

Property Tax Revenues in Montana

JULIA PATTIN

JANUARY 16, 2020



Introduction

This report discusses property tax revenues in Montana in the context of research performed for the Legislative Finance Committee studies detailed in HB 715, which requires that the study examine “fiscal and economic conditions.... revenue volatility, revenue trends.... [and] local government expenditures and funding.”¹ In particular, this report addresses questions that the Legislative Fiscal Division (LFD) has received from legislators, stakeholders, and the public. The questions that have been answered are:

- How property tax abatements have changed over time (see page 3)
- How property tax collections have changed over time (see pages 5 – 6)
- How property tax collections relate to growth in the economy (see page 7)
- How the amount of property taxes collected varies across the state (see page 10)
- How effective tax rate has changed over time (see pages 11 – 15)
- How the number of mills levied vary between localities across the state, and what is the source of that variation (see pages 16 – 20)
- How effective tax rates for residential versus non-residential property vary across the state (see pages 21 – 25)
- How Montana’s reliance on property taxes compares to other states (see page 24)

The questions answered elsewhere are:

- How legislative changes have impacted property tax collections, and how property tax collections relate to economic conditions in Montana (see <https://leg.mt.gov/content/Committees/Interim/2019-2020/Revenue/Meetings/January-2020/property-tax-history.pdf>)
- How property tax abatements impact local governments, and does the state require local governments to forego revenue in tax expenditures (see <https://leg.mt.gov/content/Committees/Interim/2019-2020/Revenue/Meetings/January-2020/property-tax-abatements.pdf>)

The questions requiring further research are:

- How changes in land usage impact property tax collections, e.g. shifts from agricultural to residential land in the Gallatin valley (see page 25)
- Have local governments increased their reliance on fees versus property taxes (see page 25)
- What options Montana might have for implementing an alternative tax structure (see page 26)

For a brief background on how property taxes work, please see the LFD property tax story map.²

The completion of this report would not have been possible without assistance from the Montana Department of Revenue (DOR). The data used in this report are primarily from the DOR. The LFD would like to thank the DOR, the Governor’s Office of Budget and Program Planning (OBPP), and the Montana Tax Payers Association for their assistance and input during the research process.

¹ [HB 715 \(2019\)](#)

² [LFD Property Tax](#)

Overview of Property Taxes in Montana

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, and school district 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 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.

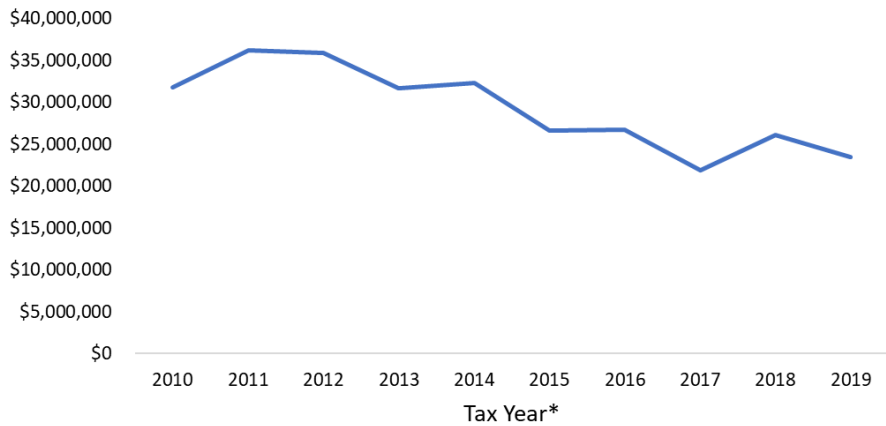
Property tax collections are usually determined after a local government entity has set its budget for the year, and the number of mills levied is then determined based on that need. Though property taxes are the main source of funding for counties, the growth is limited by state statute. Per [15-10-420, 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.

At the local level, property taxes fund district and countywide school funds, city and county services, and a variety of other services. The city and county portions of property taxes are primarily used to fund local services such as roads, bridges, district courts, public safety, and others. There are also a number of special districts in Montana, which may levy mills for search and rescue, local parks, and a variety of other purposes.

Property Tax Expenditures

Though property taxes are a source of revenue, there can be costs associated with implementation or tax relief programs can result in reduced revenues— these costs and reductions are called property tax expenditures. Property tax abatements can be defined as “revenue losses from statewide mills that would have been collected if [tax relief] programs did not reduce the properties’ taxable value.”³ There are several property tax reduction programs in Montana. For example, the Property Tax Assistance Program (PTAP) reduces property taxes for residential households with low income (per 15-6-134, MCA). Tax increment financing (TIF) is another property tax expenditure which allows certain districts to use property tax revenue to fund new development.⁴ For a detailed breakdown of property tax expenditures by county from tax year (TY) 2010 through 2019, please see the Property Tax Abatement handout produced by the Legislative Services Division.⁵

The **total taxable value of property tax abatements** has declined over the last 10 years



*Fiscal years are one ahead of tax years (e.g. TY 2018 is FY 2019)

³ [DOR 2016 Tax Expenditures](#)

⁴ [DOR Tax Increment Financing](#)

⁵ [LSD Property Tax Abatements](#)

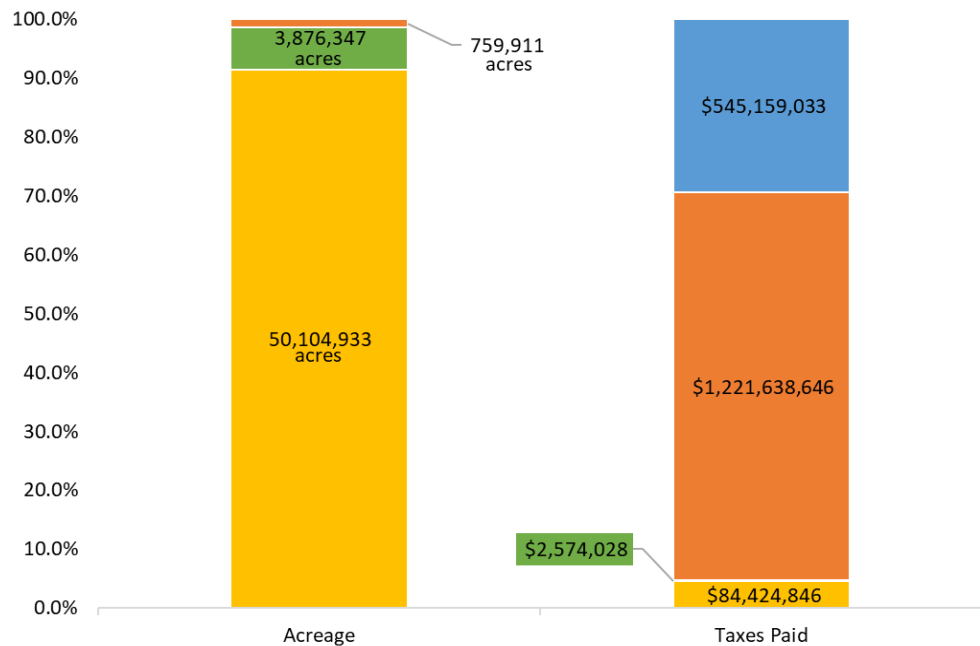
Tax Classes

There are a number of different property tax classes in Montana, each of which has a specific tax rate set in statute. The property classes and the rates for TY 2018 are displayed in the chart below.

Property Tax Classes					
Class	Description	Valuation Standard	Value Cycle	Tax Rate	Taxes Paid per \$100,000 of Value at 500 Mills
1	Net Proceeds of Mines	Net Proceeds	Annual	100%	n/a
2	Gross Proceeds of Metal Mines	Gross Proceeds	Annual	3.00%	n/a
3	Agricultural Land	Production Value	Two-Year	2.16%	\$1,080
4a	Residential Land & Improvements/Extended Property Tax Assistance	Market Value	Two-Year	1.35%	\$675
4b	Commercial Land & Improvements	Market Value	Two-Year	1.89%	\$945
5	Pollution Control Equipment	Market Value	Annual	3.00%	\$1,500
7	Non-Centrally Assessed Public Utilities	Market Value	Annual	8.00%	\$4,000
8	Business Equipment	Market Value	Annual	2.33%	\$1,165
9	Pipelines & Non-Electric Generating Property of Electrical Utilities	Market Value	Annual	12.00%	\$6,000
10	Forest Land	Production Value	Six-Year	0.37%	\$185
12	Railroads & Airlines	Market Value	Annual	3.04%	\$1,520
13	Telecommunication Utilities & the Electric Generation Property of Electrical Utilities	Market Value	Annual	6.00%	\$3,000
14	Renewable Energy Production & Transmission Property	Market Value	Annual	3.00%	\$1,500
15	Carbon Dioxide & Liquid Pipeline Property	Market Value	Annual	3.00%	\$1,500
16	High Voltage Direct-Current Converter Stations	Market Value	Annual	2.25%	\$1,125
17	Qualified Data Centers	Market Value	Annual	0.90%	\$450

Only three of the fifteen property classes consist of actual land—class 3 agricultural land, class 4 residential and commercial land, and class 10 forest land; all other classes consist of non-real estate property. The chart to the right displays the breakdown of acreage between property classes and the breakdown of how much each class paid in property tax in TY 2019.

There are three property classes in Montana that consist of real estate acreage: **agricultural land**, **residential & commercial land**, & **forest land**. Of those classes, agricultural land accounted for 91.5% of the acreage in Montana in TY 2019. However, residential and commercial land accounted for 65.9% of taxes paid. **All other non-land types of property** accounted for 29.4% of property taxes paid, while agricultural and forest land together accounted for less than 5.0%



Historical Overview – Major Legislative Changes

The following historical overview was summarized from LFD Fiscal Reports. After each legislative session, the Legislative Fiscal Division produces a fiscal report, which details the budget passed in HB 2 for the upcoming biennium and summarizes major legislation passed that may have an impact on the budget.

In the 1997 Legislative Session, SB 195 forestalled large property tax increases by phasing in new reappraisal values at 2.0% per year and by phasing down tax rates over the next 50 years. Class 3 agricultural land, class 4 residential and commercial land, and class 10 forest land property values were also reappraised in TY 1997. The provisions in SB 195 were in effect for only two years before they were struck down by the Montana Supreme Court.

Thus, in TY 1999, the legislature passed a bill requiring that appraised values be phased-in over four years (per SB 184 from the 1999 Legislative Session). The bill also required that future reappraisal cycles be six years. In order to mitigate increases over the six-year cycle, increases in property values were phased in by one-sixth each tax year. The assessed value of residential and commercial real estate was the market value phased in over the reappraisal cycle. Agricultural land and forest land were also phased in over the reappraisal cycle, but their values were assessed on a productivity basis rather than on market value. Tax rates for agricultural land, residential and commercial real estate, and forest land were also phased-down. SB 184 also created homestead and commercial-stead (“comstead”) exemptions and phased-in these exemptions for residential and commercial land, respectively. The statutory tax rates for class 3 agricultural land, class 4 residential land, and class 4 commercial property were equivalent to one another, but the homestead and comstead exemptions effectively gave each category of property its own tax rate.

