

FINANCIAL MODERNIZATION AND RISK ANALYSIS (MARA) STUDY: LOCAL GOVERNMENT MODULE SUMMARY

MARA Study Overview

As directed by HB 330, the Financial Modernization and Risk Analysis (MARA) Committee has undertaken a study of the long-term financial needs of the state and local governments, while considering changes in demographics, technology, and the economy. The MARA forecasting model is based on econometric data and identifies future financial risks to the state’s revenues and expenditures, as well as considering impacts on local governments’ revenues and expenditures. The MARA committee relies on a **data-driven approach to identify potential financial concerns for the state and local governments**. This approach has a **medium- to long-term time focus**, from present to 2040.

MARA Local Government Module Overview

The 2040 MARA model is broken into “modules.” The modules reflect different aspects of the revenue and expenditures of state government, local governments, and school districts. The diagram to the right shows the expenditure components in blue. Local government expenditures and revenues will be developed in the local government module. The local government module includes both revenues and expenditures for Montana’s 54 counties, 51 cities, 76 towns, and 2 consolidated city-county governments. The module does not include the over 200 unincorporated communities or revenues and expenditures from special districts.

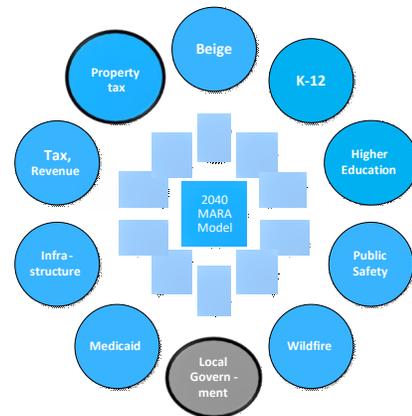
MARA Local Government Module – Data Sources

Data for the local government module includes:

- Local government annual financial reports (AFR) submitted by local governments to the Local Government Services Bureau at the Department of Administration
- State payments to local governments including state entitlement share payments, grant payments, and local assistance
- Property tax estimates from the Department of Revenue
- IHS Markit forecasts of price indices and state population

Key Takeaways: MARA Local Government Module

- Currently, this is a work in progress with data refinement and takeaways in flux
- Analysis of the model and adjustment of the forecast will continue into the 2025 biennium
- Average expenditures and revenues by entity and account are highly influenced by large construction projects financed through long-term debt



- Regional Economic Models, Inc. (eREMI) forecast of county populations
- Population data from the Montana Department of Commerce, Census and Economic Information Center (CEIC)

MARA Local Government Module - Methodology and Assumptions

Expenditures

The Legislative Fiscal Division has developed tools for examining historical local government expenditures. Local government expenditures for FY 2015 through FY 2021 are broken into 10 main categories based on reporting from the annual financial reports. Additional subcategories using the U.S. Census codes will be used for modeling purposes in the future. The categories used for historic expenditures include:

- Public safety including sheriff, police, fire, disaster and emergency services, and protective inspections
- Transportation including local government roads, bridges, and air transportation
- Public health including county health departments, county hospitals or nursing homes, environmental health services, disease control, and predatory pest control
- Social and economic services including services to senior citizens, human services, and county extension services
- Cultural and recreational functions including libraries, fairs, and parks and recreation
- General government operations including government-wide executive, administrative, and staff services
- Water, sewer, and solid waste services
- Other financing, which includes items not otherwise categorized
- Debt service, which includes principal and interest on local government debt
- Conservation of natural resources, which includes irrigation, drainage, flood control, soil conservation and reclamation, wetlands and water shed management, dam and reservoir safety, and purchase of land for open space and conservation programs

Currently, the MARA historical expenditure data is missing for Gallatin County in FY 2020 and FY 2021 and Hill County for FY 2021 as they have not yet submitted their annual financial reports. In FY 2019, Gallatin County made up 3.7% of total expenditures from local governments statewide. In FY 2020, Hill County made up 0.7% of total expenditures from local governments statewide.

Growth in the expenditure model will be trended based on changes to population and inflation as measured by the consumer price index (CPI).

Population

Population by county can be the A) IHS Markit or B) the REMI forecasts. The REMI forecast assumes greater growth in younger population. The IHS Markit forecast has Montana aging more than REMI.

Population by city or town comes from the Census and Economic Information Center within the Montana Department of Commerce as neither IHS Markit or REMI forecast includes population data by city or town.

