

# MONTANA TAXPAYER



MONTANA TAXPAYERS ASSOCIATION

HELENA, MONTANA

Volume 42

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April 2008

## Upcoming Meetings

**Tuesday & Wednesday**, April 29 & 30 – [Water Policy](#) - Helena  
**Thursday & Friday**, May 1 & 2 – [Energy and Telecommunications](#)  
**Wednesday & Thursday**, May 7 & 8 – [Economic Affairs](#) - Missoula  
**Monday & Tuesday**, May 12 & 13 - [EQC](#)  
**Friday**, May 16 – [Fire Suppression](#) - Lewistown  
**Friday**, May 30 – [Fire Suppression](#) – Miles City  
**Thursday & Friday** – June 5 & 6 – [Legislative Finance](#)  
**Wednesday**, June 11 – Children, Families, Health & Human Services  
**Thursday & Friday**, June 12 & 13 – [Education and Local Government](#)  
**Thursday**, June 19 – [Fire Suppression](#) – Seeley Lake, Thompson Falls  
**Friday**, June 20 - [Fire Suppression](#), Libby  
**Monday & Tuesday**, June 23 & 24 – [State Tribal Relations](#) - Pablo  
**Thursday & Friday**, June 26 & 27 – [Law & Justice](#) (tent)  
**Monday & Tuesday**, June 30 & July 1 – [State Administration and Veterans' Affairs](#)  
**Thursday & Friday** – July 10 & 11- [Revenue and Transportation](#)  
**Thursday and Friday** July 17 & 18 – [Economic Affairs](#) - Bozeman  
**Wednesday & Thursday**, July 23 & 24 - [Energy and Telecommunications](#)  
**Friday**, August 1 -[Law & Justice](#)  
**Thursday**, August 21 - [State Tribal Relations](#)  
**Thursday**, September 4 - [Energy and Telecommunications](#)  
**Thursday & Friday**, September 4 & 5 – [Education and Local Government](#)  
**Thursday & Friday**, September 11 & 12 – [Revenue and Transportation](#) – may be rescheduled  
**Friday**, September 12 – [Economic Affairs](#)  
**Monday**, September 15 - [SAVA](#) (if necessary)  
**Thursday & Friday**, October 9 & 10 - [Legislative Finance](#)  
**Tuesday**, November 18 - [Legislative Finance](#)  
**Monday & Tuesday**, November 17 & 18 - [Revenue and Transportation](#)

## **2007 Taxation – Coming your Way**

Your copy of *Montana Taxation 2007* is being mailed this week. This publication contains the most current combined information on Montana FY09 revenues and expenditures, population, comparisons to other states, school funding, school enrollment and the individual mill levies for tax year 2006 – 2007. The February newsletter *Montana Taxpayer* provided details on the tremendous growth in both the revenues and government expenditures during the past five years. Now you can track those same comparisons beginning in 1918.

Next month, *Montana Mill Levies 2007-2008* will also be published and mailed to our members. These are just a few of the benefits of membership with the Montana Taxpayers Association. We appreciate your continued support. We would also like to express our thanks to QWEST and Northwestern for sponsoring these documents.

## **Kudos to the Secretary of State's Office and the ARM Working Committee**

Those of you who use the administrative rules either on a regular or periodic basis are in for a pleasant surprise from the Secretary of State's Office! Around the first part of May, the office will be unveiling the first component of a new online version of the ARM Submittal and Public Web Interface. This project was two year's in the making and I'm sure you will agree it was worth the wait!

The first component will allow subscribers to sign up and create their own eBook, a way to view select rules saved in your favorites. In the coming weeks, subscribers will be able to sign up online for Departments' interested persons lists to get notices by email or regular mail and an email notification system where an automated email will be generated to you when a notice filing is received by ARM Office or an ARM rule has been updated in an area of interest.