Six-Year Reappraisal Cycle

A new property tax reappraisal cycle began in TY 2003, and reappraisal values were phased in over the next six years (per SB 461 from the 2003 Legislative Session). The bill also changed property tax rates and changed the homestead and comstead exemptions for class 4 residential and commercial property. These changes effectively phased down the tax rate for class 3 agricultural land and class 4 residential and commercial land from 3.46% to 3.01% over the following six-years, phased up the homestead and comstead exemptions over the following six-years, and included a taxpayer assistance program which allowed an additional tax rate reduction for residential dwellings with extraordinary increases in value due to reappraisal.

In addition to mitigation through lower tax rates and higher exemptions, the 2009 Legislature also created an upper limit of \$1.5 million in market value of residences for which the homestead exemption was available (per HB 658 from the 2009 Legislative Session). The bill also changed 15-10-420, MCA such that each state mill was to be rounded up to the nearest tenth of a mill. If the growth in taxable value exclusive of new property exceeded one-half the rate of inflation, then each state mill levy must be reduced to the point where expected revenue exceeds no more than half the rate of inflation. Newly taxable property was also redefined as current year value less prior year value.

New Classes Added

Additionally, two new classes of property were added to the property tax base beginning in TY 2008. These were class 15, property associated with carbon sequestration, and class 16, property associated transmission lines that connect to other major electrical grids. These classes were not expected to contain any property before the end of TY 2014.

Business Equipment

Beginning in TY 2012, the tax rate on class 8 business equipment was reduced from 3.0% to 2.0% for the first \$2 million of market value of class 8 property owned by an individual or business (per SB 372 from the 2011 Legislative Session). Additionally, the \$2.0 million threshold was raised to \$3.0 million, and the tax rate was reduced to 1.5% the first year after the sum of collections of corporation income taxes and individual income taxes exceed the prior year's collections by more than 4.0%. Then in TY 2013, taxes assessed on class 8 business equipment were reduced (SB 96 from the 2013 Legislative Session). The bill also allowed for reimbursements to the university system, local governments, local schools, and tax increment financing districts (TIFs) for reductions in property tax revenue, and revised Montana's Property Tax Assistance Program and the Montana Disabled Veteran Property Tax Relief Program. To offset the lost revenue from business equipment tax at the local levels, the state agreed to reimburse local governments through an addition to their ongoing entitlement share payment.⁶

Two-Year Reappraisal Cycle

Beginning in TY 2015, the state switched to a two-year reappraisal cycle for class 4 residential and commercial land and for class 3 agricultural property (per SB 157 from the 2015 Legislative Session). The process of phasing in values was also eliminated for these properties with the change from a six-year to a two-year reappraisal cycle. The tax rates changed for class 4 residential and commercial, class 3 agricultural, and class 10 timber land. The tax rate for agricultural land dropped from 2.47% to 2.16%. The residential tax rate dropped from 2.47% with a homestead exemption to 1.35% with no homestead exemption, and the rate applied to all residences, even those valued over \$1.5 million. The commercial tax rate changed from 2.47% with a comstead exemption to the residential rate of 1.35% multiplied by 1.4. This commercial rate also applies to residential homes valued over \$1.5 million. The tax rate for forest land increased from 0.29% to 0.37%, but the reappraisal process remained on a six-year basis, with a one-sixth phase-in of value each year. Agricultural land and timberland continued to be valued on a productivity basis.

For more detailed information on the history of property taxes in Montana, please see the Legislative Services Division's property tax history report.⁷

⁶ [LFD Entitlement Share 2018](#)

⁷ [LSD Property Tax History](#)

Property Tax Trends and Analysis

Overview

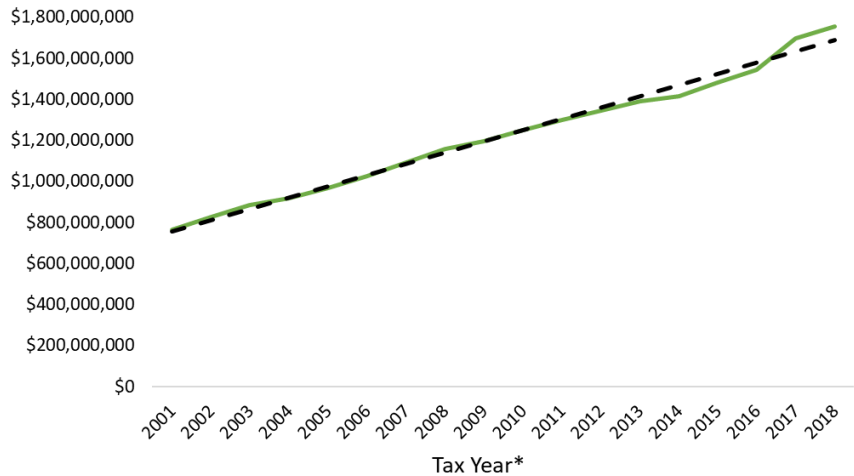
From TY 2001 and TY 2018, the amount of property taxes paid each year has grown on average at a rate of 5.002% annually. In TY 2017 and TY 2018, the amount of taxes paid increased more than expected based on the historic trend, which may be partially due to the elimination of the distribution of general fund block grants to school districts in the 2017 Legislative Session.

District general fund block grants were distributed to school districts as non-levy revenue to offset local property taxes and the guaranteed tax base (GTB) in the school

funding formula. GTB helps equalize differences in revenue generating capacity between school districts with different property tax bases.⁸ The legislature eliminated the school district general fund block grants totaling \$54.4 million in each year of the 2019 biennium (per HB 647). Eliminating block grants in the district general fund created an increase in local property taxes and in state GTB payments. The offset in state GTB aid totaled \$25.7 million in FY 2018 and \$42.2 million in FY 2019. In order to replace the net reduction resulting from the elimination of block grants, schools collected more in property taxes by approximately \$28.7 million in FY 2018 and \$12.2 million in FY 2019. Additionally, several school building projects in larger population counties contributed to the increase in property taxes. This increase in property tax collections is expected to decrease and return to normal in TY 2020.

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 FY 2002, and the source of data used to calculate these benchmarks is IHS Markit.

Over the last two decades, the **amount of property taxes paid** in Montana has steadily increased. However, there was a deviation from the **trend line** in TY 2017 and TY 2018, which is due in part to an increase in property tax for the guaranteed tax base (GTB) and a number of local school building projects. The deviation from the trend is expected to return to normal by TY 2020

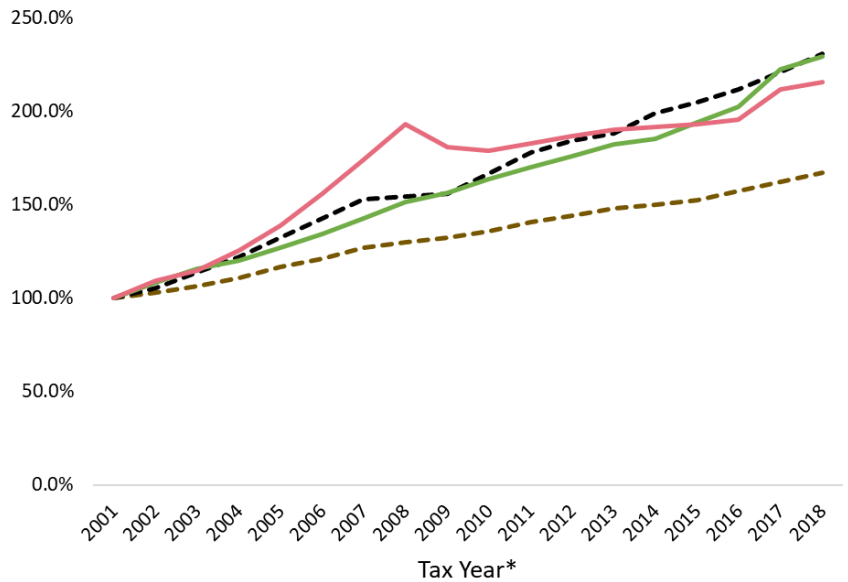


*Fiscal years are one ahead of tax years (e.g. TY 2018 is FY 2019)

⁸ [LSD School Funding - Guaranteed Tax Base](#)

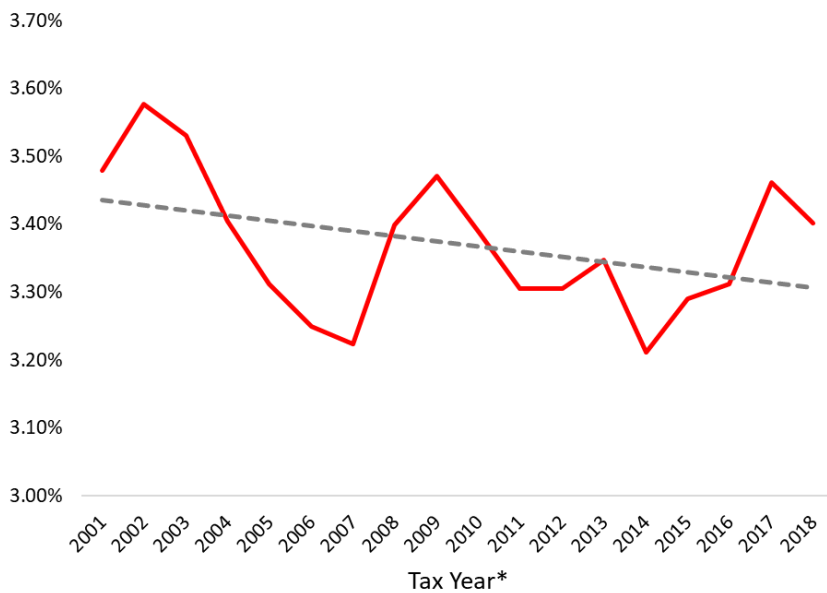
For most of the past 18 years, the amount of property taxes paid grew at a rate close to that of the economy (personal income). Since TY 2001, the total growth in property taxes paid has been 5.002% per year, which amounts to growth of 129.3% over the last 18 years. In the early 2000s, the growth in total market value of property in Montana outpaced growth in the economy (personal income). A majority of the property value in Montana consists of residential land, so when the recession hit in 2008 the growth in the market value of property leveled off. As of TY 2018, the rate of growth in market value is slightly less than those of the economy and taxes paid. From TY 2001 to TY 2018, the economy (personal income) grew 130.7%, taxes paid increased by 129.3%, and total market value rose a net of 115.3%. Inflation as adjusted for population grew 66.8%.

Growth in **property taxes paid** has been greater than that of **inflation adjusted for population** and increased almost at the same rate as **growth in the economy (personal income)**. Growth in **total market value of property** was outpacing that of the economy until the recession in 2008. Currently the growth in value is lower than that of the economy.



While property taxes paid have increased over the last 20 years, the **percentage of property taxes paid compared to personal income** has oscillated up and down; however, the **general trend** has been an overall decrease

When the growth in taxes paid is compared to the growth in personal income, the percentage oscillates between 3.2% and 3.6%, but the overall trend is decreasing.

