



“Property taxes actually continue to provide almost half of tax revenue to state and local governments in Montana. And property taxes in Montana’s largest cities have risen faster than both inflation and income growth.”

# Property Taxes in Montana's Largest Cities

by Douglas J. Young

The property tax is the most hated tax in the United States. Property taxes are more likely to be involved in “tax revolts” than any other tax; Montana citizens’ 1986 attempt to freeze property taxes via Initiative 105 is a prime example. The property tax may also be the least understood tax, because it involves murky concepts like mill levies, appraisals (and reappraisals), exemptions, and taxable value rates.

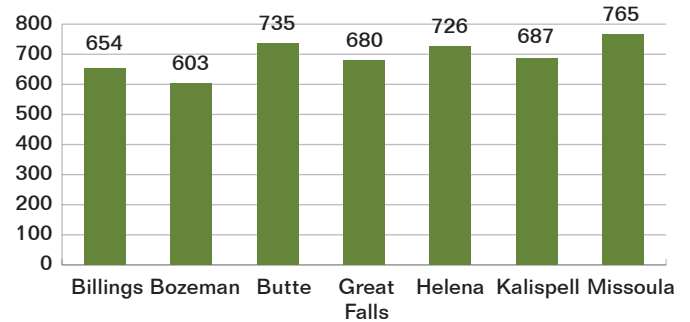
This article examines property taxes in Montana’s largest urban areas – Billings, Bozeman, Butte, Great Falls, Helena, Kalispell, and Missoula. Tax rates – also known as mill levies – are the highest in Missoula and lowest in Bozeman. Mill levies are affected by local government spending and the size of the tax base – the amount of taxable property in a community. Over the past 20 years, mill levies have risen dramatically, in large part because of decisions made by the Montana Legislature.

## Property Tax Mill Levies

Figure 1 displays the property tax mill levies in the seven largest cities in Montana. A “mill” is one one-thousandth (1/1,000). Mill levies are multiplied times the taxable value of property to determine the dollar value of property taxes. Therefore, higher mill levies result in higher property taxes on properties of equal value. Residents of Missoula pay the highest mill levies, while residents of Bozeman pay the lowest. Missoula’s mill levies are about 10 percent higher than the average of the seven cities, while Bozeman’s are about 13 percent lower.

Table 1 displays property tax mill levies by use. Missoula’s mill levies are the second highest at the county level and the

**Figure 1**  
Property Tax Mills Levied, Fiscal Year, 2012-13



Source: Montana Taxation 2012, p 54.

highest at the city level, while Gallatin County’s levy and Bozeman’s city levy are the lowest. Education levies are close to average. Butte, Great Falls, and Missoula also utilize special district levies to finance Urban Transportation and other services.

Many communities levy additional miscellaneous taxes for fire protection, parks, health, water, transportation, and special improvement districts (SIDs), which provide street lighting, sidewalks and curbs, sewers, and storm drains. These taxes appear on property tax bills but are not technically “mill levies.”

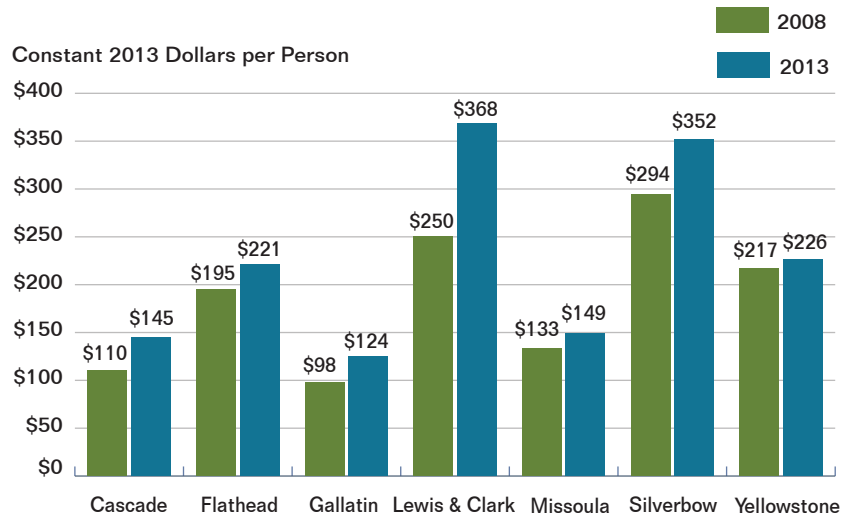
Figure 2 on page 4 summarizes these Miscellaneous Taxes and SIDs on a per-capita basis for fiscal years 2008 and 2013, including taxes levied by cities, counties, and various other districts. These taxes are highest in Lewis and Clark County and lowest in Gallatin County. Miscellaneous Taxes and SIDs increased an average of 22 percent in the last five years; Lewis

