

Governor's Property Tax Advisory Council

Monday, March 18, 2024, 1 pm.

**Governor's Reception Room, Floor 2,
State Capitol Building**

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Agenda

- 1:00 Call to Order and Roll Call (Chair Osmundson and staff)
- 1:05 Reports of Subcommittee's
 - Local Government (Chair Hertz)
 - Tax Fairness/Equity (Chair Jones)
 - School Funding (Chair Bedey)
- 2:35 Department of Revenue --Analysis of Linked Rebate/Property Tax Data (Dylan Cole))
- 2:50 Public comment
- 3:00 Adjourn

Governor's Property Tax Advisory Council

Report of the Local Government Subcommittee

The subcommittee met on March 5, 2024. All subcommittee members were in attendance online. The discussion was wide ranging, and the committee worked through the problems/possible solutions matrix identified by the full Council on February 14th. The considerations when evaluating policy options were reviewed.

The subcommittee received presentations from

- DOR on current property tax assistance programs
- DOA (LGSB) on the repository of local government budgets, annual financial reports, and audits

Following extended discussions, the issues identified for coverage at the next subcommittee meeting are as follows:

- The scale of local non-levy revenues and how they are integrated into budgets.**
- A review of the timing considerations for mill levies elections.**
- Mechanisms for controlling property tax growth, such as:**
 - Improvements to 15-10-420, MCA,
 - Concepts like to those explored in SB 511 (2023)
 - How limitations might work with Tax Increment Financing Districts, Special Improvement Districts and bonded debt limits
- The property tax assistance discussion led to interest in:**
 - Income and property valuation thresholds, and the tenure/ residency requirements of the programs.
 - The idea of means-testing arose for targeting programs.
- Local option sales taxes that include regional revenue sharing mechanisms.**
- California Proposition 13-type mechanisms and recent Montana property tax limitation ideas such as SB 542 (2023) and BI #2.**
- Ways to “smooth” the impact of rapid assessment growth, including tying mill levies to dollars of revenue plus inflation.**

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Report of the Tax Fairness/Equity Subcommittee (page 1)

The subcommittee met on March 4, 2024.

The discussion was wide-ranging as the subcommittee worked through the considerations when evaluating policy options, an overview of historical shifts in the Montana economy, property tax trends by jurisdiction and tax class. Consideration was taken to focus on where trends are taking the state. The subcommittee worked through the posted agenda (see next slide)

Following the Tax Fairness/Equity Subcommittee March 4th agenda issues (on the next page), is a updated subset of the which address the core issues the subcommittee settled on.

The issues identified for coverage at the next subcommittee meeting are as follows:

- Homestead exemption options**
- Options for creating a "Comstead" exemption**
- Implementing a seasonal accommodations tax**
- Local option sales taxes with regional sharing mechanisms**
- Local option gas taxes**
- Ways to address the tax equity issues that arise from the large number of school districts in Montana**

Governor's Property Tax Advisory Council

Report of the Tax Fairness/Equity Subcommittee (page 2)

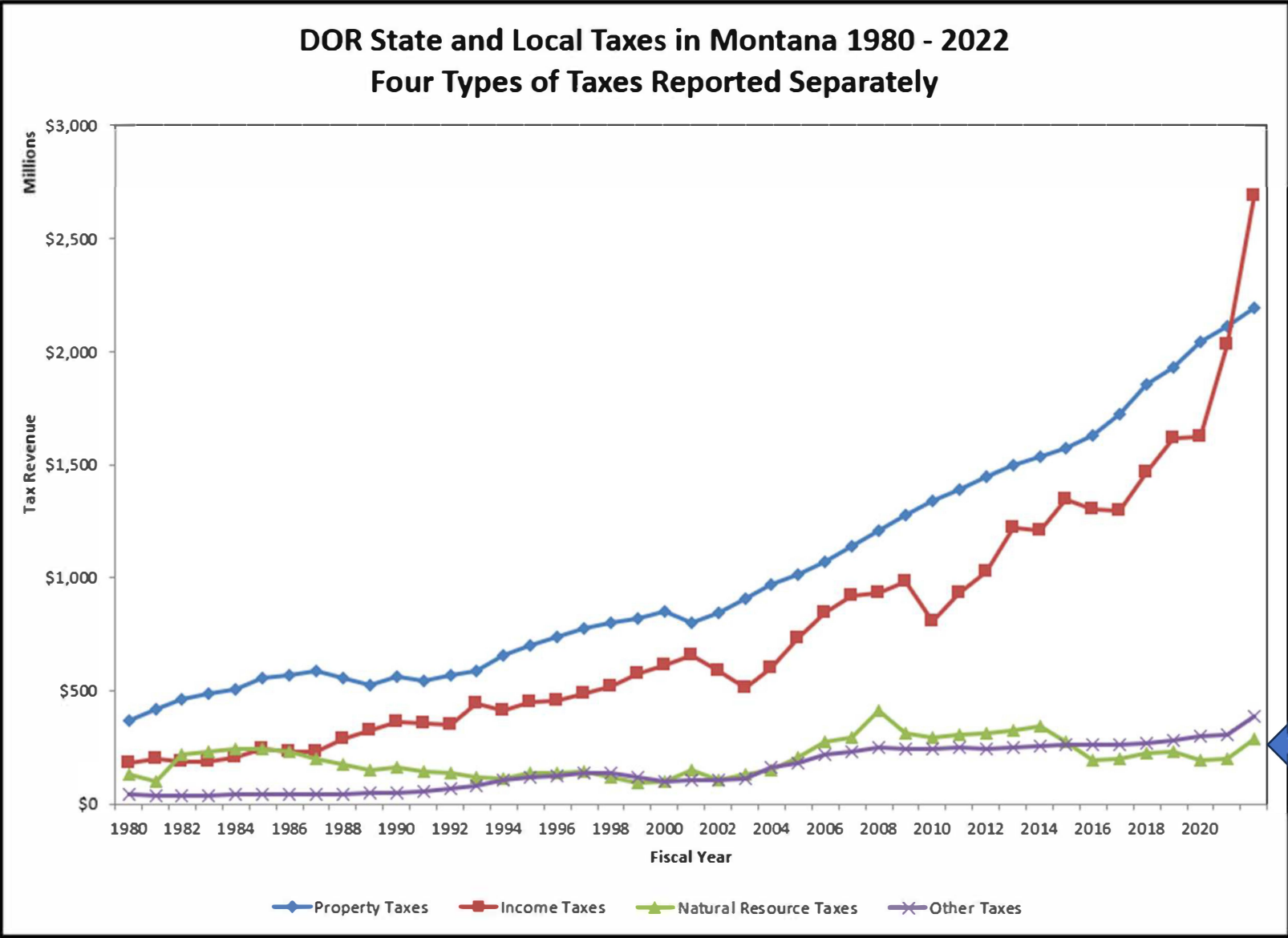
Issues from the March 4th Subcommittee meeting agenda