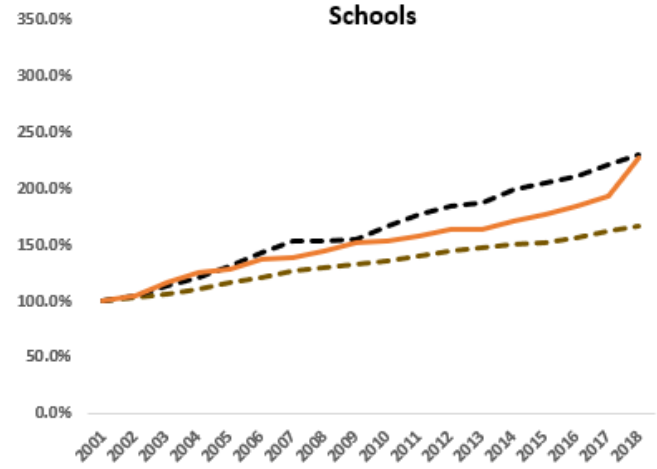
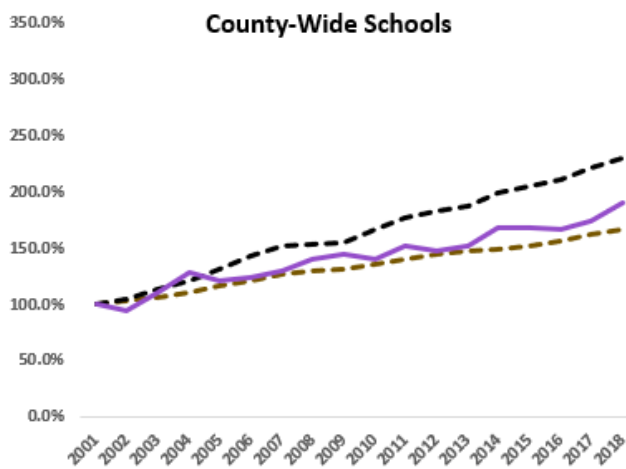
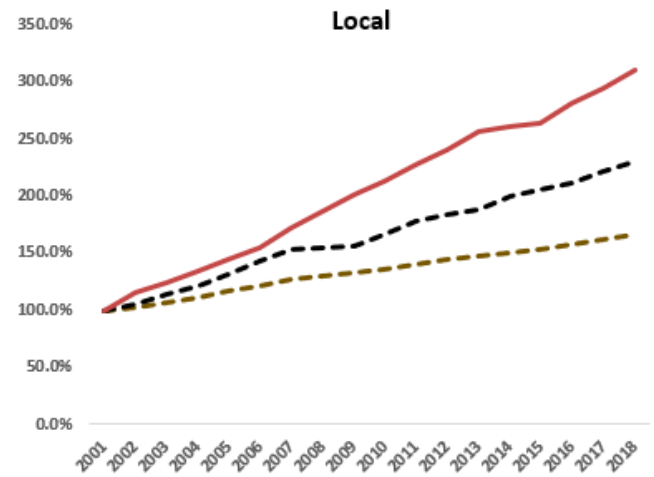
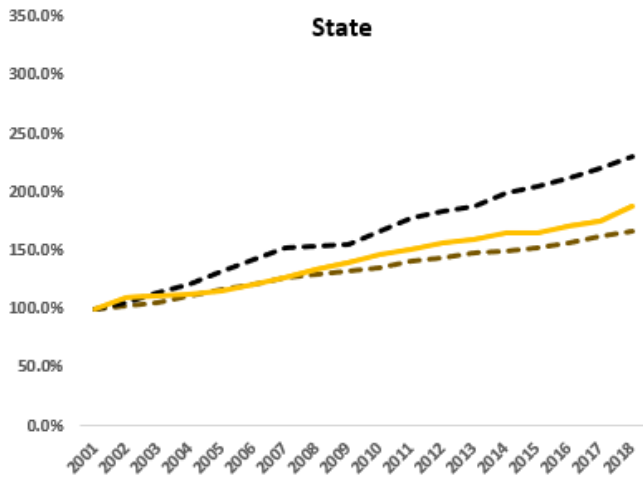


*Fiscal years are one ahead of tax years (e.g. TY 2018 is FY 2019)

Breakdown of Taxes Paid to Entities

The growth in property taxes paid can be broken down into the amounts paid to the state, to local governments, and to school districts. Local governments (including special districts) have experienced the most growth at 210.5% over the last 18 years, while the state has experienced the least amount of growth at 88.6% over the last 18 years. The growth in property taxes paid to the state has been fairly steady and is slightly greater than growth in inflation.

Growth in property taxes paid to the **state**, **county-wide school mill**, and **schools** has generally been greater than that of **inflation adjusted for population** but less than **growth in the economy (personal income)**. However, growth in **local governments** has exceeded growth in the economy since TY 2001.



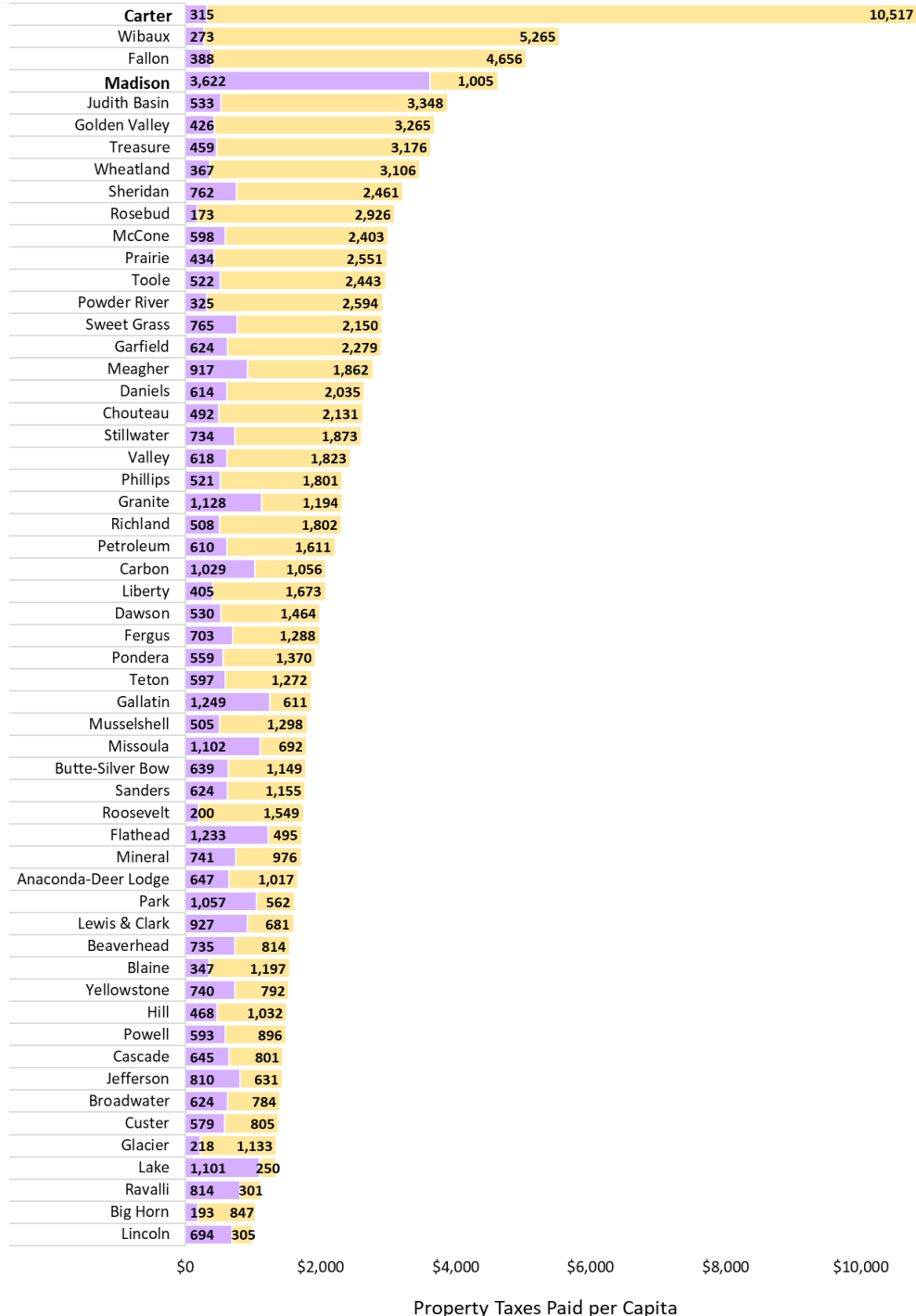
Tax Year*

*Fiscal years are one ahead of tax years (e.g. TY 2018 is FY 2019)

Breakdown of Taxes Paid by County

Taxes paid can also be broken down by county. Counties with oil wealth tend to pay more in property taxes per capita because of the higher tax rate on class 12 oil pipelines and small populations living in those counties. However, the amount of taxes paid per capita on residential land in those counties is relatively low compared to counties with higher market values for residential land, such as Madison, Gallatin, and Flathead counties.

The total amount of **taxes paid per capita** in TY 2019* is highest in Carter county, primarily from **non-residential property**. Madison county has the highest amount of taxes paid per capita for **residential property** only.

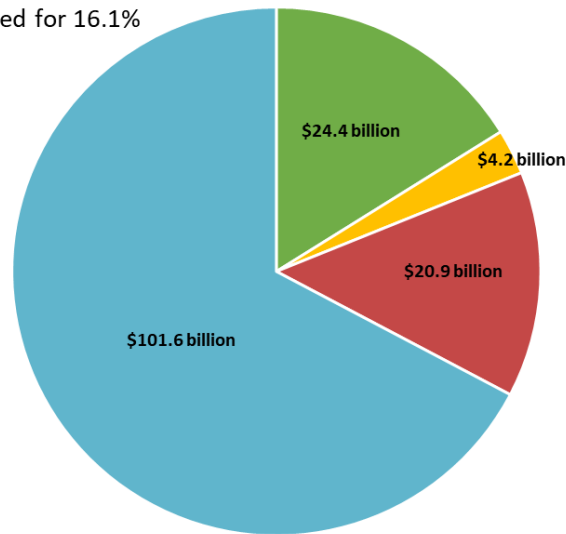


*Fiscal years are one ahead of tax years (e.g. TY 2019 is FY 2020)

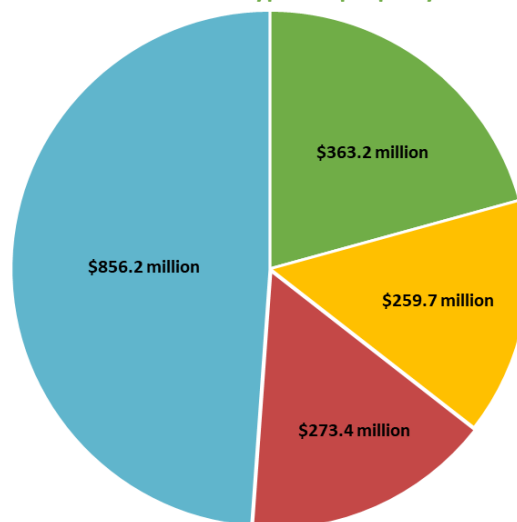
Effective Tax Rate

Effective tax rate can be defined as the amount of taxes paid as compared to the total market value of property. Note that effective tax rate is different than the individual tax rates set by the legislature for each class of property. Effective tax rate alone does not necessarily indicate whether tax rates are high or low in a particular jurisdiction, without taking property classifications and their different tax rates into account. For example, class 12 oil pipelines are taxed at 12.0% of market value, while class 4 residential property is taxed at 1.35% of market value; therefore, tax classes should be taken into consideration when comparing effective tax rates between jurisdictions which have a large amount of oil pipeline property and jurisdictions that do not.

