City government in Great Falls: Trends and outlook.

Timothy S. Burton

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CITY GOVERNMENT IN GREAT FALLS:
TRENDS AND OUTLOOK

by
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B.A., Carroll College, 1982

Presented in Partial Fulfillment of the
Requirements for the Degree of
Master of Public Administration
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1985

Approved by:
[Signature]
Chairman, Board of Examiners

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Dean, Graduate School

3/6/85
Date
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I. INTRODUCTION

Many representatives from Montana cities, towns and counties have been stating concern over their governments' financial condition. The financial condition of these local governments has steadily declined over the past decade. The present financial standing of local governments in Montana is related to: negative economic factors; a shrinking tax base; a decrease in tax revenues; an overreliance on the property tax as a major source of revenue; and the local government-state fiscal relationship. As an extension of state government, local governments will have to receive more authority to raise revenue or receive more financial assistance from the Montana Legislature before the situation can improve. If the situation does not improve, local governments will have to reduce services to local citizens or once again raise property taxes in order to balance their annual budgets.

The focus of this report will be the financial condition of the City of Great Falls. The analysis of Great Falls finances will include: (1) an examination of the recent financial trends in Great Falls, with an emphasis on the Montana property tax system, and implications for the city regarding future revenue raising; (2) a discussion of the type of city government (form and powers authorization) in use in Great Falls, emphasizing the authority and restrictions Great Falls has concerning financial matters and the fiscal relationship that exists between the City of Great Falls and the State of...
Montana; (3) an examination of certain decisions that were made within the political arena that have affected the fiscal condition of local governments in Montana; and (4) recommendations for property tax reform, use of other taxes, and more state assistance to local governments. The areas covered in this essay represent many of the fiscal problems that confront local governments in Montana. The purpose of this report is to stimulate thinking, discussion, and analysis concerning the financial problems facing Montana's local governments, so that solutions to these problems can be found.

A. LITERATURE REVIEW

While literature is available on local government finance in Montana, it is a limited resource. Much of the literature utilized in this report stems from work completed for the Montana State Government. Some of the reports referred to are: Tax Seminar for Local Government Officials, sponsored by the Lt. Governor's Office and the Montana Department of Revenue, March 29, 1984; Financial Recommendations of the State Commission on Local Government by Stephen Turkiewicz, May, 1977; Montana Property Tax Mill Levies by the Montana Tax Foundation, 1970-71 through 1983-84; Montana's Property Tax Classification System, A Report To The Revenue Oversight Committee by Jim Oppedahl, October, 1983; Local Government Financial Condition by the Temporary Committee on Local Government Finance, February 1982; and Report of the State Department of Revenue, For the Period July 1, 1980 to June 30, 1982.

While work has been completed on local government finance in Montana, few reports have been done on city finance in Great Falls.
Specific information about the city was obtained from city employees in Great Falls and from the past ten city budgets. Information was also obtained from the Montana League of Cities and Towns and the Urban Coalition.

The quality of data is generally good. The information obtained from the City of Great Falls is accurate data. The annual budgets utilized for this report are fairly standard and permit a comprehensive analysis. The state reports and statistics utilized have been examined by many people in and out of government, resulting in no major criticisms. However, the data is not beyond reproach and should be viewed in that light.
II. RECENT TRENDS OF LOCAL GOVERNMENT REVENUE IN GREAT FALLS

Revenues determine the capacity of a government to provide services. "Ideally the operating revenues of a community should grow at a rate equal to or greater than the combination of inflation and expenditures."¹ This "ideal combination" has deteriorated for Great Falls and many other local governments in Montana. "While clear financial patterns are not easy to establish, it is possible to examine current financial trends and describe their effects."²

First it is necessary to explain briefly the property tax system in Montana. This explanation is important because Great Falls generates over half of general operating fund revenue from the property tax. An explanation of recent trends of local government revenue in Great Falls will also be presented.

A. MONTANA PROPERTY TAX SYSTEM

Montana became a state in 1889. The first taxing system the state established was the general property tax. The general property tax is a tax on all property regardless of its nature, imposed throughout a taxing jurisdiction at a uniform rate. Montana abolished the general property tax system and joined the ranks of other states with a classified property tax system in 1919.³ The original classification bill provided assessment by seven classes of property. The statutory classification system has been subjected to many changes since 1919 (see Appendix A for amendments to the classified property tax system).⁴
Today the classified property tax consists of eleven classes with tax rates ranging from 3% to 100% of assessed value (see Appendix B). 

B. THE TAX BASE

Great Falls has experienced a reduction in the local tax base in recent years. The reduction in the local tax base has resulted from inflation and the devaluing effect it has on tax dollars; the closure of the Anaconda Refinery in Great Falls; certain legislative, judicial and administrative decisions by state government; and problems with taxable property being underassessed by the Montana Department of Revenue which results in less tax revenue for the City of Great Falls. Montana laws exempt many types of property from taxation which further reduces the amount of revenue a local government can generate from the property tax base. Some of the exempt property includes property owned by governmental entities or nonprofit organizations; money and credits; business inventories and certain livestock and unprocessed agricultural products; household goods; certain coal and metal production; and cars and light trucks.

Presently, when a local government like Great Falls experiences a declining tax base, that government must raise the local mill levy in order to generate the revenue needed to keep the "wheels" of government turning. Great Falls has had to raise its mill levy several times in the past decade in order to afford the services citizens require of city government (see Figure 1). In Great Falls the residential property tax payer has born an inordinate amount of the past tax hikes. Not only
does the local property tax payer fund increases in city government, but they also fund increases in local schools, county government, state welfare, and the university system as well.

Figure 1
Mills Levied by the City of Great Falls

SOURCE: Annual Montana Property Tax Mill Levy Reports, Montana Tax Foundations

C. CLASSIFICATION AND VALUATION

Most property is assessed at its market value for property tax purposes. However there are several exceptions:

Agricultural land is valued at its productive capacity. Oil and natural gas production is valued on its net proceeds (the gross sales proceeds of all oil or gas produced during the year minus deductions for certain costs of production and 70%
of the Windfall Profit Tax paid to the federal government). Coal production is valued on its mine mouth price minus production costs and a portion of royalties paid to the federal or state governments or Indian tribes. Metal mine production is valued on the merchantable value of metal produced. All other mineral production is valued on its net proceeds (the gross value of production minus costs of production, transportation to the place of sale or reduction, and certain insurance and testing costs.

