Governor’s Property Tax Advisory Council

Meeting # 3

Monday, April 22, 2024, 9 am.

Online and Budget Office Conference Room, Room 250, State Capitol Building

Governor’s Property Tax Advisory Council

Monday, April 22, 2024, 1 pm.

Agenda

1:00 pm **Call to Order and Opening Remarks**
Committee Mandate (E.O.), Problem/Recommendation Template, & Timing
Director Osmundson, OBPP

1:15 pm **Report of Subcommittees with Committee Discussion**
- **Local Government** -- Senator Hertz
- **Education** -- Representative Bedey
- **Tax Fairness** -- Representative Jones

2:00 pm **Review of Tools for Evaluating Options** (with committee questions)
- Homestead / Comstead / Exemption Rate Tier Model
- Tax Bill Tool

Eric Dale, DOR/TPR

2:45 pm **Further Committee Discussion of Insight from the Models, Committee Business, and Additional Information Requests**

3.00 pm **Public Comment**

Adjourn

Governor's Property Tax Advisory Council

The Report of the Local Government Subcommittee

The subcommittee met on April 4th and again on April 18th.

The committee meeting on April 4th received presentations on TIFs from the LSD and DOR, studied property tax growth limitations in Montana ,and looked at the role of inflation and newly taxable property in 15-10-420, MCA. This included a run though of the DOR's 15-10-420, MCA scenario tool (expanded from earlier work on SB 511). The committee also looked at county non-levy revenue receipts, and the property tax limitation ideas in CI-121 (2020), SB 542 (2023), and BI #2.

The April 18th opened with a lengthy discussion on local option property tax sparked in part by a proposed local option sales tax concept,. We also revived an overview of national property tax pressures and various proposed solutions. The role of newly taxable property in TIF increments was explored, Broad SID trends were examined.

So far, we've covered the following from our March 18th PTAC meeting assignments

- ❑ **The scale of local non-levy revenues and how they are integrated into budgets –** Covered in part at the April 4th meeting
- ❑ **A review of the timing considerations for mill levies elections** – Mostly Transferred to the Education Subcommittee
- ❑ **Mechanisms for controlling property tax growth, such as:**
  - Improvements to 15-10-420, MCA, -- Role of inflation & NTP, plus 15-10-420 scenario tool presented on April 4th
  - Concepts like to those explored in SB 511 (2023) – Covered in part at the April 4th meeting
  - How limitations might work with TIF, SID and bonded debt limits – TIFs covered in depth on April 4th – Scale of SIDs April 18.
- ❑ **The property tax assistance discussion led to interest in:**
  - Income and property valuation thresholds, and the tenure/ residency requirements of the programs.
  - The idea of means-testing arose for targeting programs.
- ❑ **Local option sales taxes that include regional revenue sharing mechanisms –** Covered on April 18th. Now looking at other options (Alaska)
- ❑ **Property tax limitation & recent MT Legislation SB 542 & BI 2**. On April 4 and again April 18th
- ❑ **Ways to "smooth" the impact of rapid assessment growth, tying mill levies to dollars plus inflation**. – Brief national view on April 18th

Governor’s Property Tax Advisory Council

Report of the Education Subcommittee

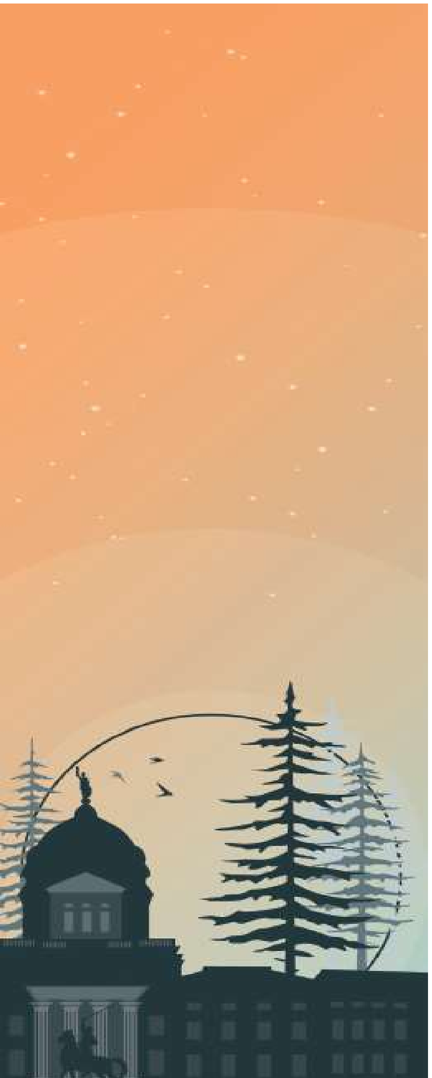
The subcommittee met on April 3rd, 2024.