Class 4 **residential** and **commercial** land account for the majority of **total market value** in Montana. In TY 2018*, **oil pipelines** accounted for 2.8% of the total and **all other types of property** accounted for 16.1%



Class 4 **residential** and **commercial** land account for the majority of **total taxes paid** in Montana. In TY 2018*, **oil pipelines** accounted for 14.8% of the total and **all other types of property** accounted for 20.7%



*Fiscal years are one ahead of tax years (e.g. TY 2018 is FY 2019)

The statewide effective tax rate for all property classes was estimated to be 1.123% in TY 2019, with approximately 68.0% of levy districts paying an effective tax rate between 0.765% and 1.727%. Approximately 95.0% of levy districts paid an effective tax rate between 0.581% and 4.498%. However, due the distribution of property values and property types across the state, effective tax rate can vary widely between levy districts. Note that these rates include all property classes and not just residential real estate. This range in effective tax rates is in part due to the distribution of property wealth for different classes between counties in Montana, which will be discussed further on in this report. The following chart shows the effective tax rate for TY 2019 for counties with population growth above or below the median county growth rate from 2009 to 2019.

Overall Effective Tax Rate					
Population Growth 2009 - 2019	Average	68.0% Bounds		95.0% Bounds	
Counties with Growth Above Median	1.046%	0.738%	1.725%	0.566%	5.303%
Counties with Growth Below Median	1.394%	0.859%	1.726%	0.613%	2.751%

County Population Growth as Compared to Median Growth Rate			
Median Population Growth Rate from 2009 - 2019: 2.55%			
Below Median		Above Median	
County	Change	County	Change
21 Toole	-9.40%	6 Gallatin	30.60%
26 Pondera	-6.30%	46 Granite	14.00%
28 Powell	-5.80%	7 Flathead	13.60%
16 Dawson	-4.30%	25 Madison	12.70%
33 Treasure	-3.20%	43 Broadwater	12.30%
36 Judith Basin	-3.00%	4 Missoula	11.30%
11 Phillips	-2.40%	42 Carter	11.10%
47 Meagher	-2.20%	5 Lewis & Clark	10.90%
8 Fergus	-2.00%	10 Carbon	10.30%
45 Prairie	-1.40%	13 Ravalli	10.10%
30 Anaconda-Deer Lodge	-1.30%	27 Richland	10.00%
37 Daniels	-0.90%	55 Petroleum	9.70%
19 Chouteau	-0.80%	3 Yellowstone	9.70%
14 Custer	-0.80%	48 Liberty	9.00%
20 Valley	-0.80%	15 Lake	8.20%
53 Golden Valley	-0.30%	50 Garfield	8.00%
56 Lincoln	-0.20%	41 McCone	7.40%
52 Wibaux	-0.20%	49 Park	6.80%
9 Powder River	0.00%	17 Roosevelt	5.80%
34 Sheridan	0.00%	32 Stillwater	5.60%
40 Sweet Grass	0.20%	54 Mineral	5.00%
1 Butte-Silver Bow	0.80%	35 Sanders	5.00%
31 Teton	1.00%	51 Jefferson	4.50%
38 Glacier	1.10%	22 Big Horn	4.20%
29 Rosebud	1.20%	24 Blaine	4.10%
12 Hill	2.00%	44 Wheatland	3.40%
2 Cascade	2.10%	18 Beaverhead	3.20%
39 Fallon	2.20%	23 Musselshell	2.90%

For the majority of levy districts, there does not appear to be much of a difference between counties with population growth above 2.55% and those below it. Only 16.0% of levy districts in all counties pay an effective tax rate above 1.73%.

The following chart shows the effective tax rate for TY 2019 for the five different economic regions determined by the Department of Labor and Industry (DLI).⁹



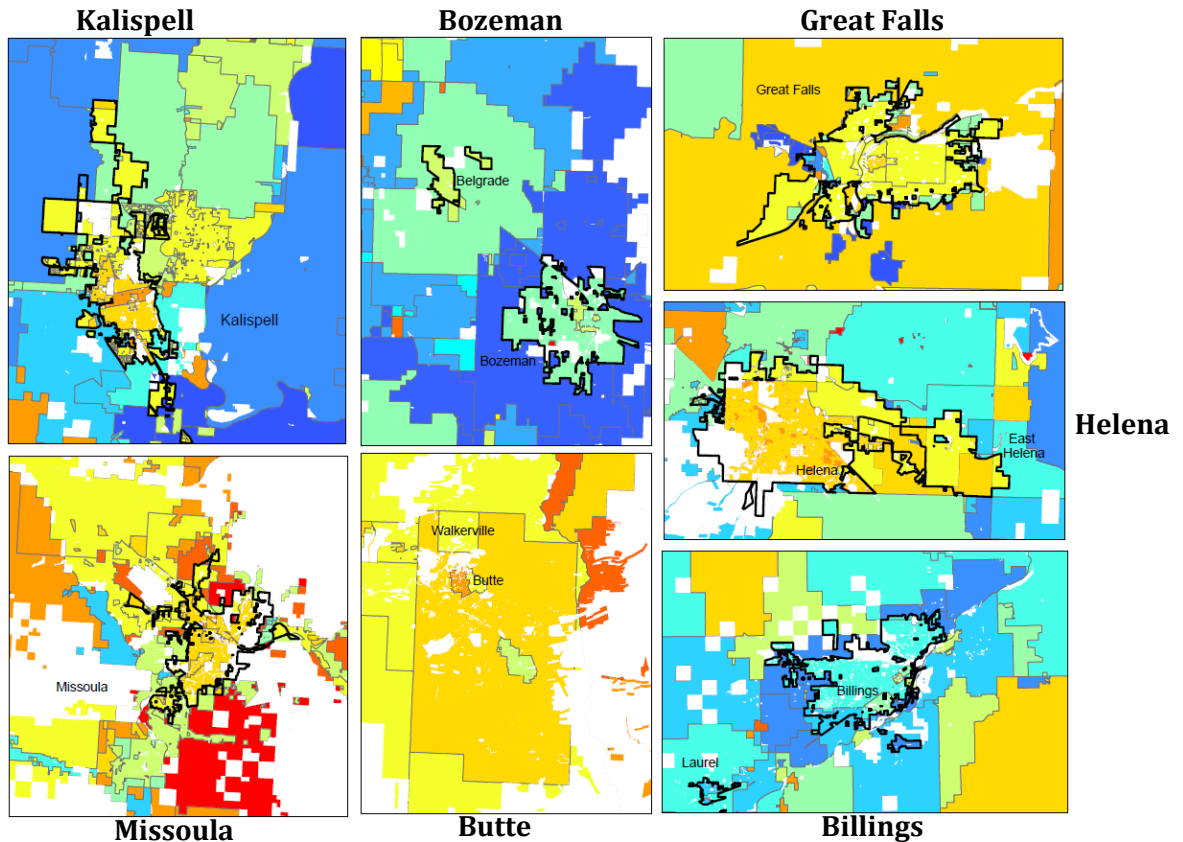
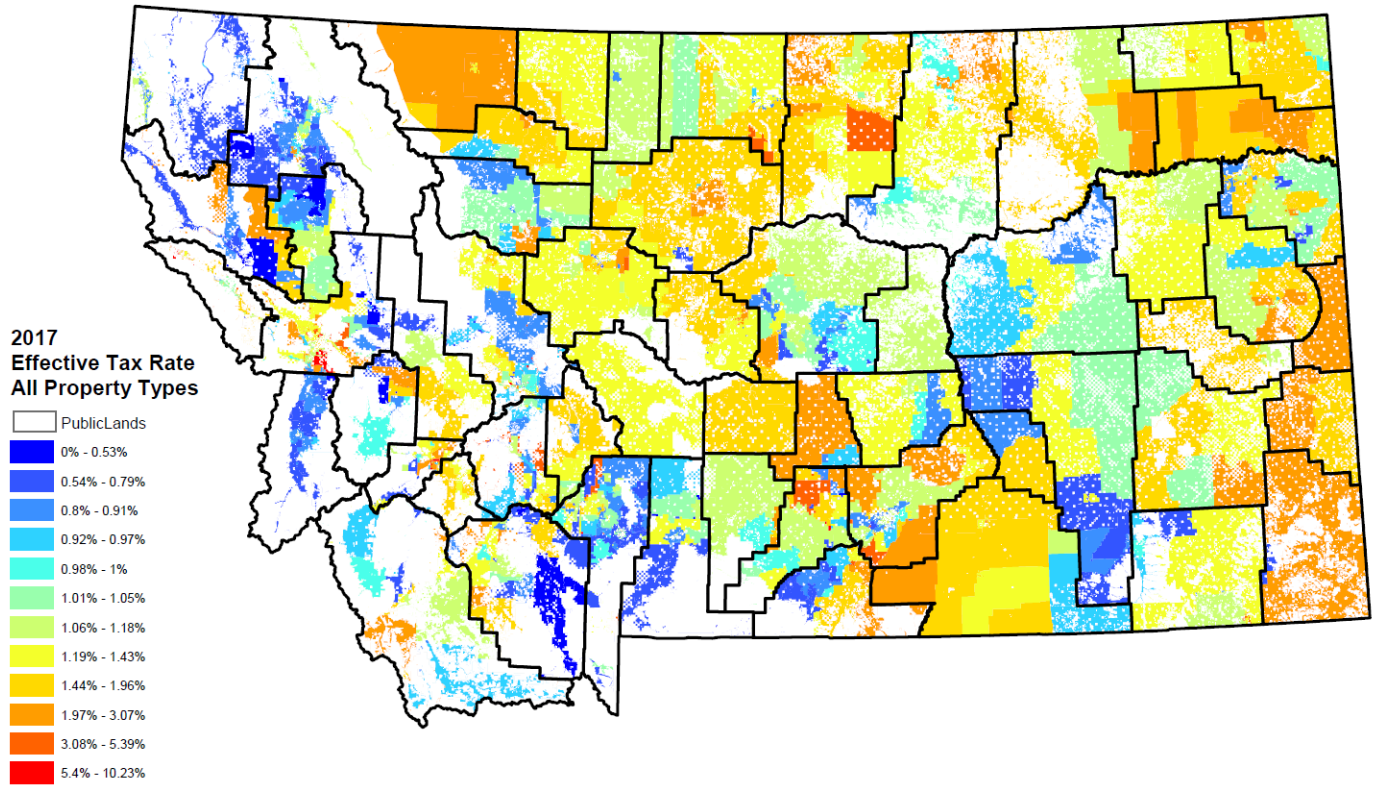
Overall Effective Tax Rate					
DLI Economic Region	Average	68.0% Bounds		95.0% Bounds	
Northwest	1.042%	0.699%	1.614%	0.531%	3.493%
North Central	1.363%	0.948%	1.698%	0.760%	2.831%
Eastern	1.553%	0.966%	1.870%	0.642%	2.604%
South Central	1.189%	0.826%	1.767%	0.654%	3.114%
Southwest	0.987%	0.724%	1.701%	0.536%	6.305%

Effective tax rates are highly dependent on the tax class make up of a taxing jurisdiction and its population. Most of the variability between regions is due to the distribution of natural resource wealth across the state and the varying need for services between jurisdictions.

