

# CI-121

## Overview and Potential Impacts

Julia Pattin, Legislative Fiscal Division

Megan Moore, Legislative Services Division

March 2022

# What would CI-121 do?



Amend Article VIII, Section 3 of the Montana Constitution to revise the property tax system:

1. Limit certain residential property values
2. Limit residential ad valorem (value-based) taxes to 1% of assessed value

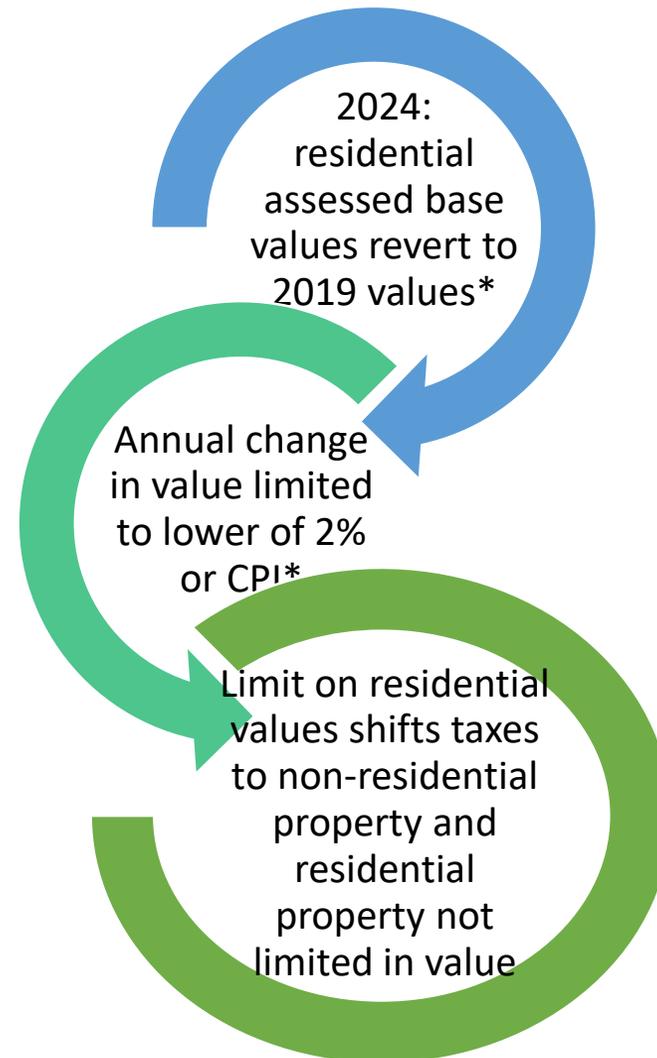
# What would CI-121 do?



Amend Article VIII, Section 3 of the Montana Constitution to revise the property tax system:

1. Limit certain residential property values
2. Limit residential ad valorem (value-based) taxes to 1% of assessed value

# Limit on Residential Property Values



\*Does not apply to  
new construction,  
change in ownership,  
or property  
significantly improved

# Potential Factors to Consider: Limit on Residential Property Values

- How is residential property defined?
- For tax year 2024 (FY 2025), is the assessed value the 2019 value or is the 2%/CPI change applied to the 2019 value?
- What is the value for new construction and property that changed ownership or was significantly improved?
- How large of a drop in taxable value would occur in 2024 when CI-121 is implemented, and what are the potential ramifications?
- How would the effects of CI-121 vary based on 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





