

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

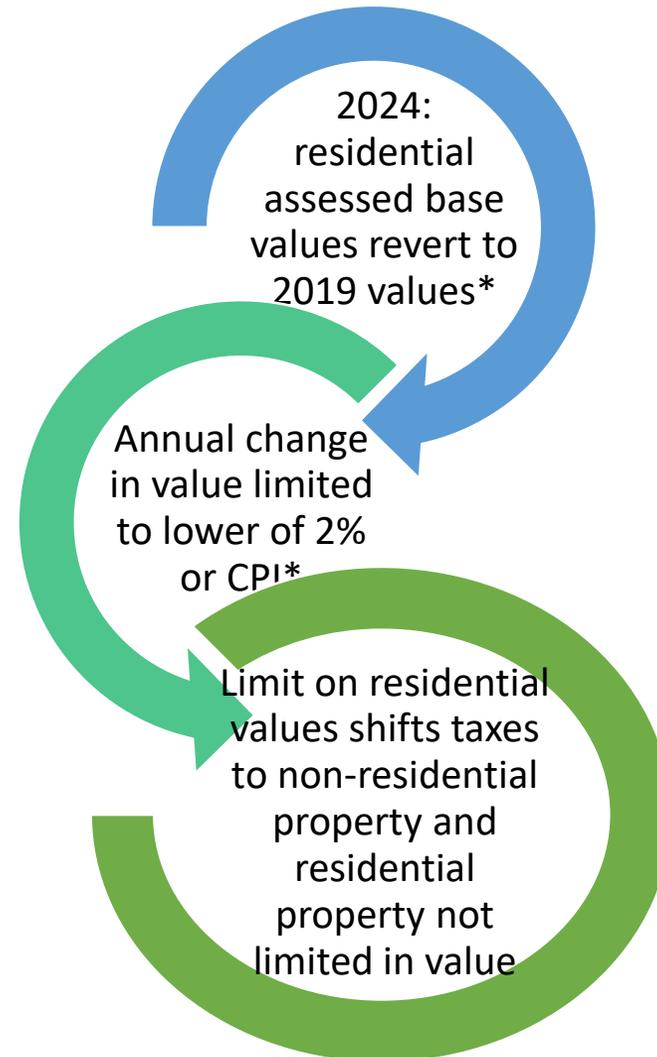
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Limit on Residential Property Values