Missing Annual Financial Reports Skew Data for FY 2020 and FY 2021

- Gallatin County has not submitted its AFR for either FY 2020 or FY 2021
- Hill County has not submitted its AFR for FY 2021

Inflation

The price index used is the Consumer Price Index for all Urban Users (CPI – U) and the IHS Markit forecast for CPI-U through 2033, then the module uses a five-year compound annual growth rate from 2033 to 2040 to assure the inflation rate after 2033 is trended consistently.

Expenditure growth

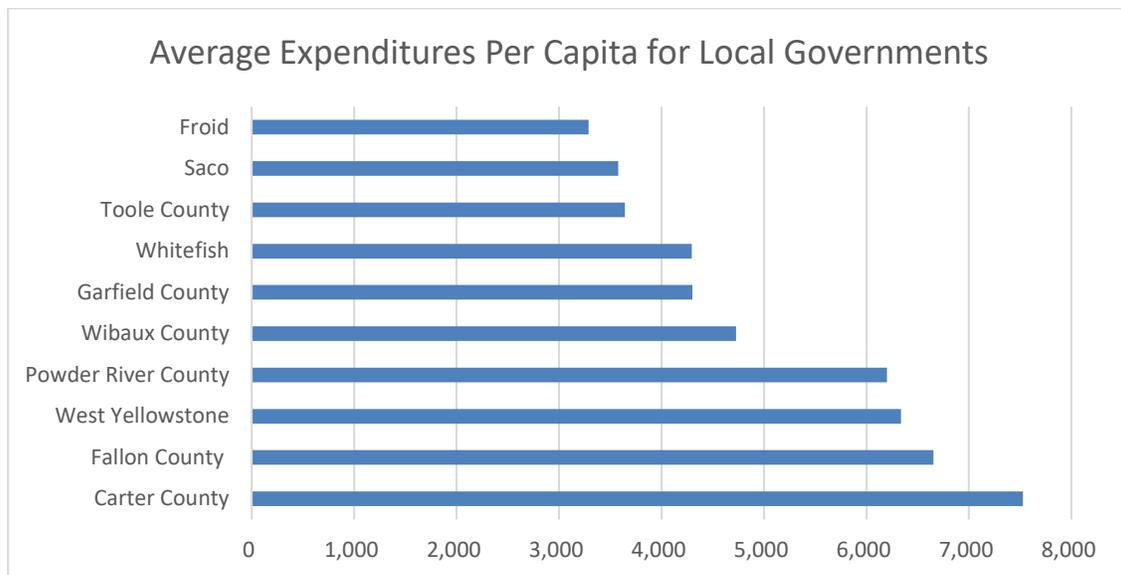
Local government entity expenditures will be forecast based on the historic costs from FY 2015 through FY 2021, population estimates by entity, and the consumer price index.

Average Historic Expenditures Per Capita

The MARA model for local government historic revenues and expenditures includes:

- Municipality average expenditures
- Municipality average expenditures by account

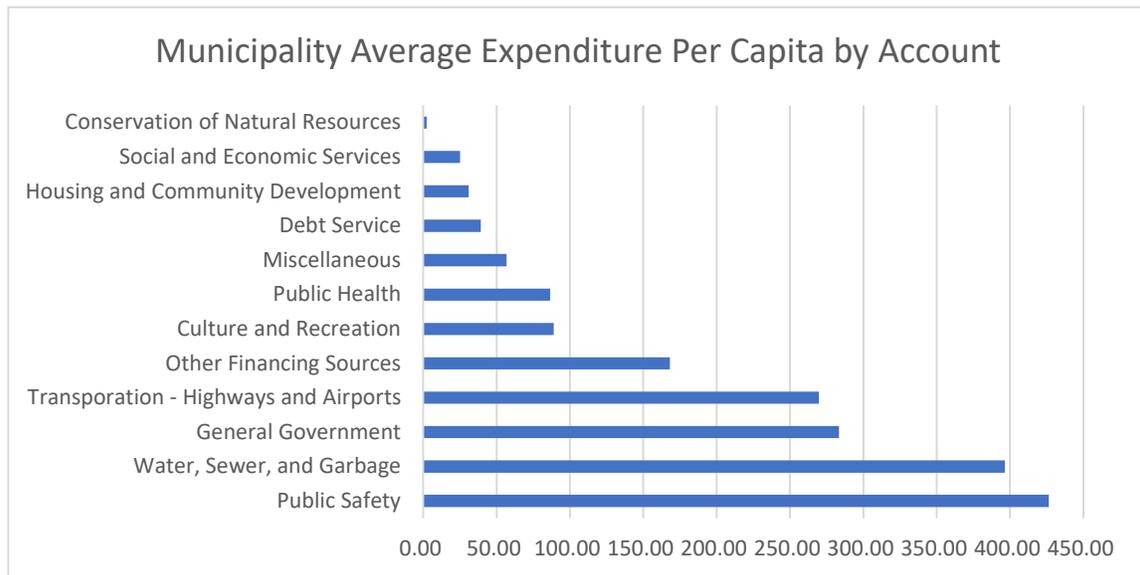
The following figure shows the top 10 local government average expenditures per capita for the period FY 2015 through FY 2021.



