STATE REVENUE AND TAX POLICY

Constitutional Initiative 121: Bad Tax Policy Does Not Belong in Montana’s Constitution

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CI-121 is a complicated and confusing proposal that will change Montana’s Constitution. It will treat Montana taxpayers differently depending on where someone lives and will have far-reaching repercussions for Montana communities. Once in the constitution, it will be almost impossible to remove, even when it ends up hurting Montanans.

**CI-121 could result in losing as much as $265 million in state and local revenue.**
- From Great Falls to Glendive, Montana communities need local taxes to fund their schools, fire departments, and public safety.
- CI-121 could result in a loss of as much as $235 million for local governments and local schools, and the state would lose $30 million per year in revenue, funds that currently go to K-12 schools.
- Local schools, cities, and counties will have little choice but to shift property taxes to small businesses, farmers, ranchers, and other property taxpayers.

**CI-121 will cut funding for schools, hurting over 89 school districts – big and small.**
- Our schools are largely funded by property tax revenues flowing through the state and school budgets, so schools are likely to lose the lion's share of the $265 million in cuts.
- After California passed a similar measure (Proposition 13), local property tax funding dropped nearly 60 percent, and K-12 spending fell to some of the lowest in the nation.

**CI-121 is a massive tax handout to wealthy, out-of-state property owners.**
- Currently, Montana taxes homes over $1.5 million at a higher rate.
- Out-of-staters own over 70 percent of those expensive homes. Because CI-121 caps property taxes at 1 percent of value, these high-value homes would see some of the largest tax cuts.
- To make it simple - those with the most expensive homes will get the biggest tax break.

**CI-121 is unfair and will treat Montana homeowners differently.**
- This Constitutional change will have a huge impact on urban areas, like Billings and Missoula, while providing little tax relief, if anything, for everyone else.
- In California post-Proposition 13, homeowners living in wealthier, coastal California cities received property tax reductions averaging in the thousands of dollars while those living inland received property tax reductions averaging one-tenth as much.
- CI-121 will penalize new homeowners, including families looking to buy their first home and seniors needing to downsize.
- By capping property taxes at 2019 values, this policy will incentivize people to hold onto homes. For homes that do turn over, new homeowners will have higher taxes than their neighbors, making it even harder for Montanans to afford buying a home.

Leaders in Montana need to address property taxes but adding terrible tax policy into our Constitution is not the way. CI-121 is confusing, will hurt our local schools, will make Montanan’s housing crisis worse, and will cause Montana problems for generations.
The revenue loss from CI-121 stems from two pieces of the initiative. First, CI-121 rolls appraised values back to 2019 and limits the increase in appraised value to 2 percent per year (or inflation, whichever is lower). This artificially low valuation would result in the loss of more than $30 million per year in state revenue used to fund local schools. Schools and local governments, which rely much more heavily on property taxes, could potentially see revenue reductions of $150 million annually.

Second, CI-121 sets a maximum tax rate for residential properties at 1 percent of appraised value. Mathematically, this would force a mill cap on the combined number of mills that a local school district, city or town, and county could levy. Between 12 and 14 percent of levy districts in the state are currently above that cap, including both larger Montana communities and dozens of rural communities, where property taxes cover schools, open lands, and infrastructure.

The full list of impacted school districts is on file with MBPC.

In 2020, 58 percent of all property taxes were tied to funding for K-12 schools. This includes both local school mills and 90 statewide mills tied to guaranteed tax base.

Proposition 13 was passed in California in 1979. Similar to CI-121, Proposition 13 capped property taxes at 1 percent and required that properties be assessed at market value at the time of sale plus inflation or 2 percent growth each year. For more information, please see California State Board of Equalization and National Bureau of Economic Research.

Residential homes valued over $1.5 million in Montana are currently taxed at 1.4 x the 1.35% tax rate on other residential property. Mathematically, the 1 percent tax limit on assessed value in the ballot initiative results in levy districts with residential properties valued over $1.5 million with a mill cap varying from 556 up to the 740 cap in all other levy districts. This in addition to setting values at 2019 levels plus inflation results in higher value property owners receiving a larger benefit from CI-121.