Legislative Fiscal Division

Revenue Estimate Profile

Property Tax

Revenue Description: Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills (often referred to together as the 95 mills), and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vo-tech college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate. Property valued at market value includes personal property, utility property, railroad and airline property, and mineral net and gross proceeds. The assessed value of residential and commercial real estate is the market value phased in over the reappraisal cycle. Agricultural land and timberland are valued on a productivity basis and their values are also phased in over the reappraisal cycle. The last reappraisal cycle took effect January 1, 2009.

Beginning January 1, 2009, residential and commercial property as well as agricultural land and timberland reflect the impact of the new reappraisal on assessed values. The current reappraisal cycle is 6 years, during which increases in property values are phased in by 1/6th per year. Property that declines in value was assessed immediately at its new reappraised value. The impact of the 2009 reappraisal on assessed values increased the market value of the average residence by 55.1%. The equivalent increases for commercial property were 34.5%, for agricultural land by 26.8%, and for timberland by 51.7%.

The 2009 legislature passed a reappraisal mitigation bill – HB 658. Beginning in tax year 2009, reappraisal values are phased in over the next six years. The new tax rates and the new homestead and comstead exemptions are shown in the accompanying table. In addition to mitigation through lower tax rates and higher exemptions, HB 658 also created an upper limit of $1.5 million in market value of residences for which the homestead exemption is available, increased the irrigation costs in valuing irrigated agricultural land, and increased the capitalization rate used to value timberland. MCA 15-10-420 limits the growth from year to year in property tax to one half the rate of inflation. Before HB 658, the calculation allowed each state mill to be rounded up to the nearest whole mill. HB 658 changed MCA 15-10-420 so that each state mill is to be rounded up to the nearest tenth of a mill. If the growth in taxable value exclusive of new property exceeds 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.

In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed on the basis of mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

This source also includes the state's share of protested taxes paid by centrally assessed companies. Fifty percent of taxes paid under protest by centrally assessed firms are deposited in the general fund and the rest are deposited in a state special account. Should the state fail in its defense of the taxation of these companies, the protested taxes must be returned to the taxpayer. If the state prevails in the case, the money in the state special account is transferred to the general fund.

The state has established programs that lower property taxes for homeowners whose homesteads have increased above certain thresholds due to reappraisal and whose income falls below certain levels. These programs are known as taxpayer assistance programs.

Summary of Legislative Action:

Senate Bill 96 – Previous law (SB 372 in the 2011 session) provided a tax rate of 2% for class 8 equipment valued at $2 million or less, and a tax rate of 3% for all taxable market value in excess of $3 million owned by a taxpayer. If combined income taxes and corporate taxes collected in fiscal year 2013 exceed collections in fiscal year 2012 by 4% or more, then starting January 1, 2014 class eight business equipment would have been taxed at a tax rate of 1.5% on the first $3 million of taxable market value and 3% for all taxable market value in excess of $3 million owned by a taxpayer. Previous law also exempted the first $20,000 in market value for owners with less than $20,000 in property, but not for owners with equipment valued at more than $20,000.

Starting January 1, 2014, SB96 reduces the taxes assessed on class eight business equipment by 1) providing a tax rate of 1.5% on the first $6 million of taxable market value and 3% for all taxable market value in excess of $6 million, and 2) exempts the first $100,000 in market value of this property owned by a taxpayer. The exemption is available for all owners of class 8 business equipment tax.

Reimbursements are provided to the university system, local governments, local schools, and TIFs from the general fund for reductions in property tax revenue due to SB 96, as amended.

Senate Bill 96 reduces revenue to the general fund (95 mills and the 1.5 mills) by $1.331 million in FY 2014 and by $2.245 million in FY 2015. The impact in FY 2014 is because owners of strictly personal property (i.e. property not-liened-to-real) will see their taxes reduced in May 2014. University 6 mill revenue will be reduced by $83,341 in FY 2014 and by $140,573 in FY 2015. Reimbursements for lost revenue will be made to local governments, school districts, the county retirement fund, the countywide school transportation reimbursement, each tax increment financing district, and the 6-mill levy for support of the Montana university system in TY 2014 and 2015.

