Local Government & Property Taxes in Montana

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Introduction

This report discusses property tax revenues in Montana as they specifically pertain to local government, in the context of research performed for the Legislative Finance Committee studies detailed in HB 715.[1] While not all property taxes paid go to local government, most of the funding for local governments comes from property taxes.

Local government property taxes grew at a rate of 6.119% per year on average between TY 2001 and TY 2018, which is higher than the growth of the economy (personal income) over the same time period. The source of that growth can be analyzed from a few different perspectives, with some limitations:

- Overall growth within different entity types such as counties, cities, and special districts
- Growth in different categories (such as roads, health & sanitation, libraries, etc.) within entities
- Growth in different locations across the state

The completion of this report would not have been possible without assistance from the Montana Department of Revenue (DOR) and Montana's local governments. The data used in this report are primarily from the DOR, with some supplemental data provided by the Department of Administration (D of A) and individual counties, cities, and towns. The LFD would like to thank the DOR, D of A, local governments, and the Legislative Services Division (LSD) for their assistance and input during the research process.

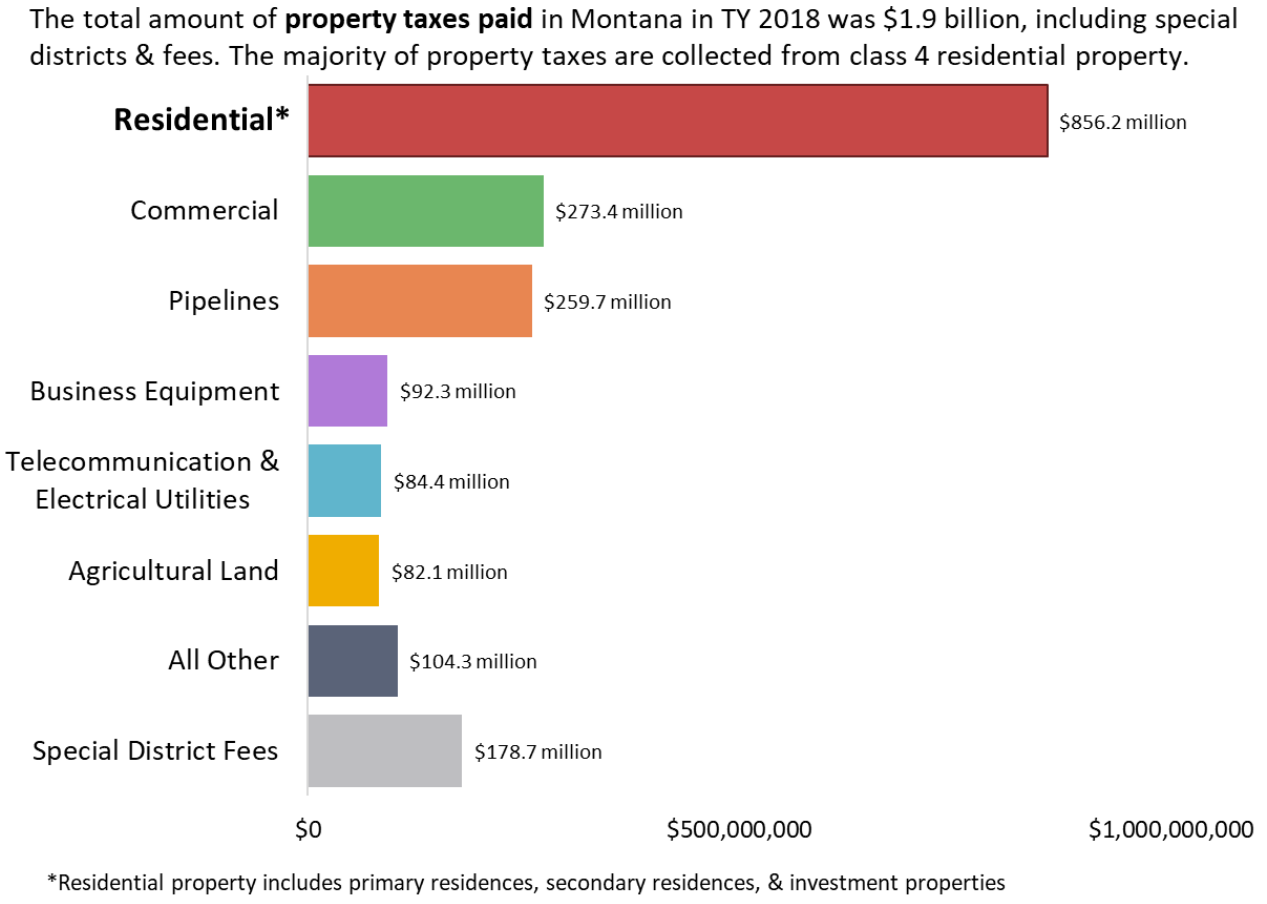
Where Property Taxes Come From

Property taxes paid in Montana are based on three components—the value of a property, the tax rate for that particular type of property, and the number of mills levied in that particular tax levy district. Property values are reassessed on a regular basis by the DOR. The taxable value of a property is defined as the market value of that property multiplied by its tax rate. Tax rates are based on the type of property, each of which has a specific rate set in statute. The number of mills levied is based on individual property location, and a mill is defined as 1/1000 of the taxable value of a property. The state and each county, city, school, and other district (fire, weed control, etc.) levies a particular number of mills to fund the services they provide. The total taxes paid for a property is then calculated by multiplying the taxable value by the number of mills.

In addition to levied property tax revenue, a portion of property tax collections is from non-levied revenue, such as federal forest receipt payments from the federal government, the 5.0% tax on coal

[1] HB 715 (2019)

proceeds, and other smaller revenue sources (e.g. interest on investments, penalty and interest on delinquent taxes).