- Major economic shifts in Montana that appear ongoing.
- COVID-linked economic events that appear to be returning to trend.
- Current temporary response to property tax spike associated with COVID
- Metrics to consider when looking at potential options.
- Homestead exemption - LFD discussion of Model being created, and Income tax shift model
- "Comstead" exemption discussion/explanation and possible changes
- Discussion about % discount on businesses up to a capped amount (e.g., set rate at 2%)
- Discussion of seasonal bed tax increase directed to buy down property tax in areas impacted by tourism.
- Discussion of seasonal gas tax discussion that is direct to buy down property tax in areas impacted by tourism.
- Discussion of local option tax on bigger towns with an area share.
- Discussion regarding inclusion of current tax-exempt property in paying for certain services such as Fire and Police
- Tax equity challenges created by the variety among 397 school districts

A selection of slides covering these topics follows

Ongoing Change

Natural resource share of Montana economy declining

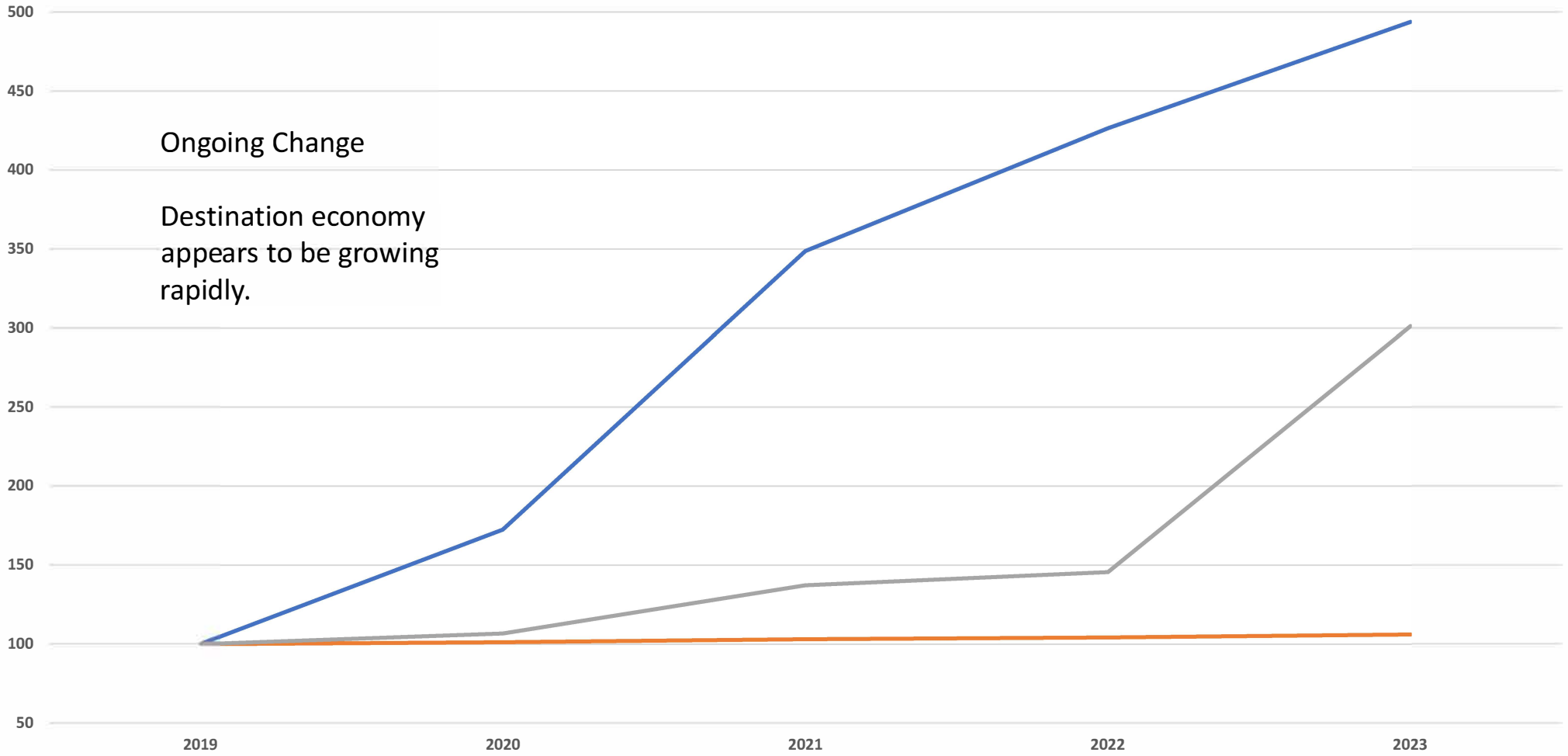


Relative Growth since 2019

Short Term Rentals*

Total Class 4 Res. Improvements

Homes over \$1.5 Million



Ongoing Change

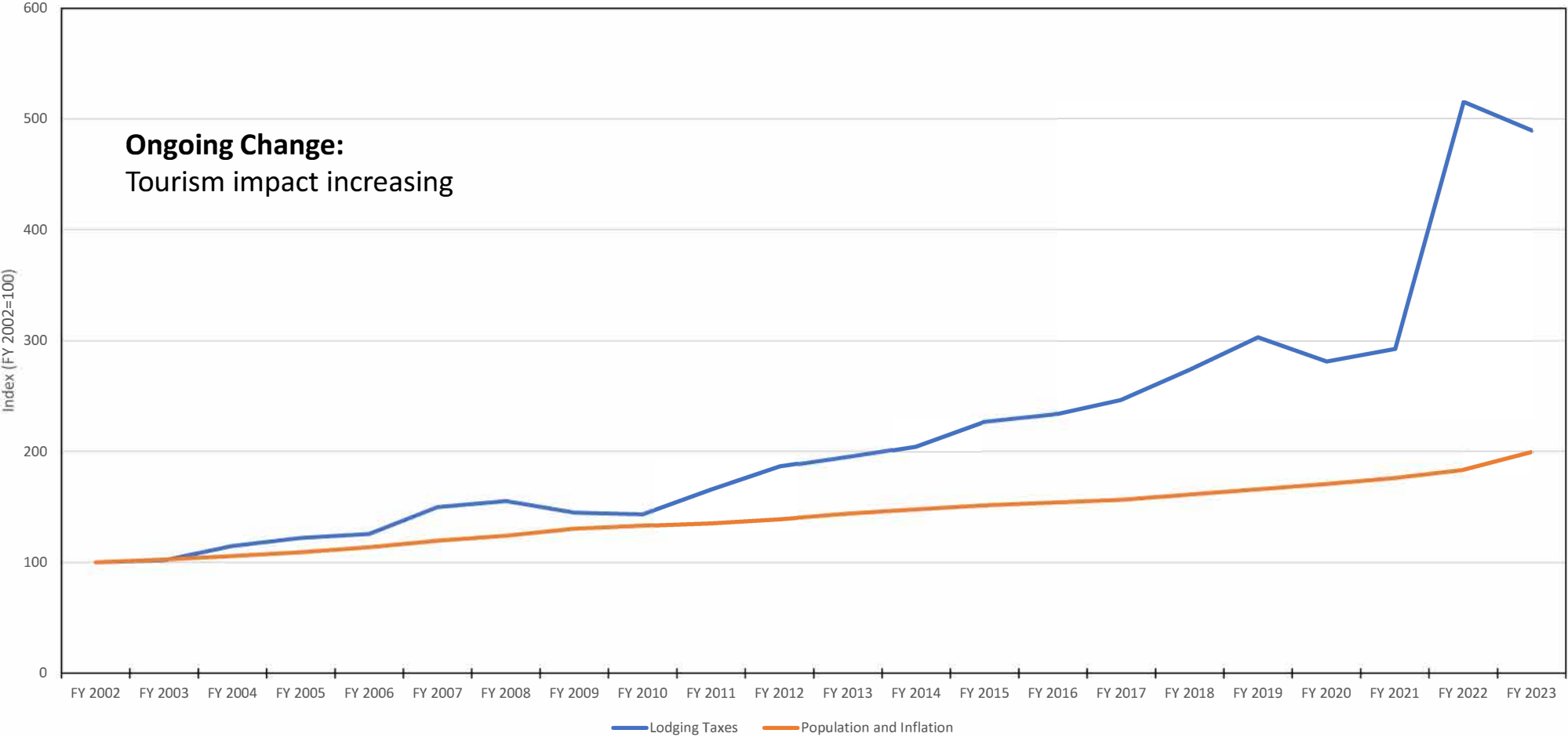
Destination economy
appears to be growing
rapidly.