The subcommittee looked at options for school elections, with the possibility of moving them from May to November. Options and impact of adjusting the State Equalization mills studied. Amending current equalization law and HB 587’s mechanism of allocating state equalization mill growth were explored. A model (“the Iverson model”) for testing the impact of adjusting the statewide mills to fund a comprehensive revision to statewide school equalization policy was demonstrated. The concept of moving from district BASE levies to countywide BASE levies was discussed.

- ❑ **Changing school election dates to promote more voter participation.** **Looked at School Elections calendar**

- ❑ **Examining the impact of tax increment financing (TIF) on state, county, and district school levies.**

- ❑ **Projecting into the future the effects of various options regarding the statewide equalization levy, e.g.,**
  - **making no change to current law but incorporating the impact of the School Equalization and Property Tax Reduction Act (SEPTR),**
  - **adjusting current equalization statutes (e.g., the HB 587 “dials”) to reduce local school levies** **Explored with further work ongoing,**
  - **reducing the levy to and “floating” it with or without mill banking, and explored**
  - **increasing the state levy while providing reductions in local school levies.** **Explored**



PTAC Education Subcommittee

- **Move school elections from May to November.**
- **Adjust the state school (95 mill) levy.**
  - **reduce to a lower value (say 79 mills)**
  - **adjust current equalization law (including HB 587)**
- **Move from district BASE levies to a countywide BASE levy.**
- **Explore the “Iverson Option,” which is a comprehensive revision of equalization policy.**

<u>New SEPTR Account (School Equalization and Property Tax Reduction)</u>

Receives revenue from the 95 mill statewide equalization levies, with 55% of increased revenue over prior year triggering a reduction in local property taxes through equalization mechanisms

2nd Source of State School Funding; any remaining state obligation comes from the general fund

This portion of the law is already in effect (as of July 1, 2023)

The SEPTR account also helps maintain a balance between state and local funding for K-12.

Historically, during Montana budget shortfalls K-12 costs have shifted onto local taxpayers.

When K-12 leans harder on local property taxes, the more the Legislature's constitutional duty to "distribute [K-12 funding] in an equitable manner" can be questioned.

55% of Δ

Utilizing a portion of the 95 mill increase means that the remaining increase can be used to fund annual increases in the existing K-12 formula. This maintains a balance between property tax and other taxes in the state general fund (largely income) in funding K-12.

If there is a <u>reduction in **revenue** (not just mills)</u> brought in by the 95 mills from the prior year, **BASE GTB** and **countywide retirement GTB** are "<u>dialed down</u>" by the full amount of the decrease, shifting costs back onto local taxpayers

This portion of the law is effective beginning in FY 2025 ("hard coded" increase) and FY 2026 ("dialing" mechanism)