Where Property Taxes Go

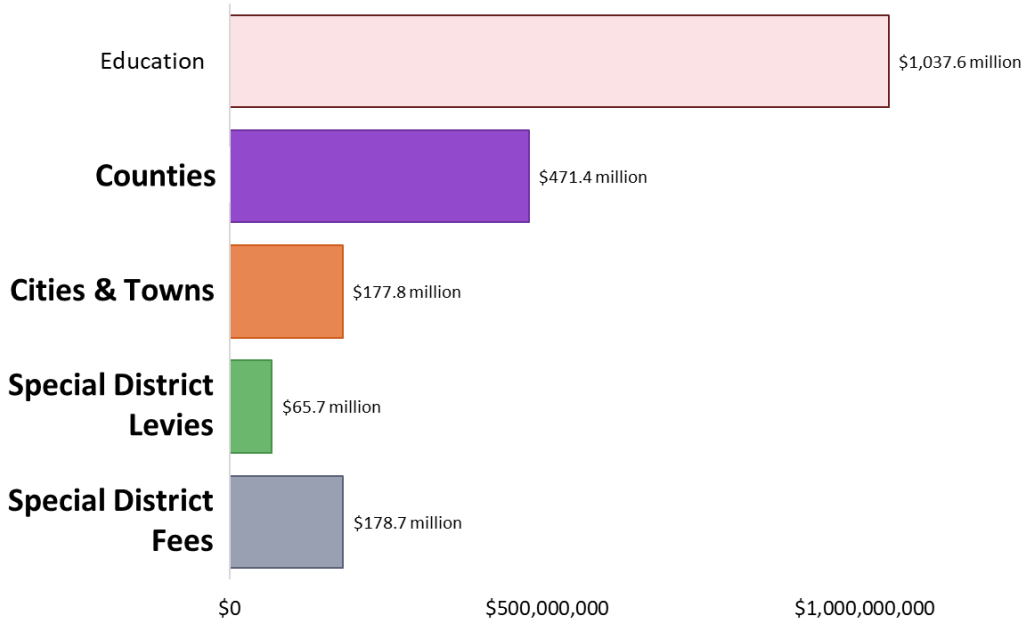
Property taxes at the state level are used to fund school equalization, universities, and vocational technology colleges. While the majority of mills levied are determined by local entities, all properties pay a county equalization levy of 55 mills and a state equalization levy of 40 mills (often referred to together as the 95 mills), which go to the state general fund for K-12 school funding. All Montana properties also pay 6 mills to fund the university system. Additionally, the five counties with vocational technology colleges pay an additional 1.5 mills to the state general fund for the purpose of funding those colleges. These five counties are Silver Bow County, Cascade County, Yellowstone County, Missoula County, and Lewis and Clark County.

All counties levy county-wide education mills for retirement and transportation, and each school district also levies a certain number of mills to fund their operations. While the majority of property tax revenue in Montana is used to fund education, property taxes are not the only source of revenue for education.

The city and county portions of property tax collections are primarily used to fund local services such as roads, bridges, airports, libraries, district courts, public safety, and others. There are also a number of special districts in Montana, which may levy mills or charge fees in specific taxing jurisdictions for specific purposes such as search and rescue, local parks, water and sewer, and a variety of other functions.

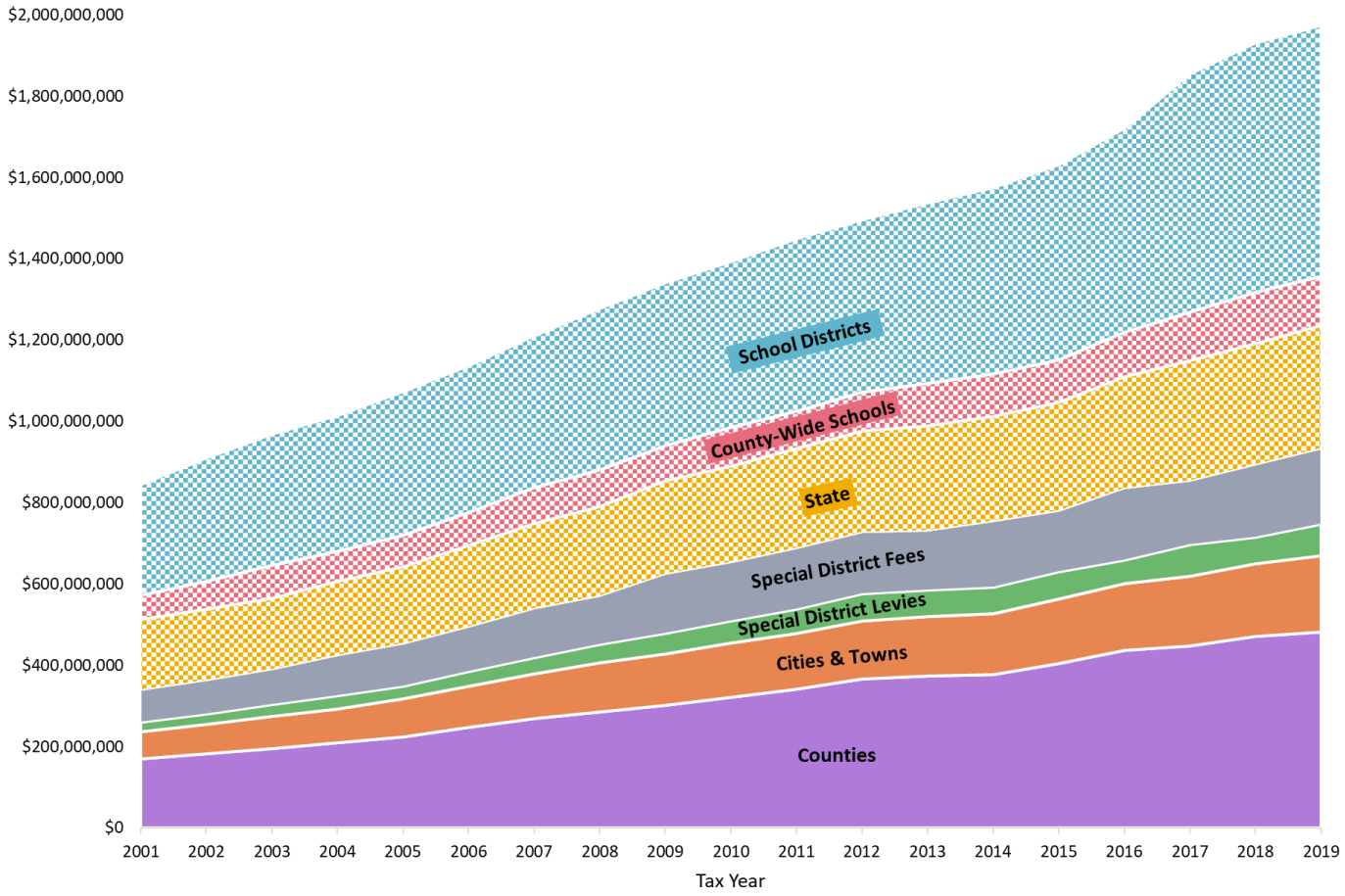
The total amount of **property taxes paid** in Montana in TY 2018 was $1.9 billion, including special districts & fees. The majority of property taxes are used to fund education.*

*The majority of the education category is made up of funding for K-12 education, but it also includes approximately $18.0 million for the Montana University System (MUS).



Growth in **property taxes collected** since TY 2001 is a combination of growth in property taxes paid to local governments (**counties**, **cities & towns**, **special district levies**, and **special districts fees**) and to public schools* (**state property taxes**, **county-wide school levies**, and **school districts**). School districts account for the largest portion of property taxes collected, and they accounted for a large portion of the increase from between TY 2016 and TY 2019. Special district levies accounted for the smallest portion of the increase, but had the largest compound annual growth rate at 7.067%. State property taxes had the smallest growth rate at 3.170%.

*Property taxes for schools are denoted by the hash mark pattern. Property taxes for local government are denoted by solid colors.