⁹ [Department of Labor and Industry](#)

The following map shows the overall effective tax rate for all types of property across the state and for the largest seven cities.

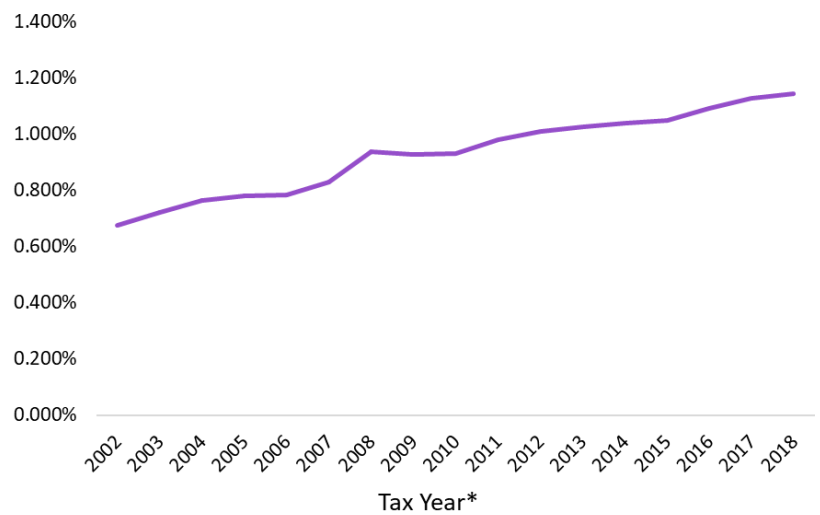
Effective Tax Rate for **All Property Types** by Levy District in TY 2017



Note that these maps display effective tax rates for all property types, not just residential and commercial property. The effective tax rate varies depending on property wealth and the amount of property in each class in any given levy district. Due to the high tax rate on oil pipelines, the effective tax rate for a few small levy districts in Eastern Montana counties is above 5.0%. Many of the higher-population counties have more residential and commercial land and less natural resource wealth, and thus their effective tax rates are lower. Differences in the effective tax rates across the state can also be attributed to a shift in local funding to fees rather than property taxes¹⁰ or the willingness of certain communities to pay different amounts in taxes for different levels of services.

Since TY 2002, the overall effective tax rate in Montana has increased, with a slight bump above normal in TY 2008 due to a sharp increase in market value of property in Montana. When the recession hit in 2008, the growth in market value leveled off, and thus so did the effective tax rate.

The **overall effective property tax rate** in Montana has increased over the last two decades. The slight spike in TY 2008 is due to the leveling off of growth in market value.



*Fiscal years are one ahead of tax years (e.g. TY 2019 is FY 2020)

¹⁰ For additional information on local government trends, please see the LFD Local Government Report.

Variation in Mills Levied Across the State

The average number of mills levied on property in Montana is 584 for TY 2019, with approximately 68.0% of levy districts paying between 464 mills and 718 mills. Approximately 95.0% of levy districts pay between 354 mills and 875 mills. The variation in number of mills paid is due a combination of factors, such as taxable value differences, property classes and their tax rates, and the need of the particular city, county, and school district. The following chart shows the average number of mills levied for TY 2019 for counties with population growth above or below the median county growth rate from 2009 to 2019.

All Mills					
Population Growth 2009 - 2019	Average	68.0% Bounds		95.0% Bounds	
Counties with Growth Above Median	582.85	464.23	714.79	369.05	883.29
Counties with Growth Below Median	592.93	464.09	737.67	334.36	866.93

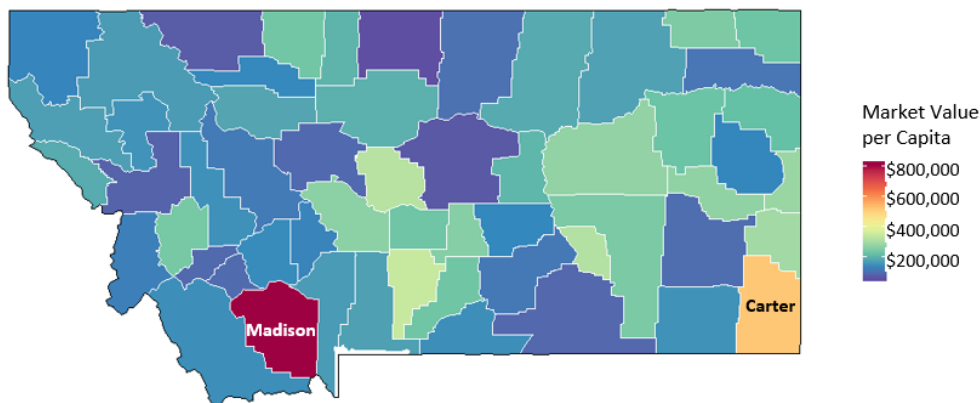
There does not appear to be a substantial difference between counties with growth above the median population growth rate of 2.55% and those with growth below it. The following chart shows the average number of mills levied for TY 2019 for the five different economic regions determined by the Department of Labor and Industry.

All Mills					
DLI Economic Region	Average	68.0% Bounds		95.0% Bounds	
Northwest	623.46	493.14	776.34	417.59	900.17
North Central	614.06	505.06	737.67	452.16	874.99
Eastern	566.52	396.11	747.53	276.38	883.29
South Central	549.61	439.97	648.57	379.36	760.53
Southwest	568.48	450.34	710.69	341.41	825.93

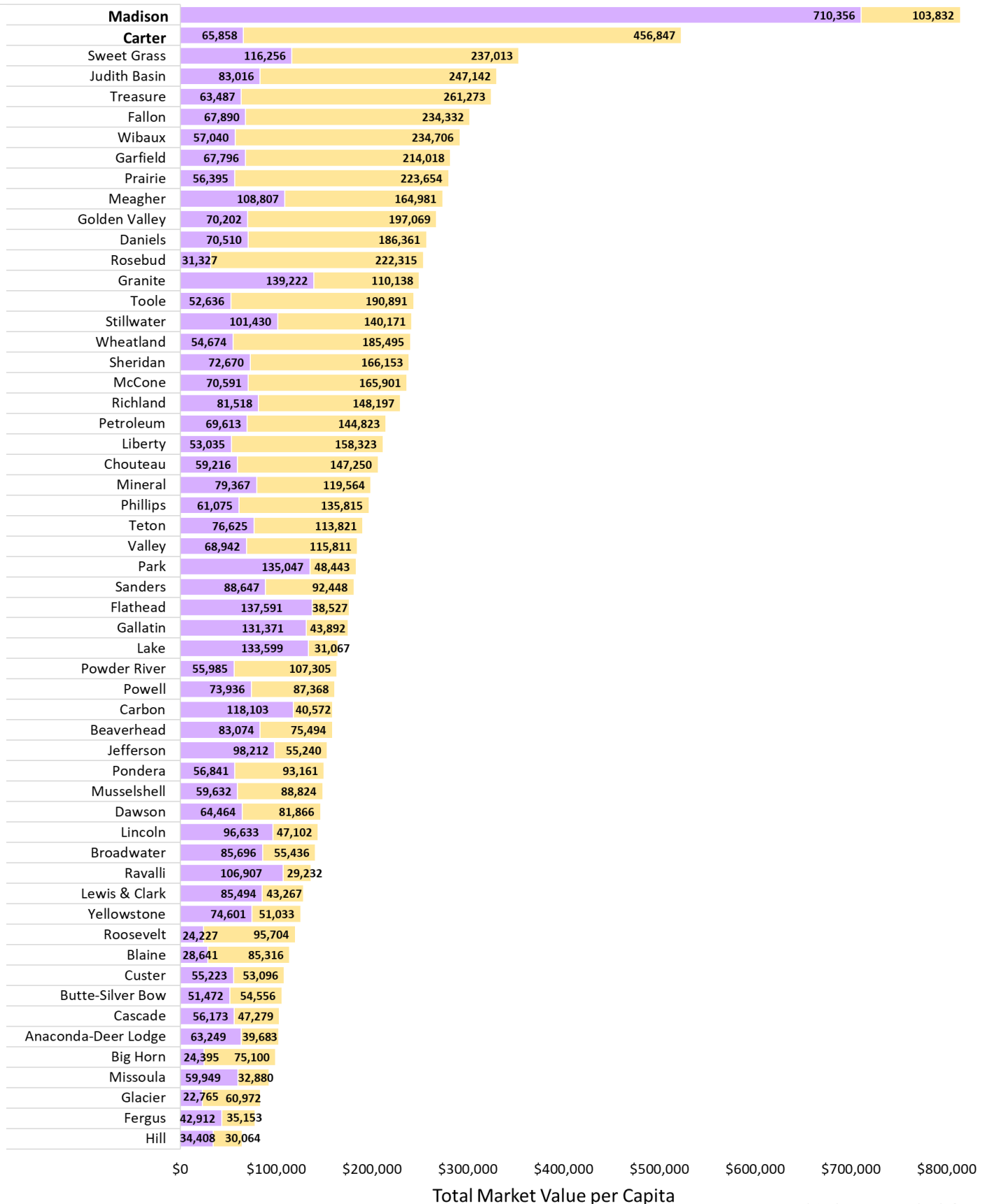
Differences in mills levied across the state are more apparent when comparing economic regions, due to the distribution of property wealth and property classes across the state. Natural resource counties, many of which are located in eastern Montana, often levy fewer mills due to the high tax rate on oil pipeline property and the low population of people living in those counties.

The total market value of property in a county also affects the number of mills levied. The map below displays the market value of all property classes per capita in Montana by county.

The market value of all property per capita is highest in Madison and Carter counties



The **market value of property per capita** in TY 2019* is highest in Madison and Carter counties in Montana. The high market value per capita in Madison county is due to high values of **residential property**, whereas the high market value per capita in Carter county is due to high values of **non-residential property** types, particularly oil pipelines



*Fiscal years are one ahead of tax years (e.g. TY 2019 is FY 2020)

Madison County, which includes the western part of Big Sky and most of its major resorts, has a disproportionately large share of class 4 residential and commercial land wealth per capita compared to other counties in the state. The high market value of residential property and the low population of residents in Madison County results in a relatively low effective tax rate, estimated at 0.450% for TY 2019.

Carter County has a disproportionately large share of the state’s oil pipelines. Again, the high market value of class 9 property in the county and the small population of residents impacts the effective tax rate. Also due to the higher tax rate on class 9 pipeline property, the overall effective tax rate for Carter County is estimated to be 2.326% for TY 2019. The previous chart shows the total market value of property by county for class 4 residential land versus all other property types.