*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

\$300,000
residential
home

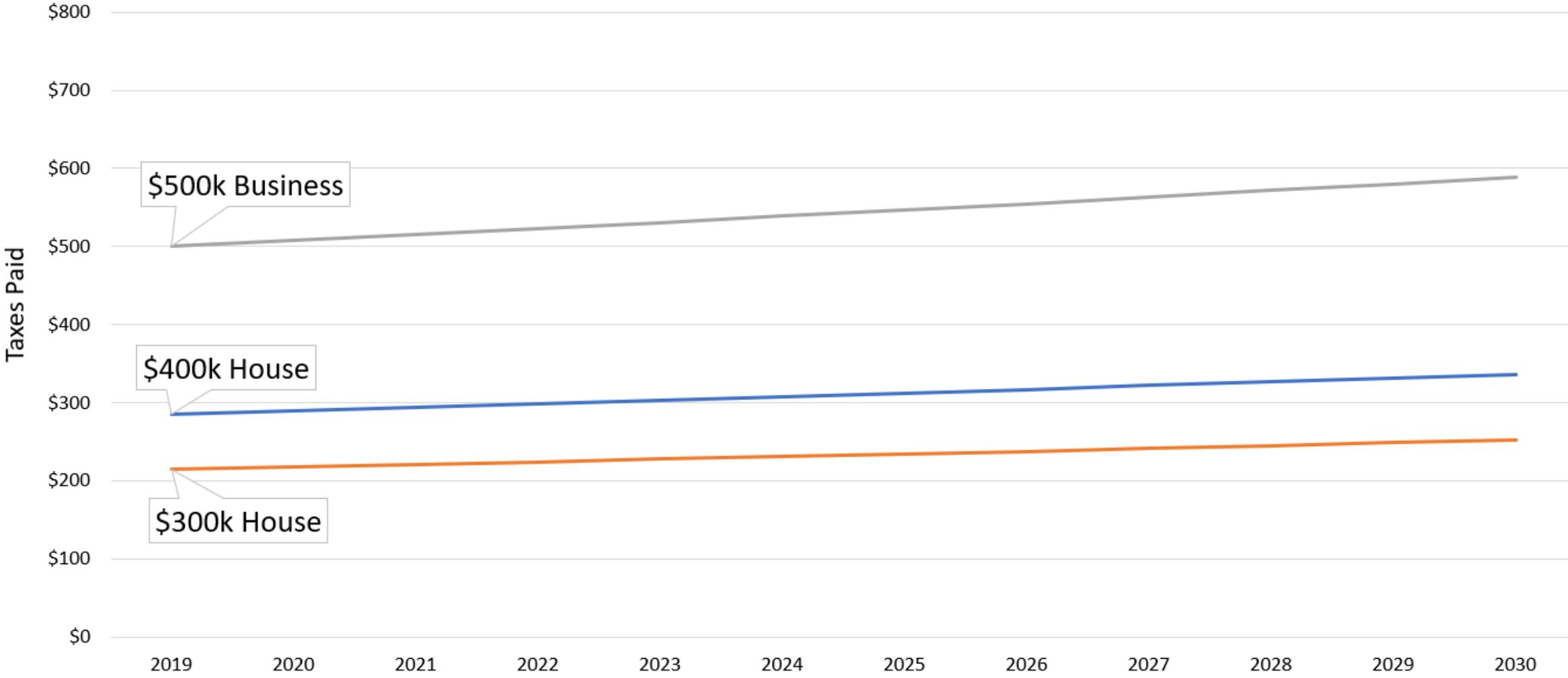
\$400,000
residential
home

\$500,000
business

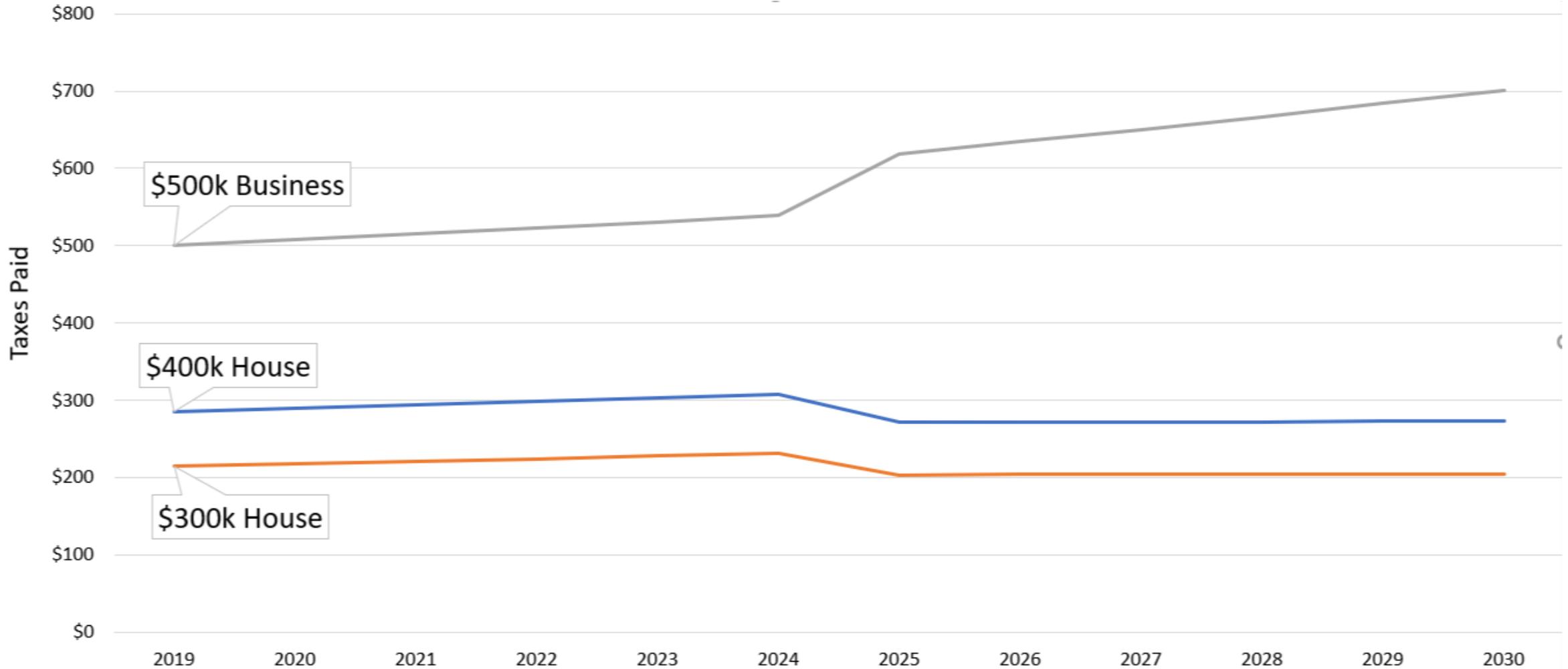
Assumptions: these are for example only; the actual rates and numbers are complicated to predict

- 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

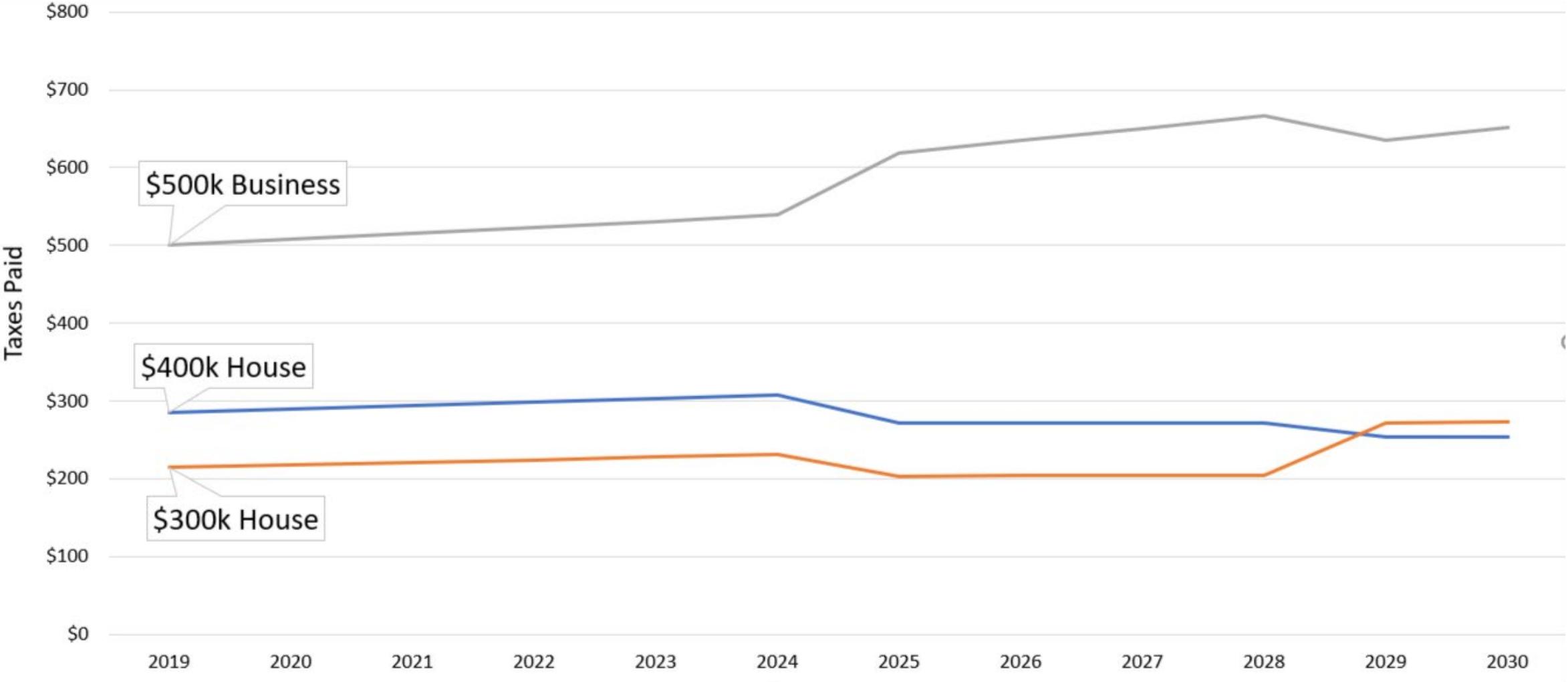
January RIC Example - Business as usual



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?