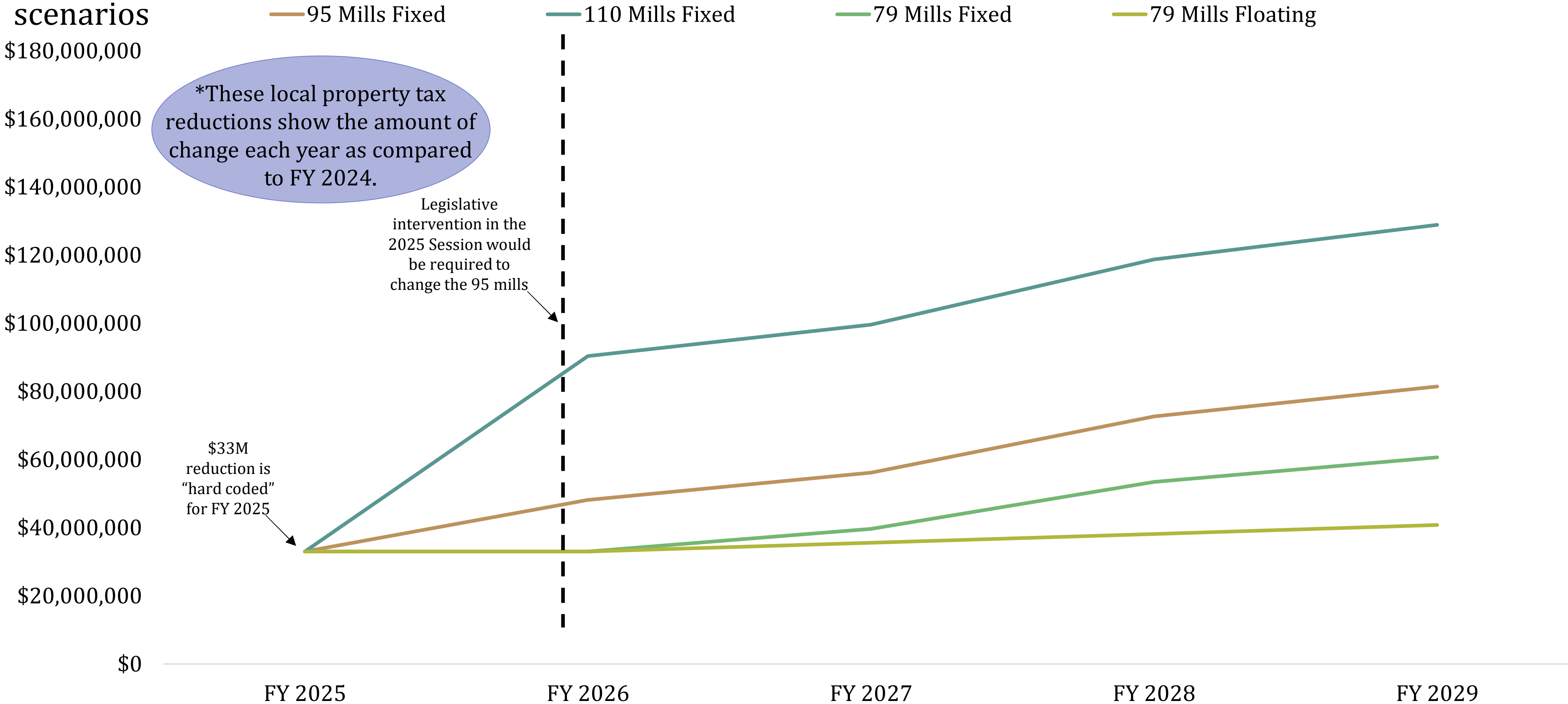
Each equalization mechanism is "dialed up" until the ratio of state to local revenue reaches approximately 70:30 (debt service 20:80) then the revenue increase from the 95 mills flows to next mechanism