Compound Annual Growth Rate TY 2001 - TY 2019	
Entity	Growth Rate
State	3.170%
Local	6.548%
County-wide Schools	4.102%
Schools	4.629%
Counties	5.971%
Cities	5.898%
Special Dist Levies	7.067%
Special Dist Fees	4.736%

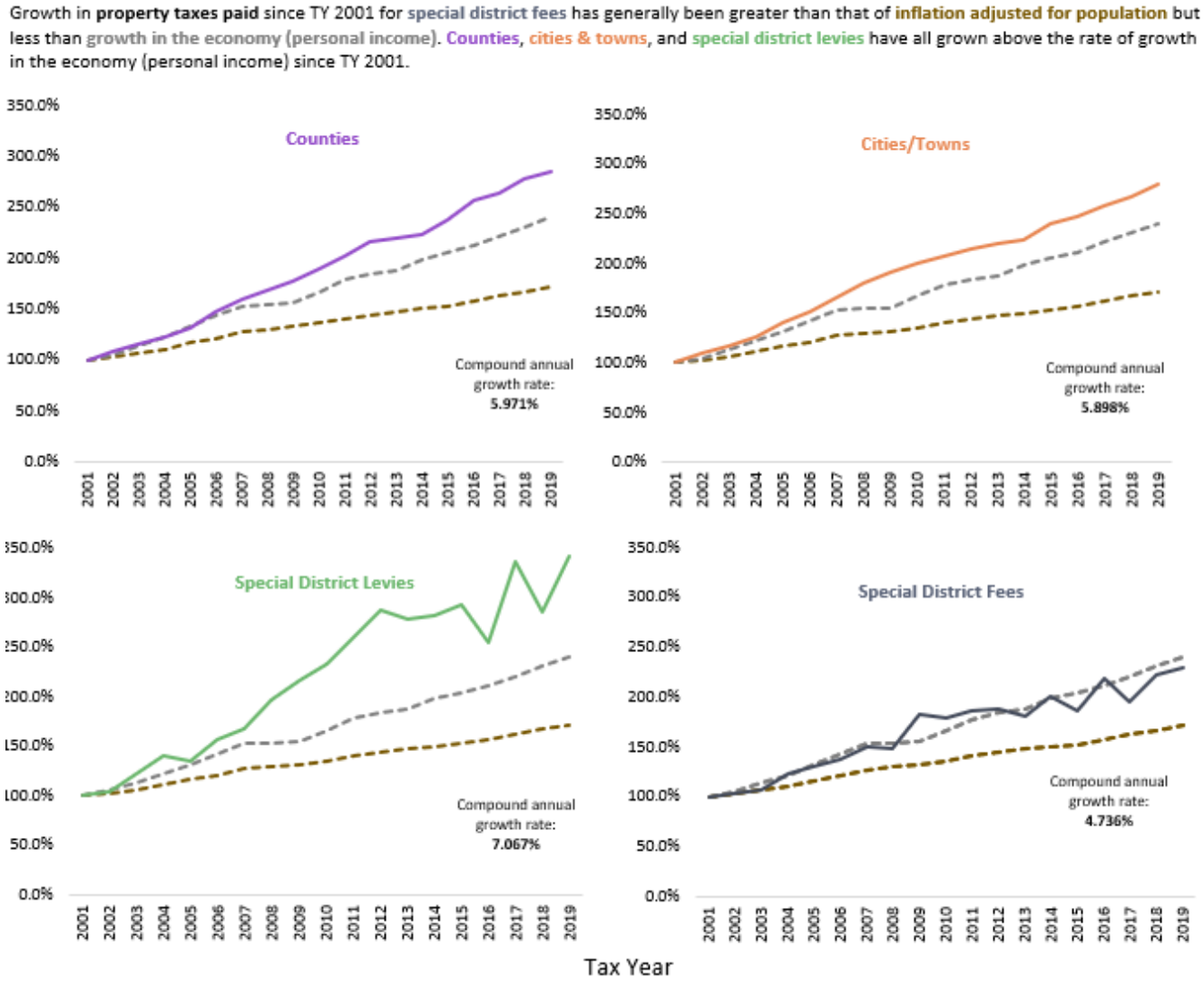
For a brief background on property taxes, please reference the following resources:

- The Legislative Fiscal Division's (LFD) Property Tax Overview https://montana.maps.arcgis.com/apps/MapSeries/index.html?appid=0b1dbc05e74f40afb7e842e4f51972fb
- The LFD's January 2020 Property Tax Report https://leg.mt.gov/content/Publications/fiscal/2021-Interim/Jan-2020/Prop-Tax-Report.pdf
- The LFD's April 2020 School Property Tax Report https://leg.mt.gov/content/Publications/fiscal/2021-Interim/March-2020/School-Property-Tax-Report.pdf

Local Government & Property Taxes

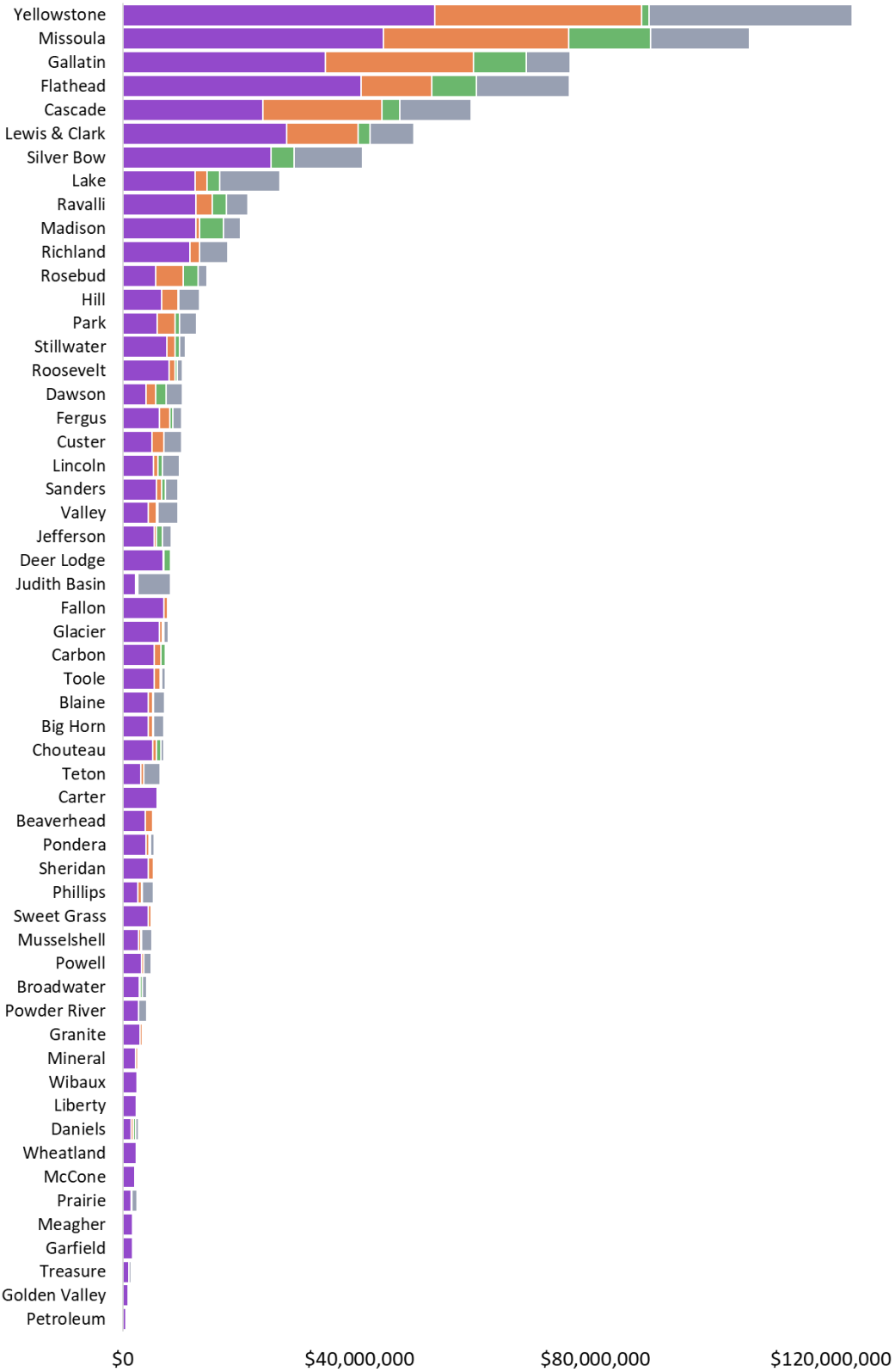
Local governments in Montana rely on property taxes for a majority of their revenue. Since TY 2001, total property tax collections (including those for schools and for local governments) have grown at rate of approximately 4.812% per year. Two economic benchmarks are used for analysis of growth trends: growth in economy as measured by personal income and the combined rate of population and inflation. These are used as measurements of comparison related to Montana's economy. The growth of these indicators is indexed to TY 2001, and the source of data used to calculate these benchmarks is IHS Markit. Growth in combined rate of population and inflation has averaged 3.053% per year since TY 2001, and growth in the economy (personal income) has averaged 4.998% per year since TY 2001.

