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The Economics of the Governor's Property Tax Task Force Recommendations

Part 6 of a Series on Property Taxation in Montana

In Part 6 of this series, I provide an analysis of the tax policies that were recommended by the Governor's Property Tax Task Force. Governor Greg Gianforte tasked the Property Tax Task Force with recommending strategies to reform Montana's property tax system, including its political subdivisions, without imposing a statewide sales tax. The task force, composed of lawmakers, local officials, and fiscal policy experts, was divided into three subcommittees: Tax Fairness, Education Finance, and Local Government.

They produced 12 recommendations (1 for tax fairness, 3 for education finance, 8 for local governments) and issued their report on August 15, 2024. The first on tax fairness was analyzed in Part 5 of this series. I will include this analysis and the remaining 11 recommendations and provide insights into other tax reforms that have been enacted in other states.

Many of these recommendations are not new and have already been discussed during the last legislative sessions (four being authored by Sen Greg Hertz (R-Polson).

The recommendations are summarized below based on their potential to lower taxes and their potential harm to the economy or education quality.

Table 1: Governor's Task Force Recommendations

	Potential to Lower Taxes	Potential Harm
Tax Fairness Proposal 1: Homestead/Comstead/Agstead Exemptions	Zero	High
Education Finance Proposal 1: Countywide BASE Levy	Low	Medium
Education Finance Proposal 2: State Levy	Zero	Medium-High
Education Finance Proposal 3: Voter Approval of Tax Increases	Medium-High	Medium-High
Local Government Proposal 1: 60% Vote Requirement for Mill Levy Elections	Low	Low
Local Government Proposal 2: Restrict elections to dollar amounts rather than fixed mill	Low	Low
Local Government Proposal 3: Modification to MCA 15-10-420	Low	Medium
Local Government Proposal 4: Sunset Voted Levies	Low	High
Local Government Proposal 5: Review TIF Law	Low	Medium
Local Government Proposal 6: Truth in Taxation	Medium	Low
Local Government Proposal 7: Study Bill for Special Districts	Low	Low
Local Government Proposal 8: Property Tax Assistance Programs	Low	Zero

Source: Property Task Force Report.

1. Tax Fairness Proposal 1: Homestead/Comstead/Agstead Exemptions

The Proposal

The Homestead/Comstead/Agstead Exemption is a taxable rate adjustment proposal to create a tiered structure for residential, commercial, and agricultural properties, depending on the owner's residency, property use, and property value. Unlike rate mitigation, which lowers taxable rates, this proposal introduces preferred property groups and taxable rate tiers. Initially, the proposal covered only residential and commercial properties, but it was later amended to include agricultural properties, although specific details were not provided.

Table 2: Governor's Task Force Proposed Taxable Rates for 2024

Property Type	Current Rates	Proposed Rates	Change from Current Rates
Residential (preferred)	1.35%	1.1%	-19%
Residential (non-preferred)	1.35%	1.9%	41%
Commercial (preferred)	1.89%	1.5%	-21%
Commercial (non-preferred)	1.89%	2.1%	11%
Agricultural	2.16%	TBD	TBD

Note: Taxes are paid a year behind so that this reform will be implemented in 2025 for 2024 taxes.
Source: Property Task Force Report.

- **Residential (preferred)**: Applies to primary residences and long-term rentals valued at less than four times the median residential market value.
- **Residential (non-preferred)**: Applies to out-of-state residences, short-term rentals, and the portion of property value in excess of four times the median residential market value.
- **Commercial (preferred)**: Applies to commercial properties valued at less than six times the median commercial market value.
- **Commercial (non-preferred)**: Applies to the portion of commercial property value in excess of six times the median commercial market value.

Subcommittee's Comments:

a. Minimal change to tax revenue.
b. 15% to 20% decrease in taxes for preferred taxpayers.
c. 25% to 45% increase in taxes for non-preferred taxpayers.

The subcommittee members did not unanimously support the proposal. Dr. Horpendahl, the sole economist on the task force, expressed a dissenting opinion.

