Diversification in Montana county government revenue systems.

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DIVERSIFICATION IN MONTANA COUNTY GOVERNMENT REVENUE SYSTEMS

By

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B. A., University of Montana, 1989

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for the degree of
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Approved by

Chairperson, Board of Examiners

Dean, Graduate School

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This paper is dedicated to my family and friends without whom none of this would have been possible. I would particularly like to thank; my friend and mentor Dr. Patrick B. Edgar for his thoughtful guidance, Tim Shields, Ed Zink, Markus Courtney, Suzanne Simpson, and Galen Hollenbaugh for their friendship and support.
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CHAPTER I
INTRODUCTION

Dramatic changes in the intergovernmental fiscal landscape over the last decade have placed Montana counties in somewhat of a fiscal dilemma. Counties are increasingly under pressure from other governments, the courts, and residents to increase county expenditures. Yet, wrenching changes in county government finance have left counties virtually incapable of responding to increased demands. According to a recent study, county officials overwhelmingly feel that the current system of county finance is inadequate to meet the demands currently being made on Montana counties.¹ This inadequacy stems from a variety of sources, not the least of which are federal decentralization, fiscal limits, increased federal and state mandates for services, and a declining property tax base. The search for solutions has prompted county officials to request statutory authority to diversify their current system of finance.

Revenue diversification is often suggested as a way to improve the stability, equity, and efficiency of local revenue systems. Yet, in rural states like Montana, local governments have faced formidable statutory and economic

barriers to revenue diversification. Although they have managed to reduce their reliance on property taxes, most rural local governments still collect almost 60 percent of their own-source revenue from property taxes. In contrast, counties in more urban states have reduced their reliance on property taxes to under 50 percent.

**Major Research Questions**

It is the purpose of this project to explore the possibilities and problems of revenue diversification in Montana county government finance. Specifically, this study will examine:

1) The structural and fiscal parameters of diversifying the current system of county finance.

2) Whether county officials, namely County Commissioners, view revenue diversification as necessary.

3) If revenue diversification is viewed as necessary, then what degree of expanded statutory authority do county officials view as essential? That is, what methods of raising revenue do county officials prefer: expanded authority over existing revenue sources; completely new methods of

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generating revenue; or some combination of the two?

**Study Framework**

Since revenue diversification is a very complex policy issue, a five part framework was utilized as an analytical base for the study. The framework is as follows:

1. **Establishing the Context.** A description of what events have served as an impetus for counties to request authority to diversify their revenue systems is developed.

2. **Laying out the Alternatives.** The alternative methods of financing county governments are discussed, with a description of the advantages and disadvantages of each.

3. **Predicting the Consequences.** The consequences and implications of each alternative method of finance are analyzed.

4. **Valuing the Alternatives.** Each of the alternatives is then valued, recognizing that inevitably some alternative will be superior with respect to certain objectives and inferior with respect to others.

5. **Making the Choice.** Based on the forgoing analysis, the preferred courses of action are identified.³

As the above framework suggests, this study was developed to address revenue diversification in a relatively broad context. The question of revenue diversification is a complex, macro policy issue. While the individual nuances of revenue diversification are important, they are the

material of a completely different type of study. The primary purpose of this study is to explore the general possibilities of revenue diversification. It is intended to be a practical first step leading to a more protracted, in-depth analysis of the issue. The macro questions must be developed before the more micro issues of revenue diversification can be addressed.

**Study and Report Design**

The study itself is attitudinal/interpretive in nature. The attitudinal part of the study focuses on exploratory analysis of the attitudes of Montana county commissioners. County commissioners were selected as the unit of analysis because of their position in county government. In all Montana counties, county commissioners have overall fiscal responsibility for the county. Therefore, analysis designed to explore their attitudes is believed to be of practical significance.

Analysis developed in the study is based on an attitudinal survey of Montana county commissioners. The questions utilized in the survey were developed using a three part framework introduced by Pamela L. Alreck and
Robert B. Settle. The framework consists of the following components:

1. **Knowledge**: what the individual "knows" or "believes" about the topic;
2. **Feelings**: how the person "feels" about the topic and how it is valued; and
3. **Action**: the likelihood that the individual will take "action" based on their attitudes.

As Alreck and Settle suggest, a good survey of attitudes must explore the knowledge, feelings, and actions of the individual being studied. In this case, county commissioners were asked questions designed to explore a separate component of attitudes. Since there is an implicit understanding that the sampling units have intimate knowledge of the issue being studied, the majority of the questions concentrated on the feeling and action components described by Alreck and Settle.

The interpretive part of the study focuses on the substantive questions involved with revenue diversification. The narrative will consist primarily of descriptions of the major results of the survey. However, additional analysis, information, insight, and ideas quite aside from the purely tabular and graphical portrayal of the results will also be provided. These will be based on numerical analysis of county budget data, studied judgement, and basic intuition.

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rather than concrete survey results. The final product will seek to provide insights for future actions in Montana counties. While not comprehensive in nature these recommendations should lead to some starting points in public policy development. It is clear from the conditions previously identified in Montana counties that some policy revision is needed.\footnote{Patrick B. Edgar, "Fiscal Limits in Montana: How Montana Counties Learn to Cope" (D.P.A. diss., University of Southern California, 1991), 113.}
CHAPTER II
ESTABLISHING THE STRUCTURAL CONTEXT

Revenue diversification in county government finance will be a function of the constitutional and statutory structure of Montana counties. The Montana Constitution and state statutes present a number of structural opportunities and barriers for fiscal self determination at the county level. It is therefore important that a structural context for revenue diversification be developed before the more substantive issues of diversification are discussed. Much of the following discussion is based on material found in the Montana County Commissioner’s Handbook and County Government Structure: A State by State Report, which were published by the Montana Association of Counties (MACo) and the National Association of Counties (NACo), respectively. Each of these reports contains detailed information about county governments in the state of Montana. While the MACo report focuses exclusively on Montana counties, the NACo study includes material on county governments nationwide. The NACo report also contains an excellent discussion concerning local government self determination or home rule.

Most of the information included in these two documents was drawn from the state constitution, legal codes, university publications, elected officials, and various other sources. The purpose of this chapter is to establish
a base line of understanding that will serve as stepping off point for the rest of the presentation. Moreover, it is intended to highlight the structural limitations and opportunities facing county governments as they try to deal with an increasingly uncertain future.

**Montana Counties: An Overview**

There are 56 county governments in the state of Montana; of which 53 are general law counties, with the remaining three opting for other forms of county government. The populations of Montana counties range from just under 500 in Petroleum county to over 115,000 residents in Yellowstone county. Prior to the adoption of the 1972 Constitution, counties were severely limited in the powers they could exercise. Counties had no legislative authority of their own. Even if the legislature passed a law granting a county it had a certain power, the county still could not act unless the law specifically told the county how the power could be exercised.\(^1\) With the adoption of the state constitution in 1972, counties were given legislative, administrative as well as other power provided or implied by law.\(^2\) As will be discussed later, they were also given the

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\(^2\) Montana State Constitution, Art. XI, Sec 4(1) (b).
authority to adopt optional forms of county government structure.

While the power and role of county governments has increased over the last decade and a half, Montana counties are still viewed as an administrative arm of the state wielding only those powers granted by the state constitution and laws. Montana counties are in every sense creatures of the state constitution and state statues. Their powers are derivative and well defined. And, for most counties, virtually all they do and how they must do it is controlled by the state government. This is particularly true in the area of county finance. While, generally speaking, Montana counties conduct their jurisdictions' budget in a variety of manners, state codes stipulate limits on these practices.3

State control of county budgets begins with simple matters like establishing the fiscal year for counties and moves on to delineate almost every aspect of county budgeting. For example, state law establishes guidelines for appropriations, expenditure limits, bond issuance, payment of outstanding warrants, investment of county money, and tax and revenue anticipation notes. State code also outlines the budgetary calendar for county governments. The following examples illustrate state control of county budgeting.

**County Expenditures**

On the expenditure side of county budgets, Montana Code defines how budget outlays are to be incurred and remanded. State law establishes broad expenditure guidelines for county governments. Expenditures are divided into categorical funds for each county. See Figure 2.1 below.

<table>
<thead>
<tr>
<th>General Fund</th>
<th>County Road Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Poor Fund</td>
<td>County District Court</td>
</tr>
<tr>
<td>County Bridge Fund</td>
<td>County Weed Fund</td>
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<tr>
<td>County Fair Fund</td>
<td>County Library Fund</td>
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<td>County Extension Fund</td>
<td>County Airport Fund</td>
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<tr>
<td>Health and Sanitation Fund</td>
<td>City-County Planning Fund</td>
</tr>
<tr>
<td>Hospital Fund</td>
<td>Bond Interest Fund</td>
</tr>
<tr>
<td>Recreational-Senior Citizens</td>
<td>Comprehensive Insurance</td>
</tr>
</tbody>
</table>


While revenues may be moved from one category to another within a fund, Code stipulates that monies cannot be moved between funds. Since use of a fund is more restrictive, many counties avoid using all the funds provided by law because they diminish the allocative flexibility of county officials. Montana Codes also establish guidelines for exceeding budget limitations. During the budgeting process, counties can amend a final budget if shortfalls occur that will result in expenditures exceeding revenues. However, should budget limitations be knowingly exceeded by making

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4 Edgar, 67.
expenditures, incurring liabilities or issuing warrants, the official causing the liability is liable for it personally.\(^5\) The county attorney has the duty to file suit to recover the penalty which is the excess amount of the claim or warrant issued; a not so subtle warning for county officials to maintain a balanced budget. While the applicability of this personal liability clause is relatively vague, it is a particularly interesting restriction, given the current fiscal difficulties many Montana counties are now facing.

**County Revenues**

In no other budgetary area are counties more restricted in their authority and power than in the area of revenue generation. A brief discussion of county revenues, namely the property tax, provides one of the clearest illustrations of the integration of power and authority between the state and the counties.

Property taxation has historically been the revenue mainstay of Montana counties. While it has undergone extensive changes over the last decade, the property tax remains the largest, single source of county revenue. Although property taxes are 95\% local taxes, the state is responsible for the assessment and revaluation of all property within the state and it also establishes the

\(^5\) Section 7-6-2323, MCA.
statutory tax rate for all classes of property.