Counties, cities and towns, and special district levies have all grown above the rate of growth in the economy (personal income), all three of which have growth rates above 5.000%. In contrast, property tax collections from special district fees as reported by the Department of Revenue (DOR) grew at a lower rate of 4.736%.



The majority of local government property taxes are collected by the counties, though the amounts collected for counties, cities, and special districts vary widely depending on the county in Montana. The seven counties with large cities—Yellowstone County (Billings), Missoula County (Missoula), Gallatin County (Bozeman), Flathead County (Kalispell), Cascade County (Great Falls), Lewis & Clark County (Helena), and Silver Bow County (Butte)—had larger property tax collections overall, due to the larger populations living in those counties. Excluding Silver Bow County, those counties also had the highest city property tax collections. Note that Silver Bow County and the city of Butte are consolidated into one entity. Thus, Silver Bow County does not display any city property tax collections.

For most counties in Montana, the majority of **local government property tax revenue** is collected by the **counties**. The amounts collected by the **county**, **cities**, **special district levies**, and **special district fees** vary from county to county.



The total amount of property taxes collected is dependent on a few different factors. Property tax collections are usually determined after a local government entity has set its budget for the year, and the number of mills levied is then determined based on that need. Though property taxes are the main source of funding for counties and cities, the growth is limited by state statute. Per 15-10-420, MCA, a government entity may impose a mill levy sufficient to generate the amount of property taxes actually assessed in the prior year, plus half the average rate of inflation for the prior 3 years. Increases in property tax collections can also be a result of newly taxable property or newly voted levies. Certain localities which fund the majorities of their services through property taxes may approach the cap on property tax growth faster than localities which fund their services through combinations of property taxes and fees. However, quantifying how different services are paid for can be complicated due to how data is collected and reported.

The growth rate of property tax collections also varies widely from county to county. Seventeen counties (highlighted in purple in the chart below) had compound annual growth rates in total local government property tax revenue that were less than 4.998%, which was the growth rate of the economy (personal income) between TY 2001 and TY 2018. Most of these counties have small populations—with the exceptions of Cascade County and Lewis & Clark County, low population growth over the last two decades, and have lower taxable values.

Eight counties (highlighted in yellow in the chart below) had compound annual growth rates at or above 8.000% between TY 2001 and TY 2018. Though Gallatin County did not have the highest growth rate, at 8.000%, it has by far the largest population and largest property tax collections of those eight counties. Gallatin and Madison Counties have seen increases in property values, have a large amount of class 4 residential and commercial property, and have had increases in population over the last twenty years. The other six counties are generally lower population counties with higher taxable values. Even when excluding those top 8 counties, the compound annual growth rate is 5.453%, which is still above the rate of growth in the economy (personal income).

Local Government Property Tax Revenue							
County	TY 2001	TY 2018	Growth Rate	County	TY 2001	TY 2018	Growth Rate
Judith Basin	1,223,475	8,088,212	11.75%	Liberty	1,085,419	2,648,653	5.39%
Fallon	1,318,964	7,853,356	11.07%	Silver Bow	16,728,443	40,571,698	5.35%
Madison	4,342,205	19,892,001	9.37%	Glacier	3,182,805	7,704,107	5.34%
Carter	1,402,312	5,996,853	8.92%	Park	5,185,250	12,452,532	5.29%
Wibaux	635,459	2,682,699	8.84%	Broadwater	1,701,947	4,065,254	5.26%
Powder River	1,047,654	4,049,728	8.28%	Sanders	3,926,257	9,365,098	5.25%
Richland	4,637,033	17,779,652	8.23%	Granite	1,560,764	3,692,806	5.20%
Gallatin	20,490,134	75,838,801	8.00%	Blaine	3,003,057	6,989,134	5.09%
Sweet Grass	1,368,603	5,041,961	7.97%	Carbon	3,097,429	7,182,423	5.07%
Musselshell	1,365,007	4,898,282	7.81%	Custer	4,263,981	9,879,345	5.07%
Sheridan	1,594,019	5,257,362	7.27%	Wheatland	1,093,638	2,528,687	5.05%
Big Horn	2,163,292	6,963,234	7.12%	Daniels	1,141,726	2,598,873	4.96%
Roosevelt	3,162,932	10,124,132	7.08%	Prairie	1,024,226	2,330,049	4.95%
Jefferson	2,785,493	8,162,557	6.53%	Cascade	26,193,588	59,053,912	4.90%
Powell	1,688,174	4,815,429	6.36%	Treasure	615,127	1,380,497	4.87%
Toole	2,546,959	7,153,114	6.26%	Deer Lodge	3,657,973	8,107,881	4.79%
Fergus	3,617,694	9,994,508	6.16%	Lincoln	4,329,194	9,563,653	4.77%
Rosebud	5,156,291	14,191,307	6.14%	Hill	6,023,662	13,009,819	4.63%
Lake	9,837,676	26,567,623	6.02%	McCone	1,108,209	2,392,976	4.63%
Flathead	28,579,389	75,655,938	5.89%	Lewis & Clark	23,664,625	49,353,878	4.42%
Mineral	1,085,047	2,861,219	5.87%	Chouteau	3,388,367	6,901,553	4.27%
Missoula	40,276,167	106,135,000	5.87%	Phillips	2,554,972	5,093,791	4.14%
Yellowstone	47,531,690	123,533,741	5.78%	Valley	4,657,127	9,248,837	4.12%
Stillwater	4,117,713	10,516,641	5.67%	Pondera	2,766,320	5,265,223	3.86%
Petroleum	229,092	582,795	5.65%	Garfield	949,792	1,733,212	3.60%
Dawson	4,069,866	10,026,692	5.45%	Beaverhead	2,963,127	5,335,767	3.52%
Ravalli	8,620,843	21,221,677	5.44%	Teton	3,546,496	6,311,890	3.45%
Golden Valley	396,968	976,111	5.44%	Meagher	1,136,922	2,013,335	3.42%

