



MONTANA LEGISLATIVE BRANCH

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DATE: May 30, 2008

TO: Legislative Finance Committee

FROM: Jim Standaert
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RE: SJR 31 and HB 488 Subcommittees of the Revenue and Transportation
Interim Committee

The Revenue and Transportation committee has three subcommittees. One – SJR 31 – is to study taxation and school funding, a second – HB 488 – is to study reappraisal of property, and a third – HJR 61 – is to review state conformity with federal tax laws. The first two will be reported on here.

SJR 31 Subcommittee

Senate Joint Resolution No. 31 requests an examination of the future viability of the use of property taxes to fund education, an examination of equalization through a statewide school equalization district that would levy taxes against specific classes of property, and an inquiry into the use of a statewide sales tax and use tax to provide education funding that would include property tax relief in a permanent manner. Specifically the study is to:

- (1)(a) examine future demographics of property taxpayers, school age children, retirees, and other factors relating to the viability of property taxes to fund education; and
- (b) examine the distribution or maldistribution of classes of taxable property in counties and school districts;
- (2) study the feasibility of a statewide school equalization district with property tax levies against particular classes of property and other sources of statewide revenue; and
- (3) study the use of a sales tax and use tax for funding to replace property taxes and provide tax relief for homes, commercial properties, and agricultural and forest lands.

The subcommittee has heard reports on Key Trends in Growth and Change in Montana by Dr. Swanson with the O'Connor Center for the Rocky Mountain West at the University of Montana, in which demographic data concerning the ageing of Montana was presented as well as likely impacts on spending and tax receipts in Montana. A slide show is available on the RTIC website.

In the latest meeting, reports were presented in the following areas:

1. Property tax information related to K-12 Schools
2. Disparities in school mills
3. Disequalizing effects of HB 124 block grants
4. Schools' budgeting of oil and gas revenue
5. the findings of the 2005 Quality Schools Interim Committee
6. A proposal by the Montana School Boards Association on adequate school funding
7. The impact of tax increment financing districts on school funding
8. Sales tax options using the DOR's sales tax model.

A meeting in July will focus on:

1. Equalizing property tax mills for the district general fund, transportation, and retirement by adopting a greater state share in school funding
2. Shifting certain nonlevy revenue sources to the state
3. Providing guaranteed tax base to the overbase area in the district general fund.
4. The history of districts general fund in the budgeting window.

HB 488 Subcommittee

The HB 488 subcommittee was set up to examine the impacts of property reappraisal and to examine ways to mitigate its impacts. Property in classe 3 (agricultural land), class 4 (residential and commercial) and class 10 (timberland) will be assigned new reappraised values on January 1, 2009. The property tax bills associated with these new values will come due in November 2009 and May 2010. The 2009 legislative session will therefore have time to examine the impacts and to propose mitigation legislation. Data regarding the reappraisal values will not be available until Fall 2008.

In its April meeting, the HB 488 subcommittee heard the following reports:

1. Overview of property taxes in Montana
2. Housing outlook in Montana and surrounding states for 2008
3. How the cyclical reappraisal will try to take into account recent trends in housing prices
4. Review of selected states' methods for reappraisal of residential property
5. The status of Constitutional Initiative 99 for limiting residential property taxes
6. Property tax assistance programs in Montana law
7. Review of other states' property tax relief measures
8. Review of elderly homeowner-renter credit
9. Property tax burdens in Montana related to personal income and the effects of expanding residential property tax credits based on income

At the next meeting of the HB 488 subcommittee, the following topics may be discussed:

1. Housing market trend meetings around the state
2. An analysis of providing a property tax income tax credit based on income
3. An evaluation of a taxpayer's proposal to limit taxable value increases to 3% a year
4. And possibly a discussion of options on how to mitigate market value increases and revise the reappraisal cycle.

Preliminary actual data on reappraisal for classes 3, 4, and 10 will not be available until late fall 2008.

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