Over the next few months, users will be able to save search profiles, and keep a running record of comments submitted through the online system. The search components include queries by MCA, by rule or chapter number, by title, and by topic. In the near future, the SOS office will be placing a public survey online, to obtain even more feedback.

We would like to congratulate and complement the staff of the Secretary of State's office for including public input from the beginning of the project and setting up for additional input through the conclusion of the project.

# Montana Taxpayer

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## Revenue and Transportation Interim Committee

*Subcommittee on HB488 – Study on the 2009*

*Reappraisal, April 17, 2008*

The 2009 Reappraisal is scheduled for completion by December 31, 2008. The last reappraisal was implemented in 2003 with values phased in over six years as well as other mitigation factors passed by the Legislature in the 2003 Session. The subcommittee has been hearing about the history, progress and other issues pertaining to the current reappraisal cycle.

Dr. Doug Young, Professor of Economics at MSU, Bozeman, gave a historical presentation to the committee about changes in the property tax system. His slide show can be found on the committee's [website](#). An overview by Professor Young of his presentation and findings begins on page 4 in this newsletter.

The 2009 reappraisal values will be based on the market as of January 1, 2008 (values were captured throughout 2007). Since housing has taken a downturn, Dr. Scott Rickard, Professor at the Center for Applied Economic Research, MSU, Billings, was asked to provide the committee details on the housing outlook for 2008. Dr. Rickard pointed out that Montana has been experiencing a 10 percent annual growth rate in home prices for the past five years. As you would expect the growth is not evenly distributed in the state. In the past twelve months, the growth rate in prices has slowed to around 6.7 percent, but Montana's slow down pales compared to the 24 percent drop being experienced in California.

Montana's risk in the mortgage failures is below the national average due to less exposure to underwater loans and adjusted rate mortgages. Another mitigating factor is Montana's home price to income ratio follows the national average which, once again, is far below other states where foreclosures are running high. Historically, the ratio of income to median home price ran about 3.1 to 3.4. Today Montana and the national average have risen to a little under 4.0, with Florida at 5.0 and California over 9.0.

Dr. Rickard's conclusion was Montana will probably escape the current housing crisis without serious implications. A copy of his slides can be found on our [website](#).

Next, the Department of Revenue updated the committee on the progress of the reappraisal. Reappraisal consists of twenty-two separate work activities that need to be nearly complete in order to provide the committee with preliminary data on the effects of the reappraisal. The director indicated this might not occur until this fall. Committee members expressed concern on this late date as their last meeting is scheduled for November.

The reappraisal on agriculture and forestland is also underway. Agriculture land classification (how the land is used, i.e. summer fallow, grazing irrigated, wild hay, non-irrigated continuously cropped) should be completed by mid May. The DOR will be finalizing the integration of the Natural Resource and Conservation Service (NRCS) soil survey productivity data with the land use classification and ownership to complete the assessment. They intend to provide each producer with maps to show this information sometime in August.

Forestland reclassification is also scheduled to be complete in May. The productivity component of this model is expected during May as well.

The department is undertaking a new project to review the 2008 values of property compared to the statutory timeframe for the reappraisal values. This will allow the department to be able to provide information on potential impacts resulting from the housing slump for the 2009 Legislature.

Other information provided to the committee: *A Review of Property Valuation in Selected States; Property Tax Measures of Selected States; A Guide to Property Taxes; Property Tax Relief; Elderly Homeowner/Renter Credit; and Household Income and Property Tax on Primary Residences* are also available online. You can also link to these and other documents not available on the legislative site through our website: [www.montax.org](http://www.montax.org) – Interim Committees.

**Revenue and Transportation Interim Committee**  
*Subcommittee on SJR31- Study of Taxation and School Funding , April 17, 2008*

The subcommittee reviewed several updated reports which had been presented to the Quality Schools Interim Committee (QSIC) in the 2005-7 interim, discussed the findings and recommendations of the QSIC and heard the Montana School Boards Association expectations for adequate school funding. The QSIC had been created by the 2005 legislature to craft a response to the Sherlock decision declaring the state’s school funding system unconstitutional. The Montana School Boards Association is a member of the same group that initiated the school funding lawsuit that have recently gone to court to reactivate the action (see article regarding the litigation on page 6).

