Joint Education Interim Committee
Education Interim Budget Committee

67th Montana Legislature

PO BOX 201706
Helena, MT 59620-1706
(406) 444-3064
FAX (406) 444-3036

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Dear Members of the Revenue Interim Committee:

The Education Interim Committee (EDIC) and Education Interim Budget Committee (EIBC) met jointly on March 15, 2022 and the joint committee was provided information on the potential implications of Constitutional Initiative 121 (CI-121) on school funding. This presentation outlined questions related to residential property values, the limit on ad valorem taxes and the overall view of implementing CI-121 (if passed). Additionally, the committee heard public testimony from the Montana Rural Education Association and the Montana Taxpayers Association.

Questions on the limit on residential property values that the legislature will likely need to address if CI-121 is passed include:

- How is residential property defined?
- For tax year 2024, how is the assessed value established? Is it the 2019 value or is the 2.0% consumer price index (CPI) change applied to the 2019 value?
- What is the value for new construction and property that has changed ownership or was significantly improved between 2019 and 2024?

The presentation also provided information on the limit on ad valorem taxes that will need to be considered if CI-121 is passed and some of the properties reach the tax cap:

- If tax shifting is not allowed, the legislature must define priorities within the 1.0% limit
- If the legislature allows taxes to shift from capped to uncapped properties, how are the 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 1.0% ad valorem limit)
- The legislature could ease shifting by replacing property tax revenue with state revenue or allowing new local revenue sources

Questions that encompass the impact of CI-121 on both residential property taxes and ad valorem taxes but focus on the overall view included:

- How large of a decline in taxable value would occur in tax year 2024 if CI-121 is implemented, and what are the potential ramifications?

- How would the effects of CI-121 vary based on the 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
- 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 the guaranteed tax base (GTB) aid to schools?

In addition to the presentation, the EDIC and EIBC heard public testimony that included concerns about:

- Tax shifts to other property classes
- The complicated nature of CI-121
- Voted levies – Currently, half of the property in Montana is classified as residential (which may change if CI-121 is passed). If half the property remains residential, there may be a significant proportion of property taxpayers that will not have to pay for levies that they are voting on
- Bonding – What would happen to the state's bond rating when half of the value of the state may not be available to tax?
- If there is not a change in the statute, taxes cannot shift. This will cause a constitutional issue with funding an equal and adequate system of public education, which may require the legislature to backfill a loss of revenue with state general fund

This information provided the Joint EDIC / EIBC with a basic understanding of CI-121 and the impact it could have, if passed, on school funding. However, as shown by the questions above, there are a significant number of questions that will need to be answered to fully understand the impact CI-121 would have on school funding.

If you have any questions, please do not hesitate to contact our staff, Katie Guenther or Pad McCracken, at kguenther@mt.gov or PadMcCracken@mt.gov, respectively.

Sincerely,

/s/

Representative David Bedey, Education Interim Budget Committee Chair
Senator Edie McClafferty, Education Interim Committee Chair