Once property value is assessed by the Department of Revenue it is taxed at varying rates established in the statutory classification system. The classification for some of the larger groups of property is:

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Homes</td>
<td>8.55%</td>
</tr>
<tr>
<td>Industrial and commercial buildings</td>
<td>8.55%</td>
</tr>
<tr>
<td>Utilities</td>
<td>12-15%</td>
</tr>
<tr>
<td>Metal Mines gross proceeds</td>
<td>3%</td>
</tr>
<tr>
<td>Coal gross proceeds</td>
<td>45%</td>
</tr>
<tr>
<td>Oil, natural gas, and mines net proceeds</td>
<td>100%</td>
</tr>
<tr>
<td>Agricultural land</td>
<td>30%</td>
</tr>
</tbody>
</table>

A complete outline of the classified property tax system can be reviewed in Appendix B.

The taxable value of property is its value after the classification rate has been applied. Figure 2 shows the taxable valuation for the State of Montana. In actual reported dollars, the total taxable valuation of Montana has grown sharply during the last decade—from 965 million in 1972 to over 2 billion dollars in 1983. However, as Figure 2 illustrates, in constant 1972 dollars, the taxable valuation for the state has remained relatively constant, 965,608,451 in 1972 to 943,945,330 in 1983.
In contrast to the relatively constant property tax base of the State of Montana, the City of Great Falls has witnessed a very different experience. Figure 3 shows that in actual reported dollars, the total taxable valuation of Great Falls has not grown much in the past decade. In 1972 the taxable valuation of Great Falls was $51,745,951 and in 1983 it was $56,571,347. This is an increase in taxable valua-
tion of only $4,825,396 in the past twelve years. Figure 3 illustrates that taxable valuation for Great Falls in constant 1972 dollars has seriously declined from $51,745,951 in 1972 to $26,117,655 in 1983. Although actual reported dollars rose slightly, the projection in constant dollars shows that the tax base in Great Falls has declined by almost 50% in the past twelve years.

Figure 3

Government purchases of goods and services, state and local

Although property taxes are primarily local government taxes, the state is responsible under Montana's Constitution for appraisal, assessment, and equalization of all property subject to tax. The Department of Revenue, working with locally elected county assessors, value property within state guidelines and classify the property at the correct taxable rate. However, since Montana became a state and established a state tax system, the government has had problems with establishing uniform and equitable valuations for property. The problem under the general property tax system was characterized in July of 1918 by a reporter for the Hamilton Western News as follows:

The report of the state tax commission, which will be made at the forthcoming session of the legislature, will disclose some amazing facts with regard to the state's revenues. For instance, while there is known to be something like $150,000,000 on deposit in various banks [,] solvent credits are assessed at but $4,500,000 and 60 percent of this taxed money is in Silver Bow County; there are 11 counties in Montana, according to the tax rolls, which take toll of time by looking at the sun and guessing; and while there are nearly 50,000 automobiles in the state, according to the number [sic] of licenses issued, but 12,000 have been returned [assessed] by the assessors; there are nine Montana counties in which there is not a single wheeled vehicle, according to the assessment. (Western News, July 25, 1918, p. 2.)

It has been 66 years since the State Tax Commission submitted its report to the Montana State Legislature. However, the lack of uniform and equitable valuations for property remains a problem in Montana to this day. In 1975 the legislature required the Department of Revenue to "administer and supervise the program for the revaluation of all taxable property within the state at least every five years." The current revaluation (more commonly called reappraisal) cycle ends
December 31, 1985. The reappraisal cycles are designed to insure that all property is taxed on an up-to-date value. However problems still persist with this system of revaluation. In 1976 the interim subcommittee on taxation conducted a preliminary examination of the classified property tax system and concluded that the necessary first step before the issue of "equity" could be determined would be to discover the level of fractional assessments used by the Department of Revenue for the various kinds of property in Montana. The subcommittee recognized that fractional assessments, that is, varying percentages applied against different types of property within each class raises questions as to the fairness of Montana's tax system. During the interim study the subcommittee found that:

Although recent legislatures have changed many aspects of Montana's property tax system, the legacy of seventy-five years of fractional assessments remains today. Upon its creation in 1973, the Department of Revenue adopted the rules of the State Board of Equalization and the practices established by county assessors. At present [December, 1976], all property is assessed by Department of Revenue regulations at values ranging from 25% to 100% of full cash value....these varying percentages, applied against different types of property within each class, have obscured the statutory 11-step classification system and created 22 different rates of taxation....this de facto 22-step classification system....bears little resemblance to the statutory 11-step system. Some property within the same class, which is supposed to be taxed at the same rate, is taxed at rates 54% higher than other property in the same class. Property in different classes, on the other hand, is sometimes taxed at the same rate, although....[statute] requires its taxation at markedly different rates.

"The lack of a common concept of value actually applied to all property by state and local officials is probably the single most important reason that no legislature, committee, or otherwise, has been
able to meaningfully assess the equity of the property tax classification system.13 The problem of assessment and valuation in terms of the City of Great Falls is astounding. Building permits are considered to be a partial indicator of an expanding or stagnant tax base. A study of building permits in Great Falls from 1971 through 1983 shows that a total valuation of construction in that period totaled $264,979,569.14 In contrast, the taxable valuation for the city in the same period of time increased by only $4,825,396. Although building permits are not the only measure of the property tax base, an inference can be made that a large portion of property within the City is not being taxed.

The problem with assessments and valuation is not an easy one to solve. The problem has plagued state and local government officials with both the general and classified property tax systems. If the past is a reliable indicator, a likely conclusion is that the problem will not be easily solved in the future.