Commercial and residential property leads property tax growth

Mary Craige of the state revenue department and Judy Paynter of the state budget office reported that Montana property taxes increased 51 percent from 2000 to 2007. The rise of state taxable value of 23 percent combined with growth in the average mill levy of 23 percent led to the large increase. The growth rate in taxes levied for major jurisdictions was lead by counties followed, in order, by cities, schools and the state. State school and university levies of 95 and 6 mills are fixed therefore only grow at the rate of increase in taxable value or 23 percent. As a result of the faster growth rates of counties and cities their share of total property taxes levied increased from 29.9 percent to 34.8 percent between 2000 and 2007.

The structural composition of the property tax base and property taxes levied has shifted towards class 4 residential and commercial property as the growth in values of these properties has outstripped that of the other classes. In 2000 class 4 represented 54.9 percent of taxable value and 59.6 percent of taxes levied. This had risen to 60.5 percent of taxable value and 63.9 percent of taxes levied by 2007 (Dr. Young’s article on page 4 discusses this point further). Gross proceeds of metal mines, class 2, grew faster; more than doubling its share of taxable value and taxes levied, but represents less than 1 percent of each.

School mill levies: variations among districts

Jim Standaert of the Legislative Fiscal Division presented a report entitled “Disparities in School Mill Levies” showing that while two-thirds of Montana school districts levied within 23 percent of the median of all districts, some districts had levies more than double the median while others levied less than half the median. The report attributed these disparities to revenue and

spending differences and analyzed factors that lead to revenue differences. Mr. Standaert concluded that differences in taxable value relative to the number of students and the amounts of oil, gas, coal or state block grant (HB124) reimbursement revenue a district receives account for only a part of the large differences in levies.

Elimination of State HB124 reimbursements

An updated report on the effects of HB124 reimbursements prepared by Nancy Hall of the state budget office states: “tax equity is improved when HB124 block grants are eliminated”. The amount of HB124 reimbursement per student received by school districts varies from \$0 to \$88,118 and nine districts with no enrollment received reimbursements. This report states that HB124 block grants were not considered by the legislature to be a permanent solution to replacing revenue lost to districts from tax reductions resulting from HB124 of the 2001 session.

School districts not including most oil and gas revenues in budgets

Staff from the state budget office and revenue department found that in total, school districts have included only 30 percent of their oil and gas revenues in district budgets for the past several years. The portion that is left out of the budget is often added later by budget amendment or is deposited and carried over until the next year. The failure to budget these funds in some cases leads to higher state guaranteed tax base aid.

What schools want

Lance Melton of the Montana School Boards Association presented a report entitled “School Funding Adequacy: Adequate School Funding and How Montana Can Meet Goal”. The report detailed a \$260 million increase in annual state funding for schools and allowances for additional district taxes of 25 percent of state BASE aid. The table below presents the major elements.

<u>Proposal Element</u>	<u>Millions</u>
Raise educator pay to 25th in nation	\$ 91.0
Special education increases	\$ 47.5
At Risk - \$1000/student	\$ 47.8
Textbooks and Supplies - \$260/student	\$ 39.0
Indian education for all	\$ 4.5
School building operations	\$ 29.9
	<u>\$ 259.7</u>

## Montana Property Taxes: 1995 – 2007

Douglas J. Young, Professor of Economics  
 Montana State University  
 Bozeman, MT 59717  
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A review of Montana property taxes over the last 12 years reveals the following key points.