Although most real estate, property improvements, and personal property are the responsibility of the counties, the rate of tax on these classes of property and the establishment of the actual classes is a function of the state Legislature. The Property Assessment Division of the Montana Department of Revenue is responsible for the appraisal, assessment, and equalization of the value of all property in the state for the purpose of taxation. Also, property that is single and continuous and is in more than one county (such as railroads, telephone lines, powerlines and pipelines) is centrally assessed by the state's Property Assessment Division. The valuation is then apportioned to counties and other jurisdictions on a millage basis or other basis judged to be "reasonable and proper." The state Department of Revenue is also required to administer and supervise a program for revaluation every five years of all taxable property within the state. These "reappraisal" cycles are designed to insure that all property is taxed on current structural and market information.

A quick examination of the how property taxes are

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7 Montana Department of Revenue, 56.

8 Montana Department of Revenue, 56.
calculated illustrates the integration of state authority in county finance. Property tax liability is determined based on the market value of the property, the statutory tax rate for the class of property to which it belongs, and the mill levy in the jurisdiction in which the property is located. Property tax liability is calculated in the following way:

\[
\text{Market Value} \times \text{Statutory Tax Rate} = \text{Taxable Valuation} \\
\text{Taxable Valuation} \times \text{Mill Levy} = \text{Property Tax Liability}
\]

Essentially, there are two multipliers in this calculation: the statutory tax rate, which is established by the legislature; and the mill levy, which is established by the local government. Although counties are responsible for the mill levies within their jurisdiction, their ultimate authority over the levies is restricted by state statute. Counties are not allowed to surpass an established level of mills in each budget fund used by the county. For example, the board of county commissioners may impose a general fund levy up to, but not exceeding, 25 mills on each dollar of taxable valuation for counties of the first, second, and third classes, and up to 27 mills for other counties. Counties can exceed these limits. But, only after the additional levy has been submitted to and approved by the

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9 The statutory tax rate is determined by classifying the property into one of seventeen property classifications.

10 A mill is a tenth of a cent, so a mill levy of 344.25 translates to $344.25 of taxable valuation.
county voters. Even then, state codes stipulate that the additional mill levy may be used for no longer than two years.\footnote{Section 7-6-2531, MCA.}  

**Final Consideration**

As these selective examples suggest, state control over county budgeting is prolific. While counties generally have more fiscal discretion than they used to have, their current budgeting process is still nothing short of a financial straightjacket. This type of tight fiscal control serves to perpetuate the role of counties as an administrative arm of the state and further obscures the problems that counties are now facing. In a time when counties are being called upon to play an enhanced governmental role, tight fiscal control leads to an inability to respond to fiscal pressures. As counties continue to receive pressure from other governments, the courts, and county residents they will need structural, functional, and fiscal flexibility to meet these demands. This flexibly is embodied in the principle of home rule or local self-determination.

**Home Rule and Self-Government Authority**

Home rule should be a serious contender in the search for solutions to problems facing Montana counties. Home rule authority would allow counties maximal structural,
functional, and fiscal flexibility to respond to the growing demands placed on Montana counties. In the case of revenue diversification, fiscal home rule is an essential first step. Montana counties currently do not have the authority to diversify their revenue systems. While they are not expressly denied this authority, it must first be delegated to them by the state legislature. Therefore an explicit grant of fiscal self-government authority must precede any attempts at county revenue diversification. Although the state does not allow fiscal home rule, it does offer Montana counties the opportunity to implement a variety of non-fiscal, self-government powers. These non-fiscal powers offer counties a unique opportunity to restructure the operations of county government.

The following discussion of home rule rounds out the structural description of Montana counties. It is intended to be a descriptive statement of what is and, more importantly for the purposes of this study, what should be.

**Description of Home Rule**

A central concept in contemporary attempts to reform county governments is home rule authority and the various processes necessary to implement it. Broadly defined, home rule involves a grant of authority to counties that allows
for "local self-determination." As mentioned, counties, unlike the state, have only derivative powers. The purpose of home rule or "local self-government" is to give counties greater authority over certain local matters. The powers of self government are generally granted in three operational domains: structural, functional, and fiscal. In Montana, counties are offered structural as well as limited functional authority, but are explicitly denied fiscal authority. Additionally, home rule powers are granted to counties in either of two configurations: charter government and/or "optional forms." A brief description of each follows.

**Structural Domain**

The 1972 Montana Constitution initiated a new era of governmental power for the state's county governments. Self-government or home rule powers are made available to those local governments desiring to expand their discretion to govern. Although the authorization for self-government

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13 Salant, 127.

power is found in the state constitution, it is the state legislature that determines the availability, means of adoption, and scope of these powers.¹⁵

**Self government powers**

Counties with self government powers are granted all powers not already provided by the constitution, statutes, or local charter.¹⁶ Self-government powers may be adopted by any type of county government except the Commission form. These powers allow counties to perform the same services as general law counties, but without limitations on how the services are to be performed unless the law specifically provides exceptions. As a general rule, self-government powers are vested in the local legislative body and may be exercised by ordinance or resolution. Also, the authority of a county with self-government powers is to be liberally construed in the case of a legal challenge. If there is any question about whether a county government with self-government authority possesses a certain power, all reasonable doubts will be resolved in favor the county.¹⁷

The Montana Legislature was quite liberal in designing the methods for acquiring self-government powers. A county

¹⁵ Lopach, 226.


¹⁷ Section 7-1-106, MCA.
adopting a charter automatically receives self-government powers, and self government powers can also be part of an optional form of government except for the commission form.\textsuperscript{18} A charter is a document which is framed and approved locally and serves as the county’s "little constitution."\textsuperscript{19} It is a written document defining the powers, structure, rights, and duties of a county. Charter self-government powers in Montana are granted by Article XI of the state constitution. Generally, charter provisions establishing the executive and legislative structure are more flexible than statutory provisions.\textsuperscript{20} In most cases, an appropriately framed charter can provide a great deal of freedom within limited constraints for counties to create an entirely new structure of county government and/or revamp service delivery.

The Montana Constitution also provides for optional forms of government. This provision allows counties to select from a variety of organizational arrangements, including: commission-executive, commission-manager, commission, commission-chairperson, and charter forms. A county does not have to opt for a charter form of government in order to have self-government powers. Each of the alternatives, with the exception of commission form, can

\begin{itemize}
\item \textsuperscript{18} Lopach, 226.
\item \textsuperscript{19} Salant, 127.
\item \textsuperscript{20} Salant, 70.
\end{itemize}
also have self-government authority. A charter form, however, is traditionally viewed as a broader tool for achieving greater levels of self-government authority.

While the legislature makes home rule authority available to counties, it also places a number of specific limitations on the exercise of self-government powers. As with other state restrictions these limitations are numerous and well defined. Although these limitations are important, they have been knowingly excluded from this discussion. This was believed to be necessary because they tend to confound attempts to discuss the importance of structural home rule to Montana counties. Suffice it to say that in several instances the limitations placed on self-government power make it seem like there is no real advantage in adopting them. There are, however, substantial advantages for Montana counties considering changing their form of government. These are discussed in the following segment.

**Argument for Structural Reform**

The central argument for structural change in Montana counties is based on the demographic and geopolitical diversity of counties. Different counties operate under different sets of circumstances and one form of government (commission form) is not suitable for all. In Montana, multiple pressures from various sources have increased the complexity of county operations, which in turn has increased demands on already inadequate resources. In many cases
these pressures have focused attention on the inefficiency, rigidity, and unresponsiveness of the traditional form of county government.

Structural reform would give counties the flexibility, centralization, and professionalization necessary to function successfully in a rapidly changing society. Of the structural arrangements offered to Montana counties, the charter form of government seems to offer the greatest opportunity for counties to lessen their dependence on the state and to increase their discretion to govern in local matters. As concluded in *Montana County Commissioner's Handbook*, it is evident that charter governments have a great potential for making county government more efficient and responsive to the needs of the citizens. Charter governments do have limitations as to the extent of their independence, but there is still enough flexibility available in administering the charter government to make it a viable and desirable form of county government. In an era of rising county costs and dwindling local resources, the charter government offers counties a unique opportunity to restructure county government. Restructuring that would give counties the flexibility they need to meet future demands for county services and expenditures.

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**Functional Domain**

Montana counties also have limited functional home rule authority. The 1972 Constitution directly authorized local governments to cooperate with other governmental entities with virtually no restrictions. The Constitution specifically provides that, unless prohibited by law or local charter, a local government may:

1. **cooperate** in the exercise of any function, power, or responsibility with one or more other local governments, school districts, the state, or the federal government;

2. **share** services of any officer or facilities with one or more other local governments, school districts, the state, or the federal government; and

3. **transfer or delegate** any function, power, responsibility or duty of any officer to one or more other local governments, school districts, the state, or the federal government.\(^{22}\)

This constitutional provision is significant for Montana counties. It not only allows counties to establish cooperative relationships with other local governments, but gives them the flexibility to adapt and respond to new demands and increasingly complex issues. Functional home rule authority allows counties to carry out joint functions, provide a joint services and consolidate functions between or among other local units.

Although counties have entered into cooperative

\(^{22}\) Montana State Constitution, Art. XI, sec 7(1).
agreements with the state and the federal government, most intergovernmental agreements made before and after the 1972 authorization have generally been made between local government units. In most cases counties are motivated primarily by considerations of efficiency, convenience, and economy. Of the operational areas of home rule authority offered to Montana counties, the functional domain seems to be the one area that has received widespread use.

**Fiscal Domain**

While Montana counties have structural and limited functional home rule authority, they are expressly denied fiscal home rule authority. Fiscal home rule, as traditionally defined, involves greater county authority over taxation and long term debt issuance. Montana law stipulates that while local governments are not prohibited from exercising the power to authorize a variety of taxes, including a local sales and income tax, they must first be expressly delegated that authority by statute. Although the counties have asked, several times, for increased fiscal discretion, such a grant of local authority has not been forthcoming coming from the state legislature.

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23 Lopach, 226.