# January RIC Example

# January RIC Example

\$300,000  
residential  
home

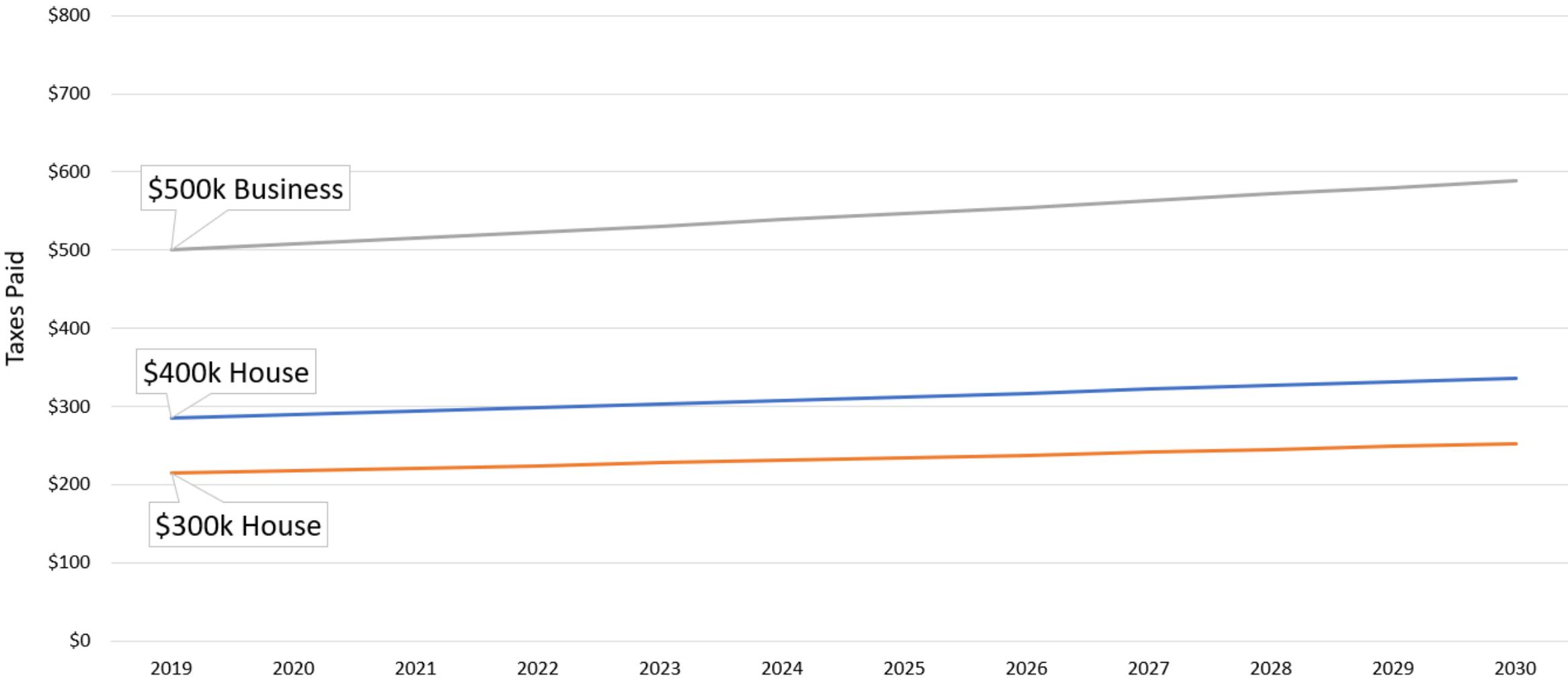
\$400,000  
residential  
home

\$500,000  
business

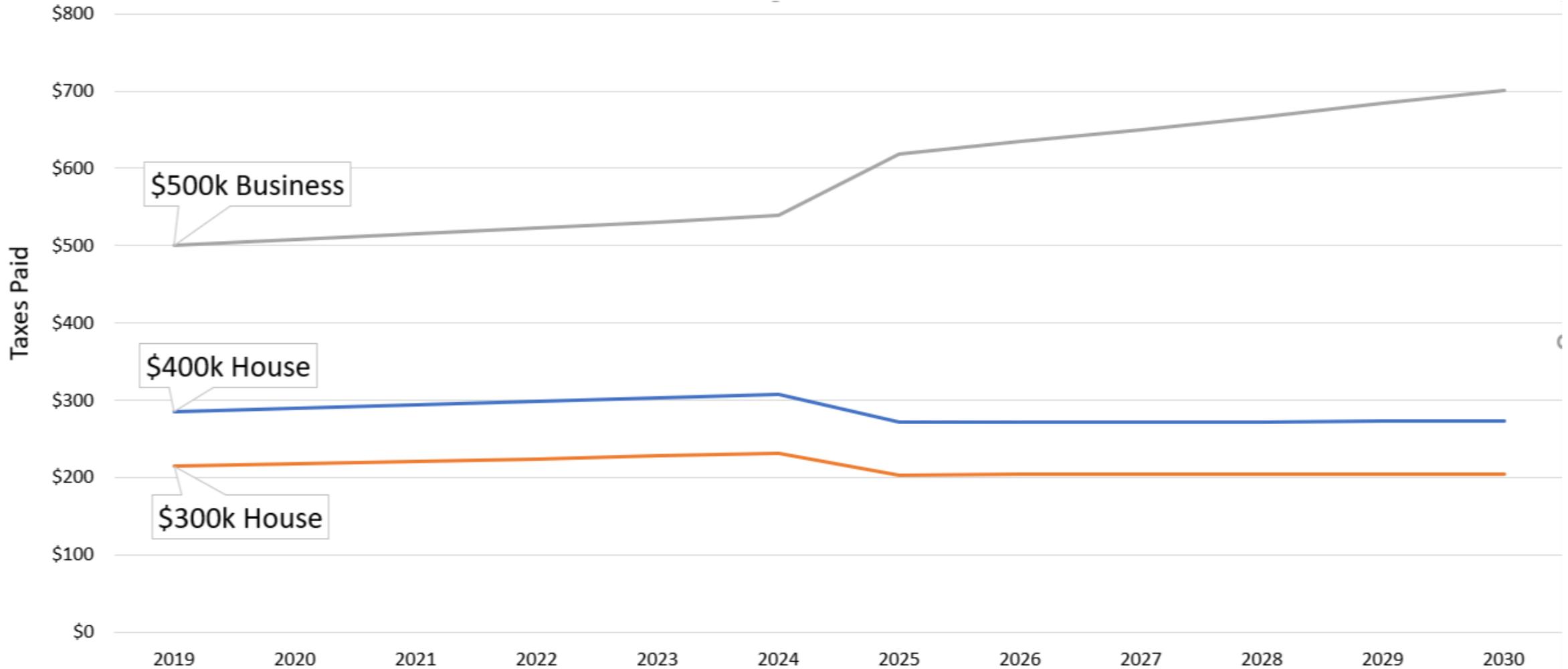
Assumptions: these are for example only; the actual rates and numbers are complicated to predict

- The values of the three properties above are as of FY 2019, and these three properties are responsible for \$1,000 of taxes in FY 2019 for a budgeted levy, such as a city, county, or school (school levies get a little bit more complicated, but the principle remains the same)
- The amount of property taxes collected is increasing at 1.5% annually, so the three properties are responsible for \$1,015 in taxes in FY 2020, \$1,030.23 in 2021, and so on
- The actual market value rate of increase in value is 4.5% annually on all properties, but implementing CI-121 caps the growth on residential property for tax purposes at 2%
- A change of ownership of a residential property triggers a market rate adjustment
- This example smooths all the timing on implementation and reappraisals, and that no rebase occurs among residential properties other than the implementation of CI-121 in FY 2025

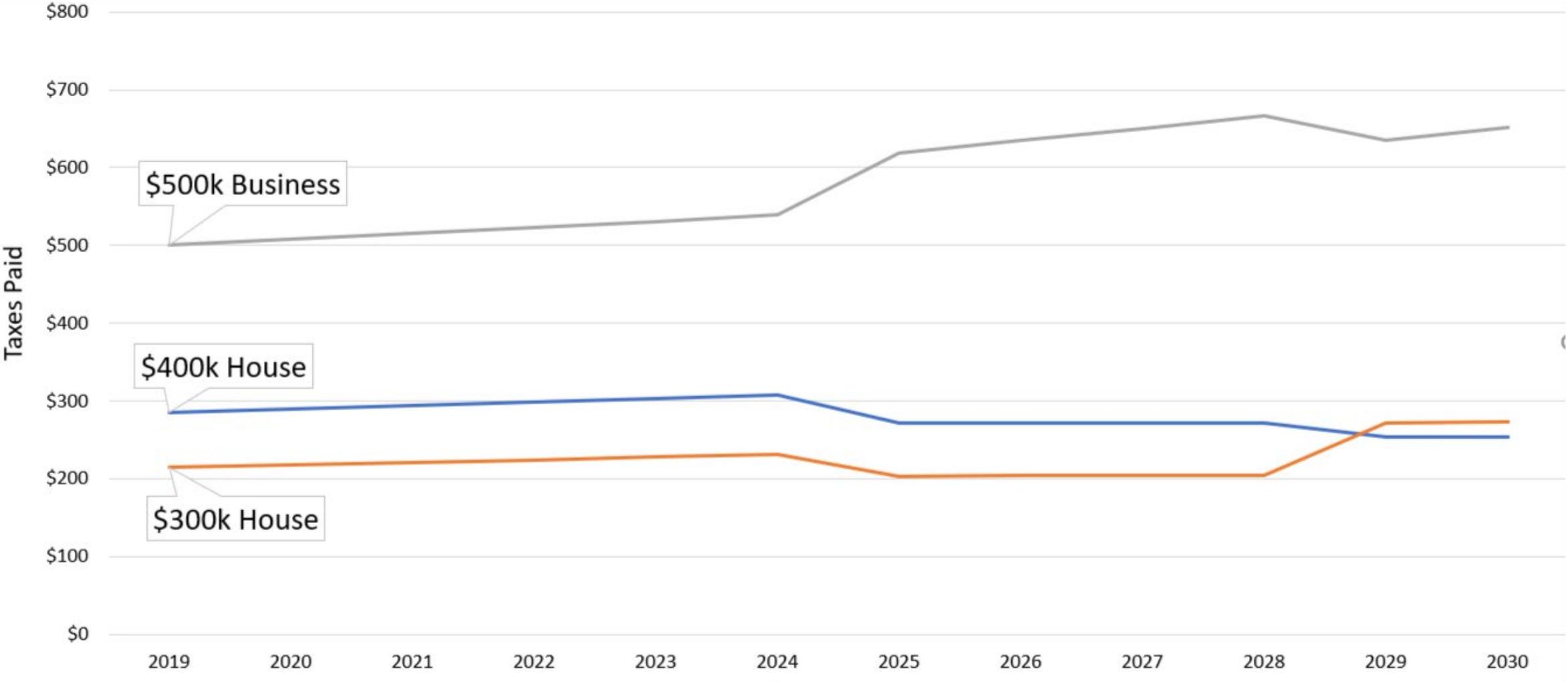
# January RIC Example - Business as usual



