CI-121

Overview and Potential Impacts
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What would CI-121 do?

Amend Article VIII, Section 3 of the Montana Constitution to revise the property tax system:

1. Limit certain residential property values
2. Limit residential ad valorem (value-based) taxes to 1% of assessed value
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Limit on Residential Property Values

2024: residential assessed base values revert to 2019 values*

Annual change in value limited to lower of 2% or CPI*

Limit on residential values shifts taxes to non-residential property and residential property not limited in value

*Does not apply to new construction, change in ownership, or property significantly improved
Potential Factors to Consider: Limit on Residential Property Values

• How is residential property defined?
• For tax year 2024 (FY 2025), is the assessed value the 2019 value or is the 2%/CPI change applied to the 2019 value?
• What is the value for new construction and property that changed ownership or was significantly improved?
• How large of a drop in taxable value would occur in 2024 when CI-121 is implemented, and what are the potential ramifications?
• How would the effects of CI-121 vary based on composition of property classes in a taxing jurisdiction? Areas with primarily residential property would likely be more affected than areas with a more diverse property tax class make up
January RIC Example
January RIC Example

Assumptions: these are for example only; the actual rates and numbers are complicated to predict

- The values of the three properties above are as of FY 2019, and these three properties are responsible for $1,000 of taxes in FY 2019 for a budgeted levy, such as a city, county, or school (school levies get a little bit more complicated, but the principle remains the same)
- The amount of property taxes collected is increasing at 1.5% annually, so the three properties are responsible for $1,015 in taxes in FY 2020, $1,030.23 in 2021, and so on
- The actual market value rate of increase in value is 4.5% annually on all properties, but implementing CI-121 caps the growth on residential property for tax purposes at 2%
- A change of ownership of a residential property triggers a market rate adjustment
- This example smooths all the timing on implementation and reappraisals, and that no rebase occurs among residential properties other than the implementation of CI-121 in FY 2025
January RIC Example – Business as usual

- $500k Business
- $400k House
- $300k House
January RIC Example – CI-121 is implemented in FY 2025
January RIC Example – CI-121 is implemented in FY 2025; the $300K house changes ownership in FY 2029
What would CI-121 do?

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How Property Taxes are Calculated

Property Taxes Paid = Market Value × Tax Rate × Mills
Residential Tax Cap Calculation

Cap on Taxes Paid 1.0% of Assessed Value = Market Value x Statutory Tax Rate 1.35% for residential property* x Mills 740.74

*Single-family residence market value above $1.5M is taxed at 1.89% so mill cap is lower
Local Examples
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Local Examples

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We will look at two examples:

• Taxing jurisdictions **below** the 740 mill cap*
  • Billings (Yellowstone County)
• Taxing jurisdictions **above** the 740 mill cap*
  • Kalispell (Flathead County)

*While the 1% residential tax cap may or may not be implemented in such a way that it caps taxing jurisdictions at 740 mills, this perspective allows us to look at some of the potential implications of the 1% residential cap.
Local Examples

$300,000 residential home within the city limits (the City House)

$300,000 residential home outside of city limits (the County House)

This presentation uses a simplified example comparing a City House and a County House because residential properties within cities generally have higher mill levies, due to city-only mill levies. Therefore, the City House in these examples is more likely to be impacted by the 1% cap than the County House.

The potential ramifications are easier to calculate when properties are under the 1% tax cap. Once the tax cap is hit, the potential resulting valuation and tax shifts are complicated.
Local Example #1

Assumptions:
• The values of the two properties above are as of FY 2019, and the property taxes paid on these properties are calculated using the actual mills for FY 2019
• The amount of property taxes collected is increasing at 1.5% annually
• The actual market value rate of increase in value is 4.5% annually on all properties, but implementing CI-121 caps the growth on residential property for tax purposes at 2.0%
• A change of ownership of a residential property triggers a market rate adjustment
• This example smooths all the timing on implementation and reappraisals, and that no rebase occurs among residential properties other than the implementation of CI-121 in FY 2025
Example: Billings  – Total taxes paid with business as usual

The growth in property taxes collected is 1.5%.
Example: Billings – Total taxes paid when CI-121 is implemented in FY 2025

Neither house hits the 1% cap.
Example: Kalispell – Total taxes paid with business as usual

The growth in property taxes collected is 1.5%.
Example: Kalispell – Total taxes paid when CI-121 is implemented in FY 2025

In FY 2025, valuation of the City House drops to its FY 2019 value, and that house pays the maximum 1% of its assessed valuation from FY 2025 to FY 2030.