25 Section 7-1-112, MCA.
**Final Considerations**

Home rule authority is a serious contender in the search for solutions to the difficulties many Montana counties are now facing. Although county governments are given the opportunity to implement a variety of structural changes, few counties have taken advantage of the state's grant of structural home rule authority. This is unfortunate given the possible efficiency gains of restructuring a county government.

Of the structural arrangements offered by the state, the charter form of government offers the greatest opportunities for Montana counties. County use of functional home rule arrangements, like intergovernmental service contracts and joint service agreements, has been widespread since their authorization in 1972. Generally, functional home rule authority has been used to achieve economies of scale, and counties are usually the recipients. These type of arrangements are important because they give counties the flexibility to respond to the increasing demands for services.

Although counties are given explicit grants of structural and functional home rule authority, they are denied the authority to diversify their revenue systems. Fiscal home rule is important because in can provide counties with budgetary stability through financial flexibility. In the case of Montana counties, the ability
to adjust revenues and expenditures to changing circumstances is critical to county viability. This is especially true at a time when counties are being pressured to deal with increased demands for county expenditures which they are increasingly unable to match with locally generated revenues. This lack of fiscal home rule is the impetus for this study. The following chapters will describe why fiscal home rule is necessary, what alternatives are available, and finally what sort of response strategy would be appropriate for Montana counties.
CHAPTER III

ESTABLISHING THE FISCAL CONTEXT

Any future movement toward local self determination will be a function of the adequacy of the current system of county finance. As stated in the beginning of this study, Montana counties are increasingly under pressure from other governments, the courts, and residents to increase county expenditures. Yet, serious changes in the fiscal capacity of counties have made it virtually impossible for them to respond to these increased demands. The following discussion is divided into two sections. The first will address the adequacy of the current system of county finance, focusing on the perceptions of the county commissioners and an analysis of the fiscal capacity of Montana counties. The second section is dedicated to looking at events that have affected the fiscal well being of counties statewide.

SECTION I

ADEQUACY OF THE CURRENT SYSTEM

In a 1989 study Patrick Edgar discovered that the current system of county finance is widely perceived by county officials to be inadequate to meet demands placed on
county governments. As a follow up to this finding, county commissioners were again asked about how they perceived the current system of county finance.

Generally, the commissioners were not very optimistic about the current system of county finance. Nearly 60% of the respondents felt that the current system was not adequate to meet the demands of county residents. Another 37% felt that the system was marginal at best.

<table>
<thead>
<tr>
<th>Table 3.1 Adequacy of County System of Finance</th>
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<tbody>
<tr>
<td>Current system is not adequate</td>
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<tr>
<td>---------------------------------</td>
</tr>
<tr>
<td>Current system is marginal</td>
</tr>
<tr>
<td>Current system is adequate</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

It seems that the commissioners lack of enthusiasm over the current system of county finance is in no small part related to the fiscal condition of their counties. In most cases, those who indicated that they felt the current system was inadequate were from counties that had experienced a decline in property tax revenue. While most of these respondents indicated that their county had increased user fees and charges to make up for lost property tax revenue, it is was

clear increases in non-tax revenues did not cover aggregate losses in property tax revenue. In general, there seemed to be a clear indication on the part of respondents that the fiscal capacity of county governments statewide has been seriously eroded.

The perception that the current system is inadequate is important given that the commissioners will be responsible for implementing future changes. Clearly, those who think the current system is inadequate will be more inclined to push for change. As a practical matter, however, making a strong case for local fiscal home rule will depend on the extent to which the fiscal capacity of Montana counties has actually eroded. Therefore, a quantitative analysis of the fiscal capacity of Montana counties is in order.

Methods of Assessing Fiscal Capacity

Fiscal capacity is an indicator of the relative fiscal well being of a government. In the context of counties, fiscal capacity is the potential ability of a county to raise revenue from its own sources relative to the cost of its service responsibilities, allowing for revenues from other governments.² In keeping with the broad design of this study, aggregate revenue and expenditure data was utilized to examine the fiscal capacity of Montana counties.

Since fiscal capacity is essentially a measure of a county's ability to match revenues to expenditures, comparing aggregate expenditures with aggregate revenues should serve as a good general indicator of the fiscal well being of Montana counties. Fundamental shifts in revenues and expenditures would indicate a change in the fiscal capacity of counties. It should be noted that this analysis is intended to be an approximate measure of fiscal capacity. Its sole purpose is to explore whether the current system of county finance is adequate to meet the demands of county residents. It is not intended to be a definitive statement, but simply a starting point for further analysis.

To arrive at the figures used to measure fiscal capacity, budget summary documents published by Montana Tax Foundation (MonTax) and Montana Association of Counties (MACO) were consulted. The MonTax materials contain information about the tax system in Montana, with particular emphasis on property taxation. These materials were gathered with the cooperation of the Montana Department of Revenue, the Governor's Office of Budget and Program Planning, and the Office of Superintendent of Public Instruction. In addition, officials of all county and local governments contributed local information. The Montana

Association of Counties budget reports contain detailed budget summary data for county governments statewide. These reports include revenue and expenditure data for each specific budget fund utilized by county governments. The Montana County Budget Reports are prepared by the MACO staff, in cooperation with the counties and the Montana Department of Commerce. According to the Association, these reports are not comprehensive but are selective on the basis of their significant impact upon county taxes.

Analysis

An analysis on aggregate revenue and expenditures shows that total county expenditures have outpaced total revenues in every fiscal year since 1986. Between 1986 and 1991, total county expenditures increased by $4.4 million, an

![Figure 3.1](image-url)

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increase of just under 2.0%. Concurrently, total revenues declined by over $7.9 million, representing an actual revenue loss of 3.47% for the same five year period. As figure 3.1 shows, counties have experienced a loss of $31.9 million in fiscal capacity (ability to match revenues to expenditures) since 1986. Adjusting for inflation this figure approaches $91.0 million in purchasing power.

Additional analysis of revenue and expenditure data for specific budget fund categories provided further evidence of an erosion in the fiscal capacity of Montana counties. Between 1986 and 1991 expenditures in individual budget funds surpassed revenues by as much as 200% annually. Of the fifteen various budget fund categories utilized by counties, only two have consistently posted a revenue surplus since fiscal 1986. Of particular note is the disparity between revenues and expenditures in the General Fund category used by counties. On the average, General Fund expenditures have surpassed revenues by over $15.6 million. Unlike other budget funds which are restricted to specific purposes, general fund revenues represent discretionary monies for the counties. A loss of fiscal capacity in the general fund, therefore, represents a reduction of discretionary authority for county governments.

In most cases counties have used budgeted cash reserves to fund part of the difference between revenues and expenditures in the various budget fund categories. Montana
law allows counties to levy a limited additional amount of property tax revenue to meet expenditures during the months of July to November of the next fiscal year. These reserves are intended to be insurance revenues for the first five months of the following fiscal year. They are not intended to be used as operating revenue for the current fiscal year. Yet, this is precisely what has occurred. Even when reserve revenues are added to total revenues, counties resources are still insufficient to cover expenses. The fact that counties are expending both revenues and reserves to cover expenses is a clear indication that counties have in fact experienced an actual loss of fiscal capacity since fiscal year 1986.

A major contributing factor to the erosion of the fiscal capacity of Montana counties is the recent decline in property tax revenue. As stated in Chapter II, the property tax has traditionally been the revenue mainstay of county governments. Yet, due to a variety of factors, property tax revenue has declined by over $10.6 million since 1986; $26.9 million if the figures are adjusted for inflation. Statewide, counties have experienced an actual loss of 3.47% of their total revenue since 1986 (27.26% when adjusted for inflation). Notably, property taxes accounted for the entire decline in total revenues plus $2.7 million.

This loss of property tax revenue has lead to a shift away from property taxes to non-tax sources of revenue.
While both sources of revenue have declined, non-tax sources have gradually been making up a larger proportion of total revenues (Figure 3.2). As a proportion of total county revenue, property tax now accounts for less than 47% of all county revenue. In a number of cases, it is not unusual to find a county generating more than 70% of its revenue from non-property tax sources. The increases in non-tax revenues have been in the area of user fees and charges. The fees and charges were generally levied for services provided to specific sectors, e.g. weed control and court costs. This type of shift away from the more stable property tax to non-tax sources of revenue suggests that the fiscal capacity of Montana counties has indeed diminished over the last half decade.
Future Fiscal Capacity

If the past five years are an illustration of the future, the current decline in the fiscal capacity of Montana counties is likely to continue, perhaps at an even faster rate than most recently experienced. Fiscal year 1991 was a particularly bad year for county property tax revenue. In one year, counties witnessed a $14 million decline in property tax revenue. That loss represents a 12.86% loss of total property tax revenue going to county governments. Again this loss of property tax revenue was met with an increased use of discretionary, non-tax revenues. Given that the property tax is still the counties' largest single source of revenue, further decreases will surely lead to greater instability in the capacity of counties to meet the growing demands of county residents.

Problems With the Fiscal Capacity Model

As noted, this analysis of the fiscal capacity of Montana counties is intended to be the first step in the development of a more comprehensive model for measuring fiscal capacity. While this analysis was designed to be a broad measure of fiscal capacity, future analysis should focus on the specific details of county expenditures and revenues. Developing a more in-depth analysis may, however, prove to be a difficult task. Although the counties
provide distinct services for specific recipients, they generally fold services, expenditures, and revenues into a single budget. In doing so, counties makes it impossible to attached revenue sources to appropriate county expenditures. This lack of financial clarity prevents county officials and others concerned with county finance from recognizing the degree to which state and/or federal funding is inadequate to provide for a specific service. This distinction is important given that counties are currently experiencing increases in demand for expenditures in several identifiable areas, including environmental protection, justice, health, and to a lesser extent, welfare. Were county officials and others better able to understand inadequacies in funding, they could become more aggressive in pursuing alternatives.

Section II

Events Affecting Fiscal Capacity

The fiscal problems of Montana county governments are the result of several identifiable factors. Each of these factors, whether individually or in combination, has served as a catalyst for county officials to call for diversification in county finance. The following discussion will be a descriptive analysis of these factors. It will initially focus on the perceptions of the county
commissioners, then turn toward a detailed discussion of several of the factors affecting county government.