Key Insights

- **NOT a tax cut.**
    - **Tax increase based on the 2022 Assessment Cycle**
    - **Revenue-neutral based on the 2023 Assessment Cycle.**
- **Shifts tax burden between taxing jurisdictions and between property classes.** Depending on the composition of preferred and non-preferred properties within counties, taxes may rise or fall for all property classes, including those not covered by the proposal.
- **Shifts tax burden within classes.** Shifts tax burden to higher-valued, non-preferred residential/commercial/agricultural properties. Considered a progressive tax reform.
- **Shifts tax burden onto a smaller base of payers.** For every $1 decrease in taxes for a preferred residential taxpayer, there is a corresponding $4 increase for non-preferred taxpayers due to the 1:4 ratio. Similar shifts will occur in agricultural and commercial classes.
- **Not means tested**
    - Tax relief is often means-tested: it is proposed that all small-scale businesses receive preferential treatment regardless of profitability.
- **Complex, transparent, and relatively easy for the public to understand**, but determining preferred status **requires additional government workers and resources** for administration and compliance and **additional taxpayer resources** to apply for preferred status.
- **Concern about relief for long-term renters**. The impact on rents for long-term renters is not guaranteed to decrease – it depends on the elasticities of supply and demand in local housing markets.

What It Isn't

- **Not a tax cut**: It redistributes the existing tax burden.
- **Not a permanent fix**: It does not address the underlying flaws in the current property tax system.
- **Not a reset to pre-2023 tax burdens or revenue levels**.

Potential for lowering taxes: Zero.
Potential harm: High.

2. Education Finance Proposal 1: Countywide BASE Levy

Proposal: Replace school district BASE levies with a countywide levy.

Subcommittee Comments

- Equalizes property taxes within counties.
- Mills levied would be reduced in at least 69% of the state's school districts, which serve 83% of Montana's students.
- Lower-valued properties have tax reductions offset by tax increases on higher-valued properties.

Key Insights

- Shifts tax burden within counties. Progressive tax reform.
- Does not consider reduced operating costs in school districts located in lower-income communities and higher operating costs in school districts located in higher-income communities.
- High probability that it will reduce tax revenue over time, reducing education quality.
- Incongruent with public school governance structure (school districts are often at the city level, not the county).
- Redundant to state equalization.

Potential for lowering taxes: Low.
Potential harm: Medium.

3. Education Finance Proposal 2: State Levy

Proposal: Maintain a fixed 95 mills for school equalization. Supports passed HB 587 (SEPTR).

Subcommittee Comments

- Floating mills would hold property tax revenue constant, resulting in a significant tax shift from property taxes to Montana income taxpayers.
    - Disproportionately benefits out-of-state residential property owners.
- Reduces local school property taxes due to the retirement funding reallocation to the State.

Key Insights

- Maintains fixed mill levy:
    - Permanent increase in taxes when property values rise.
        - Less control over tax revenue growth.
    - No shift in tax burden within property classes.
    - Requires additional tax policy intervention to reduce excessive taxation.
- Special account to move a portion of retirement funding from local to the State.
    - Uses excess taxation from 95-Mill Levy.
    - No change in property taxes: 1-1 change from local to state property taxes.
    - No shift in tax burden.

Potential for lowering taxes: Zero.
Potential harm: Medium-High.

4. Education Finance Proposal 3: Voter Approval of Tax Increases

Proposal: Apply turnout/supermajority requirements for mill levy elections to ensure tax increases reflect community decisions. Similar to failed SB 291.

Subcommittee Comments

- A significant number of citizens should make decisions on tax increases.
- Federal case law indicates these requirements to levy elections may be challenged on constitutional grounds if the requirements are only applied for certain elections.

Key Insights

- Potential substantial reduction in tax growth in lower-income taxing jurisdictions.
    - Potential funding gap for essential services in the short run.
- Potential reductions in tax growth for higher-income taxing jurisdictions.
- No shift in tax burden within or between property classes.
- Encourages better voter education and engagement.
- Encourages local governments to propose conservative mill levies.

Potential for lowering taxes: Medium-high
Potential harm: Medium-high

5. Local Government Proposal 1: 60% Vote Requirement for Mill Levy Elections

Proposal: Require 60% voter approval for new mill levies. Similar to failed HB 206 and SB 291.

Subcommittee Comments

- New voter-approved mill levies increase property taxes.
- Goal is to reduce the growth of mill levies.
- Increasing barriers to passage doesn't give voters sufficient control of their local government budget choices.

Key Insights

- Potential reduction in tax growth in lower-income taxing jurisdictions.
    - Potential funding gap for essential services in the short run likely outcome.
- Likely no change in tax growth for higher-income taxing jurisdictions.
- No shift in tax burden within or between property classes.
- Encourages better voter education and engagement.
- Encourages local governments to propose conservative mill levies.