**Table 1**  
Mill Levies by Use

	County	City	County + City	General Education	University System	Special Districts	Totals
<b>Billings</b>	117	175	292	353	6	3	654
<b>Bozeman</b>	92	165	257	340	6		603
<b>Butte</b>	NA	NA	375	335	6	19	735
<b>Great Falls</b>	131	194	325	329	6	20	680
<b>Helena</b>	177	159	336	381	6	3	726
<b>Kalispell</b>	126	187	313	368	6		687
<b>Missoula</b>	145	241	386	354	6	20	765
<b>Average</b>	131	187	326	351	6	13	693

Source: Montana Taxation 2012, p 54.

**Figure 2**  
**Miscellaneous Taxes and SIDs, 2008 and 2013**



Source: Montana Taxation 2012 pp. 47-48.

and Clark County had the largest increase and Yellowstone County the smallest.

### Why Do Mill Levies Vary Around the State?

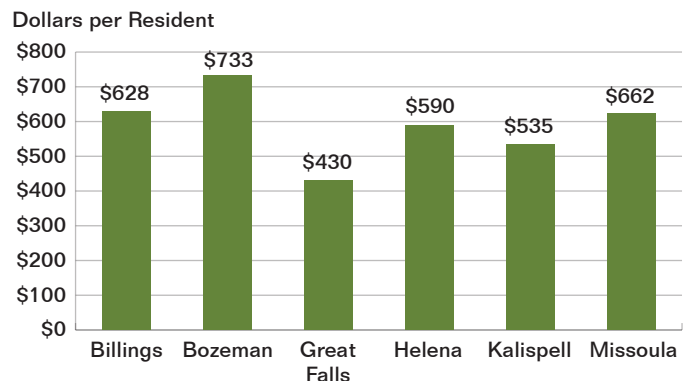
There are several reasons mill levies are higher in some communities and lower in others. City and county spending may be higher, requiring more taxes to pay for the spending. Another possible reason is that the property tax base may be smaller (larger), requiring a higher (lower) mill levy to raise the same amount of revenue. In addition, local governments may receive more or less in non-property tax revenues like grants or transfers from the state and federal governments. This last possibility is beyond the scope of this study, but spending and the tax base are considered below.

Total appropriated funds are a measure of government spending. Total appropriated funds include the General Fund and many other funds that cities may utilize, including Library Fund, Planning Fund, Comprehensive Insurance, Health Insurance, Public Employee Retirement System (PERS), Fire Fund, Police Retirement, Bond/Interest, and Miscellaneous other tax-supported funds. Fee-based services such as water and sewer are not included. Figure 3 displays total appropriated funds per person for the large cities in Montana. Three-year averages are used to smooth out year-to-year fluctuations in the data. Missoula's appropriated funds are the second highest among comparable cities, contributing to higher tax rates. On the other hand, Bozeman's spending is the highest of all, while it has the second lowest mill levies (Table 1, page 3). Similarly, Great Falls has the lowest spending, but its mill levies are the second highest. What gives here?

A big part of the answer is tax base. Figure 4 displays the mill value per person – a measure of the tax base – for the large Montana cities. The mill value per person is the number of dollars per person that is raised by levying one mill. Larger mill values indicate a larger tax base, so the same amount of revenue can be raised with a lower mill levy. Conversely, a lower mill value implies that a higher mill levy is required to raise an equal amount of revenue. Bozeman has the largest tax base by this measure and Great Falls the lowest. Thus, Bozeman can raise a lot of revenue while levying relatively few mills. Great Falls is in the opposite situation: the low tax base requires it to levy higher mills to finance relatively low spending.