D. LOCAL MILL LEVY APPLIED TO TAXABLE VALUE

Each year local officials set property tax mill levies to produce the revenue necessary to fund government and school operations for the next year. These mill levies apply to the taxable value of property and determine the actual property tax due.15 A mill is a tenth part of a cent. More usable, and perhaps more understandable, measurements of a mill are in dollars per $1,000, or in cents per $1.00 of taxable valuation of a given property. Figure 4 illustrates how the mill levy
is applied to taxable valuation. For example, the total mill levy for Great Falls, Montana, for 1984-85 is 444.05 mills. That is $444.05 per $1,000 or $.44405 per $1.00 of taxable valuation.16

Figure 4
Example of Property Tax Levy on Residence in Great Falls, Montana

<table>
<thead>
<tr>
<th>Market Value</th>
<th>$60,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Assessment</td>
<td>x 50%</td>
</tr>
<tr>
<td>Assessed Value</td>
<td>$30,000</td>
</tr>
<tr>
<td>Classification %</td>
<td>x 8.55%</td>
</tr>
<tr>
<td>Taxable Value</td>
<td>$2,565</td>
</tr>
<tr>
<td>x Mill Levy</td>
<td>.44405</td>
</tr>
<tr>
<td>Property Tax</td>
<td>$1,138.99</td>
</tr>
</tbody>
</table>


A more detailed explanation of residential property taxes paid in Great Falls will be presented in Chapter IV, "Political Context".

E. PROPERTY TAX AND REVENUE

"The property tax is local government's single largest source of revenue. In 1981 Montana's cities, towns and counties received 51% of total revenue from property taxes."17 This projection holds relatively true for the City of Great Falls through FY 82-83. In FY 82-83 Great Falls received $3,882,500 from the general tax levy and the total general fund was $7,659,671; that means 51% of general operating fund revenues was collected from property taxes. "Montana's public elementary and secondary schools received 55% of their 1982 funding from
property taxes. State government on the other hand received less than 2\% of its total 1981 revenue from the property tax. Figure 5 illustrates that during the last decade, the largest increases in property tax levied has been for schools (151\% increase), special districts (226\%), and counties (115\%). City property taxes have increased 69\% while state collections have remained relatively constant.\textsuperscript{18}

**Figure 5**

Property Taxes Levied in Montana (Millions)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>STATE</th>
<th>COUNTY</th>
<th>CITY</th>
<th>SCHOOL</th>
<th>SPECIAL DISTRICTS</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>$20.7</td>
<td>$49.1</td>
<td>$23.4</td>
<td>$112.1</td>
<td>$13.8</td>
<td>$219.1</td>
</tr>
<tr>
<td>1974</td>
<td>11.2</td>
<td>51.0</td>
<td>25.6</td>
<td>128.4</td>
<td>16.1</td>
<td>232.3</td>
</tr>
<tr>
<td>1975</td>
<td>13.1</td>
<td>59.1</td>
<td>28.4</td>
<td>149.0</td>
<td>17.2</td>
<td>266.8</td>
</tr>
<tr>
<td>1976</td>
<td>12.3</td>
<td>62.5</td>
<td>28.9</td>
<td>157.3</td>
<td>19.4</td>
<td>280.4</td>
</tr>
<tr>
<td>1977</td>
<td>12.1</td>
<td>66.3</td>
<td>27.9</td>
<td>171.7</td>
<td>23.8</td>
<td>301.8</td>
</tr>
<tr>
<td>1978</td>
<td>15.4</td>
<td>70.2</td>
<td>31.6</td>
<td>187.5</td>
<td>27.4</td>
<td>332.1</td>
</tr>
<tr>
<td>1979</td>
<td>14.0</td>
<td>76.3</td>
<td>33.3</td>
<td>211.4</td>
<td>32.2</td>
<td>367.2</td>
</tr>
<tr>
<td>1980</td>
<td>13.6</td>
<td>86.2</td>
<td>36.8</td>
<td>245.1</td>
<td>36.8</td>
<td>418.5</td>
</tr>
<tr>
<td>1981</td>
<td>13.7</td>
<td>96.8</td>
<td>40.6</td>
<td>269.8</td>
<td>41.2</td>
<td>462.1</td>
</tr>
<tr>
<td>1982</td>
<td>15.1</td>
<td>105.4</td>
<td>39.6</td>
<td>281.2</td>
<td>45.0</td>
<td>486.3</td>
</tr>
</tbody>
</table>


Methods for funding local government operations in Montana are currently undergoing change. "Some communities, particularly large cities are shifting traditionally general funded activities to funding by special revenue sources such as fees, charges, and special assessment districts."\textsuperscript{19} Special assessment districts have increased in Montana by 226\% in the ten years shown in Figure 5. This is an attempt to increase local revenue while relieving some of the pressure on the general property tax base. There are advantages and disadvantages to
this type of taxing system. This system can be an effective way of
allocating scarce resources by allowing citizens to set service levels
for themselves through their willingness to pay for a given service.
However, families at low income levels may be discouraged or prevented
from consuming public services because they cannot afford to pay the
price. This is the main argument used to maintain libraries as a tax
supported, free service rather than on a use charge basis.

F. CITY OF GREAT FALLS GENERAL FUND AND STATE ASSISTANCE

The City of Great Falls like all local governments in Montana has
a general fund. The general fund is the largest, most important fund
in the city's budget. Most property tax revenue collected by the city
is deposited in the general operating fund. Figure 6 is an illustra-
tion of the general fund in Great Falls in FY 84-85. For every $1,000
levied against the local tax base the City received $205.07, the local
school system, university system, county government and welfare divided
the remaining $794.93. Figure 6 illustrates how the 205.07 (the
City's portion of every $1,000 levied in taxes) is distributed among
the major elements of the city budget. The shaded areas of Figure 6
comprise the elements which make up the general operating fund. Those
items total $153.45 out of the $205.07 that the City received, or
approximately 75% of the total tax levied by the City of Great Falls.
The City of Great Falls has lost a great deal of purchasing power with the general fund due to the inability of Great Falls to keep pace with inflation. Figure 7 illustrates that in actual reported dollars the general fund rose from a little over $5,000,000 in 1974 to $8,283,837 in 1984. However, when projected in constant dollars the
general fund in Great Falls declined by almost $750,000 from $4,245,432 in 1974 to $3,501.199 in 1984.

