

Resolution #2026-2

MUNICIPAL REVENUE AND PROTECTION OF LOCAL SERVICES

BACKGROUND

Montana's cities and towns deliver the services residents, businesses, visitors, and the state economy depends on every day through law enforcement, fire protection, emergency response, streets, water, and wastewater. These are not optional services but the foundations of every community in the state. Municipalities rely heavily on property tax to fund these services. About 55% of all property taxes collected statewide are directed to elementary, high school, and higher education, while the remaining 45% funds local governments, including cities, counties, and special districts. Of that remaining amount, cities and towns collected roughly 12% of all property taxes in fiscal year 2025. A limited number of resort communities with a population of less than 5,500, where the majority of local employment is related to businesses catering to tourists, collect a resort tax. Other than that narrow exception, cities and towns have almost no broad-based revenue alternative, and property tax carries a burden it is not designed to carry alone.

Local governments use general fund property tax revenues mainly to fund essential firefighting, law enforcement, and other emergency services, administration, and parks and recreation. Local streets are paid for through state gas taxes, which do not have an adjustment rate and have fallen far behind the inflationary costs of transportation infrastructure. Water and wastewater service is typically paid for through user fees and assessments on residents that use those services, including the rate hikes that must be imposed to finance large, expensive system improvements necessary to meet state and national regulations. Many communities turn to voted mill levies to fill the gap between available revenues and growing service costs. However, with the few exceptions of resort tax communities, the daily local services Montanans depend on for working, living, and recreating are paid for through the same homeowner or renter, who has limited capacity to continue to pay more.

Until this fiscal year, municipalities were only authorized to impose a general fund mill levy sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half the average rate of inflation for the prior 3 years. This was supplemented by new growth, since municipalities could add 100% of the tax revenues from new growth to the next year's actually assessed base number. In the 2025 session, the legislature passed SB 117, which allows municipalities to use full inflation up to 4%, but are now limited in the percentage of newly taxable they are allowed to add to next year's actually assessed base number - reducing the credit for newly constructed class four property from 100% to 75%, and providing only 40% (or 50% with a large-taxpayer reserve account) for most other classes.. To complicate matters, over the last few appraisal cycles the state has failed to capture large amounts of newly taxable property, especially in the fastest growing municipalities. The combined effect is that the share of new construction and annexation revenue a city or town captures in the year that growth arrives has shrunk, even though the corresponding demand for streets, utilities, and public safety arrives immediately.

The Montana Legislature determines the tax rates and the Montana Department of Revenue determines the property tax value for all property in Montana. Residential homeowners pay almost

60% of all property taxes collected statewide; two decades ago, they carried less than 40% of that burden. Over the past few decades, as the Legislature has reduced the tax rates on other classes of property, the property tax burden has increased on residential and commercial property owners and away from other classes of property. In 2023, although appraisals of residential properties increased dramatically compared to other classes of property the Legislature did not mitigate the class 4 residential tax rate as it had done in the past, resulting in a further tax shift to residential property owners.

In the 2025 session, the legislature passed property tax reform bills SB 542/HB 231 to address these issues. These bills created a tiered tax rate system applied incrementally over two years (fiscal years 2026 and 2027) that reduced residential property tax rates and increased rates for short-term rentals and second homes. While these rates did not affect the revenues generated by general fund levies, the bills allowed cities and towns to convert their voted mill levies to dollars or reset the mills to generate the same amount collected in fiscal year 2025. This protected voted mill levy collections from lower tax rates but produced a lack of any newly taxable growth in fiscal year 2026 for those levies.

Montanans expect reliable, high-quality local services, including timely emergency response, clean drinking water, maintained and plowed streets, dependable solid-waste services, and infrastructure that supports families, businesses, and visitors. Yet the costs of labor, materials, equipment, maintenance, and capital replacement continue to rise faster than locally available revenue.

Montana communities vary widely in size, economic base, growth, infrastructure, and service demands. They need stable, predictable, and diversified revenue to provide essential services and plan responsibly for long-term infrastructure needs. State policy must preserve municipal revenue from newly taxable property and new construction so that growth helps pay for the additional infrastructure, maintenance, public-safety, and service demands it creates. Property-tax relief should not shift these costs to existing taxpayers or discourage housing construction, economic development, annexation, and responsible community growth.

ACTION

1. Support legislation to provide further relief to Montana residential property owners while preserving local government revenues and the ability of municipalities to provide the levels of services expected and demanded by local residents and visitors.
2. Support legislation to improve, streamline or make more efficient systems or regulations to provide accurate and consistent identification, valuation, reporting, and access to data of newly taxable property.
3. Support legislation to allow Montana municipalities, with the approval of their voters, the authority to enact locally driven revenue sources to help fund local infrastructure, public safety and other local services.

4. Support legislation to diversify municipal revenue beyond property tax, including by directing existing or new revenue.
5. Support legislation that recognizes the full value and benefits of new development in the tax base while ensuring that existing residents do not experience disproportionate cost shifts associated with growth, including supporting tools like impact fees to help municipalities address growth-related infrastructure and service needs.
6. Support legislation to remove the restrictions on the mill levy authority currently imposed under Title 15, chapter 10, part 4, MCA.
7. Protect the local government entitlement share but strategically sponsor and support legislation or policies that ensure the continuation or fair and equitable modernization of the entitlement share program and the application of increased growth factor adjustments.
8. Consider proposals for voted levies and special districts that provide increased transparency and informed voter participation.
9. Protect tax increment financing as a locally driven tool and resource to help create projects that can stimulate redevelopment, housing, job creation, and increased taxable value to help support local growth, efficiencies of uses and benefits that finance infrastructure improvements.

MLCT will oppose bills that:

1. Reduce the base budgets of any municipality or limit the ability of municipalities to increase local revenues to address local needs and demands.
2. Impose restrictions on voted levies or special districts that reduce the effectiveness and availability of local services as expected by each community and its visitors.
3. Reallocate, redirect, reclassify, or divert existing municipal revenue streams -- including entitlement share, tax increment financing, resort tax, or special assessments -- or reduce municipal revenues or levy capacity because eligible properties are not captured or participating in a state property tax relief program, without providing a replacement revenue source of equal or greater value.