Analysis of Mailing Address by Geocode

Category		Tax Year	2016	2017	2018	2019	2020	2021	2022	2023
In State Mailing Address	Count of Unique Property Numbers		469,659	472,435	476,231	476,683	465,239	473,020	474,164	483,802
	Market Value (Millions)		74,600	82,267	84,418	94,369	95,738	108,487	111,158	161,116
	Taxable Value (Millions)		986	1,088	1,109	1,242	1,259	1,429	1,467	2,139
	Average Tax Rate		1.32%	1.32%	1.31%	1.32%	1.31%	1.32%	1.32%	1.33%
Out of State Mailing Address	Count of Unique Property Numbers		56,079	55,651	55,339	55,591	54,714	56,095	57,489	58,340
	Market Value (Millions)		13,432	15,748	16,048	18,872	19,874	24,045	25,606	41,386
	Taxable Value (Millions)		187	223	227	269	285	346	370	607
	Average Tax Rate		1.39%	1.41%	1.42%	1.42%	1.43%	1.44%	1.45%	1.47%
Total Class 4 Residential	Count of Unique Property Numbers		525,738	528,086	531,570	532,274	519,953	529,115	531,653	542,142
	Market Value (Millions)		88,032	98,015	100,466	113,241	115,612	132,532	136,764	202,502
	Taxable Value (Millions)		1,173	1,311	1,336	1,511	1,544	1,775	1,837	2,746
	Average Tax Rate		1.33%	1.34%	1.33%	1.33%	1.34%	1.34%	1.34%	1.36%
In State Mailing Address	Count of Unique Property Numbers		89.3%	89.5%	89.6%	89.6%	89.5%	89.4%	89.2%	89.2%
	Market Value		84.7%	83.9%	84.0%	83.3%	82.8%	81.9%	81.3%	79.6%
	Taxable Value		84.1%	83.0%	83.0%	82.2%	81.5%	80.5%	79.9%	77.9%
	Average Tax Rate (Compared to 1.35%)		97.8%	97.8%	97.0%	97.8%	97.0%	97.8%	97.8%	98.5%
Out of State Mailing Address	Count of Unique Property Numbers		10.7%	10.5%	10.4%	10.4%	10.5%	10.6%	10.8%	10.8%
	Market Value		15.3%	16.1%	16.0%	16.7%	17.2%	18.1%	18.7%	20.4%
	Taxable Value		15.9%	17.0%	17.0%	17.8%	18.5%	19.5%	20.1%	22.1%
	Average Tax Rate (Compared to 1.35%)		103.0%	104.4%	105.2%	105.2%	105.9%	106.7%	107.4%	108.9%

There is growth in the Market Value of Properties with out of state mailing addresses. This is only a proxy measurement; it indicates an increase in market value of residential properties held by out of state owners.

Growth in Montana Lodging Taxes FY 2002 to FY 2023





2022 Montana Nonresident Traveler Quarterly Travel Comparison



	Quarter 1 (Jan-Mar)	Quarter 2 (Apr-Jun)	Quarter 3 (Jul-Sep)	Quarter 4 (Oct-Dec)	Year Total ¹ 2022
Visitation & Length of Stay					
Nonresident Visitors	1,589,000	1,442,000	5,419,000	2,056,000	12,506,000
% of Total	13%	28%	43%	16%	100%
Nonresident Travel Groups	776,000	1,540,000	2,315,000	993,000	5,624,000
% of Total	14%	27%	41%	18%	100%
Group Size (people per group)	2.04	2.25	2.33	2.05	2.23
Length of Stay (nights)	3.98	4.49	5.53	5.35	5.02
Expenditure Category^{2,3} (Average Daily per Gro					
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Year Total ¹
Gasoline, Diesel	\$57.61	\$62.98	\$54.61	\$55.28	\$57.18
Restaurant, Bar	\$37.82	\$37.17	\$33.63	\$32.94	\$34.88
Hotel, Motel	\$39.13	\$28.62	\$25.14	\$16.22	\$26.10
Outfitter, Guide	\$0.20	\$13.47	\$30.13	\$15.17	\$20.05
Groceries, Snacks	\$17.79	\$18.11	\$19.10	\$15.40	\$18.08
Retail sales	\$17.32	\$21.39	\$13.46	\$16.67	\$16.44
Rental cabin, Condo	\$17.60	\$6.98	\$9.23	\$7.78	\$9.36
Auto Rental	\$12.46	\$10.19	\$8.84	\$6.69	\$9.23
Licenses, Entrance Fees	\$8.59	\$3.44	\$3.80	\$7.85	\$4.92
Made in MT	\$2.51	\$3.55	\$6.66	\$3.76	\$4.92
Campground, RV Park	\$0.05	\$2.38	\$3.80	\$0.46	\$2.46
Vehicle Repairs	\$0.88	\$0.63	\$1.70	\$1.42	\$1.29
Misc. Services	\$1.16	\$2.16	\$1.27	\$0.08	\$1.28
Gambling	\$2.11	\$1.66	\$0.53	\$1.43	\$1.14
Farmers Market	\$0.00	\$0.16	\$0.28	\$0.12	\$0.19
Transportation Fares	\$0.02	\$0.03	\$0.01	\$0.04	\$0.02
	\$215.25	\$212.92	\$212.19	\$181.31	\$207.56
Total Expenditures	\$664,680,000	\$1,472,150,000	\$2,715,870,000	\$963,610,000	\$5,816,310,000
% of Total	11%	25%	47%	17%	100%

