

Resolution #2022-2

PROPERTY TAX REFORM AND PROTECTION OF LOCAL REVENUES

BACKGROUND

Municipalities in Montana must rely almost exclusively on property tax revenues to fund local services. About 60% of all property taxes collected statewide are directed to elementary, high school, and higher education, while the remaining 40% funds local governments, including cities, counties, and special districts. Some counties also receive oil and gas tax revenues, and some unincorporated communities and municipalities, with a population of less than 5,500 where the majority of local employment is related to businesses catering to the recreational and personal needs of tourist visitors, collect a resort sales tax. Other than those exceptions, local governments are limited to collecting property tax revenues.

Local governments use property tax revenues mainly to fund public safety services, administration, and parks and recreation. Streets and roads are paid for through additional mill levies, as are local airports, cemeteries, county fairgrounds, courts, libraries, and other services. Water and wastewater service is typically paid for through user fees and assessments on residents that use those services, but again, those residents are the same homeowners paying the property taxes. With the exceptions of resort tax and resource tax revenues, the daily local services Montanans depend on for working, living, and recreating are paid for through property tax revenues.

Municipalities are only authorized to impose a mill levy that is sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half the average rate of inflation for the prior 3 years. Cities and towns cannot financially survive with this limitation on the mill levy. Expenses incurred by cities and towns are not limited to any similar cap. As a result, many communities turn to voted mill levies to fill the gap created by this ceiling on property revenues.

The state determines the tax rates for all property in Montana. Residential homeowners pay almost half of all property taxes collected statewide. Over the past few decades, as the Legislature has reduced the tax rates on other classes of property, the property tax burden has increased on residential and commercial property owners. To compensate, the Legislature created the entitlement share, a formula for redistributing state general fund to local governments to fill the gap created by tax rate cuts enacted by the Legislature. However, Legislatures since that time have continue to attempt the diversion of entitlement share payment funds to diminish the future growth capacity of the fund and deprive local governments of the funds historically promised.

In 2021, a ballot proposal to constitutionally freeze taxable valuation and property taxation on residential properties was approved for signature collection. While the proposal ultimately failed, it exemplifies a growing discontent among Montanans with property taxes. The average residential tax paid by Montanans more than doubled from 2002 to 2018, and the pandemic-induced housing price surge has only exacerbated that trend.

Montanans expect high quality, consistent local services. They expect their roads to be well-maintained, clean water available to drink, wastewater treated and disposed of, and their children to be well-educated in a safe and secure building. They expect garbage to be collected and disposed of, parks available for play and recreation, and development to be reviewed and approved with appropriate conditions to alleviate impacts on neighborhoods. These services have costs, ones that are increasing as the labor and material markets have tightened and inflation has soared.

ACTION

- 1) The League will support legislation to reform the tax system of Montana and provide relief to Montana property owners while preserving local government revenues and the ability of municipalities to provide the levels of services expected by local residents. The League will oppose any legislation that will reduce the base budgets of municipalities or limit the ability of municipalities to increase local revenues to address local needs.
- 2) The League will support legislation to allow all Montana municipalities, with the approval of their voters, the authority to enact a local option tax to help fund local infrastructure projects and other local services.
- 3) The League will support legislation to remove the restrictions on the cities' and towns' mill levy authority currently imposed under Title 15, chapter 10, part 4, MCA.
- 4) The League will oppose legislation or policies that seek to diminish the local government entitlement share, but will strategically sponsor and support legislation or policies that ensure the continuation or fair and equitable modernization of the entitlement share program and the application of increased growth factor adjustments.