Population of the county, city, or town impacts the average expenditures per person, lower populated counties with large sources of revenues will have a higher average than more densely populated counties with similar revenue sources. In addition, municipality average expenditures are impacted by large construction projects funded through long-term debt. For example, the highest average expenditures for any municipality are in Carter County at \$7,528 per person. This high average is the result of:

- Higher revenues from property taxes due to the Bakken oil pipelines available to fund services
- Low population compared to other more urban counties
- Public health spending on the construction of a replacement for the critical access hospital in Ekalaka. Funding was provided by a \$15.1 million bond approved by county voters in November 2018

The following figure shows the municipality average by account for the historic expenditures per capita from FY 2015 through FY 2021.



The highest average expenditure by account between FY 2015 and FY 2021 was for public safety. This includes costs for construction of new facilities as well as personal services and other expenses for sheriff, police, fire, disaster and emergency services, and protective inspections.

Funding

Funding for future years will be allocated in the same proportion funding was allocated in FY 2021. This will crosswalk the costs developed by fund with the revenue sources for each fund. It will assume the same proportion of funding by source of revenue.

Revenue

The Legislative Fiscal Division has developed tools for examining historical local government revenues. Local government revenues for FY 2015 through FY 2021 are broken into 16 main categories based on reporting from the annual financial reports. Additional subcategories using the U.S. Census codes will be used for modeling purposes in the future. The categories for historical revenues include:

- Property taxes including properties taxed on market value, properties taxed on other than assessed value, and penalties and interest on delinquent property taxes
- Water, sewer, and garbage fees
- State revenues including state share entitlement payments, state reimbursement for county attorney salaries, and state grants
- Transportation fees including airport and grading and drainage fees, excavating permits, dust abatement fees, and subdivision fees
- Special assessments for street lighting utility districts, sewer and water maintenance districts, parks and commons maintenance districts, street maintenance districts and wastewater improvements
- Public safety revenues including prisoner board charges, medical reimbursement, drug forfeitures, sex offender registrations, police service charges, and U.S. Marshall services reimbursements

- Court fines and fees
- Public health revenues including Medicaid, Medicare, and private insurance payments for county-owned health facilities
- Long-term debt proceeds
- Licenses and permits including business licenses, liquor licenses, building, electrical, plumbing, and mechanical permits
- Local grants
- General sales and use taxes including resort taxes
- General government revenues including clerk and recorder fees, treasurer fees, birth and death certificates, records preservation fees, and copier revenue
- Culture and recreation revenues
- Federal revenues including payments in lieu of taxes, and federal grants
- Interest on investments

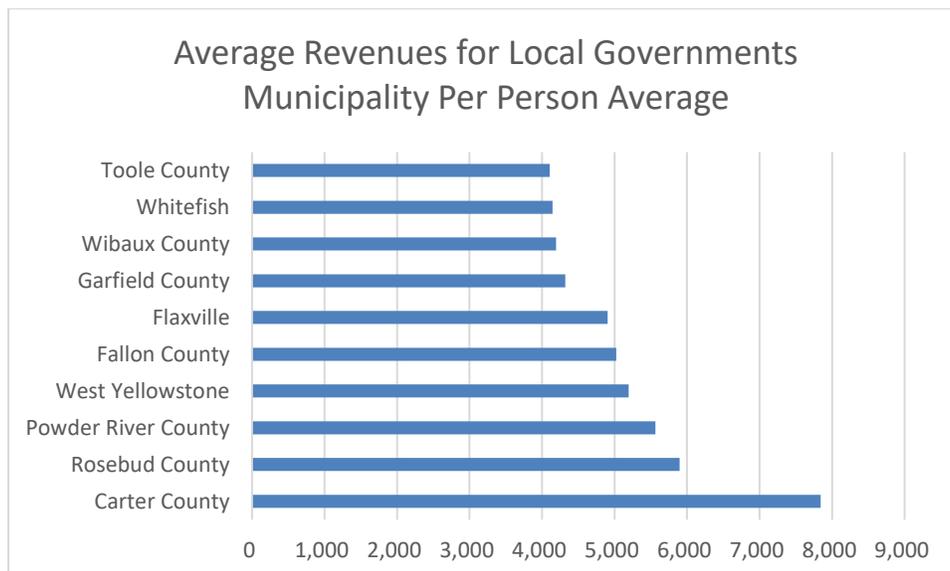
As with expenditures, the MARA historical revenue data is missing for Gallatin County in FY 2020 and FY 2021 and Hill County for FY 2021 as they have not yet submitted their annual financial reports. In FY 2019, Gallatin County made up 3.7% of total expenditures from local governments statewide. In FY 2020, Hill County made up 0.7% of total revenues from local governments statewide.