Reimbursements will total $17.883 million for the 2015 biennium. Reimbursements to county and city governments, TIF's will be statutorily appropriated. The reimbursement for the 6 mill account will be transferred to that account. The total of these reimbursements will be $9.951 million for the biennium. SB96 increases the appropriation for school district and county education block grants in HB 2 for FY 2015 by $7.932 million. In addition there will be guaranteed tax base savings of $3.054 million, and SB 96 reduces the appropriation for Base Aid in HB 2 for FY 2015 by the same amount. The net cost of SB 96 is $18.5 million over the 2015 biennium.

Senate Bill 231 - SB 231 increases the amount of park and recreation area land that may be exempted from property tax, by a federally recognized Indian tribe, increasing the statutory 15 acre limit to 640 acres. 6-mill account will receive less revenue of around $187 in each year of the 2015 biennium.

Property Tax – Legislation Passed by 63rd Legislature
General Fund Impact ($ Millions)

Bill Number and Short Title	FY 2013	FY 2014	FY 2015
SB0096 Lower the business and equipment tax	$0.000	($1.331)	($2.245)
SB0231 Revise tax exemption laws regarding tribal recreational property	0.000	(0.003)	(0.003)
Total General Fund Impact	$0.000	($1.334)	($2.248)

Revenue Estimate Methodology:

Data

The property tax received by the state is composed of two kinds of revenue. First there is property tax proper, i.e. each property has a taxable value which is multiplied by a mill levy (a tax rate per thousand dollars of taxable value) set by the government, in this case the state. The second kind of revenue is non-levy revenue that is distributed proportionally to each mill levy and is included as property tax revenue.

The data required to produce forecasts of property tax received by the state are historical data on assessed and taxable value by class of property, the amount of property in tax increment financing (TIF) districts, the amount of local abatements conferred by local governments, and future growth rates for these variables. Also required is historical and estimate data on the non-levy components of property tax. These are gross proceeds revenue, federal forest revenue, and miscellaneous revenue allocated to the various state mill levies.

The historical data on assessed and taxable value by property tax class, TIF taxable value, and abated taxable value are provided to the LFD and OBPP by the Department of Revenue on an annual basis. TIF taxable value is required because state law allows a TIF district to apply the state 95 mills and 1.5 vo-tech mills to the increment in property value that occurred since the TIF was created, but allows the TIF district to keep the revenue associated with these mill levies. Thus the taxable value of the state must be adjusted downward by the value of TIF property for the 95 mills and the 1.5-mill levy. The 6-mill levy revenue derived from incremental TIF property does flow to the state special account for university operations, and thus the tax base for the 6-mill levy is not adjusted for the incremental taxable value in a TIF.

Montana law allows local governments (usually counties) to temporarily reduce the tax rate applied to the assessed value of property. This is called abated property. For instance, in tax year 2010, an electrical generation plant outside Hardin and another in Silver Bow County were granted a 10 year exemption on all personal and real estate property. The abatement applies to all local mills for those jurisdictions in which the properties are located. However, the tax rate reduction and the resulting partial exemption from property taxes does not apply to state mills. The taxable value data received by the department does not include the exempted property and thus for state property tax revenue purposes this property must be added back to the statewide taxable value. For the first time in tax year 2010, abated taxable values were available by class of property and were added back to each class of taxable value to form the tax base for the state mills. Previously these values had been added back without respect to class of property.

Assessed and taxable values are measured on January 1 of the tax year. The taxes are due to the state in the following November and May, i.e. in the fiscal year following the calendar year in which the values are measured. Coal gross proceeds are due to the state in the fiscal year two years after the calendar year in which the coal was produced. Federal forest receipts are received by the federal government in December of each year, and miscellaneous non-levy revenue (primarily interest) is deposited as earned.

Analysis

The latest year for which taxable value by class is available is the base from which future taxable values are derived. Growth rates are applied to the taxable value in each class of property. The table below shows growth rates for each class of property, for TIF and the resulting growth rates in net taxable value.