Property Tax and Schools

The average number of mills levied specifically for schools is 247 for TY 2019, with approximately 68.0% of levy districts paying between 171 and 323 school mills. Approximately 95.0% of levy districts paid between 66 and 392 school mills for TY 2019. The following chart shows the average number of school mills levied (including local school mills and county-wide school mills) for TY 2019 for counties with population growth above or below the median county growth rate from 2009 to 2019.

School Mills Only					
Population Growth 2009 - 2019	Average	68.0% Bounds		95.0% Bounds	
Counties with Growth Above Median	249.72	170.51	324.60	87.08	396.08
Counties with Growth Below Median	242.70	177.60	304.75	55.67	366.81

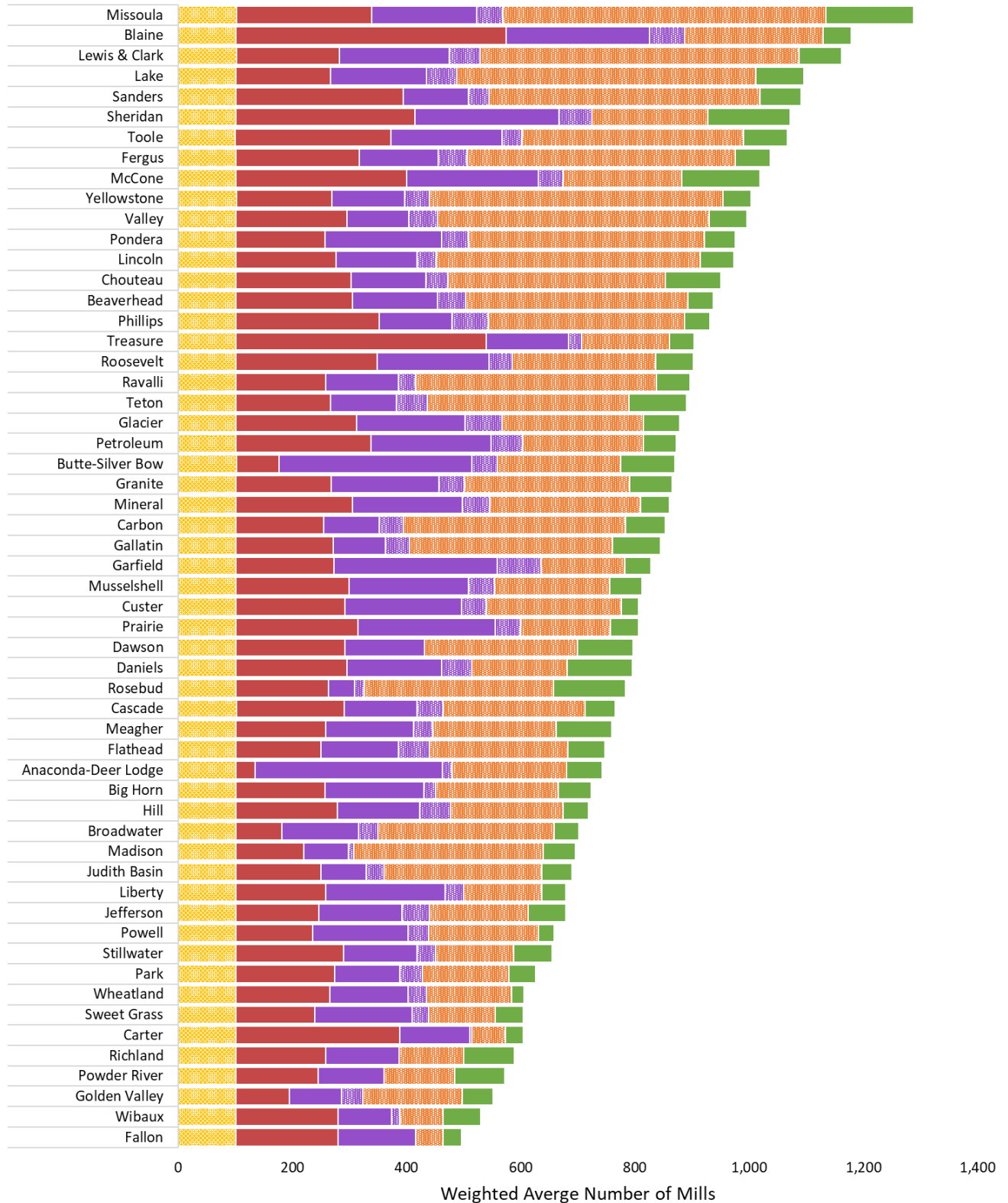
The following chart shows the average number of school mills levied for TY 2019 for the five different economic regions determined by the Department of Labor and Industry.

School Mills Only					
DLI Economic Region	Average	68.0% Bounds		95.0% Bounds	
Northwest	278.63	196.08	338.81	144.60	407.90
North Central	263.32	183.28	307.35	143.26	388.40
Eastern	197.87	89.50	303.58	26.51	354.77
South Central	239.84	184.81	312.00	102.82	370.99
Southwest	238.91	169.16	320.88	30.64	430.03

Differences between high property wealth and low property wealth regions are particularly apparent when looking at the number of school mills. The total number of mills levied across the state is partially equalized by the statewide 95 mill levy and the 6 mill levy for the university system. However, a large source of variability in the number of mills levied across the state can be explained by differences in the number of school mills. The following chart shows the weighted average number of mills levied in any given tax levy district by county and type of mill.

Property tax mills may be levied by the **state**, **cities & towns**, **counties***, **local schools***, and **other sources** (including special districts). The average number of mills levied in TY 2019** vary by county and by type of mill levied.

*Mills specifically levied for schools are distinguished by the checkered pattern
 **Fiscal years are one ahead of tax years (e.g. TY 2019 is FY 2020)



Due to the large variation in number of mills levied for schools, the effective school tax rate also varies across the state. The statewide effective school tax rate is estimated to be 0.430% in TY 2019, with approximately 95.0% of levy districts paying an effective school tax rate between 0.045% and 1.683%. The following chart shows the effective school tax rate for TY 2019 for counties with population growth above or below the median county growth rate from 2009 to 2019.

Effective Tax Rate for Schools Only					
Population Growth 2009 - 2019	Average	68.0% Bounds		95.0% Bounds	
Counties with Growth Above Median	0.364%	0.139%	0.639%	0.041%	2.305%
Counties with Growth Below Median	0.433%	0.105%	0.595%	0.045%	1.201%

Counties with population growth above 2.55% pay higher effective tax rates for schools, probably in part due to the larger populations within those counties. The following chart shows the effective tax rate for TY 2019 for the five different economic regions determined by the Department of Labor and Industry (DLI).

Effective Tax Rate for Schools Only					
DLI Economic Region	Average	68.0% Bounds		95.0% Bounds	
Northwest	0.353%	0.082%	0.595%	0.043%	1.504%
North Central	0.510%	0.200%	0.691%	0.069%	1.225%
Eastern	0.360%	0.100%	0.529%	0.006%	1.060%
South Central	0.405%	0.115%	0.648%	0.061%	1.184%
Southwest	0.354%	0.217%	0.666%	0.019%	3.116%

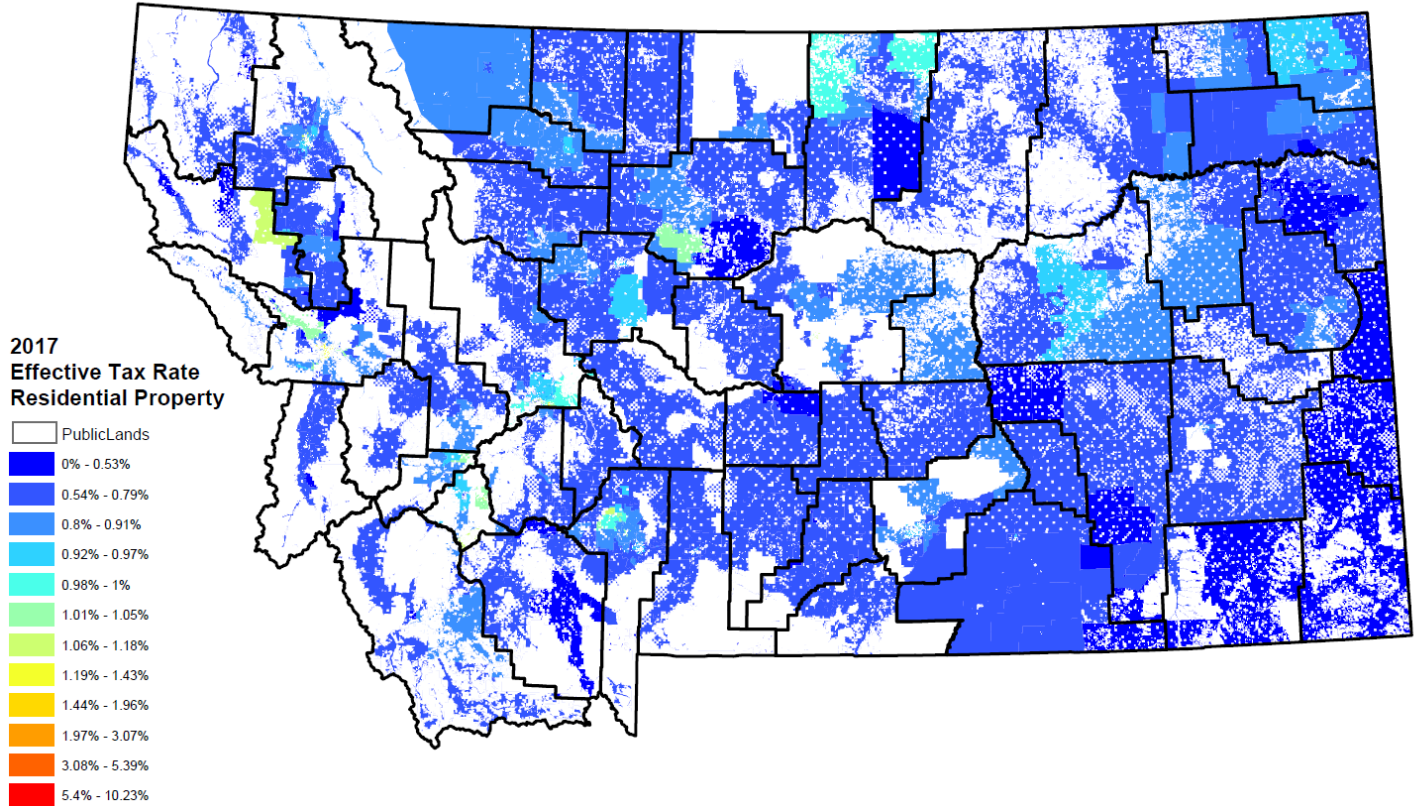
The majority of levy districts pay similar effective school tax rates, but there are a few outliers in the southwest region of Montana. For more information on property taxes and school funding, please see the Legislative Services Division’s report on school funding and property taxes.¹¹