Figure 7
City of Great Falls General Fund
Actual and Constant Dollars
(Implicit price deflator)

Government purchases of Goods and Services,
State and Local


The State of Montana financially assists the City of Great Falls on an annual basis. The focus of this paper will remain on the City's
general fund because the general fund is the largest and most important fund in the City's budget. State assistance to the general fund, however, is a large source of revenue to the City of Great Falls. Figure 8 shows the City's total general fund from 1974 to 1984. It also shows the amount of revenue the State supplies to the general fund through the liquor tax, beer and wine tax, and motor vehicle tax.²²

Figure 8

GREAT FALLS:
General Fund and State Aid

SOURCE: City of Great Falls Annual Budget Reports.
From 1974 to 1984 the State contributed a yearly average of $514,591 to the general fund in Great Falls; this is approximately 8% of general fund revenue per year for this ten-year period. This revenue assistance by the State to the City is very important because revenue the City receives from the State does not have to be generated from the local property tax base.

The financial standing of city government in Great Falls has declined in the past decade. The City's tax base has seriously regressed, purchasing power of the tax dollar has shrunk, and property assessments and valuations performed by the Department of Revenue remain underassessed, undervalued and inequitable. In contrast, the financial situation of the State of Montana appears to have remained relatively constant and stable. The next chapter will examine the legal and financial relationship between the State of Montana and the City of Great Falls.
III. LEGAL CONTEXT

State constitutional and statutory law is the authority under which the city government in Great Falls operates; it enables and prohibits certain financial operations of the city. The purpose of this chapter is to examine the city's financial operation within the context of state law, which includes the form, powers and structure of Great Falls city government. By examining the city in this fashion, a more accurate and comprehensive discussion is possible concerning the causes and impacts of recent revenue trends. It also permits a better understanding of the city's financial options and what the fiscal outlook for Great Falls is.

A. WHAT ARE GOVERNMENT FORM, POWERS, AND STRUCTURE?

It is important for this chapter and ultimately the essay to have clear and concise definitions of form, powers, and structure of local government. Lopach and McKinsey offer these definitions in their HANDBOOK OF MONTANA FORMS OF LOCAL GOVERNMENT. While somewhat lengthy, it is worth quoting in full:

A government form is one aspect of governmental structure; it is the structural component which has the closest relationship to governmental powers. A form of local government primarily has to do with three things: the municipalities or counties governing body which exercised the governmental powers; the means of executing or carrying-out the governing body's actions; and the administration of governmental activities. A good working definition is the following: form of government relates primarily to the organization of the legislative and executive branches of counties, municipalities, and townships.
The term powers, on the other hand, can be distinguished sharply from both form and structure. A governmental power is an authorization to act. The authorization comes from some superior source of power, such as the state constitution or state legislature. It can take one of two forms: a delegation or direct grant of power; or a residual authorization, an indirect grant of authority which is available unless specifically denied. Governmental powers, of course, are exercised through the governmental structure.

The Montana Legislature has defined structure as the entire governmental organization through which a local government unit carries out its duties, functions and responsibilities. Structure is a more encompassing term than form; it refers to elective and appointive positions; departmental organization and procedures; boards; commissions, and committees. It is the total machinery through which a local government does its work.

The definitions as discussed by Lopach and McKinsey will be utilized throughout this chapter. The focus of the essay will now turn to the form, powers and structure of the city government in Great Falls for the purpose of identifying its fiscal characteristics.

B. FORM OF GOVERNMENT IN GREAT FALLS

The 1975 session of the Montana Legislature enacted into law five basic optional forms of local government. The optional forms of government may be adopted by either a county or municipality. The five optional forms of local government are: commission-executive, commission-manager, commission, commission-chairman, and town meeting.

The City of Great Falls uses the commission-manager form of government. This form of government, like the others, is outlined in Montana statutes with provisions for both mandatory and optional features. The mandatory relationship between the commission and the manager is stated in the Montana Codes Annotated as:
Commission-manager form. The commission-manager form (which may be called the council-manager form) consists of an elected commission (which may be called the council) and a manager appointed by the commission, who shall be the chief administrative officer of the local government. The manager shall be responsible to the commission for the administration of all local government affairs placed in his charge by law, ordinance or resolution.\textsuperscript{26}

Montana law further states that:

The manager shall be appointed by the commission for an indefinite term on the basis of merit only and removed only by a majority vote of the whole number of the commission.\textsuperscript{27}

The commission as an elected body is responsible for establishing the direction and policies of city government. The city manager is responsible to the commission but is also the chief administrative officer for the city.\textsuperscript{28}

The duties of the city manager are defined by Montana statute. The Montana Codes Annotated states that the manager shall:

(1) enforce laws, ordinances, and resolutions;
(2) perform the duties required of him by law, ordinance, or resolution;
(3) administer the affairs of local government;
(4) direct, supervise, and administer all departments, agencies, and offices of the local government unit except as otherwise provided by law or ordinance;
(5) carry out policies established by the commission;
(6) prepare the commission agenda;
(7) recommend measures to the commission;
(8) report to the commission on the affairs and financial condition of the local government;
(9) execute bonds, notes, contracts and written obligations of the commission, subject to the approval of the commission;
(10) report to the commission as the commission may require;
(11) attend commission meetings and may take part in the discussion, but may not vote;
(12) prepare and present the budget to the commission for its approval and execute the budget adopted by the commission;
(13) appoint, suspend, and remove all employees of the local government except as otherwise provided by law or ordinance;
(14) appoint members of temporary advisory committees established by the manager.

Montana law clearly defines the city manager's responsibilities, authority and restrictions, as well as the position's working relationship with the commission.

In contrast, Montana law provides more freedom in structuring the city commission, allowing various structural sub-options for the legislative body in the commission-manager form. For the purpose of this essay, the discussion will focus on the sub-options in use in Great Falls. For more information on the list of sub-options available, the reader can refer to the Montana Code Annotated, 7-3-312 through 7-3-318. The structural characteristics of the city commission in Great Falls are as follows:

(1) The commission has the authority to appoint all members of boards, other than temporary advisory committees established by the manager;
(2) The commission is elected at large;
(3) Local government elections are held on a nonpartisan basis;
(4) The mayor is selected when that person receives the highest percentage of votes in the local government election;
(5) The commission members are elected for overlapping terms in office. There are local government elections every two years, and only part of the commission is up for election at any given time;
(6) The city commission consists of five members, including the mayor; and
(7) The term of office for elected officials is four years.