### Statewide Total Property Taxes

Total property taxes increased 64% from \$739 million to \$1,210 million (Table 1). The taxable value of all property in the state increased only 12%, from \$1,838 million to \$2,059 million. Thus, most of the increase resulted from changes in mill levies. The state-wide average mill rate rose from 402 mills to 588 mills, an increase of 46%.

**Table 1 Total Property Taxes**

	1995	2007	% Change
Taxes Levied (\$ millions)	\$ 739	\$ 1,210	64%
Taxable Value (\$ millions)	\$1,838	\$ 2,059	12%
Average Mill Rate	402	588	46%

Source: Montana Department of Revenue

Table 2 describes property taxes by function. The largest portion goes for education, including the state-wide levies for K-12, vo tech and higher education, and county and local school district levies. Property taxes for education increased by \$204 million or 44% in the last 12 years. Property taxes for counties increased \$140 million, more than doubling. Property taxes for cities and towns also doubled, and SIDs almost quadrupled as rapid development occurred in some parts of the state.

**Table 2 Property Taxes by Function**

\$ millions	1995	2007	Change
Education	\$ 467	\$ 671	\$ 204
County	\$ 129	\$ 269	\$ 140
Cities/Towns	\$ 53	\$ 110	\$ 57
Misc. Districts	\$ 51	\$ 39	\$ (12)
Other*	\$ 6	\$ -	\$ (6)
SIDs	\$ 33	\$ 121	\$ 88
<b>Total</b>	<b>\$ 739</b>	<b>\$ 1,210</b>	<b>\$ 471</b>

Other\* = State Assumption of Welfare in 1996; \$0 in 2007

Source: Montana Department of Revenue

Personal income in Montana rose faster than property taxes so property taxes declined from 4.6% of income to 3.9% (Table 3). Growth in personal income averaged 5.6% per year. About half of that amount was inflation, about 1% was population growth, and the remainder was growth in real income per person.

**Table 3 Property Taxes and Personal Income**

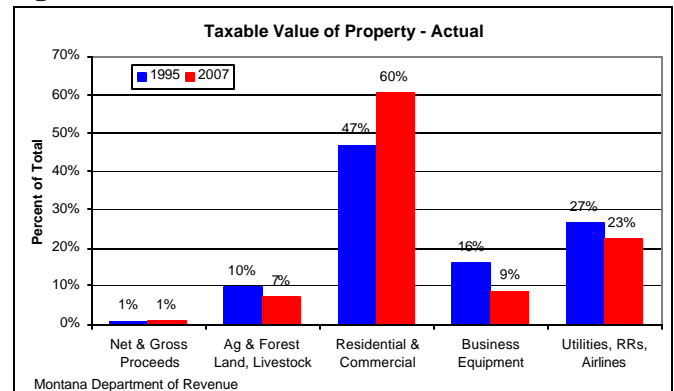
	1995	2007	% Change
Taxes Levied (\$millions)	\$ 739	1,210	64%
Personal Income (\$millions)	16,084	31,090	93%
Property Tax / Personal Income (%)	4.6%	3.9%	

Sources: Montana Department of Revenue and US Bureau of Economic Analysis

### Changes in the Property Tax Base

Residential and commercial property's *share of the property tax base* (taxable value) increased from 47% in 1995 to 60% in 2007.

**Figure 1 Taxable Value Shares in 1995 and 2007**

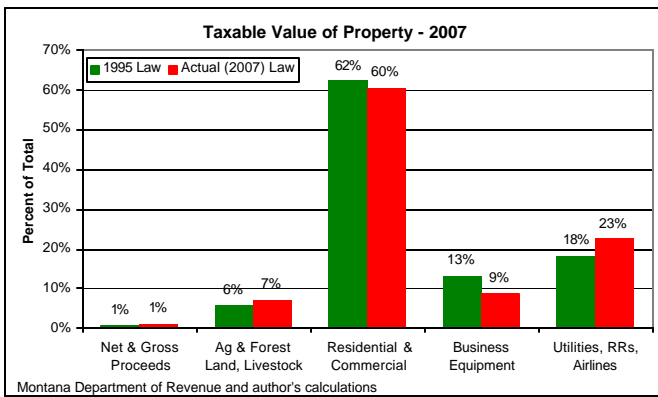


The shift in the property tax burden toward residential and commercial property resulted mainly from new construction and increases in property values. Changes in the property tax laws eased the burden slightly. While property taxes were reduced on business equipment, electrical generation and telecommunications property, and livestock were exempted from tax, a number of provisions benefited owners of residential and commercial property.

