

HJ 36: MONTHLY PROPERTY TAX PAYMENTS

NO MORTGAGE FOR 44% OF MT HOMEOWNERS

Homeowners with a mortgage often pay property taxes monthly along with their mortgage payment. The property tax payments are held by the financial institution in an escrow account and paid directly to the county. Those without an escrow account must pay half their taxes twice a year on Nov. 30 and May 31.

Data from the American Community Survey for 2015 shows that 44% of Montana homeowners do not have a mortgage and 12% with a mortgage do not use an escrow account for property tax payments. Only 20% of homeowners age 65 or older have an escrow account, compared with 56% of those under 65.¹

As part of the [House Joint Resolution 36](#) study of residential property taxes, the Revenue Interim Committee requested information on allowing monthly property tax payments and expressed particular interest in making escrow accounts available to all taxpayers.

Only 20% of Montana homeowners age 65 or older use an escrow account to pay property taxes.

ESCROW FOR NON-MORTGAGE HOLDERS CHALLENGING

Nothing in state law prevents financial institutions from offering escrow accounts to homeowners without mortgages. However, information provided by the Montana Bankers Association and the Montana Land Title Association indicates there are

¹ Adam H. Langley, "[Improving the Property Tax by Expanding Options for Monthly Payments](https://www.lincolnst.edu/publications/working-papers/improving-property-tax-expanding-options-monthly-payments)," Lincoln Institute of Land Policy, p. 28, available from: <https://www.lincolnst.edu/publications/working-papers/improving-property-tax-expanding-options-monthly-payments>, accessed Aug. 16, 2022.

practical barriers to offering such accounts.² The main reason escrow accounts may not make sense for non-mortgage holders is that the accounts are likely to require high fees because they are not secured with a mortgage.

When a homeowner uses an escrow account in conjunction with a mortgage to save for property taxes (and often to pay homeowners insurance premiums), the financial institution that holds the mortgage has an interest in securing the investment by ensuring that property taxes are paid (and that the home is insured). Delinquent property taxes can lead to attachment of a tax lien and eventual loss of property through a tax deed.

If there is no mortgage investment to protect, a financial institution would charge fees to cover the cost of servicing the escrow account. One comment described these accounts as "high work, lots of manual touches, low balance relationship—i.e. a significant money loser on a stand-alone basis." The fees may include a set-up fee based on the account balance (expected to be more than \$50) plus monthly fees in the \$12-\$15 range.

Commenters also raised concerns about the account balance not covering the property taxes, due to annual increases in the tax bill or account holders not making all the payments. When a mortgage is involved, the financial institution has an incentive to cover shortages in an escrow account to protect their mortgage investment.

STATE ADMINISTRATION LIKELY TO BE COSTLY

The committee also discussed the possibility of a state agency, such as the Department of Revenue (DOR), collecting monthly tax payments. DOR appraises property, certifies taxable values, and sends classification and appraisal notices, but does not have property tax billing information.

To administer a monthly property tax payment system, DOR would have to receive information on property taxes due from county treasurers and then send the payments back to the county treasurers for distribution. This could entail significant staff expenses. In addition, the cost to add a new tax type to DOR's tax software is about \$400,000.³

Staff also contacted the Department of Administration's Banking & Financial Institutions Division and the Housing Division within the Department of Commerce to get their input on monthly property tax payments.

The Banking & Financial Institutions Division regulates state banks and financial institutions. Commissioner Melanie Hall mentioned that banks, credit unions, title companies, or escrow companies may offer escrow accounts

² Information in this section from comments provided by Montana Bankers Association members and Montana Land Title Association members. MBA President Cary Hegreberg provided comments via email on Aug. 17, 2022. Comments from Montana Land Title Association members are from an Aug. 18, 2022 meeting with Megan Moore.

³ Information gathered from July 18, 2022, meeting between Department of Revenue staff and Megan Moore.

for non-mortgage holders.⁴ The division does not have data on which institutions might provide this product and subsequent research revealed reasons financial institutions may not provide such accounts.