The structural characteristics outlined above further define the form of government in use in Great Falls. At this time, it is necessary to briefly recap the financial characteristics of the commission-manager
form of government. This will complete the discussion about form of government in Great Falls.

The city commission, as the legislative branch of government, establishes financial policy and sets fiscal priorities for the City of Great Falls. The manager is the administrative branch of government, but is hired by and is responsible to the city commission. It is the manager's job to execute the decisions of the commission. The manager has limited authority to establish fiscal policy, but may and frequently does make recommendations to the commission based upon the person's expertise in the field of finance and administration. The commission can follow through with the manager's recommendations, or choose an alternate course of action. To characterize further the structural composition of this government, an examination of its power authorization is necessary.

C. POWERS OF CITY GOVERNMENT IN GREAT FALLS

Article XI of the Montana Constitution describes a dual system of local government powers: general government (Dillon rule) or self-government (home rule) powers. Great Falls operates under general government powers. However, an explanation of self-government powers will be discussed first, so that the reader can become familiar with both types of powers.

The authorization for home rule powers is found in Article XI, Section 6 of the Montana Constitution. Section 6 reads:
A local government unit adopting a self-government charter may exercise any power not prohibited by this constitution, law, or charter. This grant of self-government powers may be extended to other local government units through optional forms of government provided in Section 3.

Home rule powers sound very inviting when first viewed. However, an analysis of state prohibitions of power concerning home rule authority leads one to conclude that home rule powers are not much different than general government powers (for more information refer to Montana Code Annotated 7-1-111 through 7-1-114). The only financial authority home rule units have over general government units is that they may levy more than 65 all-purpose mills. General government powers cannot surpass this 65 mill levy limit. State government, therefore, has been unwilling to grant much revenue raising authority to home rule units.

The City of Great Falls is authorized to use general government (Dillon rule) powers. "Dillon rule" is the legal doctrine that unless there is explicit authorization, there is no power to act, including taxation. Article XI, Section 4 of the Montana Constitution uses the following language concerning general powers. The constitution reads:

(1) A local government unit without self-government powers has the following general powers:
   (a) An incorporated city or town has the powers of a municipal corporation and legislative, administrative, and other powers provided or implied by law.

(2) The powers of incorporated cities and towns and counties shall be liberally construed.

This constitutional language limits general government powers to "authorizations" of power provided by Montana statutory law.
Montana statutes concerning local government finance are very specific and narrow in terms of the authority they grant. The general taxing power of municipalities is:

the city or town council has power to levy and collect taxes for general and special purposes on all property within the town or city subject to taxation under laws of the state.\(^{35}\)

This authorization for the general property tax is local government's largest source of revenue. Besides the property tax, the next most important source of revenue for Great Falls and many other local governments in Montana is state financial assistance. The powers granted general powers local governments in Montana to raise revenue is thus extremely limited.

The city's autonomy and authority are further reduced by state statutes governing financial management. The Great Falls finance director operates under state mandates concerning the financial administration of the city. The finance director, an employee of the city manager, must report to the manager and the commission concerning financial matters; collect taxes, assessments, and fees; and manage and invest city funds according to state statute. The statutes governing these functions are very detailed and explicit. City governmental fiscal management is thus closely controlled by state government.\(^{36}\)

The above discussion makes clear that the fiscal powers of the City of Great Falls are very narrow and well defined by state government. The taxing power of the city commission is limited by the state; the commission can only levy a tax on the taxable property within the city limits. The property that can be taxed and the amount of the tax
to be levied is defined by the Montana classified property tax laws. City government is further controlled by state laws governing the fiscal management practices of municipalities. These fiscal powers of the City of Great Falls are exercised through the governmental structure, which will be developed next.

D. GOVERNMENTAL STRUCTURE OF THE CITY OF GREAT FALLS

As mentioned earlier the form of government contributes to the overall structure of the organization. The structure of a government is the entire governmental organization through which a local government unit carries out its duties, functions and responsibilities. Figure 9 illustrates the governmental structure of the City of Great Falls in the form of an organizational chart. For the purpose of this essay, the discussion of city structure will be limited to its financial characteristics.

The city commission consists of five individuals. These individuals are elected to serve as the legislative branch of city government. The financial characteristics of the commission are:

(1) the ability to levy property taxes;

(2) the authority to approve and adopt an annual budget for the city;

(3) the authority to establish fiscal policies and priorities for the city;

(4) the authority to over-see the city manager to insure that the fiscal policies and priorities of the commission are being executed.

The city commission also has oversight powers over the various boards and commissions in city government. Figure 9 illustrates the
boards and commissions in Great Falls. Some of the organizations are established by state law for the purpose of providing basic services to citizens of the community, as health services, air transportation, and library facilities. All of the boards and commissions serve the city commission as advisory organizations. They can support or oppose financial matters that are before the city commission which relate to their organization and scope of operations. Often times, the city commission will rely on recommendations from a board or a commission because its members are experts in the field and are respected individuals in the community.

The city manager is the administrative head of city government. As illustrated in Figure 9, the manager serves the commission and all other city employees work for the manager. The manager must work with the city commission to establish fiscal policies and priorities for the city and then incorporate these decisions into the city budget. After the budget is adopted by the commission, the financial affairs of city government become the immediate responsibility of the city manager. Thus, the manager has "hands-on" control of the daily financial operations of the city.

The various department heads assist the city manager with the administration of city operations. Figure 9 illustrates the various city departments in Great Falls. Each department director administers the departmental budget under the direction of the manager. The directors also represent their respective department before the city commission when financial and other matters are in question.
City Organization: An Explanation

The chart at right illustrates the organizational structure of the City of Great Falls and several independent agencies that are associated with it.

Points worth noting:
- The Airport Authority, Library City/County Health Board, Board of Adjustment, Park Board, and Planning Board are independent bodies under the Commission, with powers set out by State law.
- Department heads are shown where applicable.

SOURCE: City Manager, Great Falls, Montana.
Because the State of Montana regulates the fiscal activities of municipalities, it is important that the state be informed of city financial matters. It is the duty of the city commission and the city manager to communicate their financial concerns to the State of Montana. City officials communicate with the state in person and through such organizations as the Montana League of Cities and Towns and the Urban Coalition.