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

How Property Taxes are Calculated

$$\text{Property Taxes Paid} = \text{Market Value} \times \text{Tax Rate} \times \text{Mills}$$


Residential Tax Cap Calculation



The diagram illustrates the calculation of a residential tax cap. It consists of four blue rectangular boxes arranged horizontally, connected by mathematical symbols. The first box contains the text 'Cap on Taxes Paid' and '1.0%' with 'of Assessed Value' below it. This is followed by an equals sign, a second box containing 'Market Value', a multiplication sign 'X', a third box containing 'Statutory Tax Rate' and '1.35%' with 'for residential property*' below it, another multiplication sign 'X', and a final box containing 'Mills' and '740.74'. The '740.74' is circled in black.

$$\begin{array}{l} \text{Cap on Taxes Paid} \\ 1.0\% \\ \text{of Assessed Value} \end{array} = \text{Market Value} \times \begin{array}{l} \text{Statutory Tax Rate} \\ 1.35\% \\ \text{for residential property}^* \end{array} \times \begin{array}{l} \text{Mills} \\ 740.74 \end{array}$$

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



Local Examples

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

Local Examples

Keep in mind these examples are for illustrative purposes only; the actual rates and numbers are complicated to predict

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.

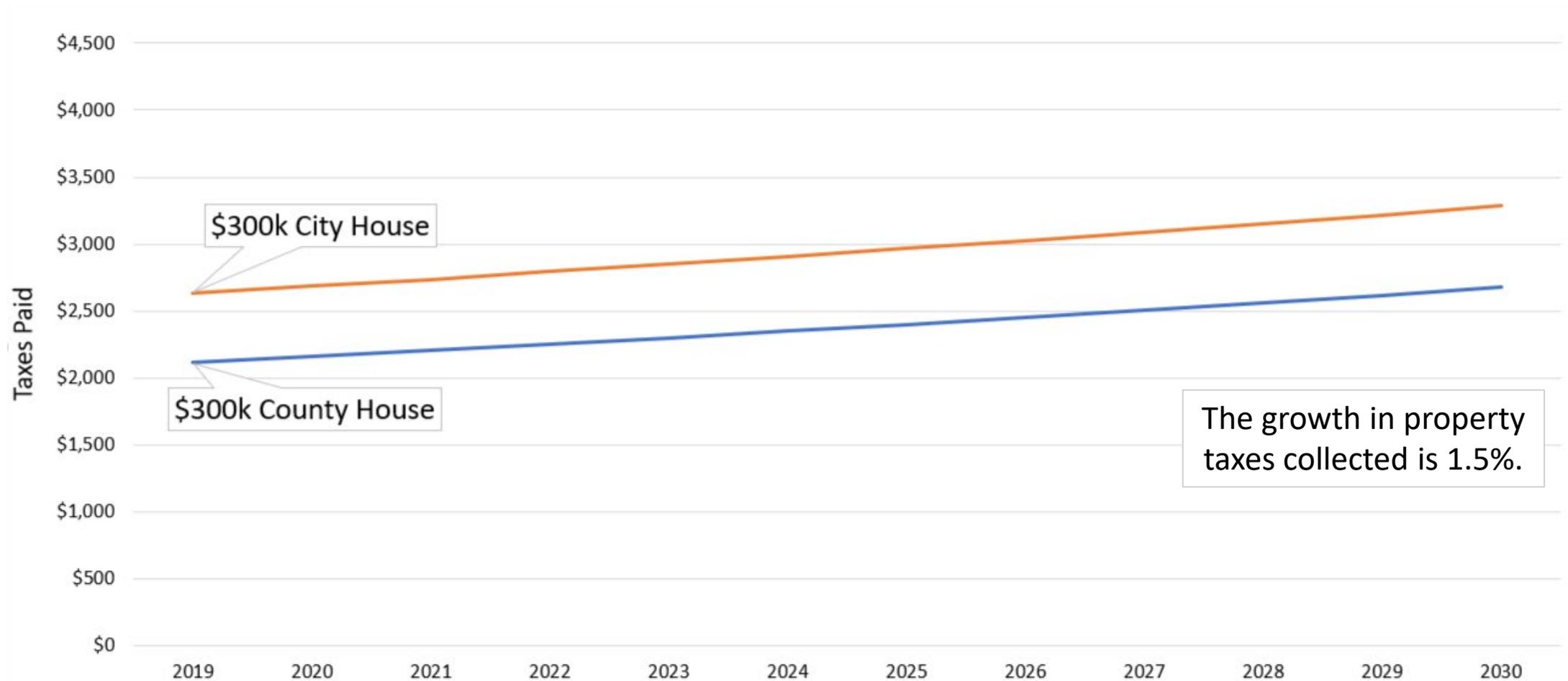
The potential ramifications are easier to calculate when properties are under the 1% tax cap. Once the tax cap is hit, the potential resulting valuation and tax shifts are complicated.