← 2018: 12.4

← 2018: 33.12

← 2018: 4.64

← 2018: 1.80

¹Data are collected quarterly. Therefore, year total group size, length of stay and avg. daily expenditures are weighted averages of quarterly figures. ²Expenditures may appear lower than typical costs in these categories because they are averaged across all visitor groups. ³Spending data are gathered from nonresident travelers intercepted at airports, gas stations, and rest areas in MT. Travelers report 24 hours worth of trip expenditures.

Considerations when evaluating Policy Options

- tax shift between various property tax classes
- tax shift between property taxpayers and income taxpayers
- tax shift between Montana residents and out-of-state residential property owners
- impact on local government and public-school funding
 - Short and long-term
- differential effects on counties across the state
- long-term effects on Montana's tax system
 - Managing for where the “puck” is moving to versus a solution for the past
 - Not creating a solution for what is likely an anomaly (Covid event)
- identification of necessary statutory changes

Homestead Exemption that shifts tax within existing Property tax to non-residents and short-term rentals.

Example Concept: Increase residential rate from 1.35% to some larger amount (2.2% as example). Offer a 50% reduction to 1.1% for Montana resident homeowners and long-term rentals. Possibly consider a cap size, for example 5X median home.

- Would focus the tax reduction on Montanans that were part of the income tax system and long-term rentals. (Previous slide showed 22% of taxable value in residential linked to out of state address and growing as well as an explosion of short-term rentals).
- Residence must be owned by or under contract through deed by the applicant and used as a primary residence
- Must not be rented out on contracts of less than 1 month. (Matches bed tax timeframe)
- Applicants would only receive a homestead exemption for one property at a time.
- LFD building a dynamic model but could do initial analysis “fiscal note” style.

Homestead Exemption that shifts tax to Montana income taxpayer.

Example: HB390 (2023 Legislative Session – Not Passed)

- Would reduce the assessed value of homestead properties by \$50,000
- Must be owned by or under contract through deed by the applicant and used as a primary residence
- Applicants would only receive a homestead exemption for one property at a time
- Applicants would not benefit from a homestead exemption if already enrolled in:
 - The intangible land value assistance program
 - The property tax assistance program
 - The disabled veteran program
 - The mobile home exemption program
- Fiscal Cost to General Fund of this version approximately 17 million.

Comstead Exemption

- Current Commercial Tax Rate is 1.89%
 - Linked currently to 1.4X the Residential rate
- If the policy option chosen is to increase residential rate with a homestead exemption for Mt. homeowners and long-term rentals, then possibly:
 - Decouple the link
 - Comstead Exemption available to Montana businesses, or up to a certain value.
- Comstead exemption example:
 - Example concept: Increase Commercial rate is 2%, with a 25% Comstead exemption for Montana owned businesses for the first 2 million dollars of property value.
 - LFD model will be able to show this impact statewide and by Local tax area.
 - Could evaluate initially with a “fiscal note” like model.

Accommodations tax increase directed at reducing Montana Property Tax

- **Example consideration: An additional 2% during July, August, and September would have yielded about \$11.4 Million in additional revenues**
- Total collections for FY 2023 were about \$118.9 Million
- In accordance with 15-68-102, MCA, a 4% accommodations sales tax is levied on all charges for accommodations at lodging facilities and campgrounds in the state. In accordance with 15-65-111, MCA, Montana charges a lodging facility use tax of 4% on all accommodations.

Comparison Data: Other states lodging taxes as of 2022

- South Dakota – 7% (1.5% lodging tax & 4.5% statewide sales tax)
- Utah – 5.02% (0.32% lodging tax & 4.7% statewide sales tax)
- Wyoming – 9% (5% lodging tax & 4% statewide sale tax)
- North Dakota – 5% (no lodging tax & 5% statewide sales tax)
- Idaho – 8% (2% lodging tax & 6% statewide sales tax)

Other state data source: [NCSL 2022](#)