# January RIC Example - CI-121 is implemented in FY 2025



# January RIC Example - CI-121 is implemented in FY 2025; the \$300K house changes ownership in FY 2029



# What would CI-121 do?



Amend Article VIII, Section 3 of the Montana Constitution to revise the property tax system:

1. Limit certain residential property values
2. Limit residential ad valorem (value-based) taxes to 1% of assessed value

# How Property Taxes are Calculated

$$\text{Property Taxes Paid} = \text{Market Value} \times \text{Tax Rate} \times \text{Mills}$$
The diagram illustrates the formula for calculating property taxes. It consists of four blue rectangular boxes arranged horizontally. The first box on the left contains the text 'Property Taxes Paid'. To its right is an equals sign. The second box contains 'Market Value'. To its right is a multiplication sign 'x'. The third box contains 'Tax Rate'. To its right is another multiplication sign 'x'. The final box on the right contains 'Mills'. All text is white and centered within the boxes.

# Residential Tax Cap Calculation



The diagram illustrates the calculation of a residential tax cap. It consists of four blue rectangular boxes connected by mathematical symbols. The first box contains the text 'Cap on Taxes Paid' and '1.0%' with 'of Assessed Value' below it. This is followed by an equals sign, a second box containing 'Market Value', a multiplication sign 'X', a third box containing 'Statutory Tax Rate' and '1.35%' with 'for residential property\*' below it, another multiplication sign 'X', and a final box containing 'Mills' and '740.74'. The '740.74' is circled in black.

$$\begin{array}{l} \text{Cap on Taxes Paid} \\ \text{1.0\%} \\ \text{of Assessed Value} \end{array} = \text{Market Value} \times \begin{array}{l} \text{Statutory} \\ \text{Tax Rate} \\ \text{1.35\%} \\ \text{for residential} \\ \text{property*} \end{array} \times \begin{array}{l} \text{Mills} \\ \text{740.74} \end{array}$$

\*Single-family residence market value above \$1.5M is taxed at 1.89% so mill cap is lower



# Local Examples

# What would CI-121 do?



Amend Article VIII, Section 3 of the Montana Constitution to revise the property tax system:

1. Limit certain residential property values
2. Limit residential ad valorem (value-based) taxes to 1% of assessed value

# Local Examples

Keep in mind these examples are for illustrative purposes only; the actual rates and numbers are complicated to predict

We will look at two examples:

- Taxing jurisdictions **below** the 740 mill cap\*
  - Billings (Yellowstone County)
- Taxing jurisdictions **above** the 740 mill cap\*
  - Kalispell (Flathead County)

\*While the 1% residential tax cap may or may not be implemented in such a way that it caps taxing jurisdictions at 740 mills, this perspective allows us to look at some of the potential implications of the 1% residential cap.

# Local Examples

\$300,000 residential  
home within the city  
limits  
(the City House)

\$300,000 residential  
home outside of city  
limits  
(the County House)

This presentation uses a simplified example comparing a City House and a County House because residential properties within cities generally have higher mill levies, due to city-only mill levies. Therefore, the City House in these examples is more likely to be impacted by the 1% cap than the County House.

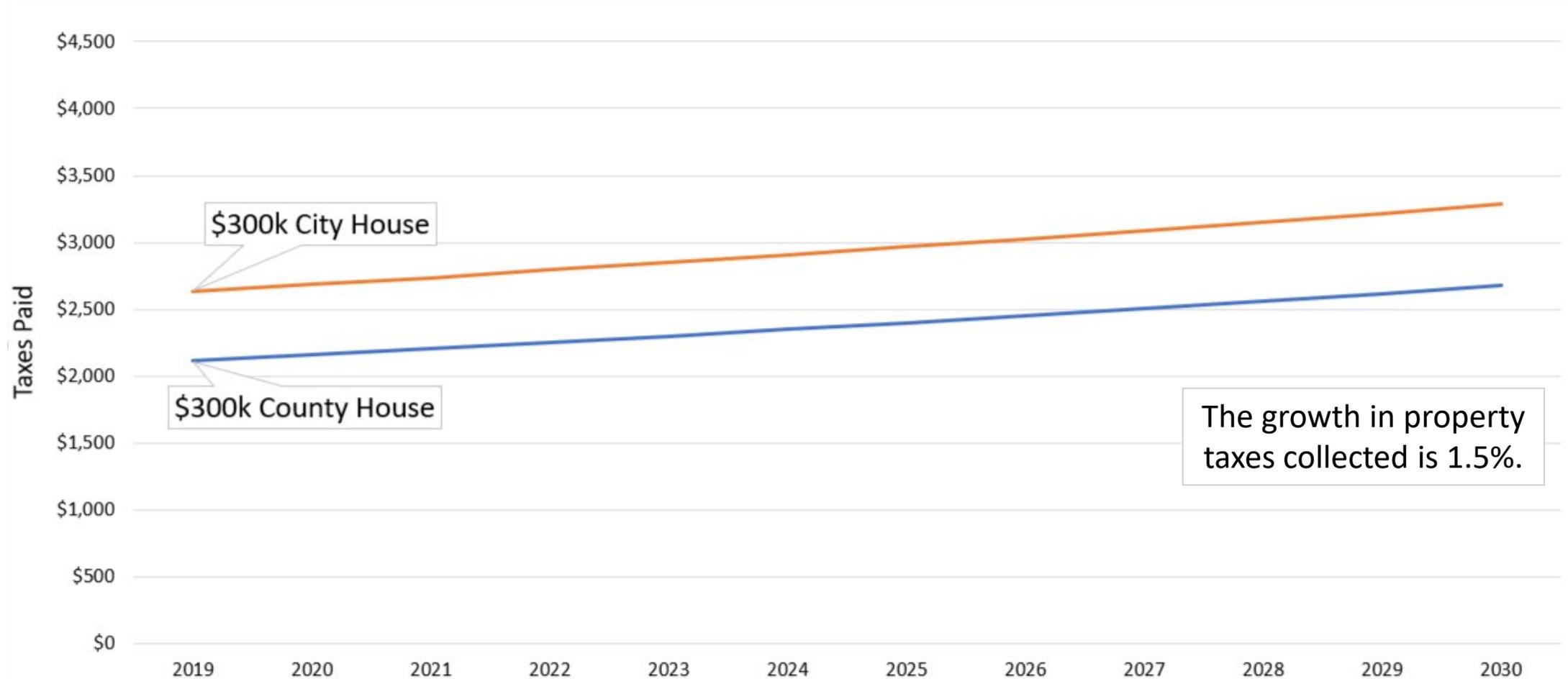
The potential ramifications are easier to calculate when properties are under the 1% tax cap. Once the tax cap is hit, the potential resulting valuation and tax shifts are complicated.