Local Example #1

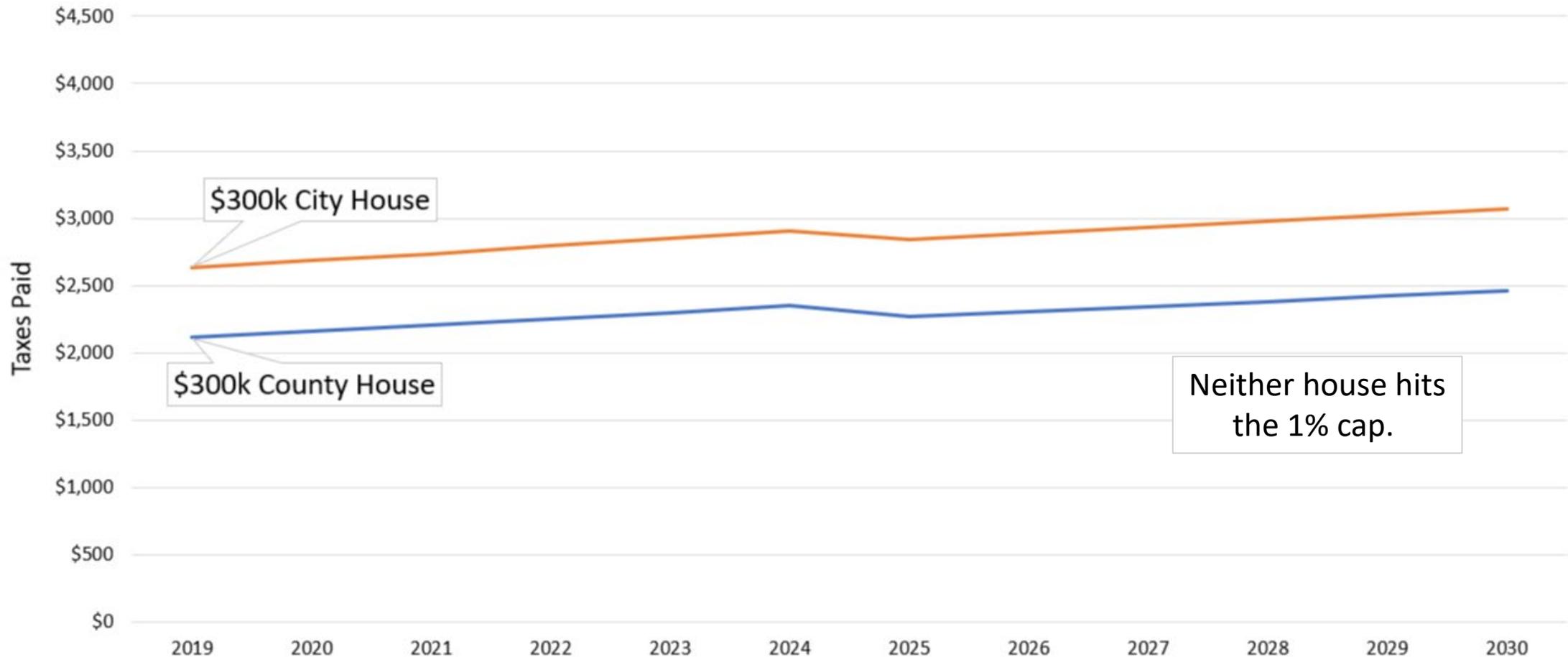
Assumptions:

- 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

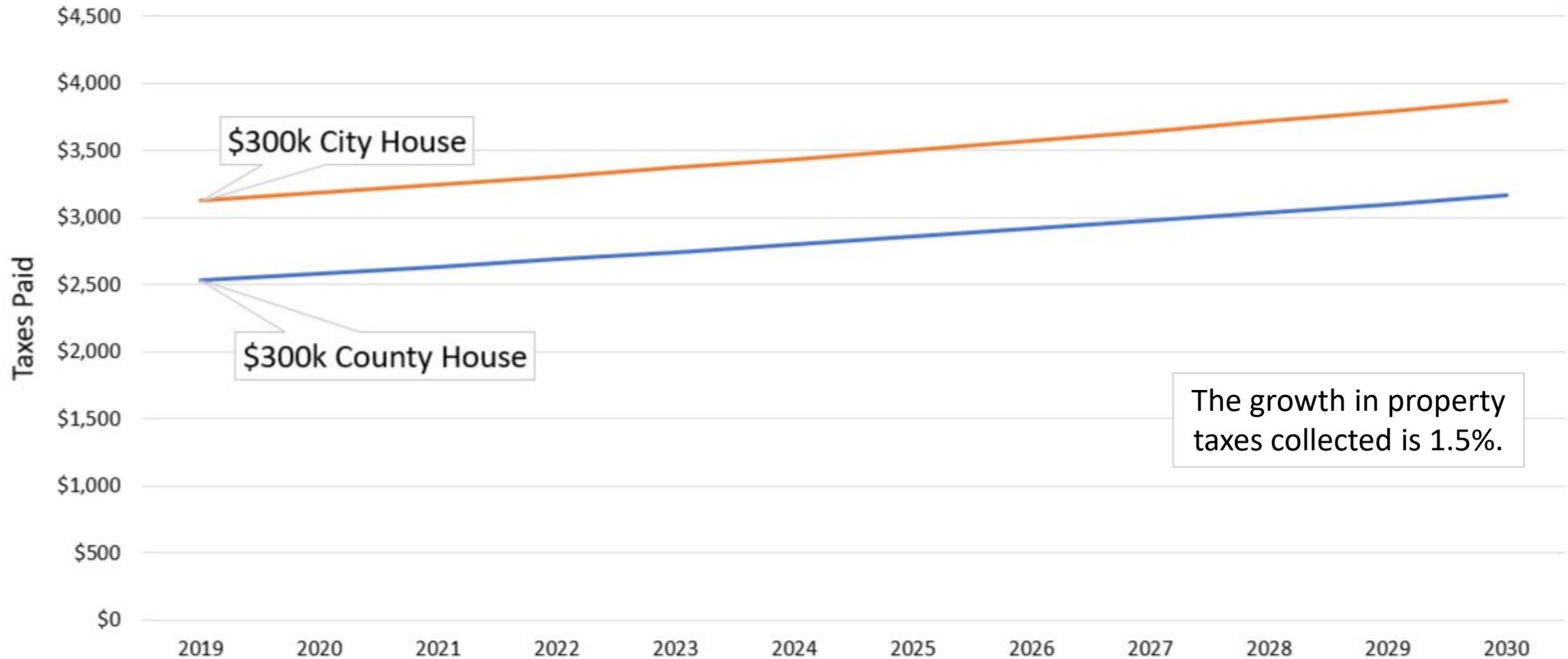
Example: Billings – Total taxes paid with business as usual