Potential for lowering taxes: Low
Potential harm: Low

6. Local Government Proposal 2: Restrict elections to dollar amounts rather than fixed mill.

Proposal: New voter-approved mill levy elections restricted to dollar amounts rather than fixed mills. Similar to failed HB 206.

Subcommittee Comments

- Fixed mill levies result in windfalls for taxing jurisdictions when reappraisal raises property values.
- Restricting levy elections to dollar amounts:
    - Require mills to automatically adjust to maintain voter-authorized revenue levels.
    - Control the growth in property taxes when reappraisal increases taxable values.

Key Insights

- Likely no change in tax growth for local taxing jurisdictions – very few fixed mill levies.
- No shift in tax burden within or between property classes.
- **High potential to reduce taxes if all mill levies must float, including the 95-mill levy.**
    - Better control on tax revenue growth.
    - Reduces unintended tax increases.
    - More transparent and predictable taxation.

Potential for lowering taxes: Low
Potential for lowering taxes if all levies must float (including 95-Mill Levy): High
Potential harm: Low

7. Local Government Proposal 3: Modification to MCA 15-10-420.

Proposal: Adjust the formula for determining growth in property taxes.

- Proposed adjustment to revenue growth rule to include population growth, the full rate of inflation, and a proportion of newly taxable properties.
- Cap on tax revenue growth.
- Eliminate banked mill authority.

Subcommittee Comments

- Too much emphasis on newly taxable property.
- More predictable growth in property taxes
- Current tax growth rule that capped at ½ the rate of inflation or 3%, whichever is smaller doesn't permit budgets to keep pace. No cap on tax revenue.

Key Insights

- Slightly higher taxes when inflation increases.
- Slightly higher taxes in positive pop growth areas, and vice versa in negative pop growth areas.
- Due to MCA 15-10-425 permitting mill levy elections beyond current budget limits (such as new capital projects), the tax revenue cap is unlikely to lower taxes significantly.
- Better control of tax revenue growth.
    - More transparent and predictable taxation for governments.
- No shift in tax burden.

Potential for lowering taxes: Low.
Potential harm: Medium. Negative population growth areas (rural Montana) may have local government budgets shrink, jeopardizing essential services.

8. Local Government Proposal 4: Sunset Voted Levies

Proposal: Implement a 10-year sunset for voter-approved levies, except bond levies, to give voters the chance to reaffirm or deny levies over time. Similar to failed SB 251.

Subcommittee Comments

- Voter-approved levies currently remain in perpetuity.
- Allows voters to affirm or deny existing levies.
- Automatic sunset could negatively impact compliance with constitutional obligations.

Key Insights

- Policymakers likely put forward ballots to 'continue general budgets at current rates.'
  - No change in higher-income communities.
  - Potential for negative impact in lower-income communities if a general fund budget referenda fails.
  - May cause time inconsistency – voters regret reducing the general budget and find essential service cuts too severe.
- No shift in tax burden.

Potential for lowering taxes: Low.
Potential harm: High.

9. Local Government Proposal 5: Review TIF Law

Proposal: Reexamine TIF laws to address indirect property tax increases caused by TIF districts.

Subcommittee Comments

- TIFs are an important part of economic development.
- Additional tax burden on other taxpayers.

Key Insights

- No change to local tax revenue.
- Shift in tax burden from non-TIF properties to TIF properties.
- May jeopardize revitalization efforts.

Potential for lowering taxes: Low.
Potential harm: Medium.

10. Local Government Proposal 6: Truth in Taxation

Proposal: Consider adopting aspects of Utah's "Truth in Taxation" model to increase transparency and control tax growth.

Subcommittee Comments

- Truth in Taxation requires local jurisdictions to advertise and hold a public hearing to raise tax revenue above the previous year's budget.
- Tax increases require a vote.

Key Insights

- Utah now ranks 36th in property taxes per $1,000 of personal income, down from 24th in 1985 when it was enacted.
- Potentially increase variation in tax hikes across jurisdictions.
- Potentially removes large tax hikes.
- No shift in tax burden.
- No change to local tax revenue.

Potential for lowering taxes: Medium. Increases to high if the State's fixed mill levies are included in requiring a vote for taxes paid increases.
Potential harm: Low.

