily because the voters continue to tax themselves for additional services and projects, then the solution is either new revenue sources or alternative payment options for the services and projects solely dependent on voted levies. When you ask

voters to fund critical infrastructure they generally agree and then are forced to prioritize their spending based on the additional tax burden. The Legislature should do the same and prioritize critical infrastructure investments to relieve the burden on the property tax paying public.

As we noted in the Revenue subcommittee meeting on HJ 35 on Monday, the Infrastructure Coalition has undertaken an effort to compile a local government revenue and expenditure database built on the actual annual financial reports filed by cities and counties every year. We will provide that data to the Revenue committee in the coming months and invite you to call on us individually if you have any immediate questions or concerns.

Thank you for your continued dedication to the state of Montana, and for entertaining our efforts to improve infrastructure funding critical to the success of our businesses and communities across the state.

Sincerely,
Montana Infrastructure Coalition



Darryl L. James
Executive Director