Growth in property tax revenue does not always mean that the number of mills levied has increased. Seven counties (highlighted in yellow in the chart below) had compound annual growth rates in number of mills levied at or above 4.000% between TY 2001 and TY 2018. None of these seven counties are the same as the top seven counties in terms of property tax revenue increases.

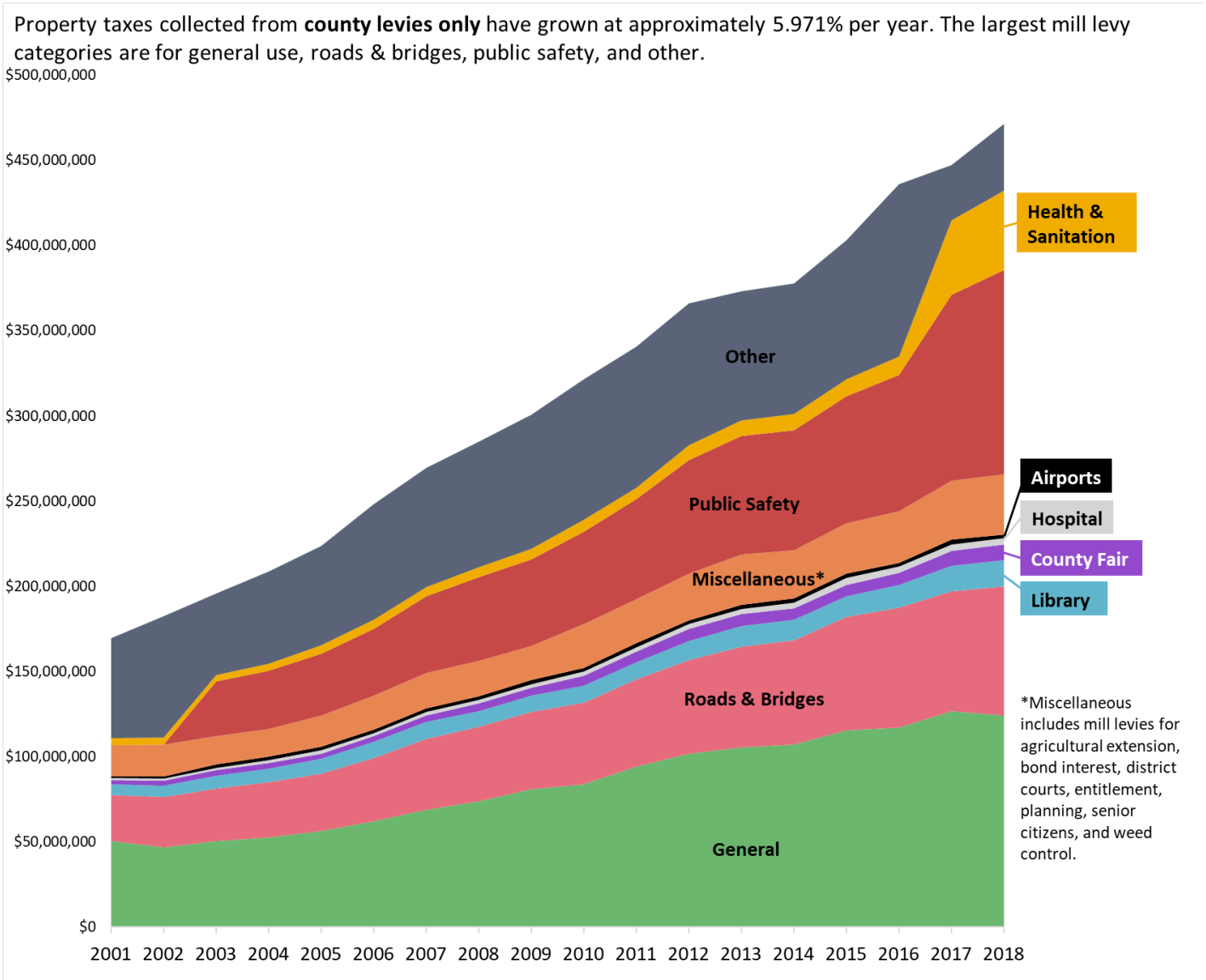
Thirteen counties (highlighted in purple in the chart below) had compound annual growth rates in number of mills levied less than 2.000% between TY 2001 and TY 2018. Powder River and Carter Counties actually had a decrease in the number of mills levied, though both had increases in property tax collections. These thirteen counties with the lowest growth in number of mills levied tend to have higher taxable values; for example, Madison County has the ski resort and Yellowstone Club in Big Sky, and several of the smaller counties like Richland, Fallon, and Carter have natural resource wealth. On average, a mill is worth more for a county with higher taxable value than for a county with lower

taxable value. Thus, some of the counties with the highest growth in revenue collected also had some of the lowest growth in number of mills levied. However, this relationship is also dependent on the number of voted mills, growth of newly taxable property, and other factors. Due to the statutory limit on local government property tax growth, the number of mills levied can "float" up and down. An increase in taxable value of a property does not automatically result in an increase in mills levied.