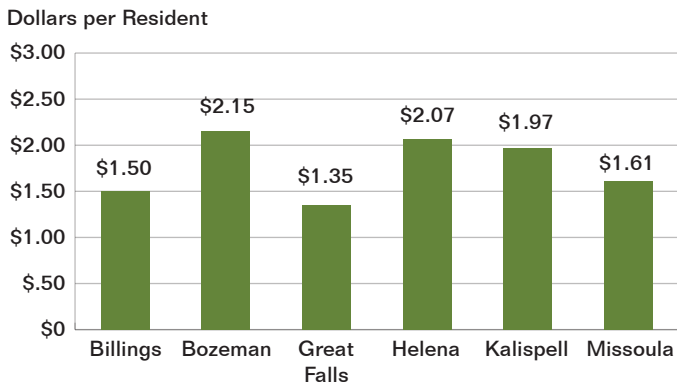
A similar relationship holds at the county level. Total appropriated funds by Missoula County are the highest among the large Montana counties – about 28 percent above

**Figure 3**  
**Total Appropriated Funds per Person: Cities**  
**3-Year Average, 2011-2013**



Source: Local Government Center, Montana State University.

**Figure 4**  
**Mill Value per Person: Cities**  
**3-Year Averages, 2011-2013**



Source: Local Government Center, Montana State University.

the six-county average – and therefore are one reason that Missoula County’s mill levy is the second highest. Total appropriated funds are the lowest in Cascade County, but the mill levy is average. Why doesn’t low spending in Cascade County translate into a low mill levy? Again, the answer is the tax base.

Cascade County has the smallest mill value per person, so residents must pay average mill levies just to obtain the lowest funding for county services. At the other extreme, the highest mill value is in Gallatin County, so residents there enjoy near-average spending on county services while paying the lowest county mill levies. Missoula County’s mill value is about 13 percent below average, so Missoula residents pay higher mill levies both because spending is high and because the tax base is relatively low.

Summarizing this section, city and county mill levies depend on both government spending and the tax base. Higher spending contributes to higher mill levies, while a larger tax base (mill value) allows lower mill levies.

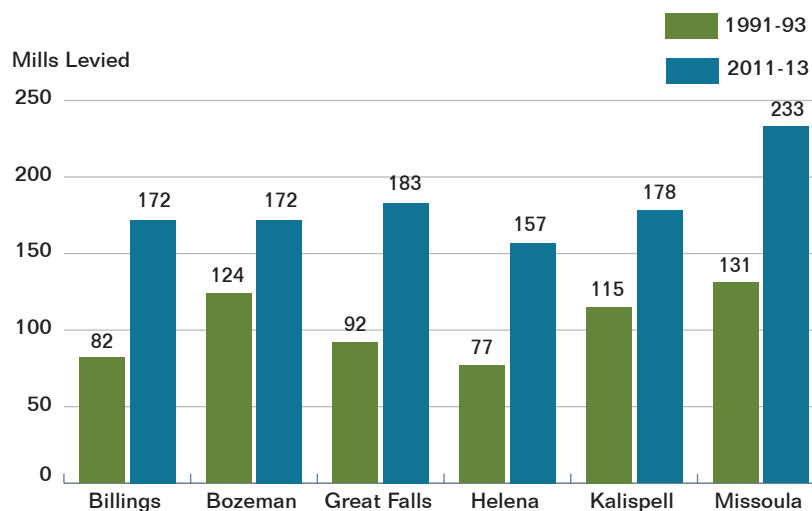
### Property Taxes over Two Decades

This section describes how property taxes have changed over the past two decades. Specifically, we consider whether mill levies have risen, how mill values have changed, and whether property taxes have kept up with inflation and growth in population and income.

Figure 5 displays total mills levied by cities in 1991-93 and 2011-13. Two points are noteworthy. First, Missoula’s mill levy was the highest among the cities in both the earlier and later periods. Similarly, Helena’s mill levy was the lowest in both periods. In other words, relatively high or low mill levies are not new. Second, mill levies have increased a great deal in all of these cities. Mill levies doubled in Billings, Great Falls, and Helena. Bozeman had the lowest percentage increase: 39 percent.