This chapter is not all-encompassing; much detail was omitted. However, the form, powers, and structure of the Great Falls city government in general has been presented. A basic conclusion of this chapter is that city government is an extension of state government and cannot act without direct or implied statutory authorization from the state. State government regulates the financial activities of municipal government and is the ultimate authority over local government financial operations. A positive relationship between cities and the state is necessary if the financial problems facing local government are to be addressed successfully. The next chapter will examine further the political relationships that exist between the State of Montana and the City of Great Falls and between the city and other political actors.
IV. POLITICAL CONTEXT

The Great Falls city government, the Cascade County government, and School District 1C all generate property tax revenues from the same tax base. The property tax system was discussed earlier in this essay. It was pointed out that the property tax is the only method of taxation that the State of Montana has authorized for local government use. Also, the property tax is local government's largest source of revenue. These governmental organizations have become increasingly dependant on property tax revenues to finance their operations. However, recent legislative, judicial and administrative decisions by state government have effectively reduced the taxable property within the local tax base. Due to the reclassification or exemption of certain properties by state government, local governments must raise taxes on the remaining tax base or cut services to make up for lost revenues. The result of this situation is that the residential property owner has had to pay substantially more in property taxes so that city, county, and school operations are adequately funded.

This chapter first will focus on the political decisions made by state government that have reduced the taxable property within the local property tax base. Then there will be a discussion concerning the extreme pressure put on the tax base by city, county, school district, and state mandated tax levies. This chapter also will present an examination of the recent property tax trends of residential
property owners in Great Falls. Finally, a conclusion will summarize the effects all of this has had on the financial condition of the City of Great Falls.

A. STATE LEGISLATIVE, JUDICIAL AND ADMINISTRATIVE DECISIONS AFFECTING PROPERTY TAX REVENUES

Since 1979, the Montana property tax base has been severely reduced by state legislative enactments and judicial and administrative decisions. These decisions have exempted or reduced the tax rates of special classifications of property. The result of the various state actions is a reduction in taxable property within the tax base.

The 1979 legislature exempted bank stock and moneyed capital from property tax levies. At the time of the exemption the taxable value of this property was $14,341 million. The annual tax revenue local governments lost, calculated by applying an average levy of 250 mills, was $3,585 million. The 1979 session also exempted bank surpluses from property taxation. The taxable value of this property was $7,468 million. The annual tax revenue lost was $1,867 million.

The cumulative loss of property tax revenue from the bank exemptions was $5,452 million. The property tax on banks was replaced with a franchise tax. This was later followed by the Montana Financial Institutions Tax, which the Department of Revenue estimates will generate $3.291 million for local governments in fiscal year 1984. This is $2.161 million less than would have been collected if the property tax on banks had remained the same.

For a period of 18 months, the business inventory tax was collected by local governments with businesses and corporations receiving refunds.
and credits from the state. However, the 1981 legislature exempted business inventories from taxation. In 1980, the taxable value of business inventories in Montana was $38.754 million. The tax revenue, calculated by applying an average levy of 250 mills, was $9.688 million. This is the minimum annual loss to cities, towns, counties, and school districts resulting from the exemption of business inventories.

In 1979, under a court order, the Department of Revenue reduced by 12 percent assessments on commercial and industrial real property across the state. The 1983 value of commercial and industrial real property was $177.664 million. The 12 percent reduction represents a loss of $24.227 million in taxable value and an annual reduction in revenue of $6.057 million (calculated by applying an average levy of 250 mills). Figure 10 illustrates local governments cumulative annual loss of property tax revenue due to the recent tax breaks on banks, business, and commercial properties.

Figure 10
Cumulative Annual Loss of Property Tax Revenue

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Taxes</td>
<td>$2.161</td>
</tr>
<tr>
<td>Business Inventories</td>
<td>9.688</td>
</tr>
<tr>
<td>Commercial Property (12%)</td>
<td>6.057</td>
</tr>
<tr>
<td>Total (per year)</td>
<td>$17.906</td>
</tr>
</tbody>
</table>

SOURCE: Alec Hansen, Director, Montana League of Cities and Towns.

Figure 10 represents some of the major property tax revenues that local governments have lost in recent years. However, local governments
have also lost motor vehicle revenues, and have experienced a reduction in collections from railroads, livestock, farm equipment, heavy machinery and other sources. In response to these tax breaks, the state established the block grant program in 1983 to replace some of the revenue that local governments lost. Currently the block grant program is funded by one-third of the oil severance tax and a $3 million general fund appropriation. It was estimated that this combination of funds would generate $31.5 million in motor vehicle tax replacement revenues and about $5 million in general services grants during this biennium. However, with oil prices at roughly $28.50 per barrel and production running at 30 million barrels annually, the block grant program would generate about $28.5 million over a two-year period, which is $3 million less than the cost of motor vehicle replacement. This means that oil prices would have to increase at least $3.00 per barrel to cover motor vehicle replacement at current levels. If the market improved to that level, there would still be no additional funds for distribution to cities, towns and counties as initially proposed by the Governor in 1982.\textsuperscript{39} If the block grant program falls short of replacing motor vehicle revenues, the total dollar amount in Figure 10 will grow even higher.

As a result of the tax relief measures adopted by the State of Montana, local governments were forced either to raise property taxes to recover this lost revenue or to cut expenses and reduce services. Much of the burden of paying for these tax relief programs was put on the shoulders of residential property owners. Recent trends of property
taxes paid by residential property owners will be discussed below. But first the discussion will focus on the extensive use of the local tax base by the City of Great Falls, Cascade County, School District 1C, and the state.

B. TAXES LEVIED BY GREAT FALLS, CASCADE COUNTY, SCHOOL DISTRICT 1C, AND STATE MANDATED PROGRAMS

The property tax base in Great Falls is utilized by Cascade County government, the City of Great Falls, School District 1C, and the state university system and welfare program. Figure 11 illustrates the total combined mills levied by these governmental organizations from FY 1970-71 through FY 1983-84. The graph illustrates local governments increasing dependance upon the property tax base in Great Falls. For instance, in FY 1974-75 the total combined mill levy was 289.51, and in FY 1983-84 it was 444.05. This is a total tax increase of 151.54 mills in Great Falls for the last ten years. In the past decade, property taxes have increased on the average of 15.45 mills every year.