Local Government Mill Levies							
County	TY 2001	TY 2018	Growth Rate	County	TY 2001	TY 2018	Growth Rate
Rosebud	47.74	168.62	7.71%	Missoula	311.69	492.65	2.73%
Silver Bow	181.27	497.72	6.12%	Park	236.14	371.60	2.70%
Petroleum	211.58	488.17	5.04%	Lewis & Clark	249.61	391.67	2.69%
Treasure	283.31	592.88	4.44%	Judith Basin	184.03	286.56	2.64%
Roosevelt	233.94	477.18	4.28%	McCone	373.14	578.62	2.61%
Stillwater	186.24	376.60	4.23%	Cascade	232.36	360.20	2.61%
Mineral	220.74	434.29	4.06%	Chouteau	290.61	435.09	2.40%
Beaverhead	205.75	398.43	3.96%	Gallatin	221.50	330.89	2.39%
Big Horn	175.43	339.43	3.96%	Hill	264.77	394.26	2.37%
Sanders	230.83	442.40	3.90%	Musselshell	251.54	373.98	2.36%
Lake	210.82	400.16	3.84%	Daniels	311.93	454.14	2.23%
Glacier	260.97	491.59	3.80%	Prairie	320.61	463.57	2.19%
Toole	264.49	495.01	3.76%	Custer	304.57	437.63	2.16%
Granite	228.75	415.55	3.57%	Wheatland	209.76	295.14	2.03%
Lincoln	190.08	339.94	3.48%	Pondera	293.79	412.36	2.01%
Blaine	389.48	696.30	3.48%	Madison	199.59	278.91	1.99%
Jefferson	201.22	357.87	3.44%	Valley	288.59	395.43	1.87%
Yellowstone	177.92	311.51	3.35%	Flathead	236.26	322.90	1.85%
Golden Valley	133.21	232.67	3.34%	Deer Lodge	309.76	416.01	1.75%
Phillips	219.97	383.79	3.33%	Carbon	204.59	273.94	1.73%
Sheridan	302.00	523.66	3.29%	Fallon	280.69	372.63	1.68%
Powell	186.14	313.40	3.11%	Broadwater	210.19	275.53	1.61%
Garfield	272.44	448.99	2.98%	Teton	217.09	276.82	1.44%
Sweet Grass	216.39	355.00	2.95%	Dawson	323.14	408.13	1.38%
Meagher	236.11	377.50	2.80%	Richland	265.19	321.24	1.13%
Fergus	265.87	421.69	2.75%	Wibaux	319.03	323.72	0.09%
Ravalli	245.13	388.53	2.75%	Powder River	340.23	324.68	-0.27%
Liberty	248.68	393.36	2.73%	Carter	400.87	376.98	-0.36%

Counties

Counties levy a certain number of mills for each of the following functions: general, agricultural extension, airports, bond interest, bridges, county fairs, district courts, entitlement, health and sanitation, hospitals, libraries, planning public safety, roads, senior citizens, weed control, and other. The highest growth rate within county mill levy categories has been for county fairs at 8.163%, though this category amounts to an extremely small portion of the total. The second highest growth rate for the combination of health & sanitation, public safety, and other is about 7.195%; these categories have been combined due to the interaction and overlap between the three categories over the years. The lowest growth rate was 4.019% for the miscellaneous category, which includes agricultural extension, bond interest, district courts, entitlement, planning, senior citizens, and weed control.



Compound Annual Growth Rate TY 2001 - 2018 Counties Only	
Category	Growth Rate
County Fair	8.163%
Health and Sanitation*	7.195%
Public Safety*	7.195%
Hospital	7.032%
Roads & Bridges	6.216%
General	5.450%
Library	5.419%
Airport	4.839%
Miscellaneous	4.019%
Other*	7.195%

*Since TY 2001, there has been some apparent shifting between the categories of Health & Sanitation, Public Safety, and Other. Thus their compound annual growth rate has been calculated as an overall percentage for all three categories combined.

Cities and Towns

City mills are not broken out in the same way that the county mills are. Unlike those for counties, city mill levies are all combined into one fund. Cities across the state pay for different services in a variety of different ways. Some differences in local government property taxes are simply a result of voted levies in locations where residents are more willing to pay higher taxes for a greater number of government services. Other differences result from how a city chooses to fund their services—either through the city general fund, special levies, or special district fees.

For example, the city of Missoula has one of the largest city mill levies in Montana, at 237 mills in TY 2019. Missoula covers the costs of public safety (police and fire) through the city general fund. When considering the combination of mill levies, special levies, and special district fees, Missoula received $36.5 million in property tax mill levies and $7.1 million in fees in TY 2019, for a total of $43.6 million. Missoula's $7.1 million in fees is made up of $4.6 million for roads, streets, and sidewalks and $2.5 million for parks.

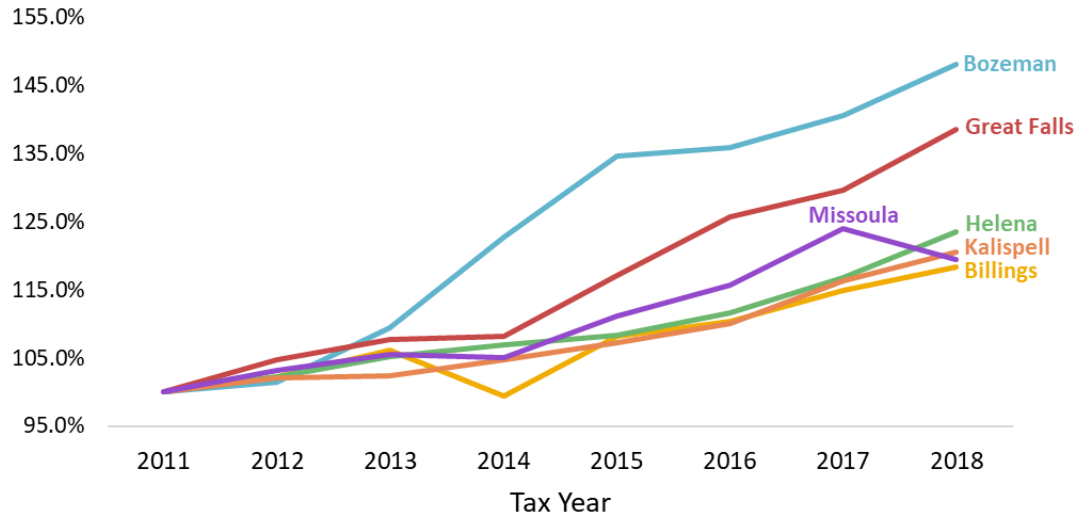
The city of Billings, on the other hand, levied 160 mills in TY 2019. The Billings city charter limits the city general fund mill levy to 74 mills[2]. Thus, the costs for public safety in Billings are covered by a special district. Billings received $34.3 million in property tax mill levies and $24.7 million in fees in TY 2019, for a total of $59.0 million. The $24.7 million in fees includes $15.6 million for public safety and $9.1 million for various other purposes.

[2] Billings City Charter

However, Missoula has a population of approximately 67,000, while Billings has approximately 107,000 residents. When these property taxes and fees are normalized by population, residents in Missoula pay an average of $547 for levies and $106 in fees, totaling approximately $653 per person. Residents of Billings pay an average of $321 for levies and $231 in fees, totaling approximately $552 per person. It is important to note that the amount of property taxes paid includes those collected from all classes of property, including class 4 residential property, class 4 commercial property, class 8 business equipment property, etc. The average amount paid per person does not represent the actual amount paid by an individual homeowner residing in the city.

Since TY 2011, the **growth rate in property taxes received through mill levies** for the city of Bozeman was the highest of Montana's largest cities*, at 5.772% per year. Billings had the lowest rate of growth at 2.431% per year.