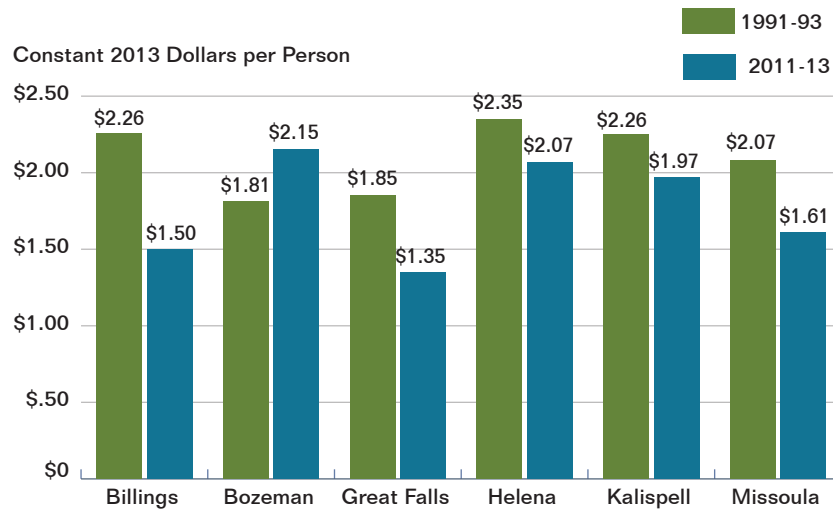
One reason that mill levies have increased is that tax bases have not increased as fast as inflation and population growth. Thus, higher mill levies are required just to maintain the same level of services. Figure 6 displays the value of a mill per person, adjusted for inflation, for the major cities. For example, one mill levied in Billings in 1991-93 raised an average of \$2.26 per person per year, measured in dollars of 2013 purchasing power. One mill levied in 2011-13 raised an average of \$1.50 per person per year, a decrease of 34 percent.

**Figure 5**  
**Total Mills Levied by Cities, 3-Year Averages**



Source: Local Government Center, Montana State University.

**Figure 6**  
**Real Mill Values per Person: Cities: 3-Year Averages**



Source: Local Government Center, Montana State University.

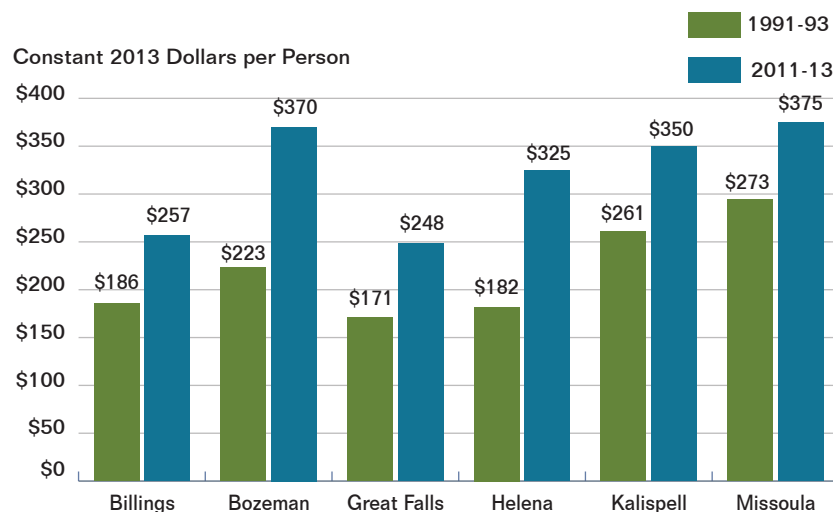
All of the cities suffered declines in the real value of a mill per person, except Bozeman.

Why did the value of a mill fail to keep up with population growth and inflation? The short answer is that the Montana Legislature repeatedly decreased the taxable value of property – especially residential and commercial property – during the past two decades. These actions were taken to offset the dramatic rise in property values that occurred during the real estate boom of the 1990s and first half of the 2000s. If no adjustments had been made, considerable shifting among different types of property would have occurred. However, because these actions offset essentially all of the appreciation in market value, local governments could not continue to

raise the same amount of revenue in real terms without increasing tax rates.