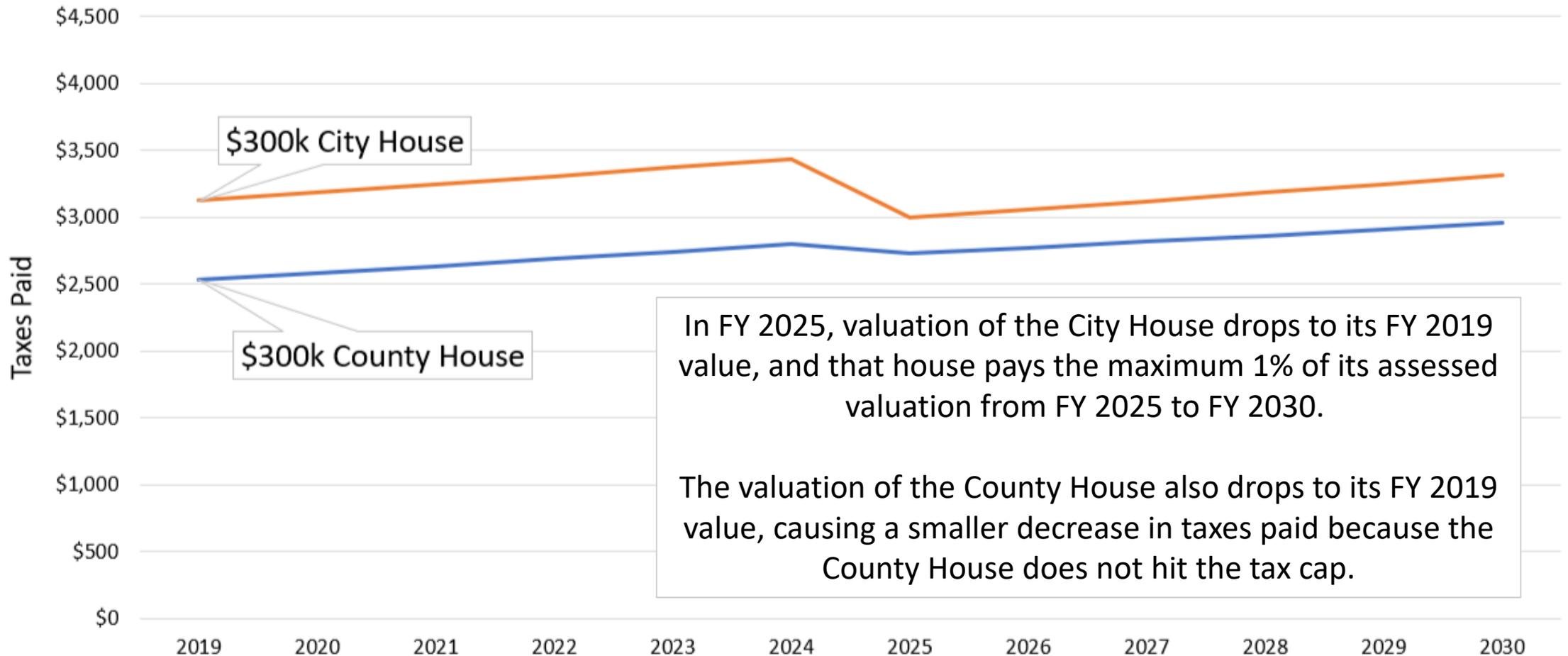
Example: Billings – Total taxes paid when CI-121 is implemented in FY 2025

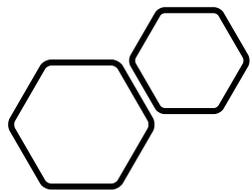


Example: Kalispell – Total taxes paid with business as usual

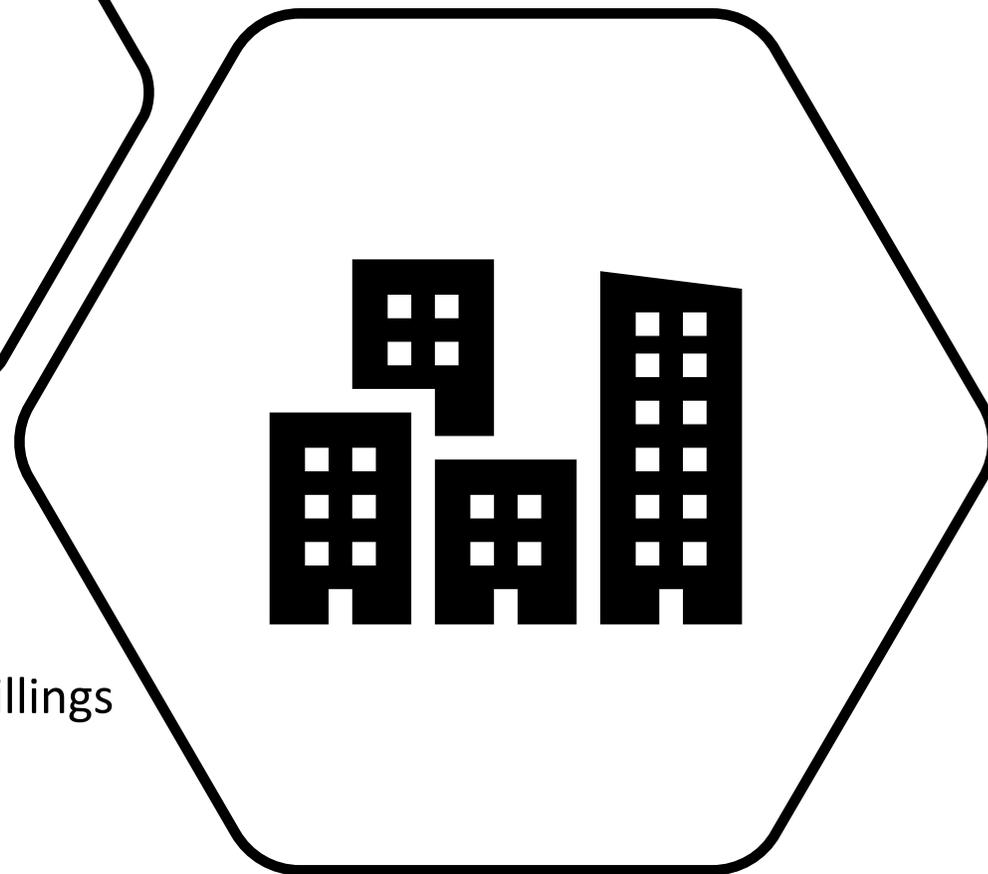
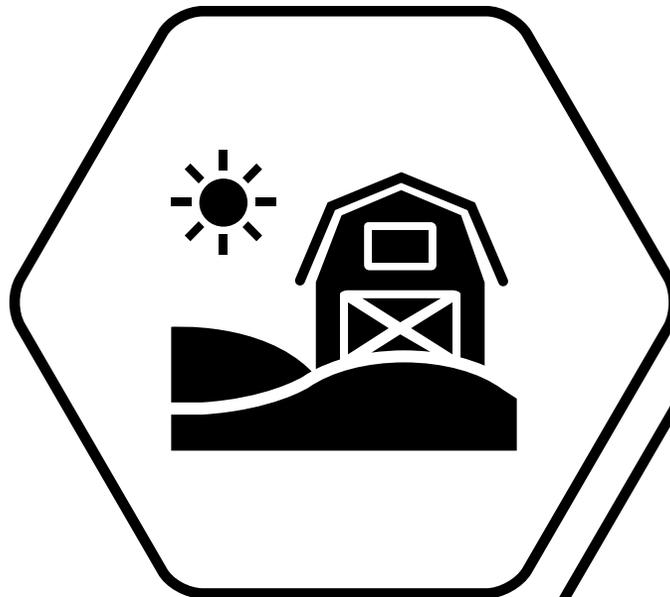


Example: Kalispell – Total taxes paid when CI-121 is implemented in FY 2025





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.