As discussed earlier, Montana county commissioners overwhelmingly felt that the current system of county finance was inadequate to meet the demands of county residents. Subsequent analysis showed that this perception is mirrored in reality. As a follow up, county commissioners were presented with a list of seven factors, and asked if any of these had affected their county's ability to meet current demands for county services. These factors included: declining tax base, fiscal limits, increased demand for services, increased state mandates, increased federal mandates, and changes in population. Each of the events was identified prior to the study as a factor

![Figure 3.3: Events Affecting County Government](image)

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affecting county governments in general. As figure 3.3 shows, factors affecting county expenditures seem to be of greatest concern to the county commissioners. Three of the top five factors identified by the respondents concerned county expenditures. These included increased state mandates, increased federal mandates, and increased demand for county services. This is not to suggest that factors concerning county revenue were not important. To the contrary, over three quarters of the respondents felt that fiscal limits and a declining property tax base had affected their counties' ability to meet the current demands for county services. Given the level of response, it is quite likely that each of these factors has played a significant role in prompting the current calls for revenue diversification.

**Increases in Expenditures**

State and federal mandates topped the list of events that county commissioners felt had affected their counties' ability to meet the demands of county residents. Almost 3/4 of the respondents felt that federal mandates had affected service provision in their county. Over 88% felt that state mandates had hindered their counties' ability to provide services. Mandates are requirements that counties spend "own source revenues" on specific services required by the
state and federal government. In most cases, the costs of these services are driven by caseload and workload. Counties do not, in general, have discretion in the quantity of services they must provide to county residents.

**State Mandates**

During the 1980s, Montana’s economy was dominated by declines in the state’s basic industries, including agriculture, mining, and wood and paper products. Although Montana has historically undergone "boom and bust" cycles in its basic industries, the 1980s were unique in that all of these industries were in simultaneous decline. In the past, one or more of the industries was faring well enough to carry the others in period of decline. For example, during the late 1970s the oil industry was booming because of the energy crises, while agriculture was suffering for a prolonged drought. This, unfortunately, was not the case during much of the 1980s. While there were some bright spots in these areas, they were never sufficient to spark a recovery in Montana’s economy.

As a result of the prolonged economic decline of the 1980s, state officials have faced a situation where

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6 Edgar, 111.
expenditures are projected to outpace state revenues. Whether this was simply perception, political gamesmanship, or reality, the response of state officials has, with few notable exceptions, mirrored the response strategies of the federal government. Faced with declining state revenues, state officials have sought to assure adequate services to state residents without financing them from the state treasury. In this case, the path of least political resistance has been to mandate, through statute or regulation, that counties provide a particular service to all county residents. In a number of cases these mandates have included provisions for continuation and/or addition of functions for the county government to administer; requirements that county governments fund part of the function themselves; and requirements for specific, unnecessarily expensive, or inappropriate means for achieving the mandate locally. In most cases, counties have little or no discretion in the quantity of service they must provide, nor are they generally included in discussions concerning the provision of these services. This is significant for the state because the financial burden for these mandates is essentially transferred to the counties at no cost to the state treasury.

Mandates of this type have been particularly severe in district court operation, jail operation, and health and human services. An examination of the state's District Court system, which is administered by the counties, illustrates how statutory changes have significantly increased county costs. The Montana Legislature constantly amends Penal, Vehicle, and Health and Safety codes. More than 100 changes to laws between 1984 and 1991 have defined new crimes, extended sentences for existing crimes, and made incarceration mandatory for more crimes, thereby clogging court calendars, raising prosecution and defense costs, and dramatically expanding the need for jail and prison cells. The resulting increases in district court related costs, coupled with a statutory limit on district court funding, have left many counties in serious fiscal straits. Between

![Figure 3.4](image.png)
1986 and 1991, county District Court expenditures increased by over 26.0%, while county revenues dedicated to the courts declined by almost 2%. If the expenditure figures are adjusted for inflation, county expenditures for district court costs have outpaced revenues in every year since 1986 (Figure 3.4). In fiscal year 1991, the gap between revenues and expenditures grew to a whopping $7,199,000. In several instances, increased costs associated with state mandates have led to growing county budget deficits, court delays, and the curtailment of necessary judicial services. Presently, counties are disputing with the state as to how much of the financial burden they should be bearing. Since the state continues to increase county costs with additional legislation, counties believe that the state should be
providing more direct support. As figure 3.5 shows, the state, on the other hand, is attempting to further reduce its expenses by reducing the amount of support it provides.

The fiscal difficulties associated with increased state mandates on the district court system highlight the problems facing county governments as they try to deal with new state requirements for services. The district court system, however, is only one example of how state mandates have affected county operations. Counties are facing similar difficulties in virtually every operational area of county government. This increase in state mandates has lead to a dramatic upward shift in county expenses. As figure 3.6 shows, per capita county expenditures have climbed steadily since 1986.

Measured in constant dollars, per capita expenditures increased from $341 in 1986 to over $438 in 1991, an increase of 22.17% over the five year period.

While state mandates are not the sole culprit, they have played a major role in the increase of county expenditures. Given current political and fiscal conditions in the state of Montana, there is good reason to believe that the mandate route will continue to see heavy usage in the coming years. It is also safe to assume that the state will not be in a position to come forth with solutions that require additional state monies.

**Federal Mandates**

Although state mandates were identified as the number one problems facing county governments today, commissioners were also concerned about the recent increase in federal mandates. Unlike state mandates, the affects of federal mandates are relatively hard to identify. Part of this difficulty relates to a lack of fiscal clarity in county budgeting. Because of the way county budgets are currently delineated it is impossible to attach specific expenditures to appropriate revenue sources. As a result it is difficult to identify how federal mandates have affected county expenditures. Another difficulty arises from the fact that there has not been a single, comprehensive attempt to identify federal mandates and their associated costs in the state of Montana. Because of this lack of specific data, the following discussion will focus on the more general aspects of federal mandates. It should be noted that there
is a clear need for further investigation into the affects of federal mandates on Montana county finances.

Since the federal government started divesting itself of responsibility and authority a decade ago, there has been a massive decentralization from Washington to the states. This movement away from the national government has been accompanied by a dramatic decline in federal aid to state and local governments. Until the last decade, the federal government added new programs progressively and increased public expectations around domestic issues. In most cases new programs were created and revenue was made available to state and local governments. With reductions over the last decade, the federal government essentially revoked its financial commitment to these locally provided programs.

Unfortunately, Congress has been unwilling (perhaps unable) to eliminate established programs or to reduce public expectations about their continuation. Each time the federal government withdraws its financial participation in a locally provided service, one of two things happen: either federal rules and regulations are created to force state and local governments to bear the financial burden, or a local political constituency develops around the service to demand its continuation, again at the expense of state and local

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10 Thomas, 11.
The federal government's practice of mandating a locally provided service has been particularly hard on counties. Given that counties are service providers in concert with the state government, most mandates that are applied to the state automatically include county participation. In Montana, where counties are major and comprehensive service providers, these jurisdictions are now responding to mandates in virtually every program area. County governments are faced with mandates in air quality, solid waste, hazardous waste, toxic substances, water quality, child care, transportation standards, health services, and criminal justice. As is the case with state mandates, the road most traveled is that with the least political resistance. In the case of federal mandates, it is likely the mandating will continue to see heavy usage as members of Congress seek to assure adequate local service without having to input additional federal monies.

Mandates: A Final Consideration

Much of the mandate controversy surrounds the mismatch between mandated responsibilities and county funding capacity. The main issue today for county governments is

11 Thomas, 11.

12 Advisory Commission on Intergovernmental Relations, Mandates: Cases in State-Local Relations (Washington, D.C.: Advisory Commission on Intergovernmental Relations, September
whether they can meet the financial demands of federal and state mandates within the financial limits imposed by the state. Among Montana county commissioners unfunded and/or underfunded mandates are now widely recognized as unworkable, especially in light of the restricted revenue-raising capacity of the counties.

Essentially, there are two opposing views concerning mandates that are handed down to county governments from other governments. The first suggests that mandates are a common intergovernmental activity and are thus not reimbursable. In other words, they are simply something that must be done by the counties regardless of the cost. Arguably there is some justification for the imposition of a service that is widely perceived as necessary. Certainly, the recipients of the service would argue for its continuation, despite what it may cost the county. There is, however, a fine line between what is reasonable in terms of cost, and what is not.

The second considers mandates regulations that are excessive and are thus compensable costs of the county government. The conclusion here is that it is the responsibility of the state and federal government to adequately fund the service mandates they hand down to subordinate governments. Unfortunately, in the case of

13 Advisory Commission on Intergovernmental Relations, 2.
counties, theory does not necessarily mirror reality. The state and federal government are reluctant, even loath, to reimburse the counties for mandates. Doing so would remove one of the underlying purposes of mandates which is to assure a certain level of service is provided to citizens without financing it from the state and/or federal treasury. This reluctance, essentially, leaves county governments to bear most of the financial burden for mandates. In Montana, county governments are going to have to face their new public responsibilities with varying degrees of fiscal capacity to adequately fund state and federal mandates. Out of necessity they will continue to call for the authority to diversify the way counties raise revenue.

**County Revenues**

Besides questions about county expenditures, the commissioners were also asked if several revenue related events had effected their counties' ability to meet the demands of county residents. These events included fiscal limits and a reduction of the property tax base (taxable valuations). Of the listed events, the commissioners overwhelmingly cited fiscal limits as one of their biggest headaches in terms of county revenues. Property taxation was also a major consideration for the respondents. Each of these events will be discussed in detail in the following sections.
Property Tax Base

Counties rely on a mixture of revenues from several sources, including locally generated revenues, funding from other governmental entities, and debt financing. By far the most important source of locally generated revenue is the property tax. It currently comprises 48% of total county revenue. Thus what happens to the property tax can have a significant impact on overall county fiscal health. Because of the important role of property tax in county government finance, it is important to understand the present condition of county property tax revenues, and the recent history of what has happened to this important revenue source.