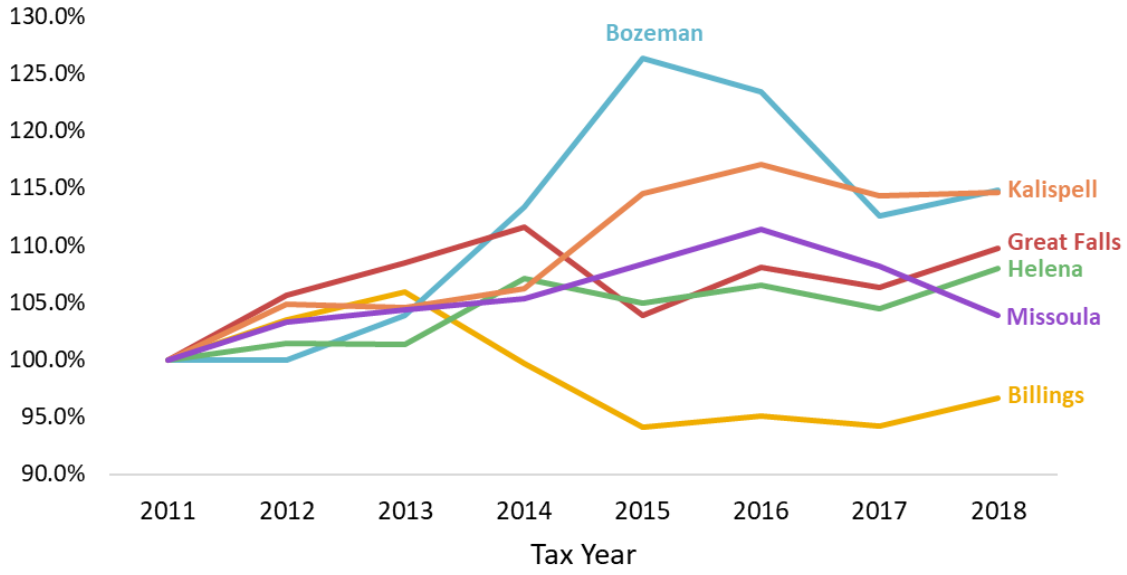
*Butte is not included in this chart because the city of Butte and Silver Bow County are consolidated.



Compound Annual Growth Rate TY 2011 - 2018	
City	Growth Rate
Bozeman	5.772%
Great Falls	4.772%
Helena	3.069%
Kalispell	2.710%
Missoula	2.581%
Billings	2.431%

Since TY 2011, the **growth rate in number mills levied** for the cities of Bozeman and Kalispell was the highest of Montana's largest cities*. However, Bozeman had a jump in number of mills levied in TY 2015, which has since levelled off. Billings was the only city with a decline in the number of mills levied over the same time period.

*Butte is not included in this chart because the city of Butte and Silver Bow County are consolidated.



Number of Mills Levied TY 2011 - 2018		
City	TY 2011	TY 2018
Bozeman	164.75	189.19
Kalispell	159.38	182.74
Great Falls	183.24	201.12
Helena	157.01	169.51
Missoula	233.24	242.37
Billings	168.73	163.03

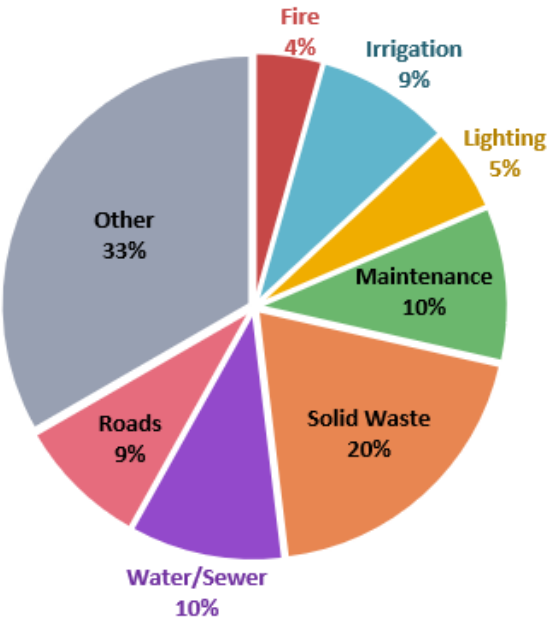
Due to differences in local government revenue structures, such as those differences between Billings and Missoula, make it challenging to make a fair and accurate comparison between cities. However, without more detailed data, it is extremely difficult to differentiate which special districts have been created for functions cities would otherwise have to pay for through other avenues. Additionally, due to how city mills are reported, it is difficult to tell which functions make up city property tax levies and which city functions are responsible for growth over the last decade.

Special Districts

Per 7-11-1003, MCA and 7-11-1024, MCA, local governments may create a special district and may levy mills or charge fees to fund specific services within that district. For the majority of Montana counties, their special district property tax revenue comes from fees rather than special mill levies.

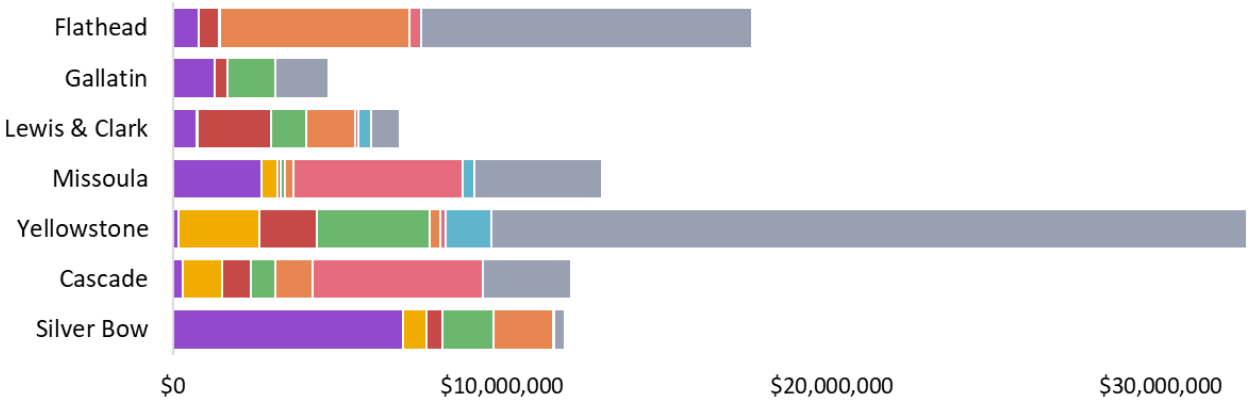
The types of special districts and amounts they collect vary depending on a number of factors—including population and the revenue structure of local governments within each county. Note that the numbers for special districts contain some levies or fees that are collected by city and county governments. Thus, the charts below include certain city and county government functions such as the public safety levy for the city of Billings. These charts also include special districts that are not part of the city or county government, such as a special district for road maintenance for a subdivision outside city limits.

"Other" makes up the largest portion of special district property tax revenue due to a large number of districts with upspecifed purposes. Solid waste makes up the next largest amount, followed by water/sewer, maintenance, roads, and irrigation.



Of Montana's largest seven counties, special districts collect the most amount of revenue in Yellowstone County and the smallest amount in Gallatin County. The types of districts (**water/sewer**, **fire**, **solid waste**, **lighting**, **maintenance**, **irrigation**, **roads/streets**, and **other***) and how much they collect vary widely between counties.