A “homestead” exemption now excludes 33.2 percent of the value of residential property, and a similar “comstead” exemption excludes 14.6 percent of commercial property. The 1996 reappraisal was gradually phased in over six years, and the 2002 reappraisal will not be fully phased in until 2008. Taxable value rates have been reduced as reappraisals were entered into taxable values.

If 1995 laws had remained in effect, Class 4's share of the tax base would have increased even more - to 62% (Figure 2). In addition, current taxable values do not reflect any of the appreciation in property prices that has occurred since 2002.

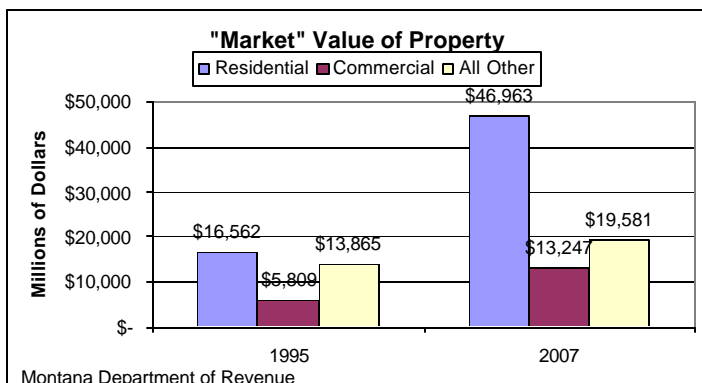
**Figure 2 Taxable Value Shares in 2007 under 1995 Law and Actual (2007) Law**



*Note: The law changes incorporated into this analysis include phase-in of reappraisals, homestead & comstead exemptions, changes in taxable value rates for ag and forest land, residential and commercial, business equipment, and electrical generation/telecomm, and exclusion of livestock. Not included: Exempting business equipment if value less than 20,000 per location, and increases in market values since the 2002 reappraisal.*

To reiterate, the various changes in the property tax law, taken all together, did not shift the burden onto residential and commercial property. In fact, the law changes on net favored class 4 property. Residential and commercial property does shoulder a bigger share of the burden these days, but that is because that is the kind of property that has grown the fastest (Figure 3). The market value of residential property nearly tripled over these 12 years, while commercial property more than doubled. The market value of all other property increased about 40%. Put another way, the growth in the market value of residential and commercial property – including both appreciation of existing properties and new construction – accounted for 87% of all the growth in the market value of taxable property in Montana, and all of the other classes accounted for only 13% of the growth. In this sense, it is not surprising that the share of property taxes paid by class 4 has been increasing.

**Figure 3 “Market” Value of Property in 1995 and 2007**



**Residential Property Tax Rates and Reappraisal**

Property tax rates vary around the state – in fact they vary from school district to school district depending on the exact mill levy. An especially big factor is the difference between the appraised value for tax purposes and the market value. In Flathead and Gallatin counties, for example, most homes are appraised at well below market, so the tax rates are lower as a percentage of true market value (Table 4). In contrast, effective tax rates are highest where homes are appreciating more slowly, such as Cascade and Yellowstone counties. This doesn't mean that property taxes are especially burdensome in places with low appreciation, however. Cascade and Yellowstone counties have the lowest residential property tax burdens when measured relative to income. While their taxes are high percentages of home value, the home values themselves are relatively modest. For example, the average home value in Cascade County is just over half the average in Gallatin County.