Increase countywide school **retirement GTB** to lower county property taxes

Increase **state major maintenance aid** to lower school district property taxes

Increase **debt service assistance** to lower school district property taxes

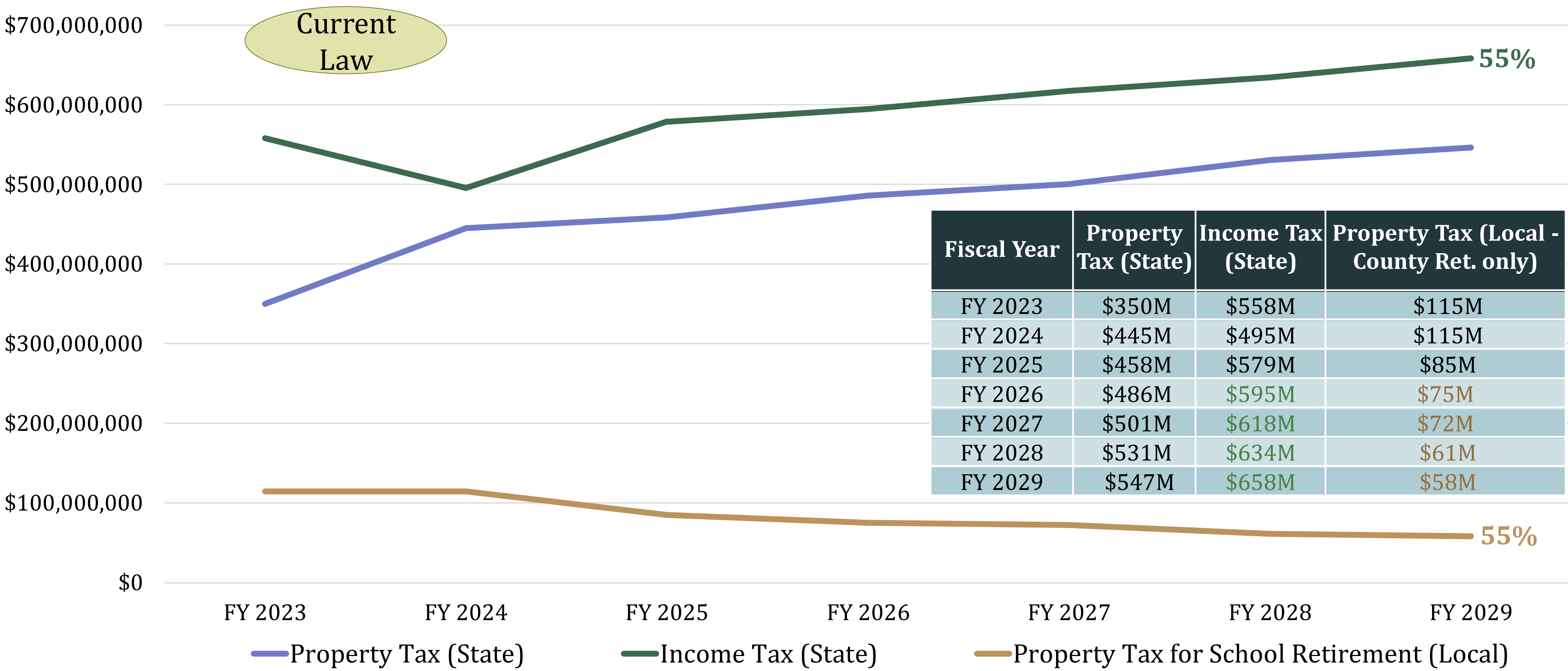
Local property tax reductions* from the SEPTR account "dialing" mechanism (at 55%) under various mill scenarios



Assumes 3% growth in taxable value in non-reappraisal years and 6% growth in reappraisal years

LEGISLATIVE FISCAL DIVISION

Tax impacts from the SEPTR account "dialing" mechanism (95 mills)