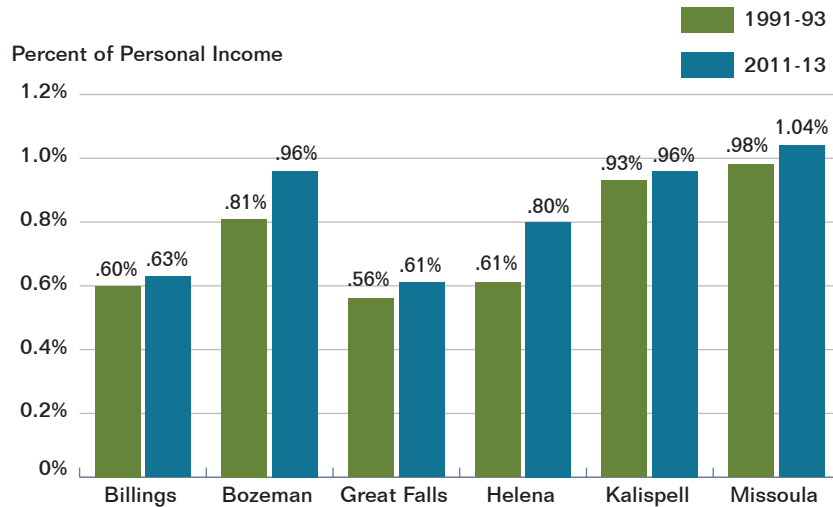
So, with rising mill levies but declining real mill values, what happened to real property taxes per person? The answer, as displayed in Figure 7, is that property taxes rose – by an average of 45 percent. The largest percentage increase was in Helena, from \$182 to \$325 per person, or 79 percent. The smallest percentage increase was in Kalispell, from \$261 to \$350 per person, or 34 percent. The relative ranking of the cities was almost unchanged: Missoula had the highest real property taxes per person in both the earlier and later periods, and Great Falls had the lowest.

**Figure 7**  
**Real City Property Taxes per Person, 3-Year Averages**



Source: Local Government Center, Montana State University.

**Figure 8**  
**City Property Taxes as Percent of Income, 3-Year Averages**



Source: Local Government Center, Montana State University.

Another way to present property taxes is as a percentage of income, which reflects ability to pay. Personal income is a broad measure, which includes not only wage and salary income, but also employer-provided benefits such as health insurance and retirement contributions, self-employment income, capital income (rents, dividends, interest), and transfer payments such as Social Security benefits. In recent years, personal income per person has been highest in Yellowstone County (\$40,817) and lowest in Missoula County (\$36,090).

Figure 8 displays property taxes as a percentage of income. City property taxes rose as a percentage of income in all of the major cities. The largest change was in Helena, where property taxes rose from 0.61 percent of income to 0.80 percent. Property taxes grew the least in Kalispell, from 0.93 percent of income to 0.96 percent. Similar increases occurred at the county level. The largest increase was in Lewis and Clark County (from 0.72 percent of income to 0.96 percent), and the smallest increase was in Missoula County (from 0.86 percent of income to 0.90 percent).

### Conclusions, Cautions, and Caveats

Almost 30 years ago, Montana voters passed Initiative 105 with the apparent intention of freezing property taxes on residential and other property. Proponents of the measure seemed to favor fundamental tax reform, arguing that “Montana relies too much on property taxes and not enough on other sources of revenue.” Whether reform has taken place

may be in the eyes of the beholder: Although property taxes have declined as a share of total revenue for state and local governments in Montana, this is mainly because non-tax revenues – especially revenue from the federal government and fees such as university tuition – have grown more rapidly. Property taxes actually continue to provide almost half of tax revenue to state and local governments in Montana. And property taxes in Montana’s largest cities have risen faster than both inflation and income growth.

Higher property taxes do not necessarily imply they are “too” high. Although no one enjoys paying property taxes, they are a key element in financing government services. In addition, some mill levies require voter approval at the ballot box. Even levies not requiring voter approval – so-called “permissive” levies – and their associated spending require approval by elected officials who must ultimately answer to the electorate. At the same time, higher taxes reduce disposable income of property owners and can adversely affect residential and business location decisions and job creation. Thus, whether property taxes are “too” high depends on a balancing of the costs (taxes) and benefits of the services provided. □

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