# Local Example #1

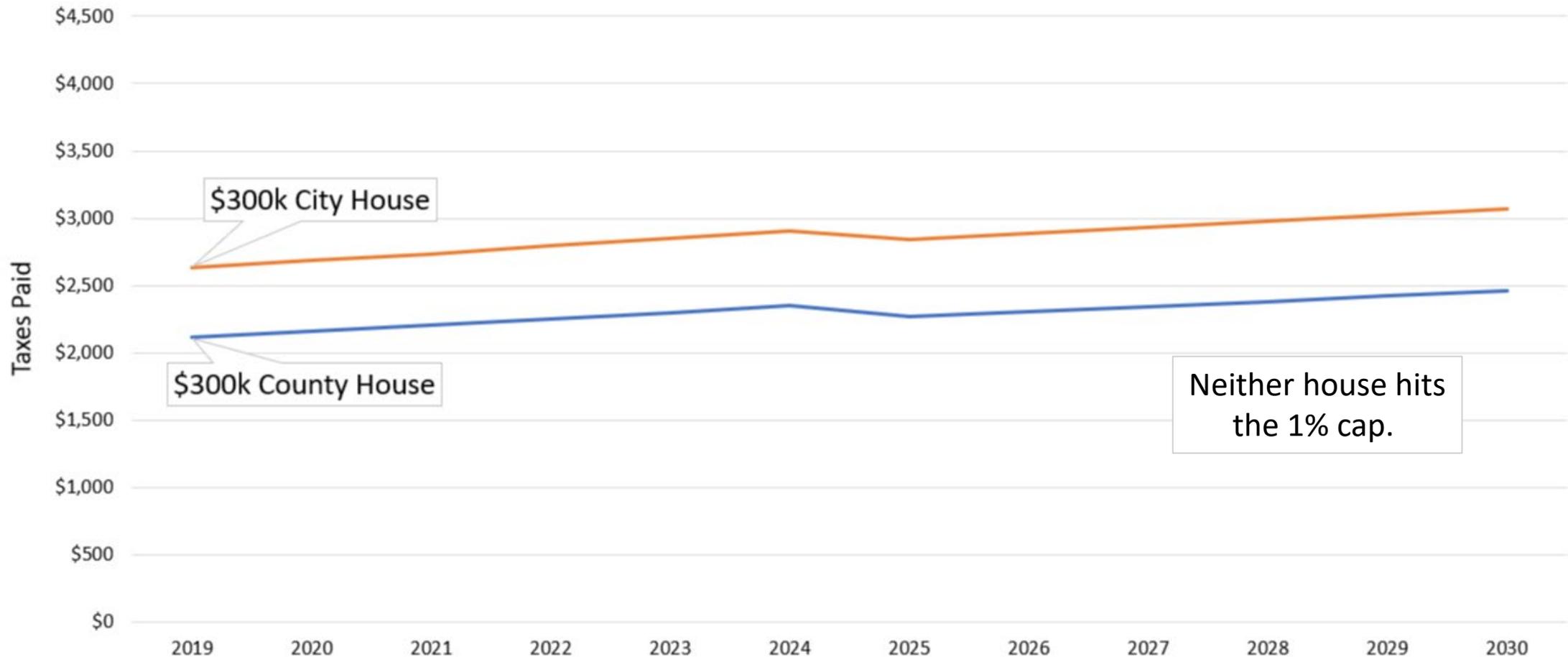
## Assumptions:

- The values of the two properties above are as of FY 2019, and the property taxes paid on these properties are calculated using the actual mills for FY 2019
- The amount of property taxes collected is increasing at **1.5%** annually
- The actual market value rate of increase in value is 4.5% annually on all properties, but implementing CI-121 caps the growth on residential property for tax purposes at 2.0%
- A change of ownership of a residential property triggers a market rate adjustment
- This example smooths all the timing on implementation and reappraisals, and that no rebase occurs among residential properties other than the implementation of CI-121 in FY 2025

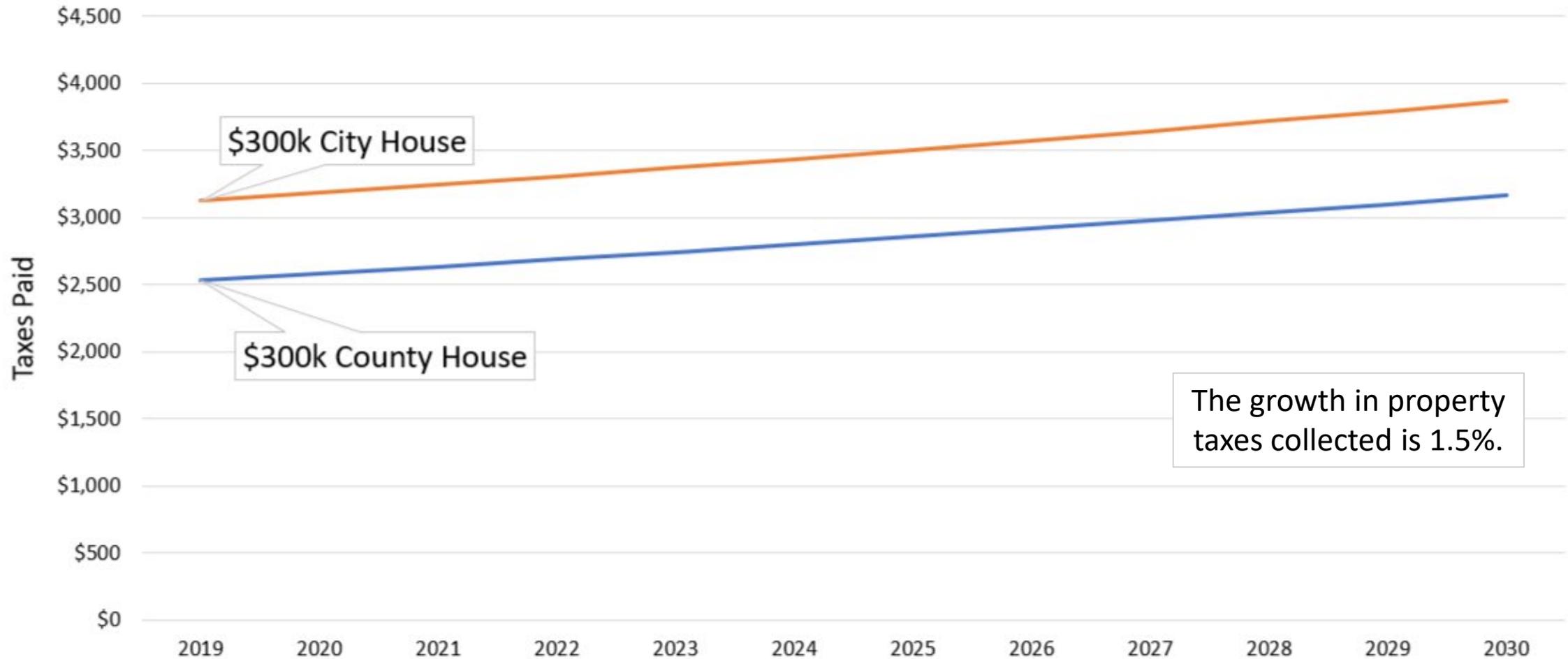
# Example: Billings – Total taxes paid with business as usual