To measure changes in property taxation one has to examine the taxable valuation of all property. Taxable valuation is the product of the market (assessed) value of all property multiplied by the statutory tax rate. This product is the base upon which all property taxes are levied. A change in taxable valuation leads to a direct change in the revenue counties receive from property taxation. Since 1980, taxable valuation, measured in constant dollars, has declined by over 86%, from just over $2.239 trillion to $1.203 trillion. As figure 3.7 shows,

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most of this decline occurred between 1986 and 1991. In fact, 97% of the total decline in taxable valuation occurred during this five year period. This decline in taxable valuation has left Montana counties with a tax base that is almost the same in current dollars as it was in fiscal year 1980.\textsuperscript{15}

While the state, school districts, and municipal government are affected by the loss of the property tax base, its primary affect is felt by county governments since they receive the lion's share of the property tax. As figure 3.8 shows, county property tax revenue has fallen off by nearly $27 million (adjusted figure) since fiscal 1985. This represents a 33.46\% loss of total property tax revenue.

\textsuperscript{15} Terry Cohea, "Budget Projections For The 1993 Biennium" (Helena, MT.: Office of the Legislative Fiscal Analyst, April 1990), 32, Photocopied.
when adjusted for inflation. If statewide taxable valuation had grown at the same rate as inflation, 53.72 mills, which was the average levied by counties in fiscal year 1990, would have produced an additional $90,372 million.\(^\text{16}\) This would have almost doubled the amount of revenue counties now generate from the property tax. The decline in total taxable valuation is the result of a number of factors, three of which will be addressed in the following discussion.

\(^\text{16}\) This calculation was made by multiplying total taxable valuation by the Montana consumer price index for each tax year between 1980 and 1990. The difference between actual taxable valuation and the adjusted figure was added to the subsequent year. This sequence was repeated for each of the ten tax years. The total taxable valuation and the final adjusted figure were then multiplied by the average number of county mills for fiscal year 1990. The difference in total county property tax revenue was determined by subtracting the sum of these two calculations.
Declining Net and Gross Proceeds

The late 1980s were dominated by declines in the price and production of oil, natural gas, and coal. Unfortunately, net and gross proceeds taxes on these commodities made up a significant part of the state’s property tax base. In the mid-1980s, when prices and production were high, net and gross proceeds accounted for about 30% of the state’s total taxable valuation. When oil and gas prices fell, net and gross proceeds and statewide taxable valuation declined along with them. By tax year 1988, net and gross proceeds accounted for less than 18% of all taxable valuation. Finally, in 1989 the legislature removed the net and gross valuation of oil, natural gas, and coal production from the property tax base thus reducing taxable valuation of the state by $322 million.\(^1\) Lost property taxes were replaced with a flat rate gross proceeds and local government severance taxes.

Reappraisal Adjustments

The taxable value of homes and businesses (class 4 residential and commercial real property) makes up about 38% of the state’s total tax base. As figure 3.9 shows, the taxable value of this type of property has increased little in real dollars since fiscal year 1980. After the

\(^1\) Montana Department of Revenue, Biennial Report: 1988-1990 (Helena, MT.: Montana Department of Revenue, June 1990), 57.
reappraisal cycles in 1978 and 1986, the legislature
adjusted the tax rate downward to offset increases in market
value (Figure 3.10). This meant that significant
increases in the market value of this property were not

18 The following information is drawn from "Budget
Projections For the 1993 Biennium" which was obtained from the
Montana Office of the Legislative Fiscal Analyst in April of
1990.
recognized in the statewide taxable value. If the appraised value of homes and businesses had not been offset, the taxable value would have been almost $800 million higher.

**Tax Exemptions and Rate Reductions**

In 1981, the legislature exempted cars and light trucks from property taxation ($100 million in taxable value) and in 1983 exempted business inventories from taxation ($38 million in taxable value). The 1989 special session combined business personal property in Classes 8, 9 and 10 into a single class (Class 8), and reduced taxable valuation rates from 11, 13, and 16 percent to a uniform 9 percent. The result was an estimated $56 million loss of taxable valuation. In this instance, local governments are to be reimbursed out of the state’s general fund for all lost revenue. Since this reimbursement guarantee carries an estimated biennial price tag of over $40 million it is quite likely that this too will be a permanent loss of taxable value in the not too distant future. While these are examples of large exemptions and rate reductions, in virtually every legislative session a number of smaller exemptions and rate reductions have been exacted.

**Property Tax: Final Considerations**

It is significant to note that all of these factors share a single, common element, which is state involvement.
Since the mid-1980s the state has pursued an active policy of reducing the tax burden of the property taxpayer in several different areas. Most of these reductions were in response to sharp downturns in the state's basic industries, including agriculture, mining, mineral extraction, and wood and paper products. As mentioned before, Montana has historically undergone "boom and bust" cycles in its basic industries. Unfortunately, the mid-1980s were unique in that all of these industries were in simultaneous decline. State lawmakers responded to the state's economic difficulties with tax reductions and exemptions with the hope of buoying the state's basic industries until operating and market conditions improved. These improved conditions did not, however, materialize and local governments were left with a tax base that is essentially the same in current dollars as it was a decade ago. For county governments the results have been devastating. It has not been uncommon for a county to have lost over 30% of its property tax revenue as a result of a loss of taxable valuation. This is significant, given that property taxation is the counties' single, largest source of revenue. More troubling, perhaps, is the fact that this decline in taxable valuation and the subsequent decline in property tax revenue represent permanent losses to Montana counties.

**Fiscal Limits**

In the fall of 1986, Montana voters approved Initiative
105 (I-105), which required that the state legislature enact comprehensive reforms of property and other state taxes.\(^1^9\) I-105 also mandated that if the legislature failed to enact tax reforms, a comprehensive property tax freeze was to be implemented instead. The Montana legislature, which meets only biennially for 90 days a session, proved unable to formulate any reasonable comprehensive reforms within such a short period. As a result the 1987 legislature passed legislation implementing a property tax freeze as stipulated by the initiative. Montana Senate Bill 71 froze the state's property taxes at 1986 levels by capping the chargeable millage.\(^2^0\)

**Affect of Fiscal Limits**

Since it was implemented, I-105 has effectively restricted the capacity of counties to raise replacement revenue to match declining property taxes. As stated in the previous section, counties statewide have experienced property tax revenue losses on the order of 15-45% since 1986.\(^2^1\) Before I-105, counties made up for losses of revenue by increasing the property tax. While counties could not impose mill levies in excess of legal limits, they did have the flexibility to adjust aggregate millage levels

\(^{19}\) Edgar, 4.

\(^{20}\) Edgar, 4.

\(^{21}\) Edgar, 113.
to match expenditure needs. Since I-105, the ability of counties to finance revenue losses has been severely limited and counties have been force to resort to alternate methods of dealing with property tax losses. While response strategies have varied from county to county, many counties have resorted to structural response strategies, like load shedding, cut back management, retrenchment, and

reallocation of entire services.\(^{22}\) It has also been quite common for counties to increase their use of discretionary revenues like user fees and charges to cover losses of county revenue. While the use of structural techniques has diminished, the use of discretionary revenues has increased dramatically. As Figure 3.11 shows, non-property tax

\(^{22}\) Edgar, 116.
revenues now account for almost 53% of all county revenues.

**Revenues: Final Considerations**

As of fiscal year 1991, Montana counties are working with a property tax base that is essentially the same in current dollars as it was in 1980. This decline in taxable valuation has lead to a substantial drop in property tax revenues going to county governments. If revenue figures are adjusted for inflation, counties are now operating with $26.9 million less in property tax collections, which is a 33% decline in total property tax revenues. With the passage and subsequent implementation of I-105, counties have not been able to replace this loss of property tax revenue using the property tax. While county governments have attempted to utilize other methods to deal with the loss of property tax revenue, they have for the most part been unable to recoup even a small portion of the recent decline in property tax collections. This is significant given the fact that counties are facing an increasing number of pressures from other governments, the courts, and county residents to increase county expenditures.
CHAPTER IV
VALUING THE ALTERNATIVES

As chapter III points out, the current system of county finance is widely perceived by county officials to be inadequate to meet the demands of county governments. This inadequacy is largely the result of a general decline in the fiscal capacity of Montana counties. The question that must now be addressed is what alternatives are available to replace the current system of county finance. The lesson here is clear Montana counties need a revenue system that is efficient and equitable, relying on a well balanced and diversified set of taxes, rather than any one single tax.\(^1\)

Although there are a variety of different taxing methods used to diversify local government revenue systems, this study focuses on three of the more common methods. These include user fees and charges, local income taxes, and local sales taxes. The following discussion is based primarily on the surveyed preferences of Montana County Commissioners. A general presentation of the survey results is included along with a discussion of the specific revenue preferences of the commissioners and a description of the advantages and disadvantages of the each taxing method.

\(^1\) Advisory Commission on Intergovernmental Relations, Local Diversification: Rural Economies (Washington, D.C., Advisory Commission of Intergovernmental Relations, 1990), iv.
Revenue Diversification

Revenue diversification is designed to minimize the affects of over-reliance on any one tax and to make local tax structures more flexible and responsive to local circumstances. The Advisory Commission on Intergovernmental Relations states:

A diversified tax base can offer a government the same advantages that a diversified portfolio of financial assets offers an individual investor. Any particular tax offers strengths and weaknesses in terms of stability, growth, sensitivity to inflation, and other aspects of economic change. A diversified revenue base can offer a better mix of such attributes than a revenue structure that depends on a single tax.

In Montana, county revenues can be diversified by adding non-property taxes to the revenue base of county governments. Among the most potentially important taxes suitable for county use are; user fees and charges, local sales taxes, and local income taxes. Each of these will be examined in detail to determine its applicability to future efforts to diversify the current system of county finance in the state of Montana.

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Objective of Revenue Diversification

In the case of Montana counties, revenue diversification has four objectives: (1) to obtain additional revenues while avoiding higher property taxes, (2) make the tax structure more flexible, (3) make the tax structure more responsive to rising costs and service demands, and (4) reduce reliance on the property tax. According to the Advisory Commission on Intergovernmental Relations (ACIR), each of the three non-property tax sources of revenue examined in this study can address these objectives.