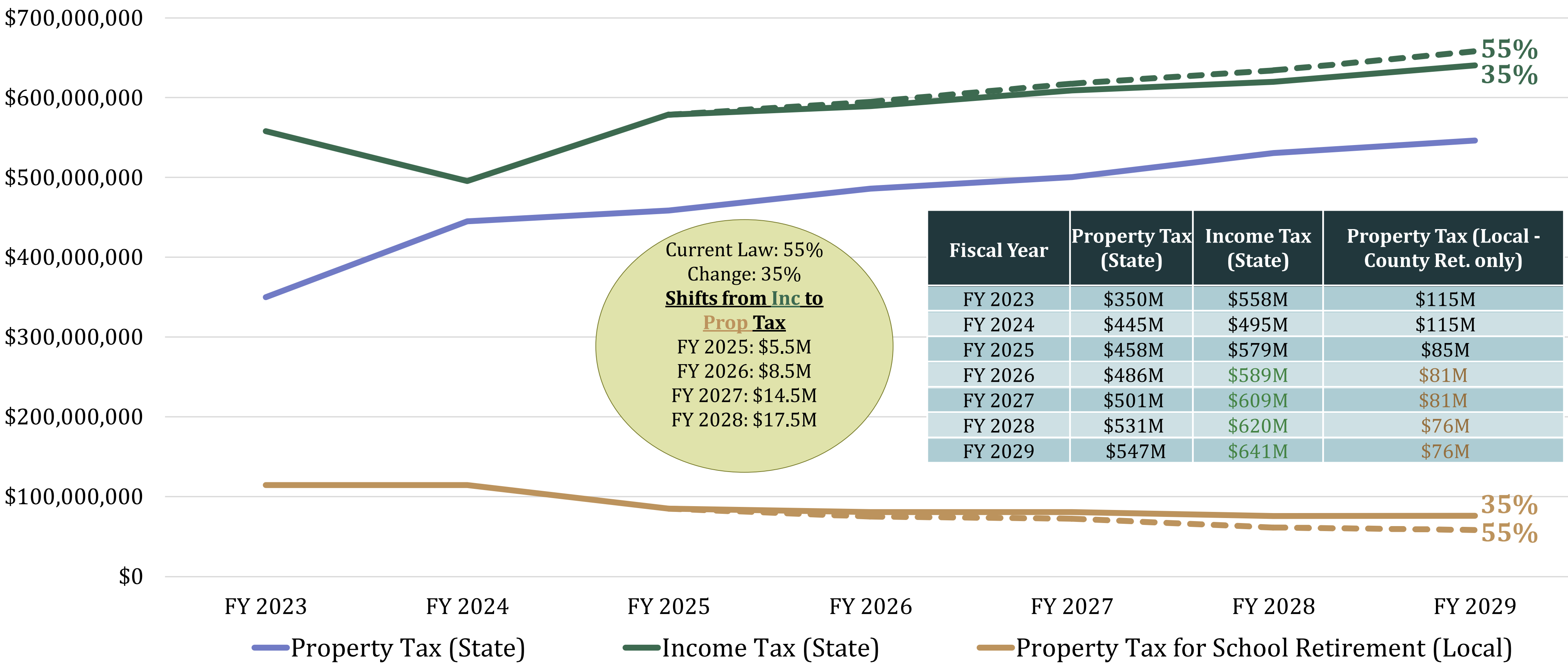


Fiscal Year	Property Tax (State)	Income Tax (State)	Property Tax (Local - County Ret. only)
FY 2023	$350M	$558M	$115M
FY 2024	$445M	$495M	$115M
FY 2025	$458M	$579M	$85M
FY 2026	$486M	$595M	$75M
FY 2027	$501M	$618M	$72M
FY 2028	$531M	$634M	$61M
FY 2029	$547M	$658M	$58M

Assumes: 3% growth in taxable value in non-reappraisal years and 6% growth in reappraisal years
3% growth in state K-12 funding and the county retirement fund

LEGISLATIVE FISCAL DIVISION

Tax impacts from the SEPTR account "dialing" mechanism (95 mills)