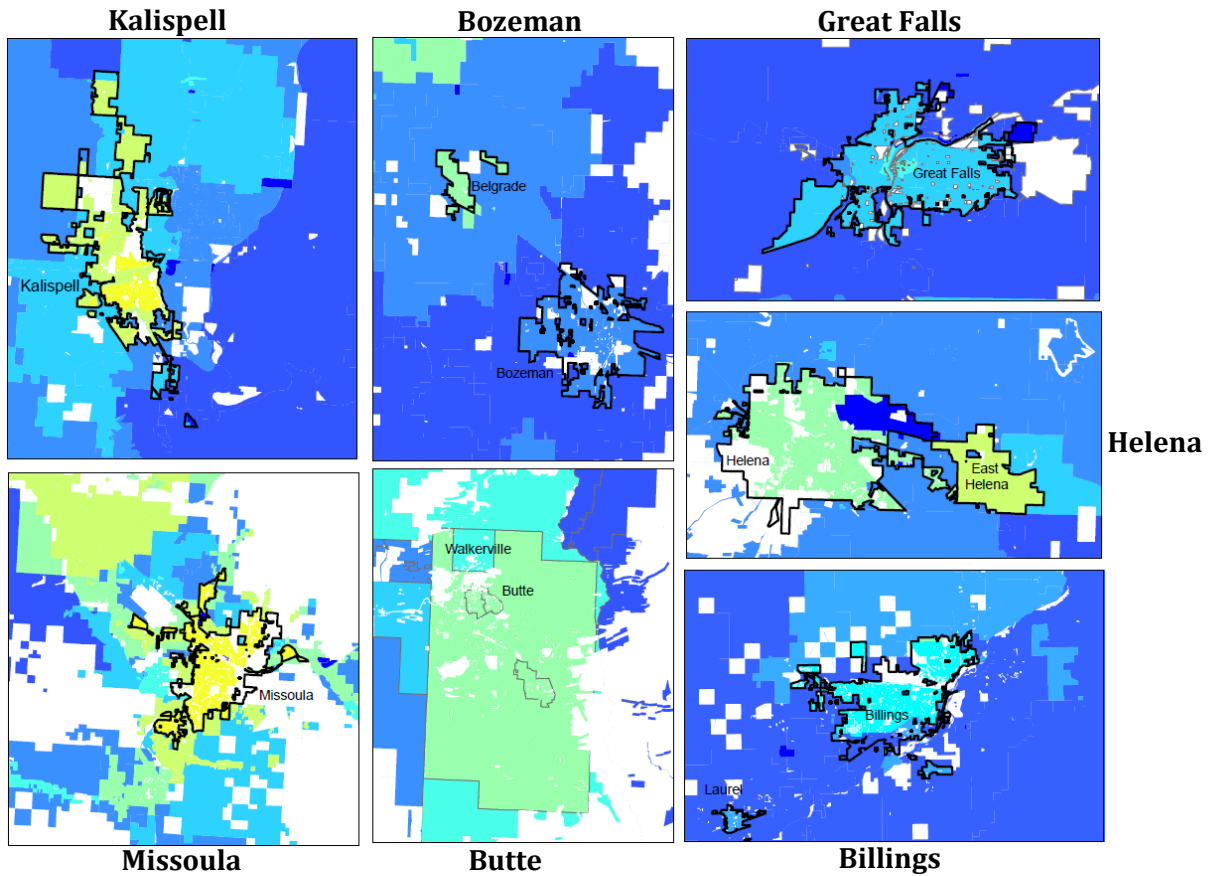
¹¹ [LSD School Funding and Property Taxes](#)

Residential vs. Non-Residential Property

For the majority of Montanans, they hear “property taxes” and think of residential property. For residential property only, the statewide effective tax rate in TY 2019 was estimated to be 0.819%, with approximately 68.0% of levy districts paying between 0.613% and 0.944%. Approximately 95.0% of levy districts paid between 0.474% and 1.136% on residential property. The following map shows the distribution of effective tax rate on residential property only across the state and for the largest seven cities in Montana.

Effective Tax Rate for **Residential Property** by Levy District in TY 2017





The following chart shows the estimated effective tax rate on residential property for TY 2019 for counties with growth above or below the median county population growth rate from 2009 to 2019.

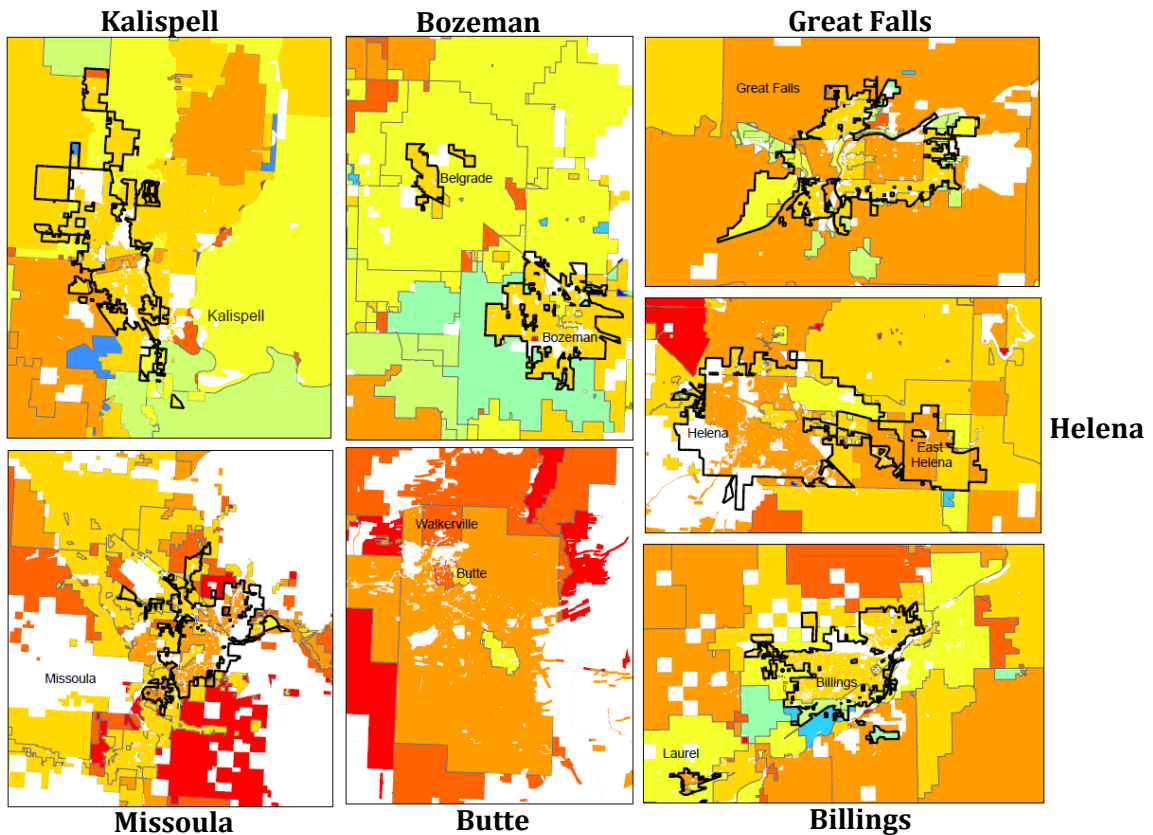
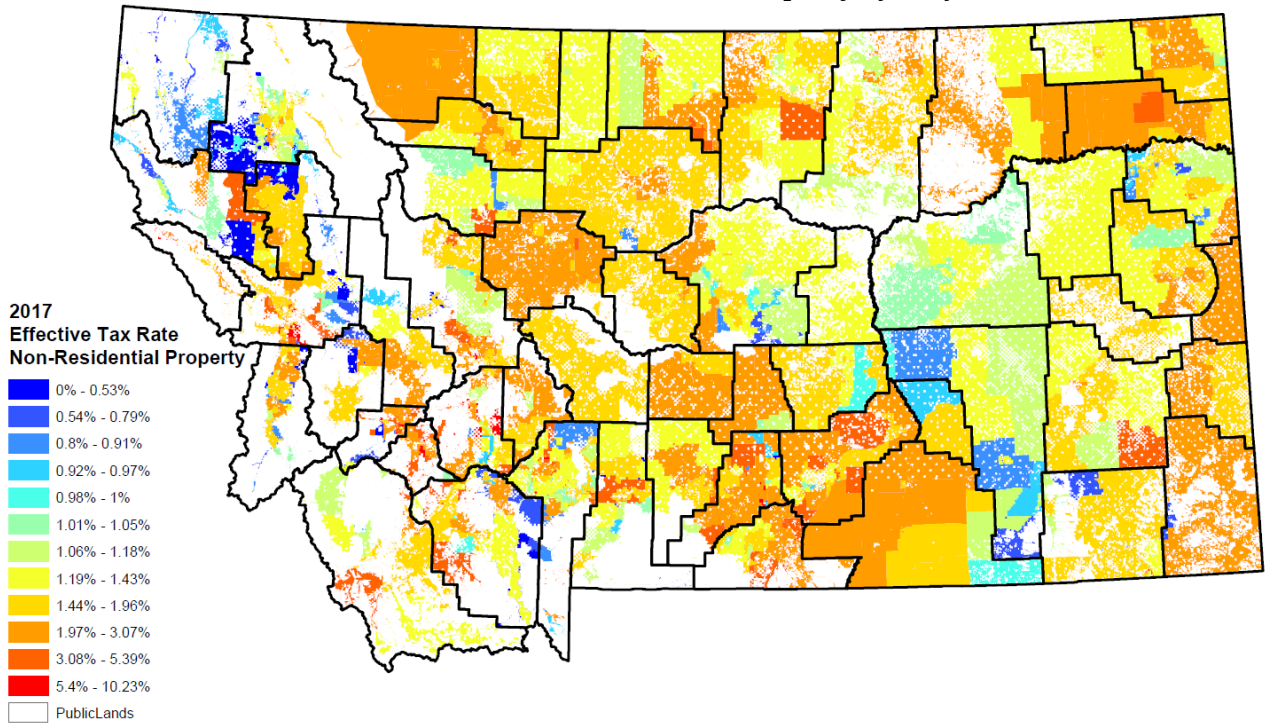
Effective Tax Rate for Residential Property Only					
Population Growth 2009 - 2019	Average	68.0% Bounds		95.0% Bounds	
Counties with Growth Above Median	0.809%	0.614%	0.927%	0.492%	1.145%
Counties with Growth Below Median	0.868%	0.612%	0.968%	0.464%	1.118%

Overall, the residential property tax rates do not differ substantially between counties with population growth rates above 2.55% or below it. The following chart shows the effective tax rate on residential property for the five different economic regions determined by the Department of Labor and Industry.

Effective Tax Rate for Residential Property Only					
DLI Economic Region	Average	68.0% Bounds		95.0% Bounds	
Northwest	0.872%	0.672%	0.984%	0.537%	1.194%
North Central	0.885%	0.653%	0.966%	0.594%	1.146%
Eastern	0.823%	0.516%	1.011%	0.377%	1.169%
South Central	0.840%	0.573%	0.856%	0.511%	0.980%
Southwest	0.745%	0.603%	0.926%	0.461%	1.102%

The residential effective tax rates again do not appear to differ substantially across the different economic regions in Montana. The largest source of variability in effective tax rate comes from non-residential property and the higher tax rates for other property classes, as can be seen in the following maps.