Obstacles to Revenue Diversification

Diversification of county government finance will require an explicit grant of authority from the state legislature. As stated previously, Montana counties are still viewed as an administrative arm of the state wielding only those powers granted by the state constitution and laws. This subordinate view of counties has and will continue to make it difficult for counties to secure the necessary authority to diversify their revenue bases. It is important to note that counties currently have the authority to impose user fees and charges for county services and goods. Counties will, however, require authorization from the state to use a local sales tax and/or a local income tax.
Revenue Diversification Survey

The following discussion of the specific methods of revenue diversification is based on the preferences of Montana County Commissioners. Understanding the commissioner's preferences is a crucial first step in the development of a framework for revenue diversification in county government finance. As noted in Chapter II Montana county commissioners have legislative, executive, and administrative authority over all areas of county operations. What they view as practical and appropriate in terms of revenue diversification is therefore quite likely to be reflected in a new system of county finance.

Survey Design

The survey instrument of this study was designed to explore the perceptions and preferences of Montana County Commissioners (a full discussion the survey methodology is included in Appendix B). While the survey included questions designed to establish the fiscal and structural context of revenue diversification, the bulk of the questions were dedicated to determining the revenue preference of the commissioners namely, whether county commissioners preferred existing sources of revenue, completely new sources of revenue, or some combination of the two. Existing sources of revenue include property taxation and other non-property taxes such as user fees and
charges. A local sales tax and a local income tax would both be considered new sources of county revenue.

**Survey Results**

Of the commissioners that responded to the survey, an overwhelming majority indicated they preferred a new system of county finance that grants wide latitude to county officials in the selection of appropriate revenue instruments. Most of the respondents felt that increased discretion over current sources of revenue (i.e., property tax and user fees) was generally more important than being granted the authority to implement a variety of new taxes. Increased discretion over current sources of county revenue would allow counties to determine the levels of property taxes and other non-tax sources of revenue. Since most non-
tax revenues are not, generally, subject to I-105 or state statutes, increased local discretion would fall primarily upon property taxation. New authority to implement a variety of taxes would allow counties to levy either a local income tax or a local sales tax or both. As figure 4.1 shows, most of the commissioners felt that a combination of increased local discretion and new authority would give counties the flexibility needed to meet the growing demands being placed on county governments.

Although the commissioners favored broad local authority over county revenue systems, their specific preferences for different types of non-property taxes varied considerably. As figure 4.2 shows the commissioners favored user fees and charges and a local sales tax, while clearly rejecting the notion of a local income tax. Of the three taxes included in the survey, the commissioners
overwhelmingly favored user fees and charges. The strong support for user fees probably reflects the fact that counties already rely quite heavily on these type of non-property tax revenues. As for a local sales tax and income tax, the preference was for either one or the other, not both. In general those respondents that preferred one tax flatly rejected the other type of tax. In this case, those respondents that indicated they would implement a local sales tax if given the opportunity, clearly rejected the idea of imposing a local income tax.

In most cases the perceived fiscal condition of the commissioners' county played a significant role in how they responded to questions about specific taxing methods. Respondents from counties that had recently experienced a decline in property tax revenue were generally more inclined to support the use of different types of taxes. The size of a respondent's county also affected how he/she viewed specific taxing methods. The strongest support came from commissioners from larger counties possibility reflecting the fact that larger counties have the managerial resources to implement new types of taxes. Larger counties are also more likely to have experienced a recent increase in the cost and demand for county services prompting them to look to alternate sources of revenue to cover increases in county expenses.
Individual Methods of Revenue Diversification

The following discussion is designed to illustrate the individual nuances of the different taxing methods examined in this study. Included is a general definition of user charges, local sales taxes, and local income taxes and a brief discussion of the advantages and disadvantages of each type of tax.

User Fees and Charges

Recent fiscal pressures have forced Montana counties to utilize non-tax sources of revenue such as user fees and charges. Since fiscal year 1986, counties have shifted a large portion of their revenue burden to non-property tax sources of revenue. As of fiscal year 1991, non-tax revenues now account for 53.6% of all county resources. This represents a significant shift away from the more traditional property tax to the less stable non-tax revenues. While an exact determination was not possible, analysis of budget summary documents suggested that a large portion of this increase in non-tax revenues was in the area of benefit based user fees and charges.

Of the revenue sources examined in this study, user fees and charges received the broadest support from the county commissioners. User charges have the distinguishing characteristic of being voluntary payments based on direct, measurable consumption of publicly provided goods and
services. The Bureau of the Census defines user charges as: "[revenues] received from the public for the performance of specific services benefiting the people charged and from sales of commodities and services except those by liquor store systems and local utilities." Included in this definition of user charges are fees and other reimbursements for current services, rents and gross income of commercial activities, e.g., parking lots and school lunch programs. In each case, consumption of a good or service is the basis for determining the level of payment by the direct beneficiaries.

The single most cited benefit of user charges is the direct link that is established between the consumer and the publicly provided service. In the private sector, prices serve the dual role of rationing goods and services among potential consumers and of determining the quantity of goods and services actually produced. As the following discussion suggests, user charges have a similar potential in the public sector.

User fees and charges are generally voluntary payments

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5 Advisory Commission on Intergovernmental Relations, User Charges, 3.

6 Advisory Commission on Intergovernmental Relations, User Charges, 3.
based on measurable consumption of some good or service. Because user charges are normally levied by the unit, the total cost tends to vary with the level of consumption. In effect, those who use the service or good are charged for it, while those who do not are not charged nor are they responsible for its financing. This is significant for counties because it helps to establish a direct link between the revenue and expenditure sides of a budget for a specific service. An ACIR report suggests that this type of direct link can lead to efficiency gains for county governments. These gains take the form of improved allocation of scarce county resources, a more efficient allocation of resources within the public sector, and possible cost savings from more efficient production of a specific good or service.

User fees and charges also provide valuable information about the public's preferences for a specific service. Counties face increasing pressures to provide a level and mix of public expenditures preferred by county residents. When a good or service is financed by user charges, usage data can provide counties with important information about consumer preferences. Not only does this information help counties determine an efficient mix of goods and services, but it gives them the information necessary to make long-run

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7 Advisory Commission on Intergovernmental Relations, User Charges, 3.
8 Advisory Commission on Intergovernmental Relations, User Charges, 27.
investment decisions. With user-charge financing, local services will be expanded only if direct users are willing to pay the full costs of expansion. In doing so, user charges help discourage wasteful growth of existing public services.

Proponents often cite the revenue potential of user charges as an important feature of benefit based fees and charges. In Montana, the revenue potential of user charges has been an important consideration for fiscally constrained county officials. Passage of I-105 fundamentally changed the ability of counties to adjust revenues to fund increases in expenditures. Before I-105, counties had a relatively independent, stable, and predictable source of revenue, the property tax. Counties could raise the millage levels to collect the money necessary to finance county services as well as state required programs. By capping the chargeable millage, I-105 removed this flexibility. With the exception of several other non-tax sources of revenue, user charges have provided counties with one of the only legal loop-holes for increasing revenues to counter the limitations of I-105.

While user charges have provided counties with an important "escape hatch" there is some question as to their future potential as a source of revenue. Advocates of user charges argue that current voter opposition to increasing local taxes may make user charges the most acceptable, if not the only, source of significant additional revenues in
the near future. Many critics of the user charge financing view them as more limited, short run phenomenon with little long-run revenue potential. This argument is based on the fact that user charges are primarily a substitute for property taxes, rather than a new source of additional revenue. Since user charges are generally used as a stopgap revenues there is often no additional monies available to fund new or expanding county programs.

The Advisory Commission on Intergovernmental Relations suggests that user charges represent a fair way of paying for public sector goods and services. The ACIR argues that equal individuals in equal situations should be treated in an equitable manner. In the case of user charges, equal treatment requires that all users and consumers of public services and goods financed by user fees pay equal amounts. Non-users are treated equally by not having to pay for a good or service. Unfortunately, this argument overlooks the fact the all individuals in our society are not in equal situations. One of the most important disadvantages of user charges is they can impose an undue burden on lower-income individuals and families. A common principle of taxation states that higher income individuals should pay a larger proportion of their income to taxes than lower income

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individuals. User charges generally violate this principle. Since user charges are levied by the unit, each unit costs the same to consume regardless of the client’s relative income. In this sense, lower income individuals are asked to spend a larger portion of their income to consume goods and services financed by user charges than are higher income individuals. One common method of overcoming this type of inequity is to subsidize the goods and services consumed by lower income individuals. However, even with the subsidy, user charges have the tendency to be a largely regressive method of raising revenue.

Another possible disadvantage of user charges is the potential for governments to maintain only those services that are financed by benefit-based charges and taxes. This is particularly true for governments that are trying to deal with the fiscal affects of tax limitations like I-105. A Concord, Massachusetts, finance director expressed this concern as follows:

Injudicious use of user fees and charges can undermine basic public support for the full range of local government activities while permitting the maintenance of services susceptible to pricing. It would be ironic if the move toward user charges resulted ultimately in the withering of services that remained to be financed from taxes. \(^{11}\)

While there is little indication that this is happening in Montana, the fiscal limits imposed on counties are still

\(^{11}\) Advisory Commission on Intergovernmental Relations, User Charges, 41.
relatively new. There is the possibility that as the limitations imposed by I-105 start to sink in, counties will respond by focusing budget expenditures on services financed by user charges.

**Local Sales Tax**

This study found that a local sales tax was one of the most acceptable ways of increasing county government revenue collections, and was strongly preferred to either a local income tax or higher property taxes. Only user fees and charges outranked the local sales tax among the three taxes examined in the survey. As figure 4.3 shows, support for a local sales tax was generally stronger among the larger counties although support was relatively strong statewide. The data also suggest that a continued decline in property tax revenue counties receive may explain the commissioners interest in a local sales tax. Over 75% of the respondents

![Figure 4.3](Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.)
that favored a local sales tax were from counties that had recently experienced a loss of property tax revenue.

In general, a local sales tax is levied by local governments on the value or volume of most types of goods and services sold in their jurisdiction. Like other taxes, the yield of a local sales tax depends on the rate of the tax, the structure of the tax base, and unique to the sales tax, the level of retail activity in the jurisdiction. In the case of Montana counties, a sales tax would probably take the form of a local option tax. A local option as to whether to employ the tax, or what rates to use, would allow counties to adapt the tax to their circumstances. In general, those states that currently allow a local sales tax have opted for local flexibility in rates and in decisions as to whether to use the tax. At the same time, these states limit the ability to use different bases or to charge local use taxes in order to minimize compliance costs and to facilitate state rather than local administration.