11. Local Government Proposal 7: Study Bill for Special Districts

Proposal: Propose a study to collect data on SPDs/SIDs.

Subcommittee Comments

- Special districts are outside of normal property tax limitations.
- Current reporting of special districts is limited.
- Represent 10% of property taxes paid.

Key Insights

- Special Districts can be efficient or inefficient. Likely little change to local tax revenue.
- No shift in tax burden.

Potential for lowering taxes: Low.
Potential harm: Low.

12. Local Government Proposal 8: Property Tax Assistance Programs

Proposal: Review current property tax assistance programs, evaluating usage and qualifications to ensure targeted relief for low-income and fixed-income taxpayers.

Subcommittee Comments

- Lower-income and fixed-income taxpayers express concerns in paying property taxes.
- Change to qualifications for use of programs, including asset-based tests.
- Review outreach programs used to inform taxpayers of the availability of assistance.

Key Insights

- No change in tax revenue: most MT districts have nearly 100% tax compliance.
- Shift in tax burden away from lower-income and fixed-income taxpayers. This is a positive outcome as property taxes are regressive.

Potential for lowering taxes: Low.
Potential harm: Zero, potential benefit.

Have These Property Tax Recommendations Been Used Before in Montana?

Several of the above recommendations have been previously enacted by the Montana legislature and then removed:

1. **Lowering taxable values**: conducted annually until 2015.
2. **I-105** limits the amount of taxes levied (1987).
3. **Revised limits of I-105** (1997).
4. **MCA 15-10-420** created homestead exemption for residents and capped general fund growth (1999).
5. **Chapter 361** authorized carryforward of mill levy authority (2001).
6. **Chapter 574** limits the amount of taxes levied and increases local voters rights to increase taxes (2001).
7. **Chapter 361** removed homestead exemption (2015).

Many of these pieces of legislation have caused significant changes in taxes paid and shifted the tax burden within and between property classes. See Part 5 of this series for more details.

What Are Other States' Policies that Montana Should Consider?

1. Property Value Assessment Growth Rate Caps

15 states have enacted residential property value assessment growth rate caps. Many of them have residency requirements (see Table 3). This cap reduces the rate of growth in taxable value so that there aren't unpredictable increases in taxes and smoother tax revenue for government entities. If there was a 3% cap, it would take 14 years for a 50% increase in value to be fully realized. However, it should also be noted that this shifts the tax burden to those who buy homes as they would be assessed at full market value. As shown in the table, this tax policy is geared towards residents.

Table 3: Limit on Assessment Value Growth

State	Law	Max. Annual Rate of Growth	Caveat
Arizona	LPV	5%	Excludes non-res
Arkansas	Amendment 79	5%	Non-res: 10%
California	Prop 13	2%	Assessed value increases capped at 2%.
Florida	Save Our Home and Amend. 5	3%	Non-res: 10%. Annual inflation adj.
Iowa	Section 441.21	3%	
Georgia	Floating Homestead Exemption	3%	Certain counties; excludes non-res
Maryland	Homestead Tax Credit	10%	Excludes non-res
Michigan	Proposal A	5%	Only Schl. Taxes
Nevada	Tax Abatement Law § 361.472	3%	Non-res: 8%
New Mexico	Limitations on Increases in Valuation	3%	Excludes non-res
New York	STAR Exemption	2%	Only Schl. Taxes
Oklahoma	Article 10, Section 8B	3%	Non-res: 5%
Oregon	Measure 50	3%	
South Carolina	SC Assessment Limitation Act	3%	Excludes non-res
Texas	10% Cap	10%	Excludes non-res

2. Tax Revenue Growth Caps

While Local Government Proposal 3 to modify MCA 15-10-420 includes an overall tax revenue cap (see pg 22), it is unclear whether the State will also be obligated to follow this rule given the use of fixed mill levies that increase taxes 1-1 with property value increases.

13 states have enacted tax revenue growth caps, many limiting annual growth to 2-4%. Almost all include a provision for voter-approved tax increases (which is the lion's share of local government tax increases). If this was applied to all levies, including the 95-Fixed Mill Levy, then this would reduce large unpredictable increases in taxes and smooth tax revenue for government entities.