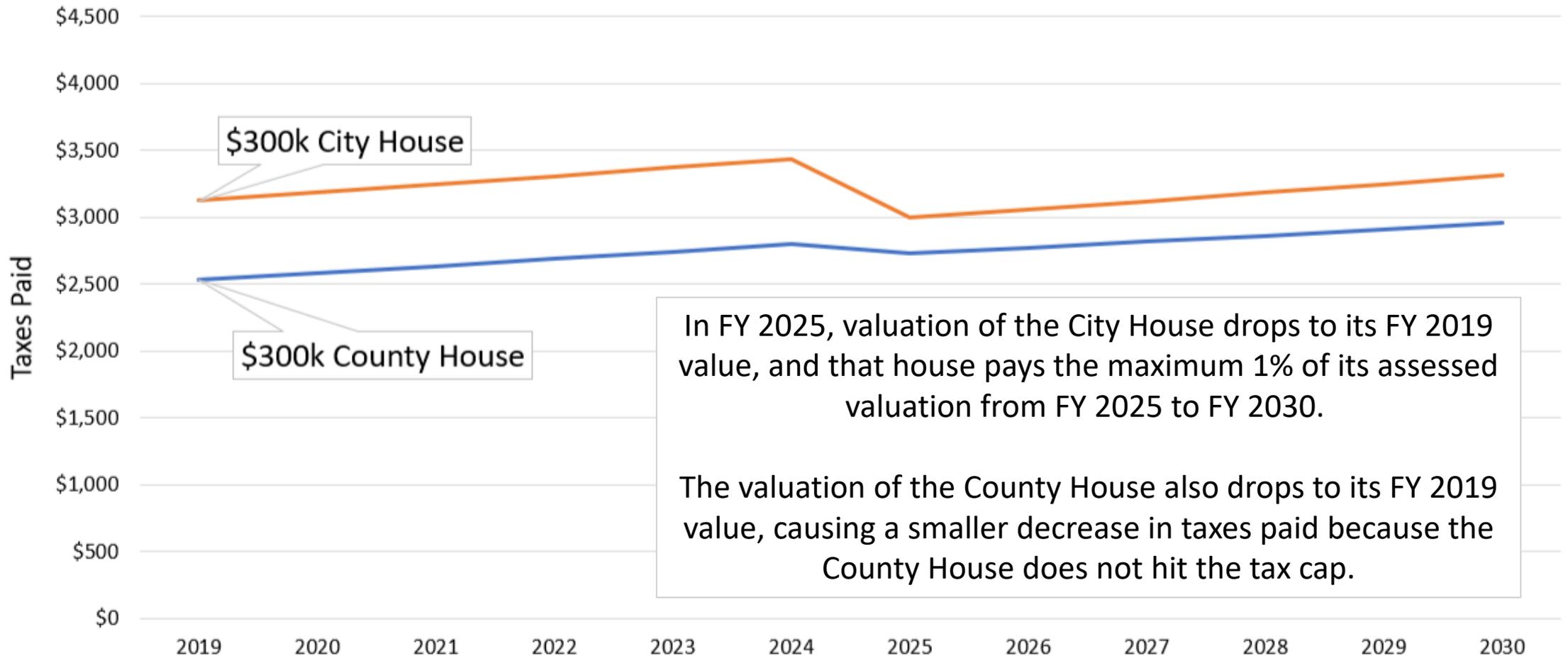
# Example: Billings – Total taxes paid when CI-121 is implemented in FY 2025

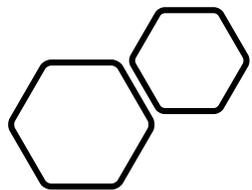


# Example: Kalispell – Total taxes paid with business as usual

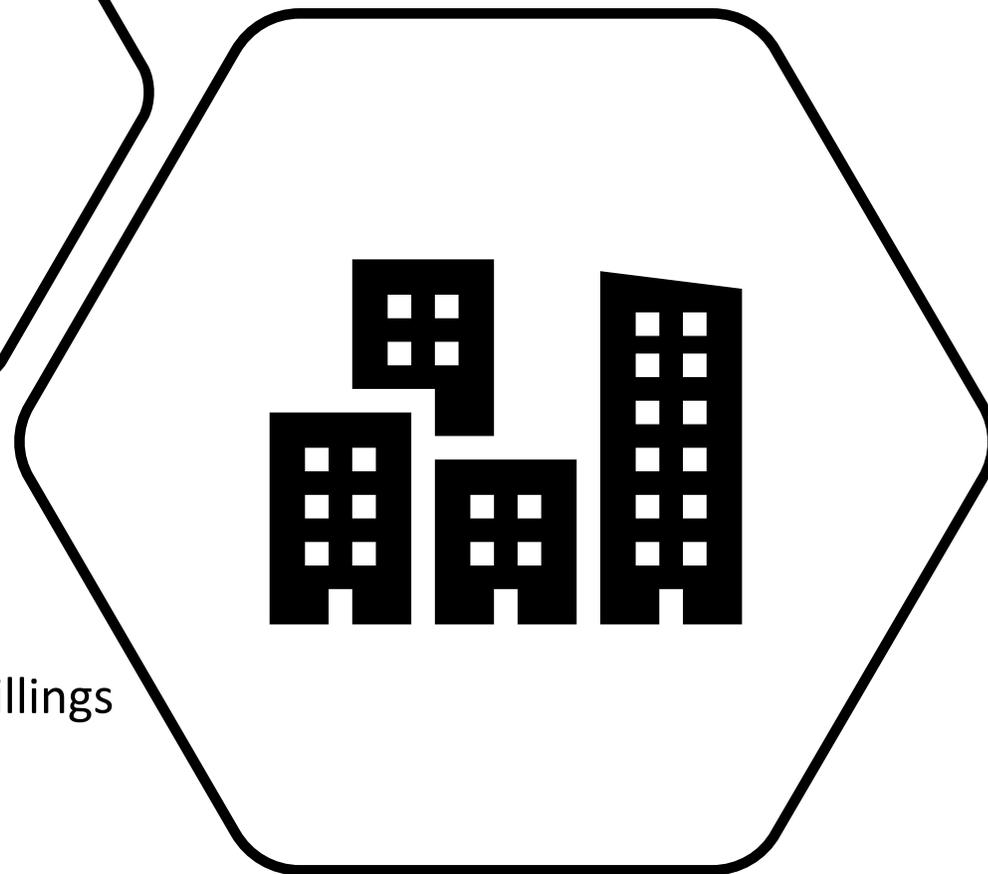
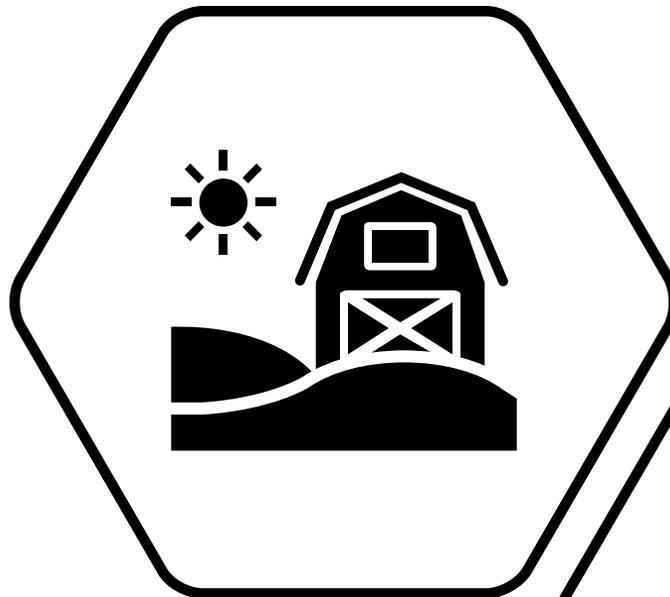