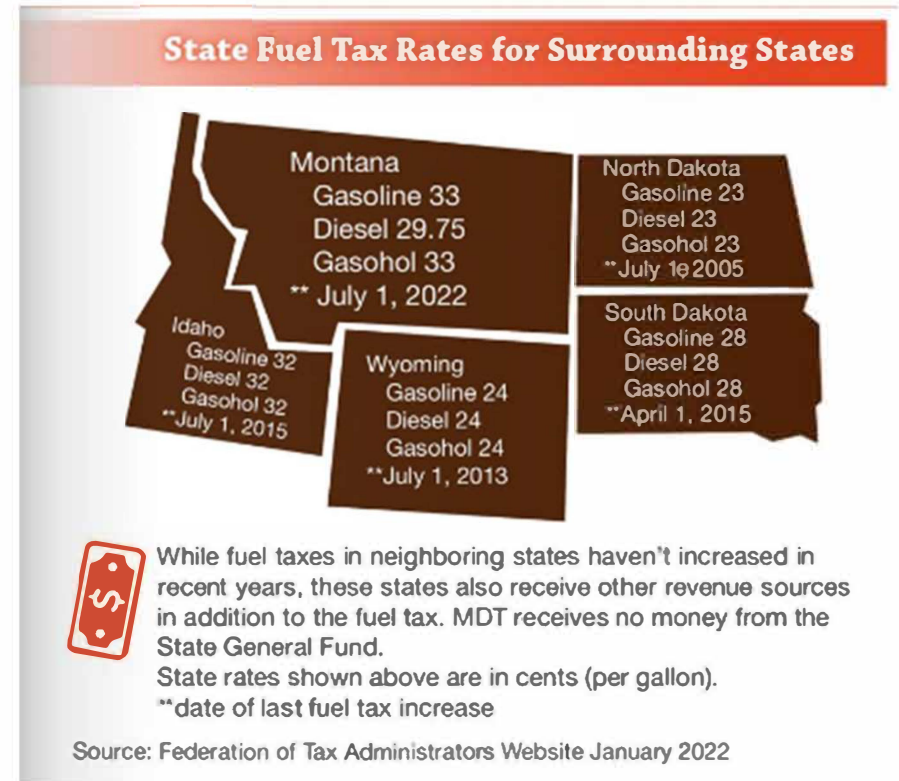
Gasoline Tax Increase returned to lower property taxes.

- Gas is taxed at 0.33 per gallon, diesel at 0.2975 per gallon.
- Recent summer averages of 50-60 million gallons of gas are sold each month. This is up from a low of 40 million gallons in March. Each penny of fuel tax per summer month brings in \$500,000 to \$600,000. This does not include diesel which averages closer to 30 million gallons per month.

How the tax returns to the impacted area.

- Approximately \$0.07 of each gallon of gasoline tax goes to locals. Of this approximately 2.6 cents to counties and 4.4 cents to cities.

Montana vs Surrounding states



Would a seasonal gas tax increase, with the amount collected returned to buy down property taxes, make sense? Would there be a way to collect receipts and refund Montana income resident collections?

LOCAL OPTION SALES TAX



Thoughts? Discussion? Direction?

Some Concepts being set forth:

- Targeted toward tourist items
- Revenue collected must reduce local property tax
- A mechanism to share a portion of the revenue collected from a larger community would be developed to share with surrounding counties.

Concerns being set forth:

- May be subject to Montana's Sales Cap 4%
- Is likely to impact residents significantly, especially shoppers from surrounding trade area who do not benefit from the tax.
- Is effectively a sales tax, but not as evenly distributed as a statewide model, and does not touch e-commerce. (Jaret Coles doing analysis here)
 - *According to the South Dakota Department of Revenue, in 2020, e-commerce sales in South Dakota made up 14.4% of total retail sales. The growth of e-commerce is having a significant impact on the retail industry,*

Nonprofit and Government Buildings do not pay property tax yet require public safety services.

- Consider in Helena the amount of property that is not on the tax rolls as an example.
- All building benefit from basic public safety services such as fire, police, etc.
- When these entities do not participate in these costs, there is a “tax shift” to residential.
- Should there be an “assessment” process that addresses this?
- If so, what?



Schools consume 56% of all Property tax dollars.

- Some Districts have very high mills, some very low mills.
- A county can have both the high and the low mill Districts.
- It has been suggested that moving toward a more “K-12 Districts” concept would increase administrative and school business efficiencies (lower costs), and potentially move toward a more equitable distribution of tax.
- Could other options, such as equalize the base non-voted mills on a county wide basis help with tax equity/fairness?
- Are the rules for isolated Districts worth revisiting?



Montana has a larger number of School Districts (taxing jurisdictions) relative to its overall students loads.

Area Comparison States (Numbers are approximate).