Effective Tax Rate for **Non-Residential Property** by Levy District in TY 2017



The chart below shows the effective tax rate by tax class since TY 2002.

Tax Class	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
3 - Agricultural							1.36%	1.36%	1.36%	1.33%	1.30%	1.30%	1.32%	1.34%	1.12%	1.14%	1.19%	1.22%
4 - Commercial							1.09%	0.98%	0.87%	1.11%	1.15%	1.19%	1.20%	1.24%	1.22%	1.25%	1.28%	1.31%
4 - Residential							0.65%	0.66%	0.71%	0.70%	0.72%	0.73%	0.74%	0.76%	0.81%	0.82%	0.83%	0.84%
5 - Pollution Control	1.14%	1.23%	1.32%	1.32%	1.31%	1.33%	1.30%	1.68%	1.34%	1.37%	1.37%	1.39%	1.43%	1.50%	1.49%	1.50%	1.59%	1.32%
6 - Livestock	0.79%	0.42%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
7 - Non-Central Public Util.	4.26%	4.48%	4.70%	4.75%	4.99%	5.04%	9.32%	5.15%	4.89%	5.25%	5.33%	5.56%	5.50%	5.71%	5.36%	5.41%	5.83%	6.00%
8 - Business Property	1.32%	1.41%	1.50%	1.50%	1.52%	1.52%	1.45%	1.43%	1.47%	1.48%	1.49%	1.29%	1.31%	1.09%	1.11%	1.15%	1.33%	1.33%
9 - Pipelines & Non-Electric	5.02%	5.37%	5.77%	5.74%	5.87%	5.90%	7.38%	6.00%	5.86%	6.04%	5.82%	5.97%	5.91%	5.92%	5.68%	5.79%	5.99%	6.22%
10 - Forest Land	0.14%	0.13%	0.13%	0.13%	0.14%	0.14%	0.14%	0.15%	0.14%	0.14%	0.14%	0.15%	0.14%	0.14%	0.19%	0.19%	0.20%	0.20%
12 - Rail & Air	1.79%	1.83%	1.87%	1.85%	1.85%	1.78%	4.09%	1.75%	1.73%	1.70%	1.71%	1.77%	1.79%	1.74%	1.58%	1.64%	1.70%	1.77%
13 - Telecom. & Electric	2.03%	2.16%	2.33%	2.29%	2.20%	2.10%	0.12%	2.75%	2.32%	2.60%	2.72%	2.53%	2.58%	2.75%	2.87%	2.84%	2.81%	2.93%
14 - Renewable Energy	n/a	n/a	n/a	n/a	n/a	0.56%	0.59%	0.58%	0.83%	0.65%	0.69%	0.77%	0.76%	0.82%	0.83%	1.07%	1.14%	1.18%
15 - CO2 & Liquid Pipeline	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	0.66%	0.69%	0.48%	0.54%	0.52%	0.52%
Grand Total	0.67%	0.72%	0.76%	0.78%	0.78%	0.92%	0.93%	0.92%	0.93%	0.98%	1.01%	1.02%	1.03%	1.05%	1.09%	1.12%	1.14%	1.16%

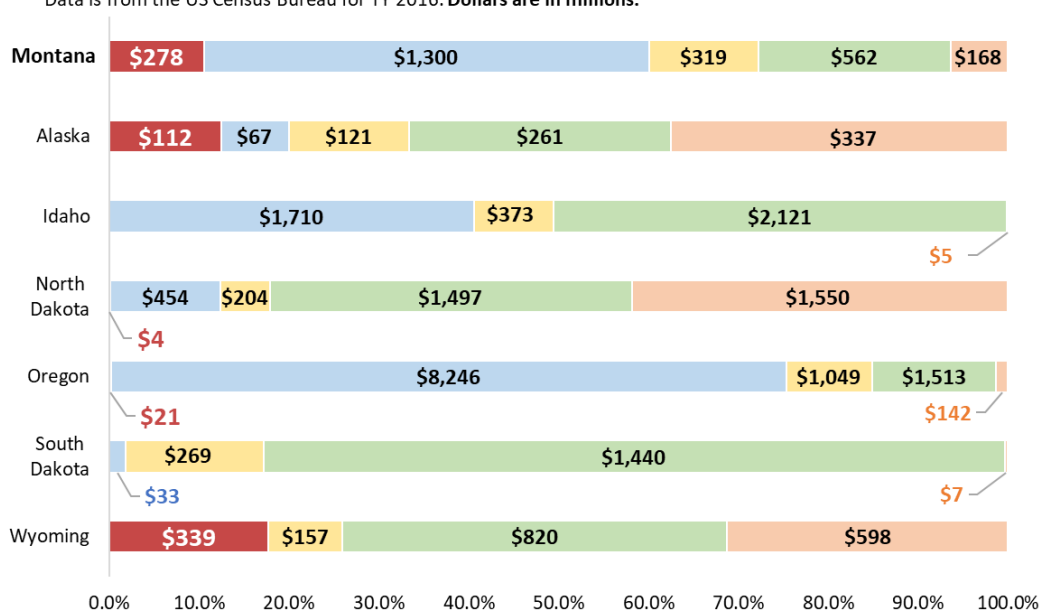
Note that the effective tax rates for class 3 agricultural land and class 4 residential and commercial property are not displayed in the chart. Prior to TY 2008, there are not complete data for the full market value of those property classes and thus the effective tax rates cannot be calculated.

Comparison to Other States

Property tax is one of the largest and most stable sources of revenue for state and local governments. However, it is surprisingly difficult to find a reliable source of data to compare property taxes across different states. Property taxes vary from state to state due to a number of factors—reliance on property taxes, local government spending, varying tax classifications, and property values. Due to its lack of a sales tax, Montana relies more heavily on property tax than some other states.

Montana relies more on **property taxes** for revenue than most other regional states aside from Wyoming and Alaska. Montana also relies on **income taxes** more than most regional states, but does not rely on **sales taxes** or **other taxes** as much as other regional states. Montana's **license taxes** collections are in between those of other states*

*Data is from the US Census Bureau for TY 2016. Dollars are in millions.



Conclusions

Property taxes are one of the largest and most stable sources of revenue for the state of Montana and its local governments, and this stability is particularly important for smaller local governments in order to avoid major shortfalls in revenue during economic recessions. In addition to the 95 state equalization mills, the mills levied by local governments are based on the budgets set by those local entities within the limitations of statute. Property tax abatements are largely controlled by local governments; however, the legislature controls tax classes, statutory tax rates for each class, and limits on tax growth through 15-10-420, MCA. Since property tax levies are based on budgets that have already been set, a change in tax rate for a particular tax class or a change in market value does not necessarily increase or reduce property taxes collected. The number of mills levied will change to account for the shift in rate or market value, shifting the tax burden between tax classes. Growth in property tax collections for local governments has outpaced growth in the economy (personal income), while collections at the state level have grown steadily just above the rate of inflation. Due to the slower growth at the state level, the state may increasingly rely on other sources of revenue such as income tax. Growth in property tax collections for schools has grown faster than inflation but slower than the economy.

Total property tax collections in Montana have growth at about the same rate as the economy. However, market value of property has not grown at as high a rate, and thus the statewide effective tax rate has increased over the last 18 years. Disparities in effective tax rates between taxing jurisdictions certainly exist, but it is important to understand that the property class make up of a taxing jurisdiction greatly affects the overall effective tax rate, as different classes of property are taxed at different rates. When comparing effective tax rates on residential property only, there are far fewer outliers among the taxing jurisdictions. Additionally, some discrepancies in effective tax rate are due to mill levies that have been approved by voters within the tax jurisdiction, and some communities are more willing than others to pay more in property taxes for a greater amount of services.

Questions Not Yet Answered

Changes in Land Use

Further research could explore how land use changes have affected property taxes paid in Montana. Of the many property tax classes in Montana, only three apply to real estate land—class 3 agricultural land, class 4 residential and commercial land, and class 10 forest land. Over the last 20 years, there have been some shifts of land classification between these classes. Overall, residential and commercial land has increased in acreage, while forest and agricultural land has decreased in acreage. However, these shifts are confounded by several factors—simultaneous shifts between exempt and non-exempt tax status, accuracy of acreage estimates in older data, and other data errors.

Local Reliance on Fees vs. Property Taxes

Further research could also explain whether or not changes and differences in effective tax rates are due to shifts in local funding to fees rather than property taxes in certain municipalities. It is difficult to objectively compare effective tax rates between two localities if one locality funds a particular service through its property taxes and another locality instead charges a fee for that service. Certain localities which fund a majority of their services through property taxes may approach the cap on property tax growth faster than localities which fund their services through a mix of property taxes and fees. Property tax increases for local governments can be attributed to three different sources—newly taxable property entering the tax base, newly voted mills, and increases in accordance with 15-10-420, MCA which limits the growth of property taxes (excluding new property and new mills) to half the average rate of inflation for the prior 3 years.

Possible Alternative Tax Structures

The legislature may also wish to explore certain larger “what if” scenarios, such as offsetting property tax revenue with a different source of revenue (e.g. a statewide sales tax or inflation applied to flat taxes).

References

- 1 “House Bill 715.” *Montana Legislature*, leg.mt.gov/bills/2019/billpdf/HB0715.pdf.
- 2 Legislative Fiscal Division. “Property Tax Story Map.” *Montana Legislature*, montana.maps.arcgis.com/apps/MapSeries/index.html?appid=0b1dbc05e74f40afb7e842e4f51972fb.
- 3 “Tax Expenditures 2016.” *Montana Department of Revenue*, mtrevenue.gov/wp-content/uploads/2017/06/2016-Biennial-Report-Tax-Expenditures.pdf.
- 4 “Tax Increment Financing.” *Montana Department of Revenue*, mtrevenue.gov/property/tax-increment-financing-tif/.
- 5 Legislative Services Division. “Property Tax Abatement History.” *Montana Legislature*, leg.mt.gov/content/Committees/Interim/2019-2020/Revenue/Meetings/January-2020/property-tax-abatements.pdf.
- 6 Legislative Fiscal Division. “Entitlement Share 2018.” *Montana Legislature*, leg.mt.gov/content/Publications/fiscal/leg_reference/Brochures/entitlement-share-2018.pdf.
- 7 Legislative Services Division. “Property Tax History.” *Montana Legislature*, leg.mt.gov/content/Committees/Interim/2019-2020/Revenue/Meetings/January-2020/property-tax-history.pdf.
- 8 Legislative Services Division. “School Funding - Guaranteed Tax Base.” *Montana Legislature*, leg.mt.gov/content/Committees/Interim/2015-2016/School-Funding/Meetings/Apr-2016/GTB-one-pager.pdf.
- 9 “Department of Labor and Industry.” *Montana Department of Labor and Industry*, www.dli.mt.gov/.
- 10 Legislative Fiscal Division. “Local Government Trends.” *Montana Legislature*.
- 11 Legislative Services Division. “School Funding and Property Taxes.” *Montana Legislature*, <https://leg.mt.gov/content/Committees/Interim/2019-2020/Revenue/Meetings/January-2020/School-funding-property-tax.pdf>.