# Example: Kalispell – Total taxes paid when CI-121 is implemented in FY 2025





The effects of CI-121 would likely depend more on the amount of mills levied in a taxing jurisdiction, rather than if the area is urban or rural.

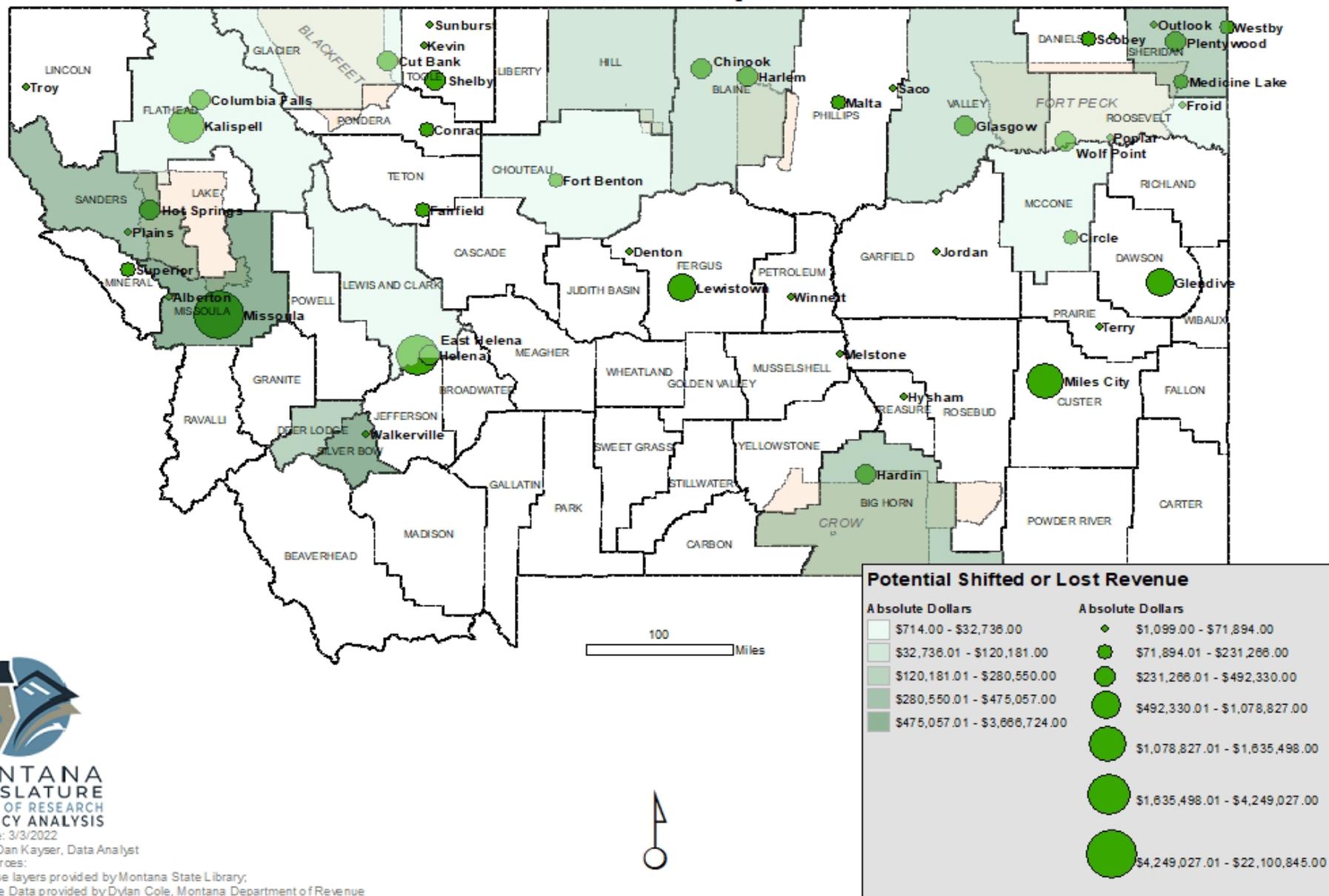


We replicated this example with two smaller communities:

- In Red Lodge, the results were qualitatively similar to the Billings example
- In Lewistown, the results were qualitatively similar to the Kalispell example

