



Local Government Interim Committee

67th Montana Legislature

SENATE MEMBERS

KENNETH BOGNER
ELLIE BOLDMAN
JOHN ESP
MARK SWEENEY

HOUSE MEMBERS

LARRY BREWSTER
GERALDINE CUSTER
MARY ANN DUNWELL
DAVE FERN
STEVE GIST
KATHY KELKER

COMMITTEE STAFF

TONI HENNEMAN, Lead Staff
JULIE JOHNSON, Staff Attorney
BRI NORDHAGEN, Secretary

March 28, 2022

Dear Members of the Revenue Interim Committee:

At its meeting on March 16, 2022, the Local Government Interim Committee (LGIC) included an analysis of Constitutional Initiative 121 (CI-121) prepared by the Legislative Services and Fiscal Divisions in addition to public comment. In response to your request, the LGIC discussed the potential impacts of CI-121 on local governments, hearing from seven organizations¹ who testified in opposition to the initiative. This letter is intended to summarize the main points presented by those providing public comment.

Generally, testimony questioned whether instituting substantial changes to property tax policy through constitutional initiative is the correct method. If passed, CI-121 presents implementation challenges, both at the legislative and local government levels and may bring unintended consequences.

The League of Cities and Towns testified that property tax revenue makes up roughly 96% of a local government's budget. Local governments already experience limited revenue options due to 15-10-420, MCA, which limits new annual county and municipal revenue to one-half the rate of inflation over the prior three years. The Montana Association of Counties testified that counties with increased budgets are most often the result of citizens asking for additional services. Since local government revenues are capped by 15-10-420, MCA, additional revenue must be acquired through a voted levy. CI-121 presents questions of how voted levies may be utilized, both those mill levies that have already been approved by citizens and those mill levies that may be requested in the future. Additionally, questions exist of how to accurately calculate individual tax bills in areas with different voted levies and overlapping taxing jurisdictions.

Many provided testimony stating that CI-121 potentially caps local government revenues further, risking one of two options:

1. shifting the tax burden to classes of property other than residential; or
2. substantially cutting local government services.

¹ Organizations include the Montana Association of Counties, Montana Taxpayers Association, Montana Federation of Public Employees, Montana League of Cities and Towns, Montana Association of Realtors, Montana Farm Bureau Federation, and the Montana Farmers Union.

Shifting the tax burden to other classes, such as agricultural or commercial property, may have a chilling effect not only on the state's economic health but also on rural areas dependent on agriculture as a mainstay of their economy and areas attempting to entice or maintain a small business economy.

The second option, to cut local government services, also presents challenges. Services such as public safety and fire protection, services that many communities already struggle to fund, may be the most likely services to see reductions under CI-121. Many local governments devote a portion of their budget to debt service, a service that, if cut, may produce substantial and lasting repercussions. Conversely, reduced revenue may create problems for local governments looking to secure bonds and other types of long-term financing. Local governments often require long-term financing for needed infrastructure systems such as roads, drinking water, and wastewater disposal — systems necessary to provide livable conditions not only to current citizens but also to new housing and development. If more houses were to pay less in property tax, local governments may experience gaps in funding for needed infrastructure.

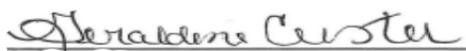
Montana's population has steadily increased, with many cities seeing large influxes of people during the last two years. This population increase, coupled with an aging infrastructure system, creates increased pressure on local governments and on an already stressed housing market. The Montana Association of Realtors predicts that CI-121 would create powerful tax incentives for people to not list homes for sale, further driving up the price of homes due to low inventory. Additionally, the League of Cities and Towns testified that data collected by the Infrastructure Coalition demonstrates that out-of-state homeowners will enjoy roughly 30% of the reduced property tax benefit from CI-121.

The committee heard testimony that CI-121 may create unequal payment for equal services. The cap proposed in CI-121 may allow existing homeowners to pay lower rates for services than new home buyers while both receive the same level of service. Similarly, the Montana Constitution requires the state to "fund and distribute in an equitable manner to the school districts the state's share of the cost of the basic elementary and secondary school system."² If CI-121 were implemented, both the state and local governments may need to restructure funding to meet constitutional requirements.

As requested in your letter, the LGIC provides this summary of testimony provided during its CI-121 discussion. The committee maintains that significant questions remain regarding its implementation and impacts but recognizes that the passage of CI-121 would have significant effects on local governments across the state.

If you have questions, please contact our committee staff, Toni Henneman, at toni.henneman@mt.gov.

Sincerely,



Representative Geraldine Custer, Local Government Interim Committee Chair

² Montana Constitution, Article X, section 1(3).