

TO: Members of the Revenue and Transportation Interim Committee  
FROM: Megan Moore, Legislative Services  
RE: Exempt Property in the Seven Most Populous Counties for the SJR 23 Study  
DATE: December 9, 2011

This memorandum is an update to the November 29, 2011 memorandum on the same topic. The table on page 2 is updated to correct some calculations.

This memorandum provides data for the Senate Joint Resolution No. 23 study on the value of the exempt property in the historical seven most populous counties. The Department of Revenue prepared the attached document, entitled "Comparing Exempt and Taxable Property Growth." Discussed below are certain data limitations that affect the validity of the information provided. The memo concludes with an analysis of the effects of exempting certain property from taxation.

#### **A Note on the Value of Exempt Property in the Seven Most Populous Counties**

The Department of Revenue (DOR) does not value exempt property. Property records for exempt property reflect the last known value as of the date of exemption. There are no site visits by assessors to update physical characteristics. A computer model does update the value in the property record but staff does not verify the value unless a change of ownership or a permit indicates there has been a physical change to the property.<sup>1</sup>

These inaccurate values are the only values available and they are used throughout the analysis provided by the Department of Revenue and in this memo.

Property exempted in recent years is coded by exemption type in the property record, however, this is not the case for historical records. This means that the data could not be queried and organized by the type of property tax exemption. DOR staff, however, was able to remove all government and school district property from the exempt values provided. For these reasons, the information is presented only by county and not by type of property tax exemption.

#### **Effect of Property Tax Exemption on Other Taxpayers**

Section 15-10-420 allows a governmental entity authorized to collect property tax to impose a mill levy sufficient to generate the same amount of property taxes assessed in the previous year plus half of the average rate of inflation for the prior three years. This allows a taxing entity to raise the mill levy if property becomes exempt and would result in a loss of property tax revenue. Raising the mill levy increases the amount of taxes owed (as long as the value of the taxed property does not decrease).

The following table demonstrates the change in taxes that might result if exempt property was no longer exempt. Increasing the amount of taxable property would allow taxing entities to decrease the mill levy and still assess the same amount of property taxes. The sixth column of the table shows the amount by

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<sup>1</sup> See the \* note from "Comparing Exempt and Taxable Property Growth, Department of Revenue.

which each county could reduce its 2010 mill levy and collect the same amount of revenue if exempt property was no longer exempt.<sup>2</sup> The last column provides some context by showing how much the assessed property taxes would change on property valued at \$100,000. The change amounts range from a decrease of \$158.64 in Cascade County to a decrease of \$38.96 Flathead County. This indicates that between \$158.64 and \$38.96 is shifted from exempt properties to taxed properties.

#### Effect of Property Tax Exemption on other Taxpayers, 2010

County	2010 Mill Levy <sup>3</sup>	2010 Property Tax Revenue	2010 Exempt Property Value <sup>4</sup>	2010 Taxable Property Market Value	Change in Mill Levy if Exempt Property is Taxed	Change in Taxes Due on \$100,000 of Property if Exempt Property is Taxed
<b>Cascade</b>	596.82	\$76,713,969	\$351,887,633	\$3,952,953,719	-48.79	-\$158.64
<b>Yellowstone</b>	600.57	\$174,080,222	\$670,450,867	\$9,355,828,347	-40.16	-\$124.42
<b>Lewis &amp; Clark</b>	685.35	\$77,747,631	\$141,371,326	\$3,532,540,184	-26.37	-\$84.69
<b>Missoula</b>	695.89	\$139,108,545	\$236,640,661	\$6,850,529,682	-23.24	-\$67.80
<b>Gallatin</b>	536.80	\$125,621,382	\$267,694,642	\$7,788,012,712	-17.84	-\$53.60
<b>Silver Bow</b>	734.59	\$45,831,376	\$41,774,216	\$1,955,496,481	-15.36	-\$49.02
<b>Flathead</b>	547.58	\$126,594,460	\$212,771,947	\$8,209,517,616	-13.83	-\$38.96

<sup>2</sup> The change in mill levy was calculated using a weighted taxable percentage based on the estimated property taxes paid by property class and the 2010 taxable percentages for each property class. See 2008-2010 Biennial Report,” Montana Department of Revenue, p. 139.

<sup>3</sup> The 2010 Mill Levy and 2010 Property Tax Revenue are from: “2008-2010 Biennial Report,” Montana Department of Revenue, p. 129.

<sup>4</sup> The exempt property value and taxable property value are taken from the attached document prepared by the Department of Revenue.