# Potential Revenue Change from CI-121

## Counties & Municipalities



**MONTANA LEGISLATURE**  
 OFFICE OF RESEARCH & POLICY ANALYSIS

Map Date: 3/3/2022

Author: Dan Kayser, Data Analyst

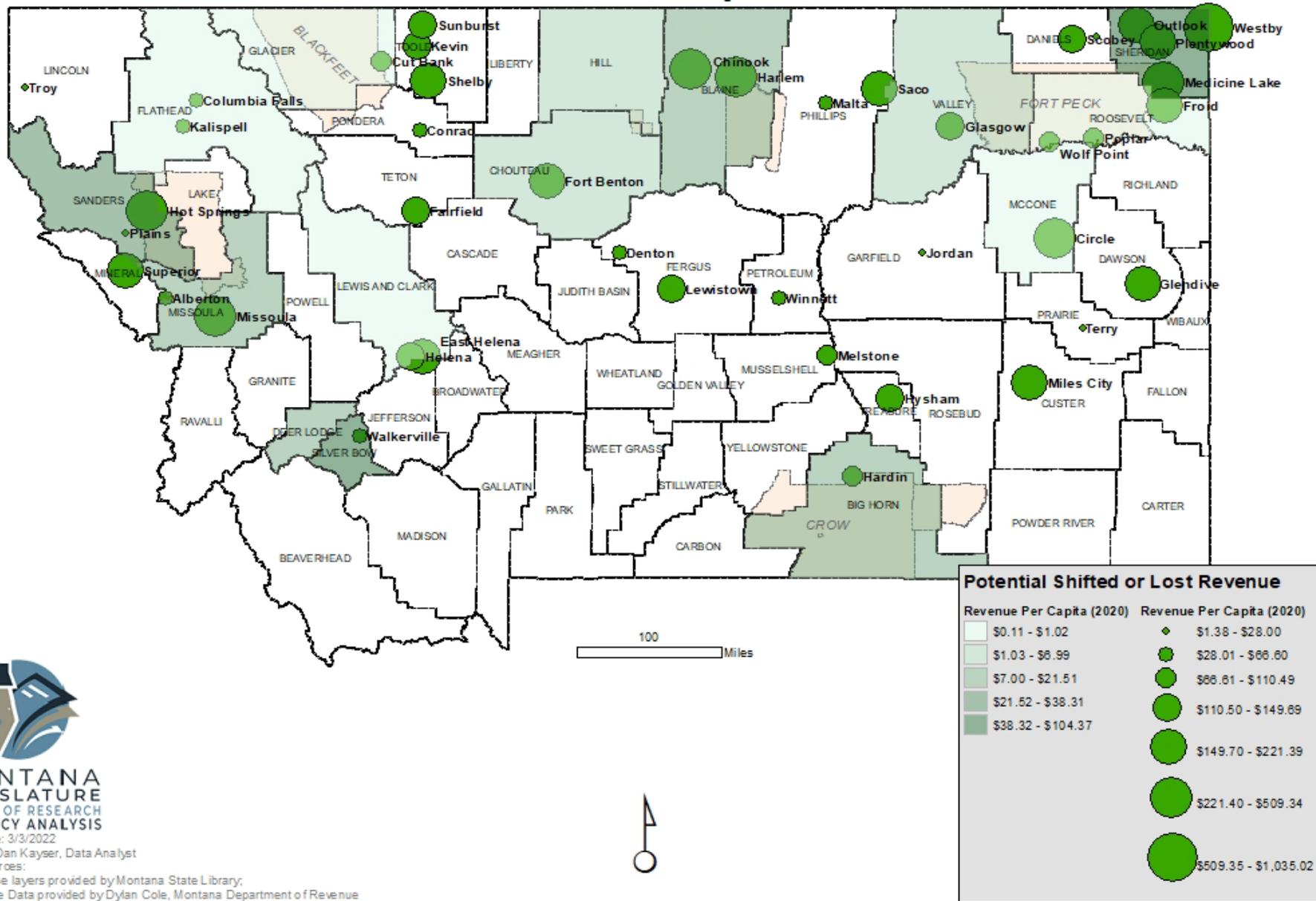
Data Sources:

- GIS Base layers provided by Montana State Library;

- Revenue Data provided by Dylan Cole, Montana Department of Revenue

# Potential Revenue Change from CI-121 in \$ per Capita (2020)

## Counties & Municipalities



**MONTANA LEGISLATURE**  
 OFFICE OF RESEARCH & POLICY ANALYSIS

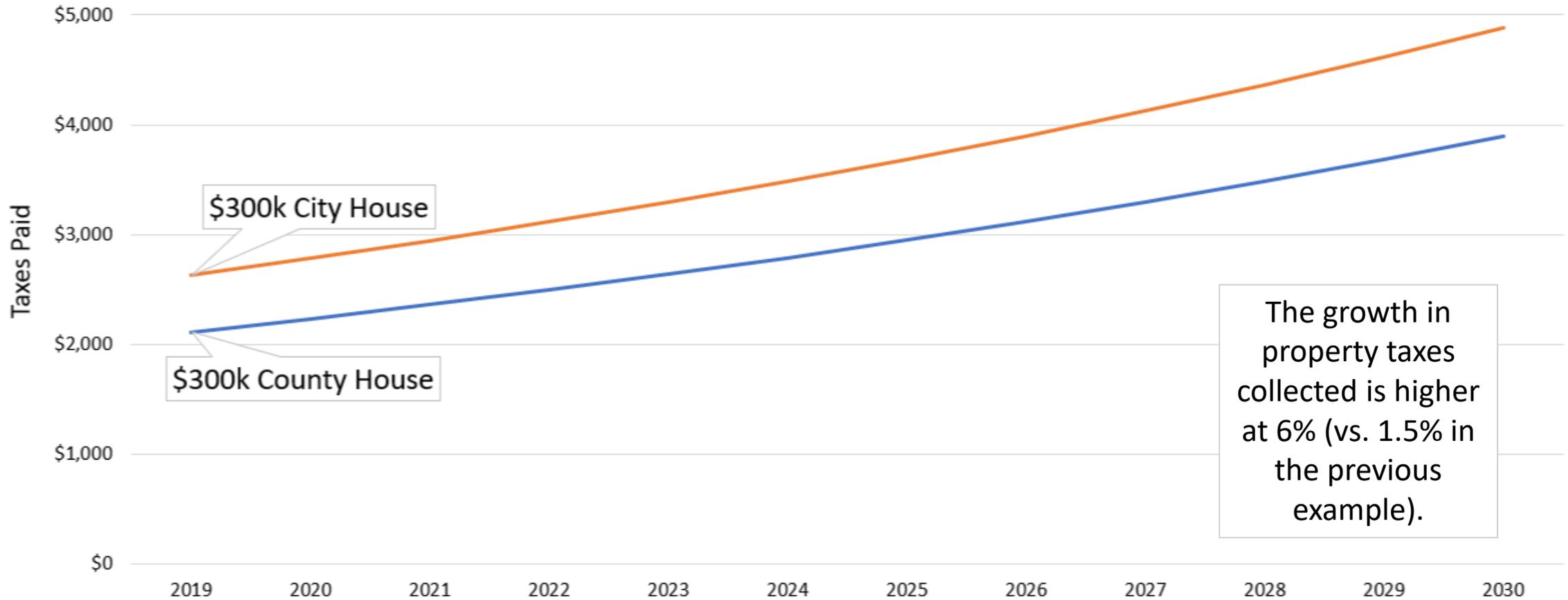
Map Date: 3/3/2022  
 Author: Dan Kayser, Data Analyst  
 Data Sources:  
 - GIS Base layers provided by Montana State Library;  
 - Revenue Data provided by Dylan Cole, Montana Department of Revenue