One of the most often cited reasons for implementing a local sales tax is its potential to be a highly productive source of revenue. In states where a local sales tax is currently used, the tax yields from less than .1 percent to

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13 Advisory Commission on Intergovernmental Relations, Local Sales Taxes, 27.
over 26 percent of all local own-source revenue, and up to 48 percent of local tax revenues in Louisiana.\textsuperscript{14} While there is some question as how productive a sales tax would be in Montana, it is quite possible that such a tax could account for a significant portion of county revenues.

Aside from its revenue generating capacity, a local sales tax also tends to be a relatively elastic source of revenue. Unlike the property tax, a sales tax tends to be responsive to growth and fluctuations in income. In a recent study, the ACIR found that a 1 percent increase in income can result in an increase in sales tax revenue between 0.8 percent and 1.27 percent.\textsuperscript{15} The elasticity of a sales tax makes it a good companion to the property tax. Barring changes to the base, the property tax generally offers a stable source of revenue during recessions, while sales tax revenue will be more likely to increase as economic activity increases. Finally, a local sales tax is often advocated as a way to provide property tax relief. As stated in Chapter II, Montana counties are heavily dependent on property taxation as a primary source of revenue. In a 1989 study, the ACIR found that in the case of county governments, use of a local sales tax can reduce somewhat the reliance on property taxes as a proportion of total

\textsuperscript{14} Advisory Commission on Intergovernmental Relations, \textit{Local Sales Taxes}, 5.

\textsuperscript{15} Advisory Commission on Intergovernmental Relations, \textit{Local Sales Taxes}, 20.
Despite the inherent benefits of a local sales tax, the argument for such a tax must be applied to Montana counties with caution. As the ACIR states, the ability of a local government to implement a sales tax successfully depends critically on its relationship to its surroundings.\textsuperscript{16}

Unlike the other forms of taxation, a local sales tax can have a very visible impact on locational and economic decisions within a taxing jurisdiction. Past studies have shown that a sales tax can have an affect on consumption patterns and in some case can even encourage flight of commercial facilities outside a given taxing jurisdiction.

In a 1989 survey, the ACIR found that retailers are more likely to locate outside jurisdictions that have opted to use a local sales tax and shoppers are generally more likely to go elsewhere to avoid sales taxes.\textsuperscript{17} If the tax is unique to certain jurisdictions, county officials are going to have to weigh the expected revenue gains against the possible long-run losses of business firms and economic activity to non-sales tax areas.\textsuperscript{18} This may not be a consideration for the state's smaller counties because

\textsuperscript{16} Advisory Commission on Intergovernmental Relations, Local Sales Taxes, 23.

\textsuperscript{17} Advisory Commission on Intergovernmental Relations, Local Sales Taxes, 20.

\textsuperscript{18} Advisory Commission on Intergovernmental Relations, Local Sales Taxes, 23.
retail activity is generally quite low in these jurisdictions. It could, however, be a serious problem for the larger, more urban counties. With few exceptions, purchases of durable goods, like automobiles, farm implements, and home appliances are carried out in the state's four largest cities. Imposing a sales tax in these jurisdictions is likely to have a strong impact on this type of retail activity.

Another consideration relates to the administration costs of a local sales tax. In states that already have a general sales tax, administration costs are generally minimized by tying the local sales tax base to the state tax base. Since Montana does not have a general sales tax, counties would not be able to achieve this type of economy of scale in administration costs. In a recent study, the ACIR found that costs of a local sales tax ranged between 0.30 percent and 1.68 percent of revenue, with a median of 0.73. Since a sales tax would be unique to county governments in Montana, it is conceivable that the administrative costs could be considerably higher than the national average.

A final consideration for implementing a local sales tax relates to a general unwillingness on the part of the public to accept such a tax. Montana is one of only four

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19 Advisory Commission on Intergovernmental Relations, Local Sales Taxes, 23.
states that does not currently use a general sales tax. Although there have been numerous attempts to implement a statewide sales tax, Montana voters have a long standing record of defeating any such attempts. The sales tax is such a contentious issue in the state that the last serious attempt to implement a sales tax in the early 1980s resulted in a voter reprisal that ended with a large number of state lawmakers being removed from office. Given the very nature of a local sales tax it is unlikely that such a tax would be any less contentious.

**Local Income Tax**

Unlike the other sources of revenue examined in this study, a local income tax was the only tax that was flatly rejected by the commissioners. The survey data suggest that the rejection of a local income tax is related to the commissioner's acceptance of a local sales tax. Of those respondents that indicated they would implement a sales tax if given the opportunity, over 80 percent stated they would not implement a local income tax. Since the commissioners were so strongly opposed to the notion of a local income tax, it will only be given brief consideration.

The most common type of local income tax is a payroll tax, also known as the wage tax or the earned income tax.20

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This tax is levied at a single flat rate. It is usually collected by payroll withholdings, so it is a tax on wages and salaries only rather than on total income. Unlike the federal income tax and most state income taxes, the payroll tax typically has no exemptions, deductions, or filings of tax returns by the taxpayer. As a result, the administration of a local income tax is quite simple and relatively inexpensive. Payroll type taxes tend to be slightly regressive, much more so than most income taxes, because such a tax generally does not make allowance for different circumstances among households. In states that currently use a local income tax, the tax’s relative share of total local revenues has been quite modest. In the three states where a local income tax is intensively used these taxes have accounted for less than 10 percent of all local general revenues. In most cases, the income tax generates less than 1 percent of local revenues.

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1988), 5.


Final Considerations

The current system of county finance is chaotic and unresponsive to the demands being place on county governments. This is largely due to counties' heavy reliance on property taxation as a primary source of revenue. One of the basic political and economic reasons for diversification of county tax systems lies in the fact there is no such thing as a perfect tax. The more intensely a tax is used the more obvious its defects become. Like the property tax, each of the different taxes examined in this study has its own unique strengths and weaknesses. For example, the local sales tax has the advantage of being convenient, usually paid in small increments, difficult to avoid, and levied on consumption rather than savings; however, it also is widely perceived as being regressive and creating a unfavorable business climate. Local income taxes are not generally designed to take individual circumstance into consideration, and are thus regressive. A local wage tax can also cause taxpayers to move out of the jurisdiction to avoid paying the tax. User fees have the advantage of providing a direct link of private benefits to public costs; however, too heavy a reliance on user charges


Advisory Commission on Intergovernmental Relations, Rural Economies, iv.
can hurt low and moderate income families.

Once again, the lesson here is clear, Montana counties need a revenue system that is efficient and equitable, relying on a well balanced and diversified set of taxes, rather than any one single tax.\textsuperscript{26} If the County Commissioners' preferences are taken into consideration, a new system of county finance would likely include a mix of property taxation, user fees and charges, and a local sales tax. Such a system would minimize the effects of over-reliance on property taxation and give counties a tax structure that is responsive to local circumstances. More importantly, such a system would foster fiscal stability that would allow counties to meet the many challenges they now face.

\textsuperscript{26} Advisory Commission on Intergovernmental Relations, \textit{Rural Economies}, iv.
CHAPTER V
SUMMARY AND CONCLUSION

This study was designed to explore the possibilities and problems of revenue diversification in county government finance. The study itself focused on exploratory analysis of the attitudes of Montana County Commissioners. County commissioners were selected as the unit of analysis because of their position in county government. In all Montana counties, County Commissioners have overall fiscal responsibility. Therefore, analysis designed to explore their attitudes is of practical significance.

The analysis developed in this study is based on an attitudinal survey of the county commissioners. This survey was conducted in May of 1991 at the Montana Association of Counties' Annual Convention.

Summary of Major Findings

An overwhelming majority of Montana county commissioners felt that the current system of county government finance is not adequate to meet the growing pressures being placed on county governments. Subsequent analysis of the fiscal capacity of Montana counties revealed that this perceived inadequacy is in fact mirrored in reality. An analysis of aggregate revenue and expenditures showed that total county expenditures outpaced total
revenues in every fiscal year since 1986. As figure 5.1 shows, counties have experienced a loss of $31.9 million in fiscal capacity (ability of match revenues to expenditure) since 1986. Adjusting for inflation this figure represents a $91.0 million decline in purchasing power. The major contributing factor to the erosion of the fiscal capacity of counties is the recent decline in property tax revenue. Statewide, counties have experienced an actual loss of 3.47% of their total revenue since 1986 (27.26% when adjusted for inflation). Notably, property taxes accounted for the entire decline in total revenues plus $2.7 million.

The commissioners also felt that recent increases in state and federal mandates, fiscal limits, and a declining tax base necessitated the diversification of the current system of county finance. Of these events, the commissioners felt that state mandates were their biggest
problem followed by fiscal limits, increased federal mandates, and declining property tax base.

When asked whether counties should be given greater discretion in raising revenues, over 90% of the commissioners stated "yes"). Of those that favored increased local discretion, most were from counties that had experienced a serious loss of property tax revenue. This was generally true for the entire survey. How the respondents perceived the fiscal condition of their county generally affected how they viewed different types of taxes.

Of the current methods of raising revenue, the respondents favored user fees and charges over property taxation. While support for user fees and charges was consistent across all sizes of counties, support for the property tax was weakest in the smaller counties and grew stronger as the population size increased. In general, the weakest support for the property tax came from counties that had recently lost property tax revenue.

When asked whether counties should be allowed to implement a variety of new taxes most of the respondents felt that they should. The strongest support for authority to implement a variety of taxes came from commissioners from larger counties which possibly reflects the fact that larger counties have the managerial resources to implement new types of taxes. Once again, most of the those who favored the option of implementing a variety of taxes were from
counties that had experienced a recent decline in property tax revenue.

In general, the commissioners favored a local sales tax over a local income tax. User fees and charges were the overall revenue source of choice, followed by the property tax, a sales tax, and an income tax.

**Final Considerations**

It has been suggested in this study that diversification of county revenue systems would give counties the fiscal flexibility to respond to the problems they are now facing. County governments in the state of Montana are increasingly under pressure from residents, other governments, and the courts to increase expenditures. Yet serious changes in the capacity of counties to generate own-source revenues have made it virtually impossible for them to meet these new demands. Clearly, county governments need a revenue system that is efficient and equitable, relying on a well balanced and diversified set of taxes, rather than any one single tax, like property taxation.