The valuation of the County House also drops to its FY 2019 value, causing a smaller decrease in taxes paid because the County House does not hit the tax cap.
The effects of CI-121 would likely depend more on the amount of mills levied in a taxing jurisdiction, rather than if the area is urban or rural.

We replicated this example with two smaller communities:

• In Red Lodge, the results were qualitatively similar to the Billings example
• In Lewistown, the results were qualitatively similar to the Kalispell example
Potential Revenue Change from CI-121 in $ per Capita (2020)

Counties & Municipalities

Potential Shifted or Lost Revenue

- Revenue per Capita (2020) vs. Revenue per Capita (2020)

- $21.00 - $25.00
- $25.01 - $30.00
- $30.01 - $35.00
- $35.01 - $40.00
- $40.01 - $45.00
- $45.01 - $50.00
- $50.01 - $55.00
- $55.01 - $60.00
- $60.01 - $65.00
- $65.01 - $70.00
- $70.01 - $75.00

- Revenue Data provided by Dylan Cole, Montana Department of Revenue.

- GIS base layers provided by Montana State Library.
Local Example #2

Assumptions:
- The values of the two properties above are as of FY 2019, and the property taxes paid on these properties are calculated using the actual mills for FY 2019
- The amount of property taxes collected is increasing at 6% annually
- The actual market value rate of increase in value is 4.5% annually on all properties, but implementing CI-121 caps the growth on residential property for tax purposes at 2%
- A change of ownership of a residential property triggers a market rate adjustment
- This example smooths all the timing on implementation and reappraisals, and that no rebase occurs among residential properties other than the implementation of CI-121 in FY 2025
Example: Billings – Total taxes paid with business as usual

The growth in property taxes collected is higher at 6% (vs. 1.5% in the previous example).
Example: Billings – Total taxes paid when CI-121 is implemented in FY 2025

The higher growth rate of tax collections causes the tax bills for the two homes to converge on the 1% cap sooner than they might otherwise have done.

The City House hits the 1% tax cap right away in FY 2025, while the County House hits the cap in FY 2027.
CI-121 passes

None of the properties hit the tax cap

None of the properties hit the tax cap

Business as usual

Business as usual

No reductions to revenue collections

No reductions to revenue collections

Legislative modifications allow for a new source of revenue

The tax burden shifts

The tax burden shifts

From residential to other classes of property

From residential to other classes of property

To other residential properties under the tax cap

To other residential properties under the tax cap

Some properties hit the tax cap

Some properties hit the tax cap

Reductions to revenue collections

Reductions to revenue collections

Varying and unclear impacts

Varying and unclear impacts

Possible Outcomes if CI-121 Passes: Limit on ad valorem taxes
Potential Factors to Consider:
Limit on ad valorem taxes

• If tax shifting is not allowed, the Legislature must define priorities within 1% limit

• If the Legislature allows taxes to shift from capped to uncapped properties, how are taxes shifted to non-residential taxpayers (within and outside a capped levy district) and to residential taxpayers outside the capped levy district but within the same county and/or school district?

• Local governments could avoid tax shifting by collecting fees (not subject to the 1% ad valorem limit)

• Legislature could ease shifting by replacing property tax revenue with state revenue or allowing new local revenue sources
Potential Factors to Consider:
Big Picture Questions

• How would consolidated city-counties be affected by CI-121?
• How would Tax Increment Financing districts (TIFs) be handled under CI-121?
• How would CI-121 affect Guaranteed Tax Base (GTB) aid to schools?
Questions?