Statewide Taxable Value by Fiscal Year						
	Taxable Value ($ Millions)			Growth Rates		
Class of Property	2013	2014	2015	2013	2014	2015
1 Mine Net Proceeds	$4.189	$4.275	$4.331	7.7%	2.1%	1.3%
2 Gross Proceeds Metal Mines	31.132	33.820	35.056	35.4%	8.6%	3.7%
3 Ag Land	147.792	145.202	142.657	-1.8%	-1.8%	-1.8%
4 Residential and Commercial Real Estate	1,446.304	1,478.146	1,511.683	1.9%	2.2%	2.3%
5 Pollution Control Equiopment	45.673	48.816	52.176	12.4%	6.9%	6.9%
7 Non Centrally Assed Utilities	1.170	1.147	1.124	-2.0%	-2.0%	-2.0%
8 Business Personal Property	179.237	180.358	179.206	-4.1%	0.6%	-0.6%
9 Electrical Utilities	322.490	345.727	370.637	6.0%	7.2%	7.2%
10 Forest Land	6.349	6.308	6.268	-0.6%	-0.6%	-0.6%
12 Railroads and Airlines	72.349	76.657	81.222	1.4%	6.0%	6.0%
13 Telecomm and Electric Generation	197.605	208.267	219.505	2.2%	5.4%	5.4%
14 Wind Generation	15.550	31.099	31.099	-9.3%	100.0%	0.0%
15 C02/Qualifying Liquid Pipeline	-	-	-	NA	NA	NA
16 High Voltage DC Converter	-	-	-	NA	NA	NA
Total Taxable Value	$2,469.841	$2,559.824	$2,634.964	3.9%	3.6%	2.9%
Tax Increment Financing Values	47.037	47.037	45.359	1.6%	0.0%	-3.6%
Net Taxable Value	$2,422.804	$2,512.787	$2,589.604	2.2%	3.7%	3.1%
Net Votech Taxable Value	806.969	836.367	862.955	1.2%	3.6%	3.2%
Net 6-Mill Taxable Value	2,469.841	2,559.824	2,634.964	2.2%	3.6%	2.9%

FY 2013 taxable values are tax year 2012 taxable values. The property was valued on January 1, 2012, and the revenue from these values is collected by the state in November and May of the following fiscal year. FY 2013 values are known, although preliminary.

Growth rates are generally based on historical growth and on expected changes in tax rates in upcoming fiscal years. There are several points of note for property revenue estimates:

- The growth rate for class 4 – residential and commercial real estate – is an estimate of the amount of new property expected to be added. It is assumed that as existing residential and commercial property values are phased in over the reappraisal cycle, the combination of declining tax rates and rising homestead and comstead exemptions will offset the growth in phased in value of existing property in each year of the forecast period. The only growth in class 4 taxable is assumed to be derived from new property.

- The department phased in agricultural assessed values over the 6 year phase in cycle. Department rules require that changes in value between the most current reappraisal and the previous reappraisal phase in changes in value due to changes in productivity. The department failed to phase these values in but instead assigned the 2008 values immediately in tax year 2009. The department has devised a method to correct this by adjusting the phase in starting in tax year 2010 for the next 5 years. As a result taxable growth will be negative for agricultural land over the forecast period.

- Timberland values are expected to decrease slightly over the forecast period as some timberland is lost to development.

- There are several projects in the planning stages or on hold – natural gas electrical generation plants (either in class 5 or class 9), industrial grade transmission lines (class 13), oil pipelines, specifically the Keystone pipeline (class 13) – that may add to the tax base in the forecast period. None o f these have been explicitly added into the growth forecasts. Only known wind power projects have been incorporated in the estimate. The Montana Alberta Tie Line, if it gets built, will be split 50 percent between class 9 (electrical transmission) and class 14 (wind generation and transmission).

- Two new classes of property have been added to the property tax base beginning in FY 2009. These are class 15, property associated with carbon sequestration, and class 16, property associated transmission lines that connect to other major electrical grids. Neither of these classes is expected to contain any property before the end of FY 2015.

- Under the federal 4R act, the tax rate on railroads and airlines, the tax rate for class 12 is a weighted average of tax rates for all commercial and industrial property in the state. This includes business equipment, centrally assessed property and commercial real estate. If the tax rate for commercial property continues to decline while the other commercial and industrial tax rates are constant, the railroad and airline property tax rate will also decline.

The figure below shows the tax rates for all classes of property as well as the values for the homestead and comstead exemptions.