# Local Example #2

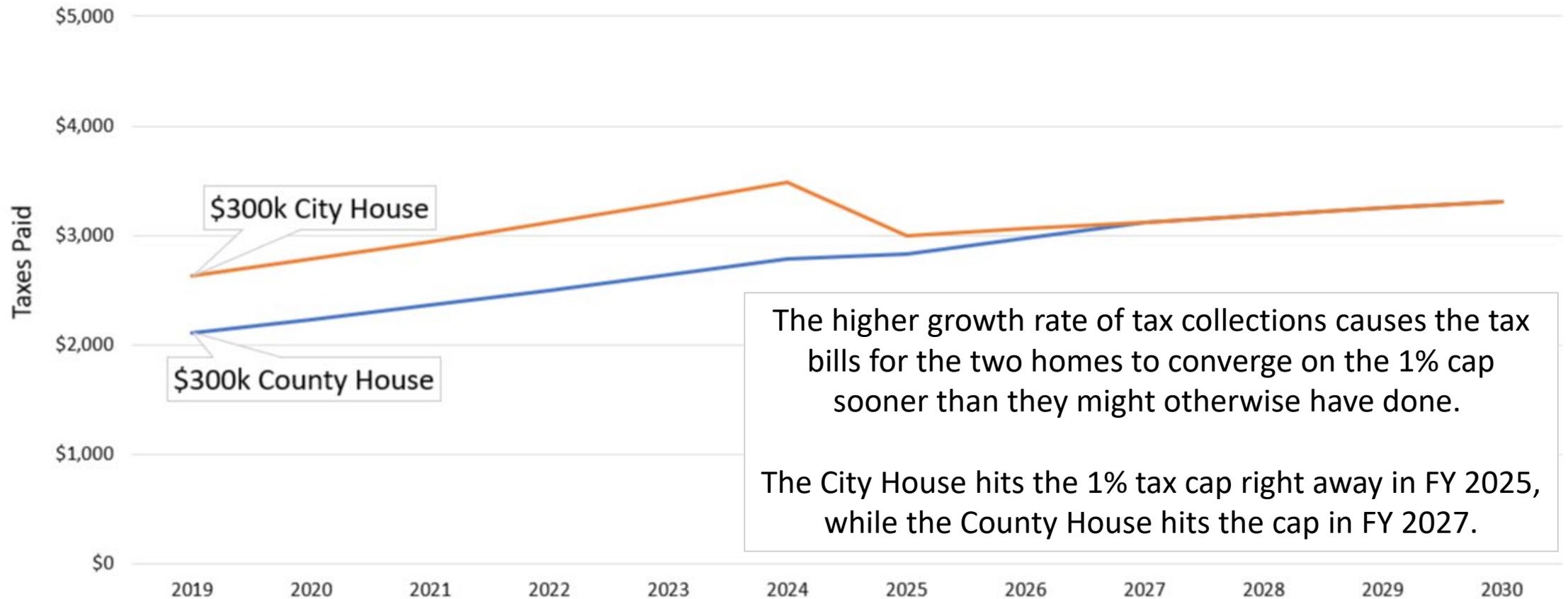
## Assumptions:

- The values of the two properties above are as of FY 2019, and the property taxes paid on these properties are calculated using the actual mills for FY 2019
- The amount of property taxes collected is increasing at **6%** annually
- The actual market value rate of increase in value is 4.5% annually on all properties, but implementing CI-121 caps the growth on residential property for tax purposes at 2%
- A change of ownership of a residential property triggers a market rate adjustment
- This example smooths all the timing on implementation and reappraisals, and that no rebase occurs among residential properties other than the implementation of CI-121 in FY 2025

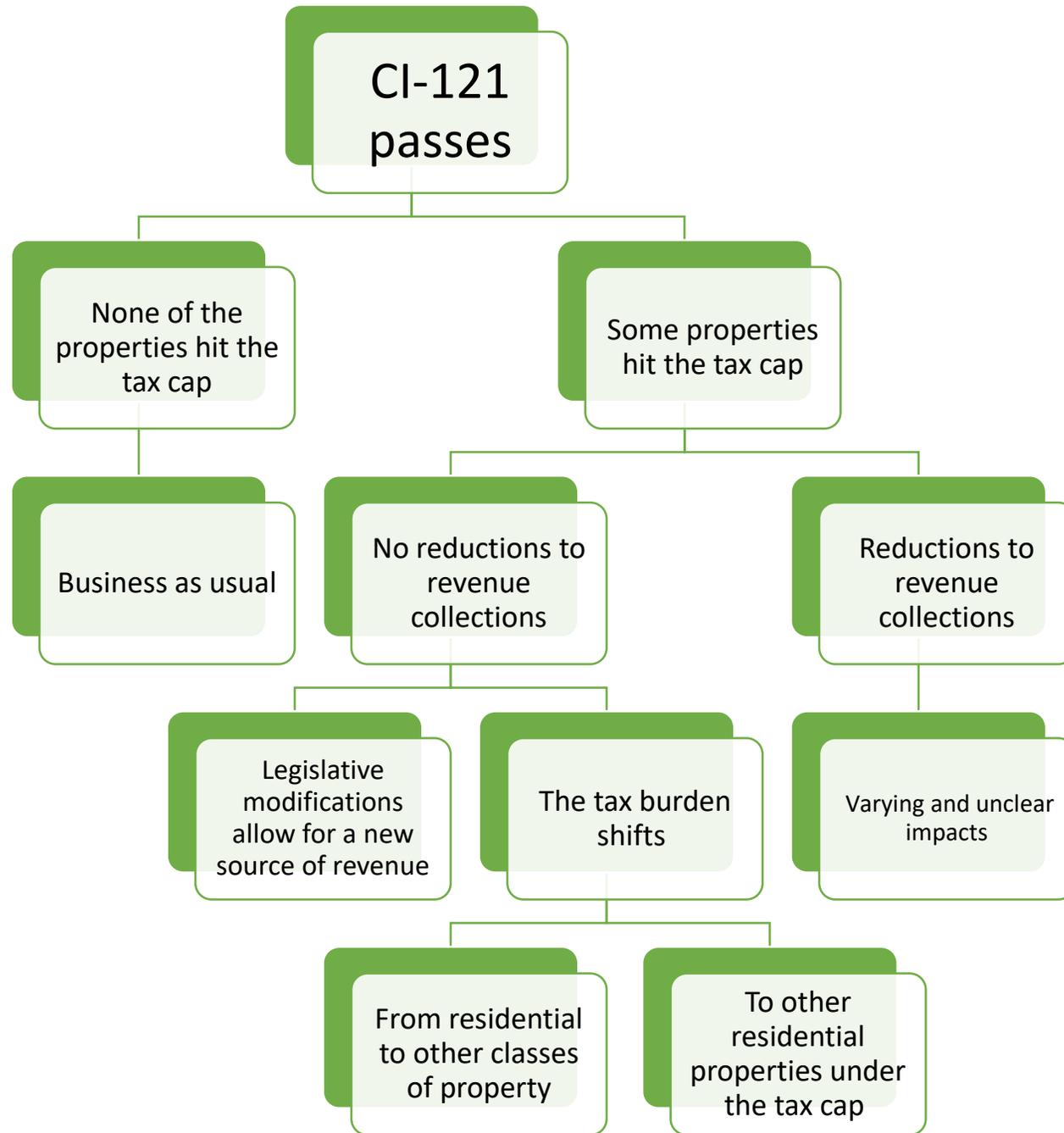
# Example: Billings – Total taxes paid with business as usual



# Example: Billings – Total taxes paid when CI-121 is implemented in FY 2025



**Possible  
Outcomes if  
CI-121  
Passes: Limit  
on ad  
valorem  
taxes**



# Potential Factors to Consider:

## Limit on ad valorem taxes

- If tax shifting is not allowed, the Legislature must define priorities within 1% limit
- If the Legislature allows taxes to shift from capped to uncapped properties, how are 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% ad valorem limit)
- Legislature could ease shifting by replacing property tax revenue with state revenue or allowing new local revenue sources



# Potential Factors to Consider:

## Big Picture Questions

- 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 Guaranteed Tax Base (GTB) aid to schools?



Questions?