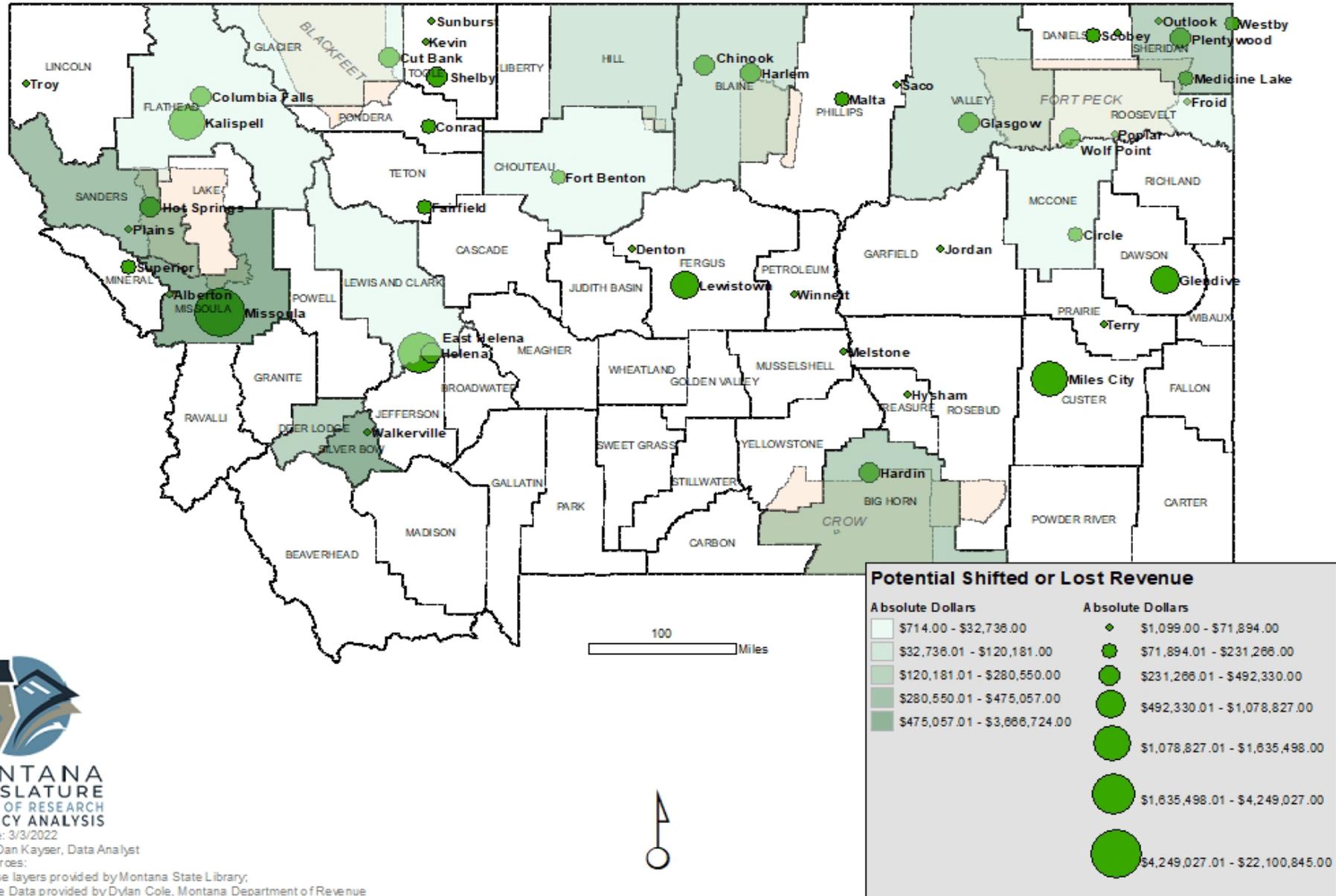


We replicated this example with two smaller communities:

- 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

Counties & Municipalities



MONTANA LEGISLATURE
 OFFICE OF RESEARCH & POLICY ANALYSIS

Map Date: 3/3/2022

Author: Dan Kayser, Data Analyst

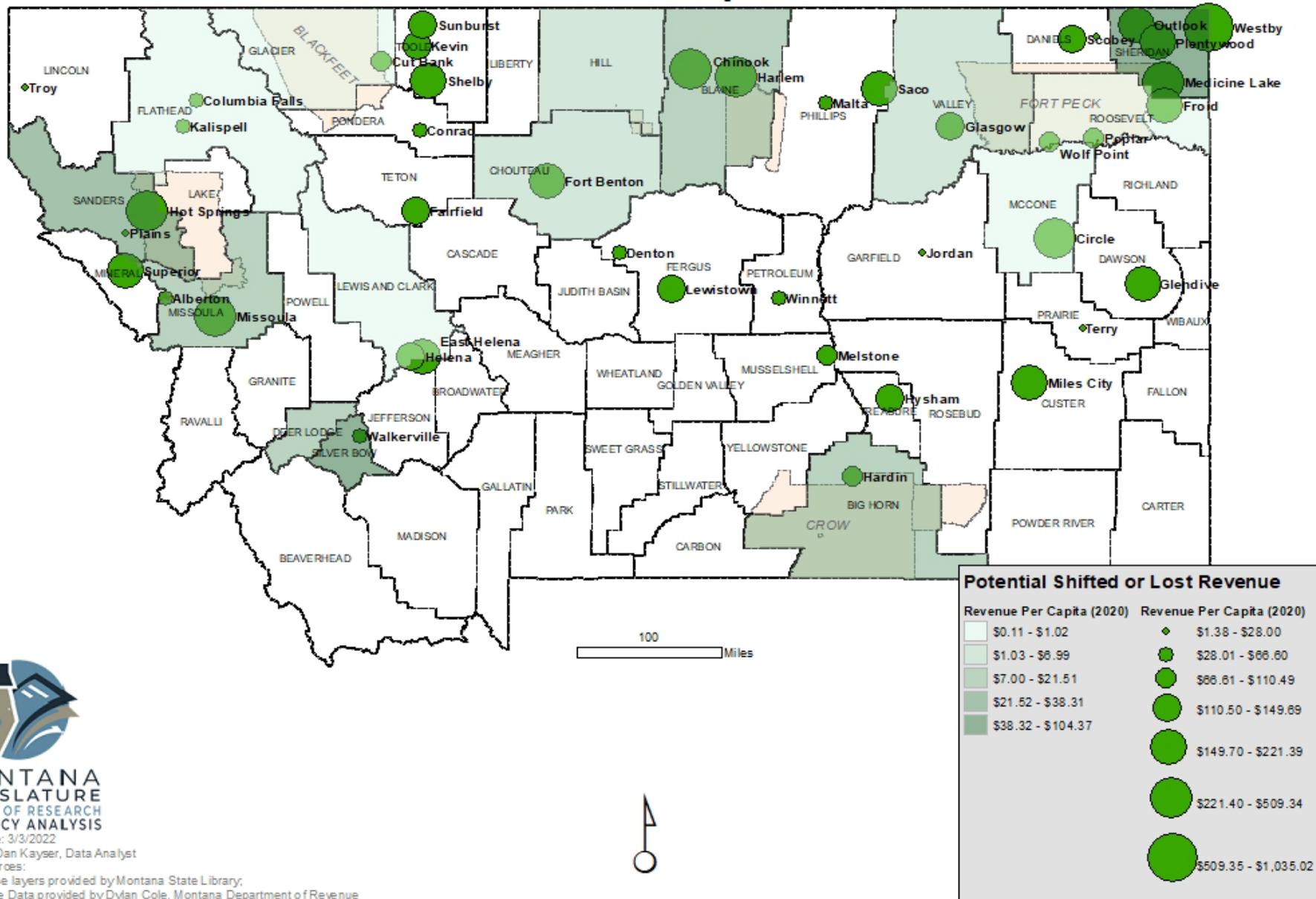
Data Sources:

- GIS Base layers provided by Montana State Library;

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

Potential Revenue Change from CI-121 in \$ per Capita (2020)

Counties & Municipalities



MONTANA LEGISLATURE
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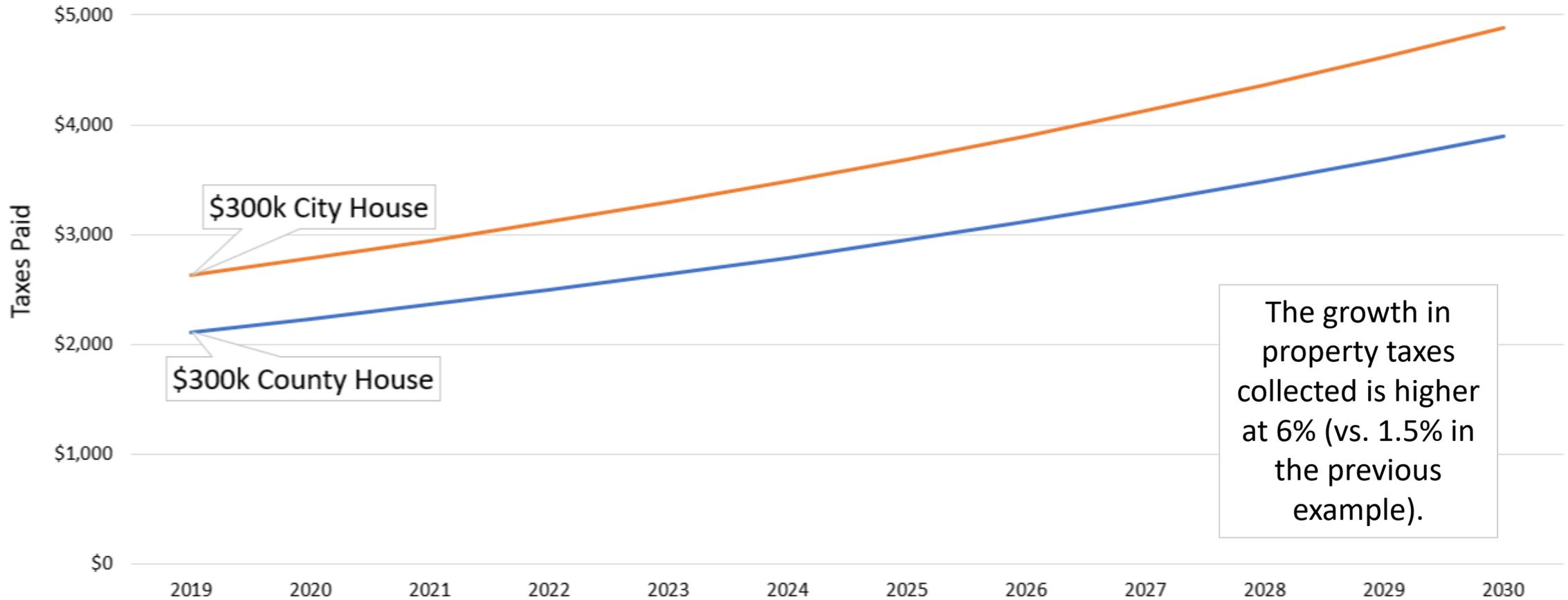
Map Date: 3/3/2022
 Author: Dan Kayser, Data Analyst
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Local Example #2