Tax Rates and Exemptions by Property Tax Class

	Tax Rates		
Class of Property	2013	2014	2015
Mine Net Proceeds	100.0%	100.0%	100.0%
Gross Proceeds Metal Mines	3.0%	3.0%	3.0%
Ag Land	2.6%	2.5%	2.5%
Residential and Commercial Real Estate	2.6%	2.5%	2.5%
Pollution Control Equiopment	3.0%	3.0%	3.0%
Non Centrally Assed Utilities	3.0%	3.0%	3.0%
Business Personal Property, above threshold	3.0%	3.0%	3.0%
Business Personal Property, below threshold	2.0%	2.0%	1.5%
Electrical Utilities	12.0%	12.0%	12.0%
Forest Land	0.3%	0.3%	0.3%
Railroads and Airlines	3.5%	3.5%	3.5%
Telecomm and Electric Generation	6.0%	6.0%	6.0%
Wind Generation	3.0%	3.0%	3.0%
C02/Qualifying Liquid Pipeline	3.0%	3.0%	3.0%
High Voltage DC Converter	2.3%	2.3%	2.3%
	Exemptions		
Exemption Type	2013	2014	2015
Homestead Exemption for Residential Property	44.0%	45.5%	47.0%
Comstead Exemption for Commercial Property	0.19	0.203	0.215

Non-levy revenue forecasts are added property tax proper forecasts. Non-levy revenues come from coal gross proceeds, federal forest receipts and miscellaneous revenue (such as interest on investments, penalty and interest on delinquent taxes). Non-levy revenue is tied by distribution to the 55 mills, because of this, detailed descriptions can be found in the 55 mill section.

Once property tax revenue adjusted for non-levy revenue is determined, an adjustment is made for centrally assessed protested taxes. In FY 2012, certain electrical generation, transmission companies, pipeline companies and telecommunication companies protested a portion of their property taxes. Under state law, half of the protested taxes from these companies is deposited in a special account and half in the general fund.

The following table shows the projected property tax revenue from the property tax base and non-levy revenue:

Property Tax

Property Tax Revenue in General Fund and University Account

($ Millions)

Revenue Type	2013	2014	2015
95 Mill Revenue	$230.166	$238.715	$246.012
1.5 Mill Revenue	1.210	1.255	1.294
Property Tax in the General Fund	$231.377	$239.969	$247.307
Non-Levy - Coal Gross Proceeds	7.876	7.457	8.181
Non-Levy - Federal Forest Receipts	3.771	0.476	0.445
Non-Levy - Miscellaneous Revenue	1.000	1.000	1.000
Protested Taxes	(2.282)	(2.282)	(2.282)
Net Property Taxes - 95 Mills and 1.5 Mills	$241.741	$246.620	$254.651
6-Mill Property Tax Revenue - University Account	$14.940	$15.484	$15.939
Nonlevy Revenue Associated with 6-Mills	0.875	1.051	1.050
Protested Taxes in Protest account	(0.143)	(0.143)	(0.143)
Net Property Taxes in University Account	$15.672	$16.392	$16.846

Revenue Projection

	Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A	1989	114.445	114.445	Not App.
A	1990	133.620	112.375	-1.8%
A	1991	196.552	176.155	56.8%
A	1992	228.221	206.138	17.0%
A	1993	231.757	207.646	0.7%
A	1994	223.577	202.382	-2.5%
A	1995	226.945	205.843	1.7%
A	1996	226.235	204.083	-0.9%
A	1997	231.943	209.284	2.6%
A	1998	224.562	202.350	-3.3%
A	1999	225.681	202.775	0.2%
A	2000	215.866	194.196	-4.2%
A	2001	201.104	180.050	-7.3%
A	2002	181.923	169.339	-6.0%
A	2003	183.691	171.680	1.4%
A	2004	180.905	169.531	-1.3%
A	2005	182.588	167.270	-1.3%
A	2006	192.118	177.639	6.2%
A	2007	206.872	190.982	7.5%
A	2008	218.223	205.044	7.4%
A	2009	229.945	217.042	5.9%
A	2010	239.056	222.510	2.5%
A	2011	245.181	229.352	3.1%
A	2012	252.559	236.662	3.2%
F	2013	259.838	241.741	2.2%
F	2014	264.020	245.287	1.5%
F	2015	271.546	252.416	2.9%