Though the Housing Division services mortgages for borrowers that participate in state programs, the agency's software does not allow it to service escrow accounts for homeowners without a mortgage. The Division Administrator suggested that the private sector may be better able to provide this service.⁵

OTHER STATES ALLOW MONTHLY TAX PAYMENTS THROUGH TAX COLLECTOR

Research by Adam Langley at the Lincoln Institute of Land Policy indicates that at least 16 states allow monthly property tax payments.⁶ Generally, state law provides for the practice and a participating local government adopts an ordinance to provide the program specifics.

The programs often require an application and for the taxpayer to enter into an agreement to prepay taxes monthly. The tax collector usually holds the monthly payments, either in one account or individual accounts, and distributes them when taxes are due. The monthly payments may be invested and earn interest, which could help pay for the costs of administering a monthly payment system.

Though some states allow monthly payments, few local governments have formal monthly payment programs. The report lists the following programs known to exist in 2018:

- Ohio's five largest counties have monthly payment programs.
- Two of the three largest counties in Indiana accept monthly payments.
- The Iowa County Treasurers Association has an [eGovernment Alliance](#) that lets taxpayers in 74 of 99 counties schedule recurring payments online.⁷
- In Texas, Travis County (Austin) allows prepayments and Bexar County (San Antonio) has a monthly payment option for certain elderly and disabled taxpayers.
- Shreveport allows monthly payments.
- Philadelphia has a monthly payment program for low-income taxpayers and seniors.

⁴ E-mail from Melanie Hall, Banking & Financial Institutions Division, Department of Administration, July 20, 2022.

⁵ E-mail from Cheryl Cohen, Housing Division, Department of Commerce, July 20, 2022.

⁶ Adam H. Langley, "[Improving the Property Tax by Expanding Options for Monthly Payments](#)," Lincoln Institute of Land Policy, p. 11-12, available from: <https://www.lincolinst.edu/publications/working-papers/improving-property-tax-expanding-options-monthly-payments>, accessed Aug. 16, 2022.

⁷ The number of participating counties increased from 56 to 74 since the January 2018 report date.

- Milwaukee allows monthly payments without an application. A taxpayer who pays the monthly amount is enrolled in the monthly installment plan. The Milwaukee monthly plan is unique because the payments are post-payments rather than pre-payments. A post-payment model could require significant changes in Montana, but has been allowed in Milwaukee since 1942.⁸

Additional localities likely accept monthly payments on an informal basis.

MORE WORK COULD BE DONE BEFORE 2023 SESSION

The committee asked staff to draft legislation to provide for escrow accounts for non-mortgage holders. No state law changes are required for financial institutions to provide this product. However, the fees may make the accounts prohibitively expensive. Having a state agency provide this service is a possibility, but it isn't clear which agency is best and what the costs may be.

Better options may be to follow the example of other states and offer monthly payments through the county treasurer's office or through a statewide payment system like Iowa County Treasurer's eGovernment Alliance. Both of those options require decisions about procedures that should involve stakeholders and legislators. [Ohio's law](#) may serve as a starting point.⁹ The Lincoln Institute of Land Policy report also discusses best practices and may be useful in developing a monthly payment option.

If the committee wishes to move forward with the idea of monthly property tax payments, some possible actions are:

1. **Encourage communication with taxpayers about saving for property taxes.** The simplest option, mentioned by bankers and title companies, is for taxpayers to set up a bank account with an automatic withdrawal to save money for property taxes throughout the year. The committee could add a reminder to save on the residential property tax brochure, bring legislation to require a message on the appraisal notice mailed by the Department of Revenue, or explore options for public service announcements reminding homeowners to save for property taxes.
2. **Provide this information to interested parties that can work on the idea before the 2023 Legislative Session.** Interested legislators could work with staff and stakeholders over the next few months to develop ideas for how to allow monthly property tax payments. The Montana County Treasurers Association is aware of interest in the idea and a bill draft on the topic has already been requested by Rep. Llew Jones.

⁸ Langley, p. 14-15.

⁹ Section 321.45, Ohio Revised Code.