Table 4: Tax Revenue Growth Caps

State Name	Law Name	Max. Annual Rate of Growth	Caveats
California	Prop 13	1%	Voter approved increases
Colorado	TABOR	Inflation + Pop Growth	Voter approved increases
Idaho	Idaho Property Tax Limitation	3%	Local tax districts
Illinois	PTELL	5%	Applies to non-home rule taxing districts; voters can approve increases beyond the cap.
Massachusetts	Proposition 2½	2.5%	May increase due to new properties. Voter approved increases
Montana			
New Jersey	Property Tax Levy Cap Law	2%	
New York	Property Tax Cap	2%	60% voter-approved increases
Oregon	Measure 5 & Measure 50	$5 per $1K of market value for ed.	$10 per $1K for non-ed.
South Carolina	Act 388	Inflation + Pop Growth	Voter approved increases
Texas	Revenue Cap	3.5%	Schl Dist: 2.5%; Voter approved increases
Washington	1% Revenue Growth Cap	1%	Voter approved increases
Wisconsin	Levy Limit	New Construction	Voter approval is required for exceeding the cap.
Wyoming	§ 39-13-204	4%	Property tax increase

3. Lengthening the Reassessment Cycle Window

Montana currently has a reassessment cycle of 1-2 years for most property classes. This does not provide time for the legislature to decide how best to address property value increases and leads to inefficiencies in addressing short-term corrections to the property tax system. Many other states do not have this issue with a 1-2 year reassessment cycle as they don't use fixed mill levies that cause property tax increases.

Of the 46 states with accessible data, the current average reassessment cycle is 2.6 years. As shown in Table 5, almost half of all US states have annual reassessments, 5 have a 2-year reassessment cycle, and the remaining 17 have a reassessment cycle with 3+ years. It should be noted that 20% of states have a reassessment cycle of 5+ years. It should also be noted that many states that have 1–2-year annual reassessment cycles have assessment value growth rate caps or tax revenue growth rate caps – thus, these taxpayers do not feel the full effect of increasing property values immediately.

Table 5: U.S. State's Reassessment Cycle

Reassessment Cycle	Number of States
1 year	24
2 years	5
3-4 years	7
5-6 years	8
7+ years	2
All	**46**

Source: IAAO.

4. A Simpler Homestead Exemption and No Comstead/Agstead Exemptions

The use of homestead exemptions shifts the tax burden from residents to non-residents. As many have explained, Montana doesn't have a sales tax, so the only tax from non-residents is through property taxes. There are arguments for and against taxing non-resident property differentially.

- Arguments for: They pay less taxes than residents pay while living in Montana for up to 6 months of the year.
- Arguments against:
  - They don't use many government services.
  - They don't enroll their children in our schools.
  - They have higher taxable-valued property and already pay more taxes than other residents.

Let's assume that Montana enacts a homestead exemption where residents have a lower taxable rate than non-residents. The current tiered system of the Homestead/Comstead/Agstead exemption will cause substantial shifts in burden between counties and property classes and within property classes. Some of the tax burden shift will occur due to the Homestead Exemption and there is economic justification for this increase as out-of-staters do not pay income or sales tax. However, substantial shifts in tax burden caused by the Comstead and Agstead may cause permanent damage to the Montana economy. There are arguments for and against the Comstead and Agstead Exemptions:

- Arguments for: assisting small businesses and family farms.
- Arguments against:
  - Some businesses require a larger economy of scale and create substantial value-added to the Montana economy.
  - Large businesses employ many individuals, and if they leave, it would devastate a local area.
  - Does not consider profitability of firms and whether a tax break is justified.
  - There may be substantial unintended economic consequences.
  - Small and large businesses are not uniformly distributed across Montana.

This economist believes that extensive analyses are needed on the Comstead and Agstead Exemptions. The costs will likely outweigh the benefits, and no preferred commercial property taxable rate or a preferred agricultural property taxable rate should be enacted. This is especially true considering other tax policies that provide relief and incentives to small business owners and family farms.

One proposal to consider is to modify the Value-Neutral Taxable Rates:

Table 6: Estimated Value-Neutral Taxable Rates

Property Type	Current	Proposed	Difference
Residential (Resident)	1.35%	1.1%	-0.25 PP
Residential (Non-Resident)	1.35%	1.9%	+0.25 PP
Commercial	1.89%	1.62%	-0.27 pp
Agricultural	2.16%	2.15%	-0.01 pp

Note: For the 2023 reassessment cycle. Source: DOR.

This is Part 6 of a series on Property Taxation.