**Table 4 Residential Property Taxes in Selected Counties**

County	Percent of Market Value	Percent of Income
Cascade	1.0%	2.7%
Flathead	0.8%	3.1%
Gallatin	0.7%	3.1%
Missoula	0.9%	3.9%
Yellowstone	1.0%	2.9%

*Source: Tax Foundation, from US Bureau of the Census, American Community Survey (2006). Data is not available for smaller counties.*

The Department of Revenue is currently conducting a reappraisal of all residential and commercial property in Montana, the first such reappraisal since 2002. The reappraisal will begin to affect taxable values in tax year 2009 – that is, for bills payable in November, 2009 and May, 2010. Many properties in the southern and western portions of Montana have appreciated substantially since 2002, and taxable values can be expected to rise. Even if statewide increases in taxable value are offset by cuts in taxable value rates, property taxes may rise in areas where price appreciation has been greatest.

**More on School Funding: Plaintiff's ask for a Show Order**

On February 5, 2008 the Montana Quality Education Coalition (MQEC) filed a motion in the First Judicial District Court in Helena for supplemental relief and an order for the State to show cause why further relief should be granted. The plaintiffs argue that without supplemental relief, school districts throughout Montana will face budget cuts in the 2008-2009 school year.

They argue the State of Montana has not yet sufficiently complied with its constitutional obligations as determined by the decision of the District Court and the Montana Supreme Court in this 2002 lawsuit.

On April 4, the Court took arguments from the parties on the merits. Judge Sherlock indicated he would issue an order in the near future. Further information on this newest round of litigation can be found on our [website](#): under School Funding.

Further information about the education associations involved in this newest effort can be found on the Montana Quality Education Coalition's ([MQEC website](#)) (along with the most recent minutes under [MQEC Documents, Governance](#)); the Montana School Board Associations' ([MTSBA website](#)); School Administrators of Montana ([SAM](#)); ([MEA/MFT](#)); (according to unofficial reports, the MEA/MFT did not vote in the affirmative to pursue further litigation on the six year old lawsuit). The Montana Rural Education Association ([MREA](#)) had earlier withdrawn from the coalition and has retained a separate attorney. Note: most of the websites have registration requiring membership with the association, although some are accessible by the public.

### **Transferring Montana Property – Helping Taxpayers Understand their Tax Responsibilities**

Over the past two sessions, there have been numerous attempts by the Department of Revenue to implement withholding on sales of property by out of state residents. Our association was one of many that opposed this legislation due to amount of complexity it would add to Montana's current complex income tax system and the unknown magnitude of the problem. The

Montana Department of Revenue's figures differed significantly from independent studies conducted by some of Montana title companies. The Department recently began another study to attempt to pin down an accurate number.

While the department undertakes their project, a group of business associations have come forth with a project to reduce noncompliance by any taxpayer. No one likes a tax evader – it doesn't matter whether they are residents of our state or not.

Tax simplification and taxpayer education are central to increasing tax compliance and will help ensure tax fairness. We believe a strong education effort helps keep taxpayers compliant. If they understand the rules, they are more aptly to file.

With this goal in mind, a coalition of business and trade groups has announced a joint effort to educate Montana and nonresident taxpayers about their tax liabilities related to real estate transfers through development of a brochure. The brochure will be distributed to realtors, title companies, CPAs, Clerk and Recorders, and other closing agents. It is also available on the home page of our website: [www.montax.org](http://www.montax.org)

#### Notice of Adoption

The following rules have been adopted relating to property tax incentives for new investment, development research, and technology related to renewable energy – New Rules I (42.4.4114) and (42.4.4115), [MAR Notice No. 42-2-782](#).

Be sure and check out our website: [www.montax.org](http://www.montax.org) for all the updates to School Funding, Real Estate Transfer brochure, a calendar of upcoming committee meetings and much more.