Montana has 397 School Districts and has approximately 155,000 Students with a \$12,000 per pupil spend

North Dakota has 153 School Districts with 114,000 Students with a \$14,000 per pupil spend ****Oil tax****

South Dakota has 148 School Districts with 120,00 Students with a \$10,000 per pupil spend

Idaho has 115 School Districts with 307,000 Students with a \$8000 per pupil spend

Wyoming has 50 School Districts with 90,000 Students with a \$16,000 per pupil spend ****Coal Tax****

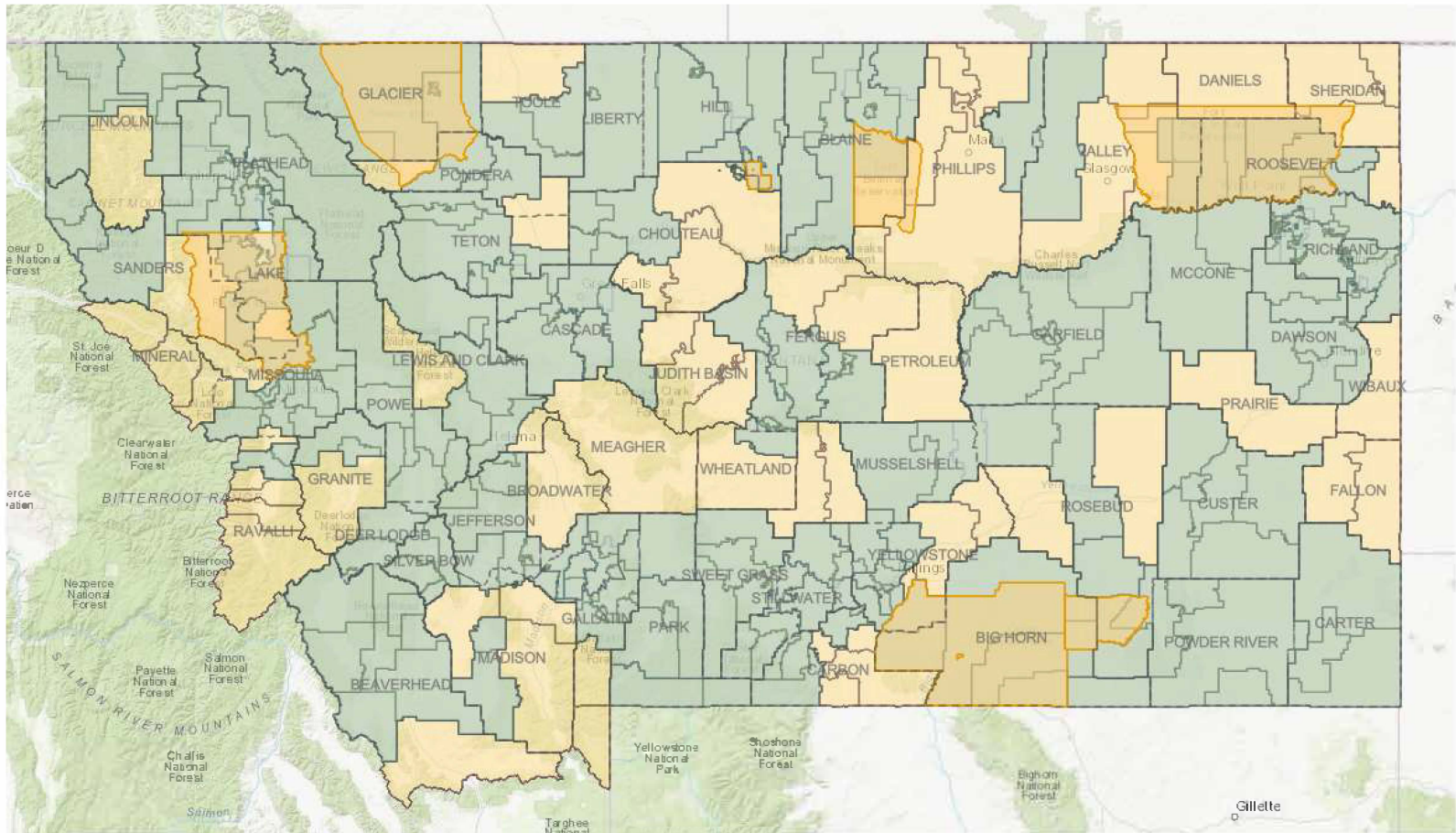
Colorado has 178 Districts with 883,264 Students with a \$11,000 per pupil spend

Utah has 41 School Districts with 667,000 Students with a cost of \$9000 per pupil spend

All these more rural states have numerous schools that the students attend, but are split is into less taxable Districts. **Is there a possibility where these Districts can be better aligned to encourage efficiencies while maintaining the schools needed to serve students in a rural state?**

Montana's system includes 397 operating school districts for approximately 155,000 students:

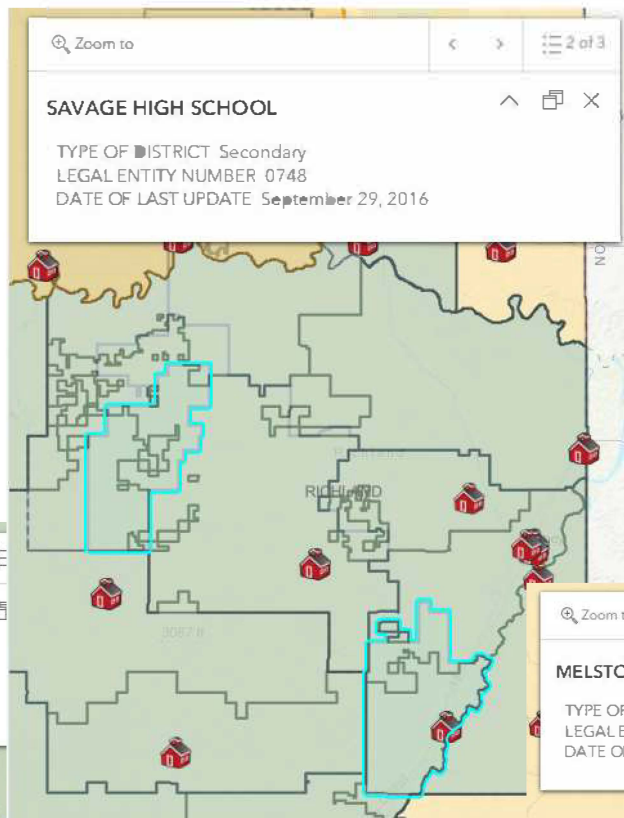
- 64 K-12 districts (shown in tan below)
- 94 combined EL and HS districts (unified governance but unique boundaries, so 188 unique districts)
- 141 independent EL districts that “feed” into a larger HS district (sometimes multiple HS districts)
- 4 county high school districts (Beaverhead, Carter, Custer, and Garfield)



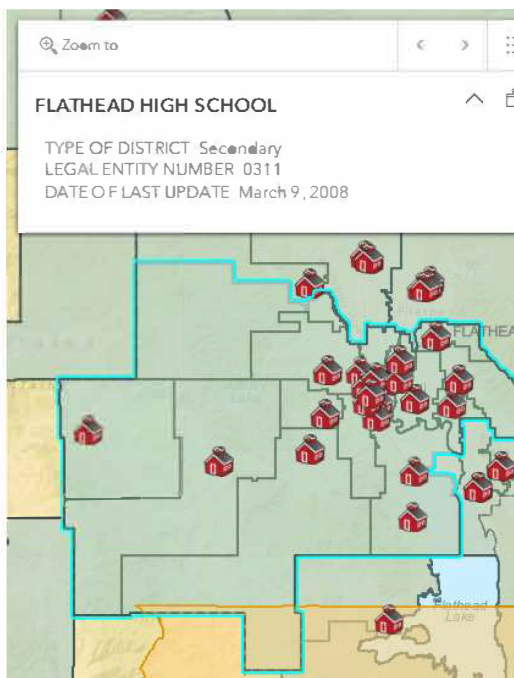
Montana's school district structure leads to some complexities and some anomalies.

Sometimes district boundaries reflect property tax interests more than educational ones.

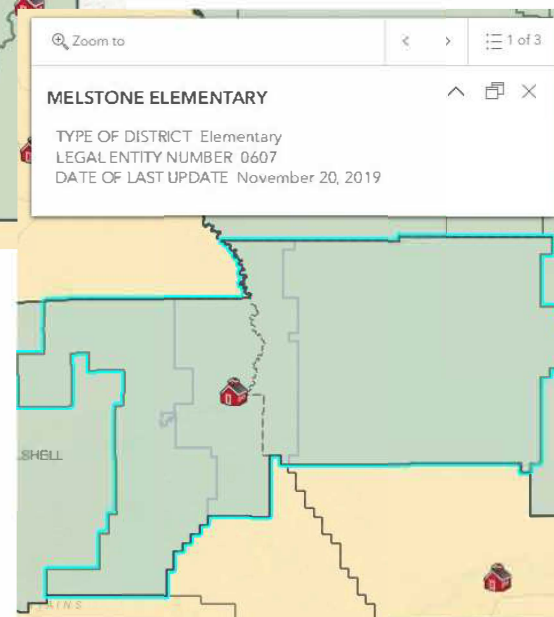
HB 203 (Bedey; 2023) will illuminate where kids actually attend school and protect taxpayers in districts that receive out-of-district students.



Richland County has a patchwork of noncontiguous school district boundaries, including Savage HS with this bizarre configuration.



Flathead HS District is made up of 10+ EL districts.



Melstone EL District is trifurcated between Roundup, Melstone, and Forsyth HS Districts.

Governor's Property Tax Advisory Council

Report of the Education Subcommittee

The subcommittee met on February 28, 2024.

The subcommittee explored State and K-12 education revenue sources; school budgeting; the history of the 95-mill state equalization levies; key school funding and property tax statutes; major school funding lawsuits; the 15-10-420, MCA, maximum mill levy calculation; and the issue of "banked" mills. This was followed by a walk-through of the considerations when evaluating policy options.

After that review, the subcommittee settled on three issue areas that the committee would like to explore in more depth.

- Changing school election dates to promote more voter participation.**
- Examining the impact of tax increment financing (TIF) on state, county, and district school levies.**
- Projecting into the future the effects of various options regarding the statewide equalization levy, e.g.,**
 - **making no change to current law but incorporating the impact of the School Equalization and Property Tax Reduction Act (SEPTR),**
 - **adjusting current equalization statutes (e.g., the HB 587 "dials") to reduce local school levies,**
 - **reducing the levy to and "floating" it with or without mill banking, and**
 - **increasing the state levy while providing reductions in local school levies.**

The subcommittee will next meet on April 3, 2024.

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Public Comment

Next Steps