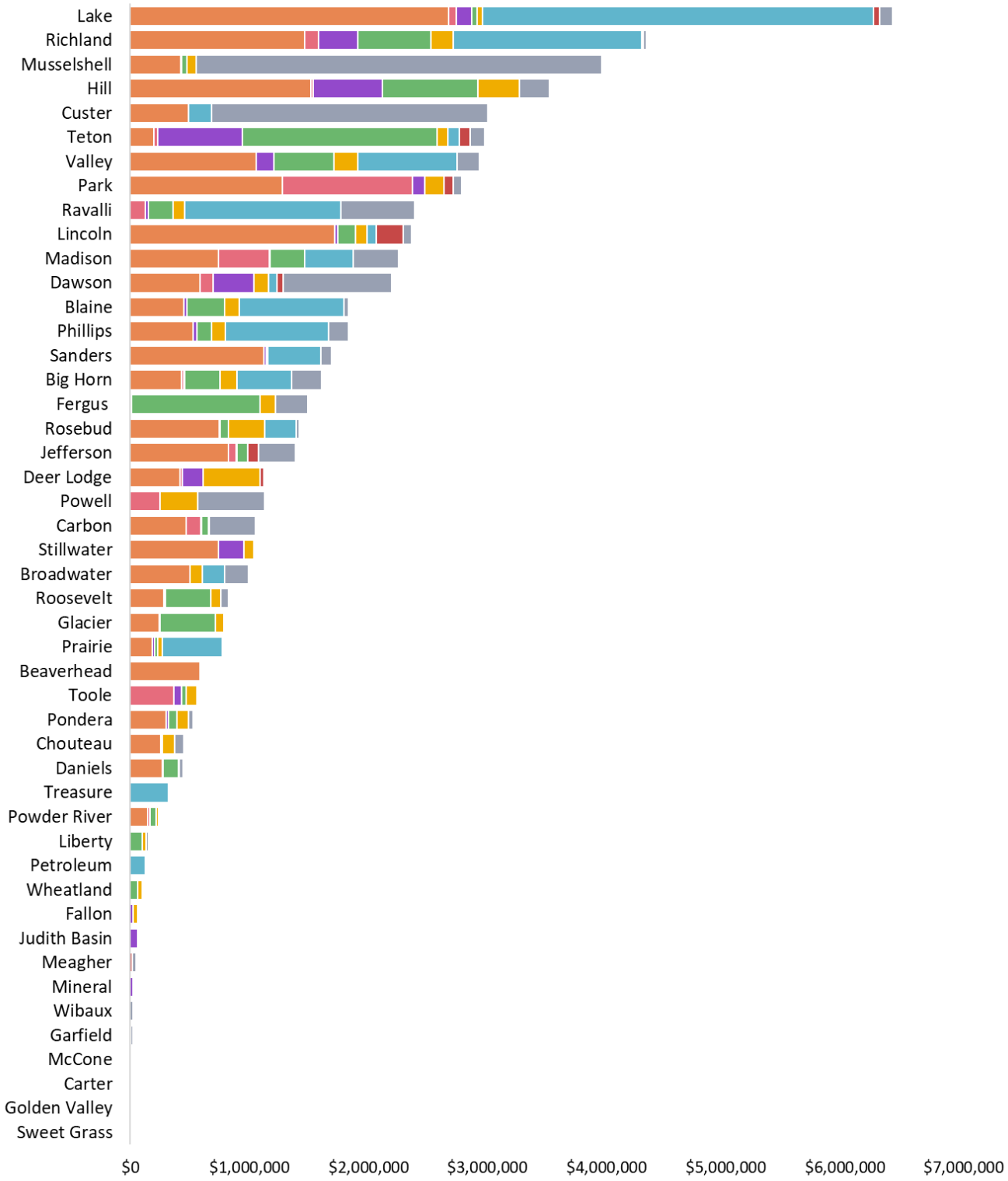
*Other includes several types of districts including agricultural extension, libraries, hospitals, etc. It also includes districts that do not specify a purpose in our data set; for example in Yellowstone County, "other" includes the $15.6 million public safety levy for the city of Billings as it was originally categorized in the data source.



The largest seven counties tend to differ from the remaining 49 smaller counties. The smaller counties collect less for water/sewer and lighting districts, and they collect more for irrigation, solid waste, and maintenance.

Of Montana's smaller counties, special districts collect the most amount of revenue in Lake County and the smallest amount in Sweet Grass County. The types of districts (**water/sewer**, **fire**, **solid waste**, **lighting**, **maintenance**, **irrigation**, **roads/streets**, and **other***) and how much they collect vary widely between counties.

*Other includes several types of districts including agricultural extension, libraries, hospitals, etc. It also includes districts that do not specify a purpose in our data set.



Conclusions

Local government property taxes grew at a rate of 6.119% per year on average between TY 2001 and TY 2018, which is higher than the growth of the economy (personal income) over the same time period. The source of that growth can be analyzed from a few different perspectives, but without more detailed data, it is difficult to pinpoint exactly where this growth comes from.

The largest amount of growth in dollars was for county governments. Within the counties, public safety, health & sanitation, and the "other" category had the largest compound annual growth rates. However, these three categories had some apparent overlap between TY 2001 and TY 2018, making it impossible to determine, with the current data, which category was responsible for the most growth.

In order to determine growth within cities and special districts and the relationship between the two types of entities, more detailed data will also be needed. Though city property taxes cannot be easily broken out due to how they are reported to the Department of Revenue, special district property taxes can be separated into several different categories. However, the detailed data for special districts is only for TY 2019 and cannot be analyzed over time. Analysis within special districts is also challenging, due to the large number of special districts with unspecified purposes. For example, the public safety levy for the city of Billings does not have a specified purpose in the data set and is included in the "other" category.

Though the source of growth may be difficult to determine, the locations of growth across the state are more straightforward. Gallatin County's total property tax collections for all entities grew at 8.00% a year on average between TY 2011 and TY 2018. Other counties had higher growth rates but smaller growth in terms of dollar amounts. Judith Basin County had the highest growth rate at 11.75%, but with a much smaller growth in total dollar amount. Fallon, Madison, Carter, Wibaux, Powder River, and Richland Counties also had high compound annual growth rates, likely due to the larger amounts of property wealth in those counties. Fallon, Madison, Carter, Wibaux, and Powder River also had some of the lowest growth rates in total mills levied in the state, likely due to the limit on local government property tax growth which allows mills to "float" up and down to meet the budget determined by the locality.

<u>Further Analysis</u>

With the collection of more detailed data, the growth in local government property taxes can be analyzed at a deeper level. In order to analyze the trends in city property tax collections by category type (maintenance, lighting, health & sanitation, etc.), the LFD would need a breakdown of the different mill types from the cities in Montana. In order to make accurate comparisons between cities and to analyze

City data mill is not broken out into the different types of mills in the same way that county data is when it reported to the Department of Revenue.

cities and special districts properly, the LFD would also need data for special districts that indicates which levy districts to which special mills and fees apply. The LFD is currently working with local governments to obtain more detailed data over a longer time span.