As discussed in this essay, the property tax base in Great Falls has been declining for the past ten years because of economic and political reasons. The ever rising tax levies against a declining tax base raises questions about how long the local tax payer in Great Falls can, or will sustain yearly tax increases of this proportion. However, local governments have their backs against the wall. They must generate an adequate amount of revenue to supply the basic services that citizens require, but the state authorizes local governments to raise this revenue only through property taxation. For this reason, local
governments have become extremely dependant and overreliant upon property tax revenues to fund their operations.

Figure 11

Mills Levied By Great Falls, Cascade County, School District 1C and State Mandated Programs

SOURCE: Montana Property Tax Mill Levy Annual Reports, Published by the Montana Tax Foundation.

Property tax revenues are not divided equally among the various governmental organizations. Figure 12 illustrates the property tax distribution in Great Falls. The chart depicts a total tax bill of $1,000. In that case $615.61 or 61.6% is a result of school taxes; $205.07 or 20.5% is for city taxes; $135.51 or 13.6% is a result of county taxes; $27.02 or 2.7% goes to fund welfare; and $16.89 or 1.7% of the $1,000 tax bill is levied for the state university system. Each of the local governments levy taxes under authority from state govern-
ment, but the city, county, and school district all operate independently of one another. The residential property owner pays a substantial amount of the local property tax bill, and the next discussion will examine recent trends of residential property tax bills in Great Falls.

Figure 12

Property Tax Distribution in Great Falls


C. RECENT TRENDS OF RESIDENTIAL PROPERTY TAX BILLS IN GREAT FALLS

As discussed earlier in this chapter, several groups, i.e., banks, businesses, railroads, livestock, farm equipment and others, have received property tax breaks in recent years from the State of Montana.
In contrast, the residential property owner has experienced tax increases nearly every year for the past decade. Figure 13 illustrates the amount of property taxes paid on a $60,000 home in Great Falls for each of the past ten years. The taxes paid on a $60,000 home includes tax levies for city, county, school, university and welfare operations.

Figure 13
Taxes Paid on a $60,000 Home in Great Falls

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>$742.59</td>
</tr>
<tr>
<td>1976</td>
<td>732.82*</td>
</tr>
<tr>
<td>1977</td>
<td>761.04</td>
</tr>
<tr>
<td>1978</td>
<td>771.04</td>
</tr>
<tr>
<td>1979</td>
<td>784.68</td>
</tr>
<tr>
<td>1980</td>
<td>832.75</td>
</tr>
<tr>
<td>1981</td>
<td>919.42</td>
</tr>
<tr>
<td>1982</td>
<td>907.66*</td>
</tr>
<tr>
<td>1983</td>
<td>956.87</td>
</tr>
<tr>
<td>1984</td>
<td>1,138.99</td>
</tr>
</tbody>
</table>


*Year in which a tax decrease occurred when compared to the previous year.

The chart illustrates that from 1975 to 1984 residential property taxes in Great Falls increased by $396.40, or approximately 35 percent. It is important to note that the chart depicts residential property at the constant value of $60,000 for each of the past ten years. However, residential property has a tendency to appreciate over time. This means that for many residential property owners in Great Falls, the tax increase over the past decade would actually be more than the 35 percent increase that is illustrated in Figure 13. For example, the taxes
paid on a $60,000 home in 1975 was $742.59. If this home was appraised at a value of $70,000 in 1984, the property tax paid would be $1,328.32. The property tax paid on this home in 1984 would then be $586.23, or 44 percent, higher than the amount paid in taxes for the same home in 1975. The example discussed above is a hypothetical situation and does not necessarily reflect the activity under the state-wide appraisal system. However, the example is important because it illustrates, over time, the relationship between higher property assessments and higher taxes.

The State of Montana has implemented tax breaks for several property classifications in recent years. In contrast, the cost of local property taxes for residential property owners has risen dramatically in the last ten years. The residential property owner is adversely affected by a heavy reliance on property tax revenue by city, county, school, and some state operations. The next discussion will summarize the impact these factors have had on the fiscal condition of the City of Great Falls.

D. CONCLUSION: EFFECTS ON THE FINANCIAL CONDITION OF THE CITY OF GREAT FALLS

The discussion in Chapter II focused on how the financial condition of the City of Great Falls deteriorated in the past decade. That chapter demonstrated that the city's tax base seriously regressed, purchasing power of the tax dollar shrunk, the property assessments performed by the Department of Revenue were unrealistically low and
inequitable. The political factors examined in Chapter IV have made these financial problems even worse.

Thus, the political decisions by state government to exempt and reduce certain classifications of property have further reduced the tax base in Great Falls. Great Falls is hurt by its competition for property tax dollars with the school system, county government, and the state. The combined tax levy in Great Falls is very high. Therefore, it is becoming politically more difficult for the City of Great Falls to generate operating revenue from the tax base. The local tax payer is upset and will not continue to sustain the yearly tax increases that have occurred in Great Falls for the last decade. The next chapter will examine some alternative revenue sources and forms of state aid that could help the financial condition of Great Falls and relieve some of the tax pressure on the residential property owner.
V. OPTIONS AND OUTLOOK

So far, the discussion in this essay has focused on the City of Great Falls and the financial problems associated with its operations. The discussion in this chapter will focus on solutions rather than problems. There are several optional responses to the revenue raising limitations on local government. The responses may be categorized into three areas: property tax reform; the use of other taxes; and state assistance programs. It is important to keep the legal relationship between the city and the state in mind throughout this chapter. As was discussed in Chapter III, the State of Montana strictly controls the financial operations of local governments. Therefore, most of the property tax reforms and optional revenue sources that are discussed in this chapter will require state legislative action before local government use is possible. Property tax reform will be discussed first, followed by use of other taxes and state assistance programs.