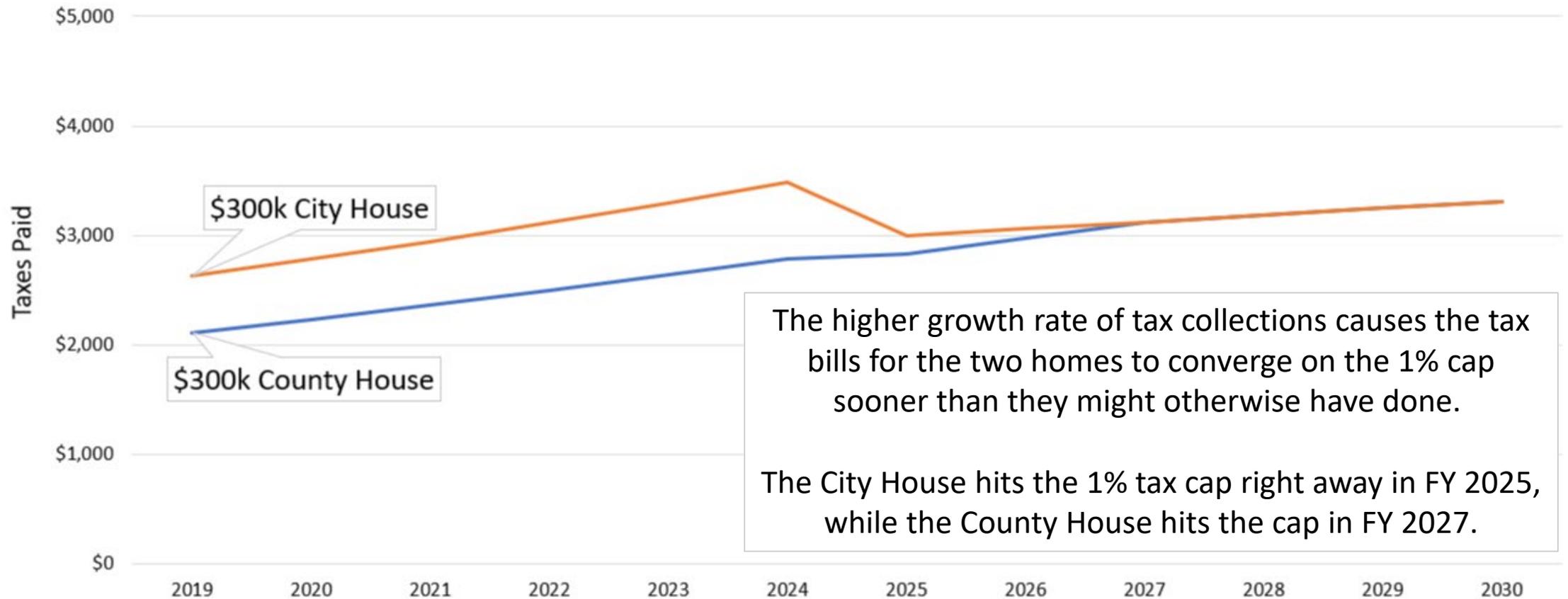
Assumptions:

- 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

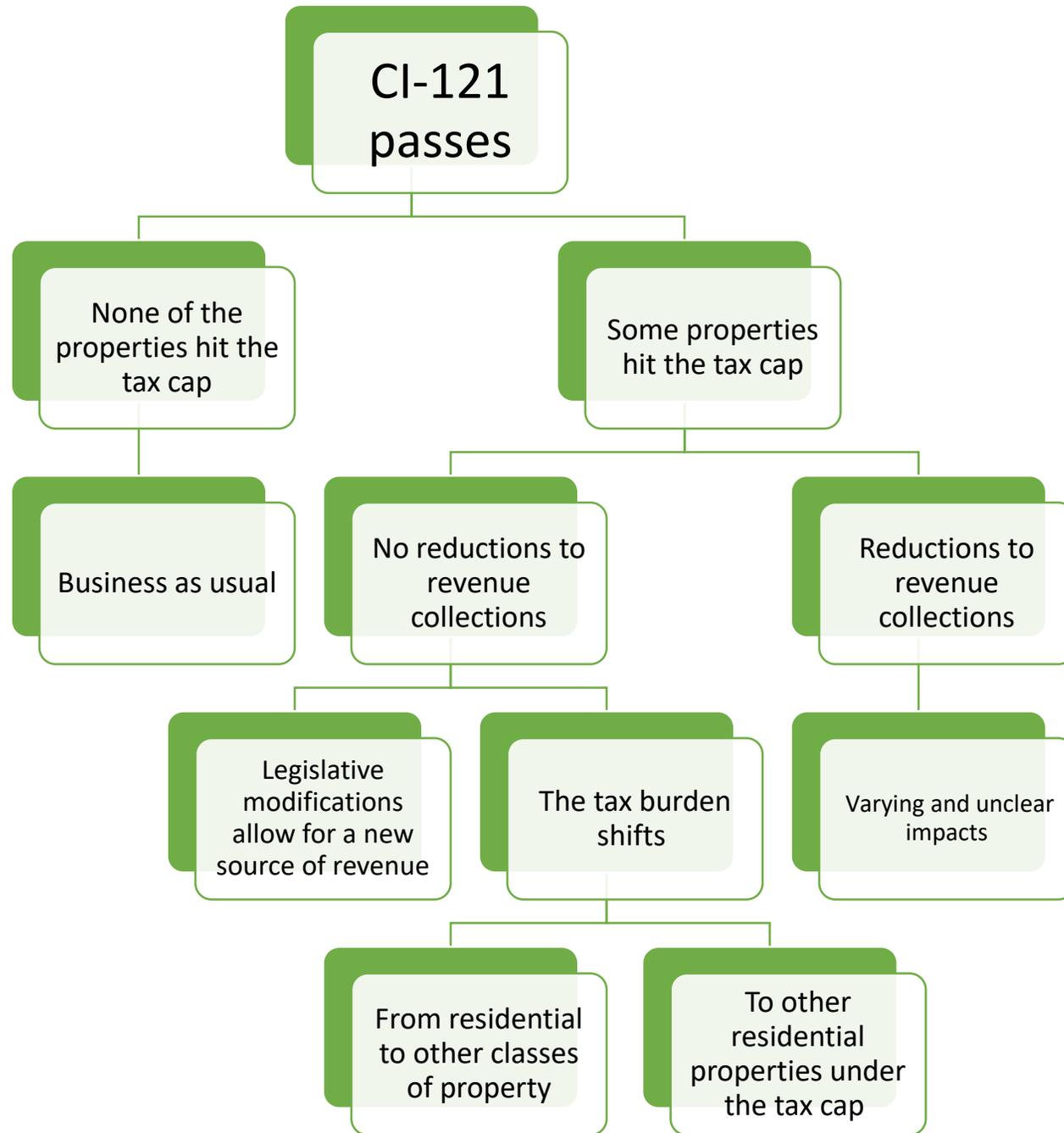
Example: Billings – Total taxes paid with business as usual



Example: Billings – Total taxes paid when CI-121 is implemented in FY 2025



**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?