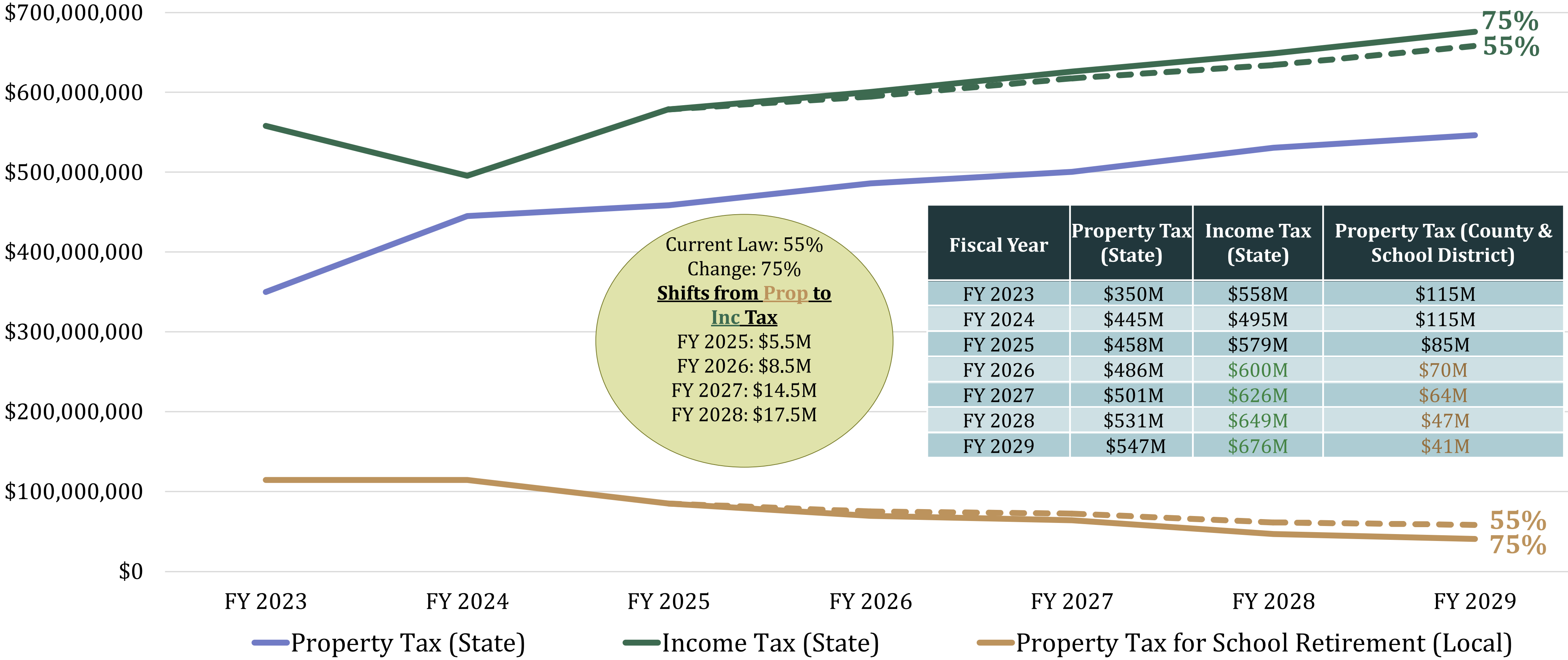


Fiscal Year	Property Tax (State)	Income Tax (State)	Property Tax (Local - County Ret. only)
FY 2023	$350M	$558M	$115M
FY 2024	$445M	$495M	$115M
FY 2025	$458M	$579M	$85M
FY 2026	$486M	$589M	$81M
FY 2027	$501M	$609M	$81M
FY 2028	$531M	$620M	$76M
FY 2029	$547M	$641M	$76M

Assumes: 3% growth in taxable value in non-reappraisal years and 6% growth in reappraisal years
3% growth in state K-12 funding and the county retirement fund

LEGISLATIVE FISCAL DIVISION

Tax impacts from the SEPTR account "dialing" mechanism (95 mills)



Fiscal Year	Property Tax (State)	Income Tax (State)	Property Tax (County & School District)
FY 2023	$350M	$558M	$115M
FY 2024	$445M	$495M	$115M
FY 2025	$458M	$579M	$85M
FY 2026	$486M	$600M	$70M
FY 2027	$501M	$626M	$64M
FY 2028	$531M	$649M	$47M
FY 2029	$547M	$676M	$41M

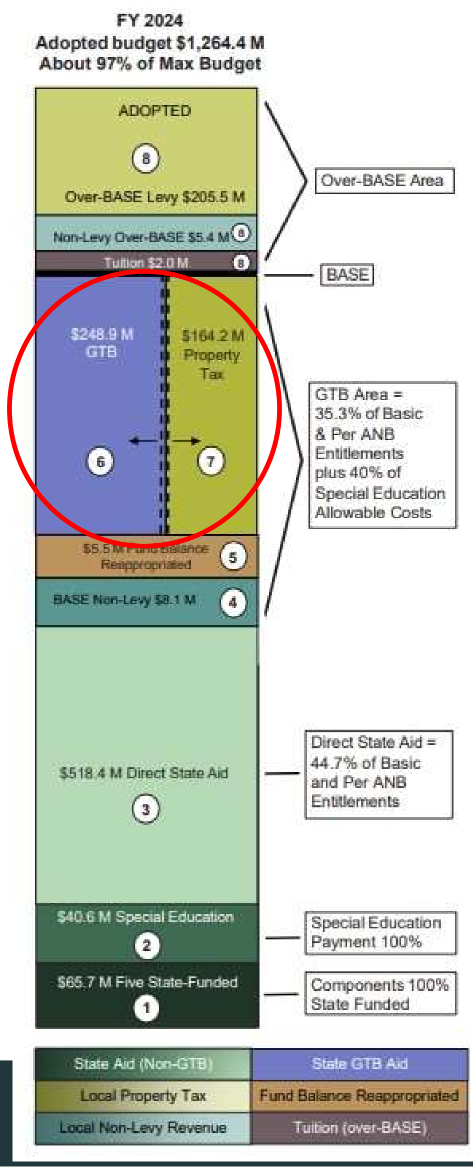
Assumes: 3% growth in taxable value in non-reappraisal years and 6% growth in reappraisal years
3% growth in state K-12 funding and the county retirement fund