Revenue Growth

Summaries of the revenues needed as determined by the funding analysis will be reported by type of revenue. Revenue availability compared to revenue needs will also be reported, and any areas of concern will be reported.

Average Historic Revenues

The following figure shows the top 10 local government average revenues per capita for the period FY 2015 through FY 2021.



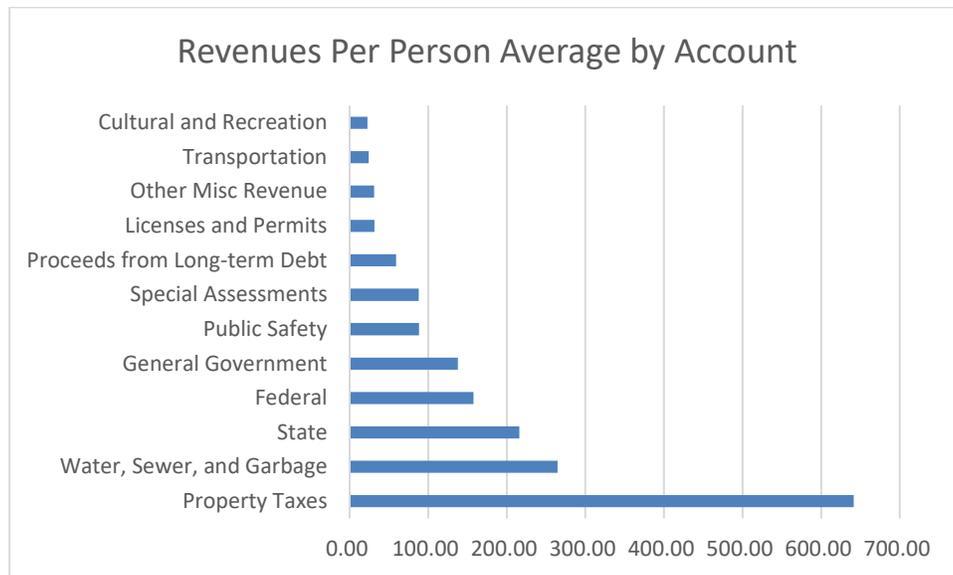
As with expenditures, the population of the entity impacts the average revenues per person, as does the property tax base. According to the LFD report [Property Tax Revenues in Montana](#), Carter County has the highest property taxes paid per capita followed by Wibaux and Fallon. The majority of the property taxes paid in those counties is on non-residential property. Counties with oil wealth tend to collect more in property taxes per capita because of the higher tax rate on class 12 oil pipelines and small populations living in those counties. It should be noted that all of the counties shown above are included in the top 15 counties for taxes paid per capita due to non-residential taxes paid within the respective counties.

Statute allows local governments to organize as resort areas or resort area districts and to establish up to a 3.0% resort tax on the retail value of all goods and services sold including:

- Hotels, motels, and other lodging or camping facilities
- Restaurants, fast food stores, and other food service establishments
- Taverns, bars, night clubs, lounges, and other establishments that serve beer, wine, liquor, or other alcoholic beverages by the drink
- Ski resorts and other destination recreational facilities

Montana has 10 established resort areas including West Yellowstone, Whitefish, Virginia City, Red Lodge, Big Sky, Craig, Cooke City, Gardiner, St. Regis, and Wolf Creek. The additional revenues support higher expenditures and are one of the reasons that Whitefish and West Yellowstone are in the top 10 for average revenues by municipality.

The following figure shows the municipal average by account for the historic revenues per capita from FY 2015 through FY 2021.



Property taxes at \$641.29 is the greatest average revenue source of any of the categories followed by water, sewer, and garbage fees, and state and federal revenues. It is anticipated that the average per capita for federal revenues will increase over the next few years due to the infusion of federal funds for the American Rescue Plan Act (ARPA) and the Infrastructure Investment and Jobs Act.