As pointed out in chapter IV, each type of taxation has its own unique advantages and disadvantages. Determining which is appropriate in the context of Montana counties will require time and thoughtful consideration on the part of county officials, state lawmakers, and others concerned with county government. This study is intended to be a practical
first step in that process. While the analysis and recommendations are not intended to be an absolute declaration of appropriate policy, it is hoped that this study will help facilitate sensible policy discussion and decisions.

Further Policy Implications

Based on the findings of this study two final policy implications are offered. First and most important, there is a clear need for renegotiation on the part of the state and counties as to the future role of county governments in the state of Montana. The relationship of the counties to the state has historically been similar to that of parent and child. Counties are in every sense the offspring of the state Constitution and state statutes. Their powers are derivative and well defined. For most counties, virtually all they do and how they must do it is controlled by the state. This is particularly true in the area of finance. While counties generally have more fiscal discretion than they used to, their budgeting process is still nothing short of a financial straightjacket. This type of tight fiscal control serves to perpetuate the subordinate role of counties and further obscures the problems that counties are now facing.

The critical role that counties perform in the state's service delivery and administrative structure argues for a
more effective intergovernmental relationship between the state and county governments. As suggested in Chapter II, at a time when counties are being called upon to play an enhanced governmental role, tight state control of county governments has lead to an inability to respond to new fiscal pressures. Clearly, the state needs to begin viewing counties as an important intergovernmental partner rather than a subordinate. The challenge to meet and solve the problems facing counties will only be met if the state and counties work together in a cooperative partnership where both partners understand that the viability of the other is in their own best interest. Forging a strong intergovernmental relationship will ultimately help both the state and counties make better use of government resources and energies.

Second, county governments need to stop playing the role of subordinate and begin to develop new methods of dealing with the problems they now face. County governments have assumed and have been given a multiplicity of roles, and the performance of these roles will require energy and creativity. Certainly, diversification of county revenue systems is a viable way to improve the stability, equity, and efficiency of county revenue systems. However, this is only part of what should be a more comprehensive response strategy for county governments statewide.

Aside from diversifying their revenue systems, counties
need to overcome turf protection and find new ways to coordinate, cooperate, and consolidate services within county structures and with other county and city governments. More importantly, counties need to take advantage of the structural arrangements that are offered to them by the state constitution. In a time when counties are facing increasingly complex demands, traditionally structured counties will be ill-equipped to meet the rapidly changing demands of society. Structural reform will give counties the flexibility, centralization, and professionalization necessary to function successfully in an increasingly difficult environment. Of the arrangements offered to Montana counties, the charter form of government seems to offer the greatest opportunity for counties to lessen their dependence on the state and to increase their discretion to govern local matters.
APPENDIX A

SURVEY RESPONSE SUMMARY QUESTIONNAIRE
(N=Percent)

1. What is your party affiliation?
   1. Democrat 53.5  2. Republican 42.3  3. Other 4.2

2. What is the population of your county?
   14.1  1. 500 - 2,500
   22.5  2. 2,500 - 6,000
   43.7  3. 6,000 - 14,500
   7.0   4. 14,500 - 45,000
   12.7  5. 45,000 - 120,000

3. Have any of the following events affected your counties ability to provide services to county residents?
   64.8  1. Declining property tax base
   85.9  2. Fiscal limits (i.e. property tax freeze)
   73.2  3. Increased demand for county provided services
   88.7  4. Increased in state mandates
   74.6  5. Increased in federal mandates
   45.1  6. Declining population
   15.5  7. Increasing population
   _______ 8. Other (please specify) __________

4. On the whole, do you feel the current method of financing county government is adequate to meet the demands of county residents?
   1. yes 4.2  3. marginal 36.6
   2. no 59.2  4. don’t know ______

5. Should Montana counties be allowed greater discretion in raising revenues?
   1. yes 95.6  2. no 2.9  3. don’t know 1.5

6. Should Montana counties be given the opportunity to implement different types of taxes, like a local income tax and/or a local sales tax?
   1. yes 67.5  2. no 30.5  3. don’t know 1.7
7. If your county was given the opportunity to implement a variety of taxes, which of the following would you prefer?

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Preference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>User fees and charges</td>
<td>1</td>
<td>88.6</td>
</tr>
<tr>
<td>Local income tax</td>
<td>2</td>
<td>25.0</td>
</tr>
<tr>
<td>Property tax</td>
<td>3</td>
<td>70.4</td>
</tr>
<tr>
<td>Local sales tax</td>
<td>4</td>
<td>55.9</td>
</tr>
<tr>
<td>Other (please specify)</td>
<td>5</td>
<td>2.5</td>
</tr>
</tbody>
</table>

8. Has the revenue your county receives from property taxation increased, stayed the same, or decreased in the last five years?

<table>
<thead>
<tr>
<th>Revenue Change</th>
<th>Preference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased</td>
<td>1</td>
<td>24.6</td>
</tr>
<tr>
<td>Stayed the same</td>
<td>2</td>
<td>23.2</td>
</tr>
<tr>
<td>Decreased</td>
<td>3</td>
<td>50.7</td>
</tr>
<tr>
<td>Don't know</td>
<td>4</td>
<td>1.4</td>
</tr>
</tbody>
</table>

9. In general, how do you view property taxation as a source of revenue for county governments?

<table>
<thead>
<tr>
<th>View</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td>38.8</td>
</tr>
<tr>
<td>Neutral</td>
<td>35.8</td>
</tr>
<tr>
<td>Negative</td>
<td>23.9</td>
</tr>
</tbody>
</table>

10. Assuming State law allowed for it, would you implement a local sales tax?

<table>
<thead>
<tr>
<th>Implementation</th>
<th>Preference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>44.2</td>
</tr>
<tr>
<td>Yes, with voter approval</td>
<td>2</td>
<td>3.1</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>41.2</td>
</tr>
<tr>
<td>Don't know</td>
<td>4</td>
<td>2.9</td>
</tr>
</tbody>
</table>

11. Would you implement a local income tax?

<table>
<thead>
<tr>
<th>Implementation</th>
<th>Preference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>13.8</td>
</tr>
<tr>
<td>Yes, with voter approval</td>
<td>2</td>
<td>75.4</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>4.1</td>
</tr>
<tr>
<td>Don't know</td>
<td>4</td>
<td>0.6</td>
</tr>
</tbody>
</table>

12. Has your county increased its use of user fees and charges in the last five years?

<table>
<thead>
<tr>
<th>Use of Fees and Charges</th>
<th>Preference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>45.1</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>49.1</td>
</tr>
<tr>
<td>Don't know</td>
<td>3</td>
<td>5.6</td>
</tr>
</tbody>
</table>

13. On the whole, are user fees and charges used, by your county, to cover the costs of specific services?

<table>
<thead>
<tr>
<th>Service Coverage</th>
<th>Preference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>56.3</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>31.0</td>
</tr>
<tr>
<td>Don't know</td>
<td>3</td>
<td>12.7</td>
</tr>
</tbody>
</table>

14. Are user fees and charges used as general government revenue?

<table>
<thead>
<tr>
<th>Revenue Used</th>
<th>Preference</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>1</td>
<td>33.7</td>
</tr>
<tr>
<td>No</td>
<td>2</td>
<td>47.9</td>
</tr>
<tr>
<td>Don't know</td>
<td>3</td>
<td>18.7</td>
</tr>
</tbody>
</table>
15. How do you view user fees as a method of financing county services?

   1. positive 52.9  2. neutral 35.7  3. negative 11.4

16. With respect to revenue and taxation, what does the future hold for county governments?

   _________________________________
   _________________________________
   _________________________________

   ______.
APPENDIX B
SURVEY METHODOLOGY

Sampling Method

The survey was completed between June 8 and 11 of 1991, at Montana Association of Counties (MaCo) annual Convention. This is one of the few times during the year that County Commissioners from across the state gather in one place. MaCo and its staff were gracious enough to distribute the survey to the commissioners attending the convention. Because the MaCo convention is a busy event a very hands off approach was used in conducting the survey. One member of the MaCos staff was given a brief introduction to the contents of the survey. This staff person was then contacted several times during the course of the three day convention to determine if there were any problems or questions.

Sample

Because contact with the sampling units was deliberately limited a sample had to be obtained through random response. Those who responded and returned the survey makeup the final sample. While this type of sampling can be sensitive to non-response, the final sample did include 71 of the 168 County Commissioners which is just under 40% of the total population.
Although the sample is quite small it does seem to be representative of the overall population of Montana county commissioners. As Table C.1 indicates, the distribution of the

<table>
<thead>
<tr>
<th>Residence, by population size</th>
<th>Survey Sample</th>
<th>Montana Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>500 - 2,500</td>
<td>14</td>
<td>23</td>
</tr>
<tr>
<td>2,500 - 6,000</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>6,000 - 14,500</td>
<td>43</td>
<td>40</td>
</tr>
<tr>
<td>14,500 - 45,000</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>45,000 - 120,000</td>
<td>12</td>
<td>9</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Population statistics</th>
<th>Survey Sample</th>
<th>Montana Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>500</td>
<td>600</td>
</tr>
<tr>
<td>Max</td>
<td>120,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Mean</td>
<td>14,500</td>
<td>14,621</td>
</tr>
<tr>
<td>Median</td>
<td>N/A</td>
<td>6,800</td>
</tr>
<tr>
<td>25%</td>
<td>N/A</td>
<td>2,625</td>
</tr>
<tr>
<td>75%</td>
<td>N/A</td>
<td>13,025</td>
</tr>
</tbody>
</table>


survey sample compares favorably with current distribution of population in the state. Counties with a population between 500 - 2,500 were slightly under-represented. This is, for all practical purposes, an understandable result. Given recent calls for consolidation of smaller counties, respondents may have been reluctant to indicate that their county had a population of less than 2,500 residents out of concern that the results may not favor smaller counties. For the purposes of this study, however, this one difference is not significant enough to distort the results.
Especially since, overall, the sample compares favorably with the state's population.
BIBLIOGRAPHY