LEGISLATIVE FISCAL DIVISION

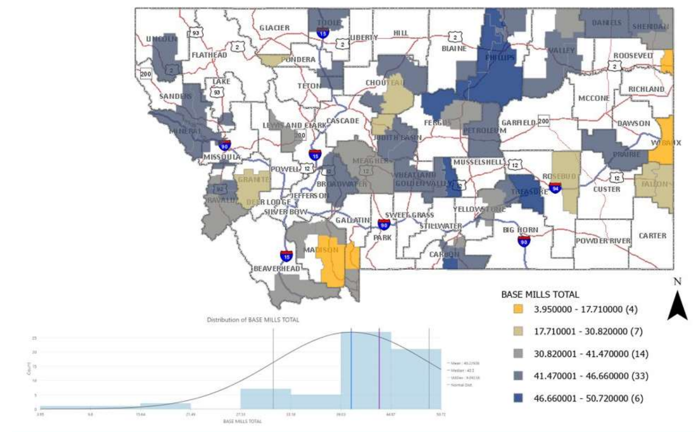
School District Type	BASE Mill Range
K-12	4 – 51 mills
Elementary K-8	0 – 35 mills
High School 9-12	0 – 19 mills

Despite enhanced equalization of BASE mills in recent years (through increases in state BASE GTB Aid) there is still some variation between districts and sometimes between districts in the same county.

The idea of equalizing BASE mills countywide would entail treating the area of school district general fund BASE budgets currently filled by *district* levies and state GTB aid based on *district* property wealth (circled in red to the right) the same way we treat school district retirement costs – fund them through *countywide* levies and state GTB aid based on *county* property wealth. This would result in identical BASE levies among school districts within counties, improve equalization, and perhaps remove one disincentive for administrative unification.

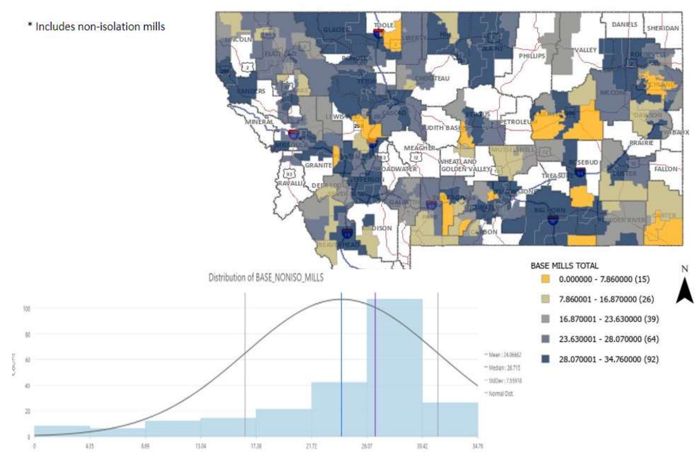


BASE MILLS, K-12 UNIFIED SCHOOL DISTRICTS



Map classes based on Natural Breaks (Jenks) method

BASE MILLS*, ELEMENTARY SCHOOL DISTRICTS



Map classes based on Natural Breaks (Jenks) method

Governor’s Property Tax Advisory Council

Report of the Tax Fairness/Equity Subcommittee

The subcommittee met on April 17.

The committee continued its in-depth exploration of comstead and homestead exemptions ,with a tiered tax rate structure model developed by DOR. The model illustrates revenue effects and tax shifts at the state and county wide level. The committee revisited the ideas of a seasonal gas tax and seasonal accommodation taxes. The homestead and comstead model will be demonstrated to the full committee today

The issues identified for coverage at the next subcommittee meeting are as follows:

- ❑ **Homestead exemption options – New Model - Demo today**
- ❑ **Options for creating a “Comstead” exemption – New Model - Demo today**
- ❑ **Implementing a seasonal accommodations tax – Explored**
- ❑ **Local option sales taxes with regional sharing mechanisms Moved to Local Government Committee**
- ❑ **Local option gas taxes --Explored**
- ❑ **Ways to address the tax equity issues that arise from the large number of school districts in Montana – Moved to Education Subcommittee**

Considerations When Evaluating Policy Options

- Tax shifts between various property tax classes
- Tax shift between property taxpayers and income taxpayers
- Tax shift between Montana residents and out-of-state residential property owners
- Impact on local government and public-school funding in the short and the longer term
- The differential effects on counties across the state
- The long-term effects on Montana's tax system
- Managing for the future, not a “solution” for the past
- Not creating a solution for an economic anomaly (like the Covid event)
- Identification of necessary statutory changes

Public Comment

Next Steps