A. PROPERTY TAX REFORM

Montana's property tax system is in need of reform. Some inadequacies and inequities of the tax system were discussed earlier in this essay. This discussion will not recap the problems of the tax system in Montana. Rather, it will briefly identify areas within the tax system where reform is needed.
1. **Modernize Assessment Procedures.** Property assessment functions are performed by the State of Montana. As discussed in Chapter II, property assessments are unrealistically low and inequitable. Montana property assessment procedures need to be evaluated for fairness and standardized. Clearly, local governments faced with an immediate cash shortage would benefit little by a move to improve assessment procedures. However, in the long run they could benefit from standardized assessment procedures because it would simplify the property tax system and generate additional revenue for local governments. Also, standard property assessments would be more fair than fractional property assessments because people who own property within the same class would be taxed at the same rate.

2. **Delete Exemptions.** Municipal officials can alleviate local financial stress by changing traditional approaches to tax exempt property. The main constraint, as is becoming obvious with almost every issue treated in this paper, is state law. Since the state legislature is the bestower of tax exemptions, the most effective action a local official might take is to lobby for increased compensation from state government in lieu of taxes. Local officials could also benefit by lobbying for a change in state law to allow more local discretion in the granting of tax exempt status to organizations. Other actions which a local government could undertake include: appraising the value of all tax exempt property within the county or municipality for lobbying purposes; and requiring organizations to pay user charges for certain services.
3. **Equalize Tax Base.** The thrust for revenue equalization among local governments has been particularly evident in the area of school finance. Critics of the property tax's dominant role in school finance have argued that the state must change the method of funding local education. They charge that because the level of wealth within a school district determines expenditures on education, equal opportunity for the education of all children within a state does not exist.\(^4^4\)

Local governments in Montana want equalization in terms of expenditures for the state court system. Presently, residents in Montana's larger counties pay proportionally more in property taxes to fund the courts than do residents of the less populated counties. The cost of operating a state court system should be born equally by all of the tax paying residents of the state. The manner in which the court system is presently being funded should be reviewed in terms of fairness and ability to pay.

Also, the ability to raise revenue from the property tax base varies a great deal around Montana. For instance, some communities in Eastern Montana have a high mill levy value because of coal and oil activities in their area. They can generate the operational revenues necessary by levying relatively few mills against the tax base. In contrast, communities like Butte and Anaconda in Western Montana have low mill levy values, for various reasons. These communities must levy a high proportion of mills to generate the revenue necessary to fund their operations. Natural resource development in Montana, in
relation to local government taxes, should be considered a state resource rather than a regional one.

Reforms in certain areas of the property tax system would help the financial condition of local governments and it would also provide a more equitable tax system for property owners. The next discussion will turn from property tax reform and focus on the use of other forms of taxation.

B. USE OF OTHER TAXES

Local governments in Montana are facing fiscal problems that can no longer be solved by raising property taxes. The tax base is receiving very heavy use by local governments, and politicians realize that tax increases are politically unacceptable. However, some politicians would hesitantly welcome the use of some type of alternative revenue source that could ease the financial problems facing local governments and relieve some of the tax burden on the residential property owner. The following discussion will evaluate some of the more talked about tax options within the political arena.

1. **Local Option Taxes.** Local governments in Montana must have legislative approval before local option taxes can be utilized. If local option taxes are allowed at the local level, then a greater degree of local control can be maintained. Local governments need and are capable of the responsibility for using greater local autonomy in developing the sources of revenue for funding the services and facilities they provide. Several forms of local option taxes will be discussed below.
a. **Local Income Tax.** The income tax is a local option tax that, if implemented, could relieve some of the pressure on the property tax base. The 1977 recommendation by the State Commission on Local Government was for an income tax collected with the state income tax, commonly known as a "piggyback" tax. The rate of taxation would not exceed 20 percent of the state tax liability. The tax would be imposed on a countywide basis and the revenue would be distributed among governments of all the incorporated municipalities within the county and county government. The Department of Revenue would administer and enforce the local option income tax.

In 1975, the state government in Montana collected about $98 million through the individual income tax. In contrast, local governments collected $54.9 million in property tax with incorporated cities and towns receiving $24.5 million. These figures illustrate that the income tax would not replace the property tax completely. However, if each county utilized the income tax at the maximum of 20 percent of the revenue derived from the state personal income tax, the local income tax could replace or supplement local governments' property tax by 25 percent.46

b. **Local Fuels Tax.** In Montana, like a majority of other states, motor fuels taxes are reserved for the state government. The revenues are substantially earmarked for state highway and partially for local governments for road purposes. A local fuels tax would help relieve some of the pressure on the property tax base to fund road maintenance and construction. The tax could be limited to about two cents per
gallon to the consumer. The local government imposing the tax would be responsible for the administration and collection of the tax. The tax would be levied only on those fuels that may be taxed under the provisions of the Montana Codes Annotated. 47

c. Local Option Hotel-Motel Tax. A hotel-motel tax would help local governments supplement their revenues, especially those municipalities that are prime tourist areas in Montana. Tourism is a large industry in Montana and tourists are provided police protection, fire protection and several other governmental services. Local governments have no way of recovering the cost of providing services to people traveling through their community. 48 The City of Billings used the hotel-motel tax until the Montana Supreme Court ruled that its use by local governments is unconstitutional. However, the state legislature has the authority to authorize the use of this tax by Montana's local governments.

d. Local Option Motor Vehicle Tax. Currently the State of Montana levies a uniform tax on motor vehicles in the state. As discussed in Chapter IV, a large portion of this revenue makes its way back to local governments via the state block grant program. However, the majority of the total revenue for local road purposes comes from the property tax. Local governments should be given the opportunity to use an additional motor vehicle license fee in order to raise revenue for road maintenance and construction from those that use the roads most, the motor vehicle owner. The implementation of an additional motor vehicle license fee would both ease the burden of the property
owner and help solve local governments' never ending problem of financing road services. 49

There seems to be considerable interest among Montana's local governments in local option taxes. House Bill 793 from the 1983 Legislature would have extended authority to local governments to impose income, hotel-motel and motor vehicle taxes. This bill passed the House and was killed in the Senate Finance and Claims Committee. The general belief, however, is that it would be extremely difficult to convince local voters to approve a new tax and that state financial assistance would be preferable. 50 State assistance will be examined below, but first some other forms of taxation will be discussed, such as a lottery, sales tax, and local service charges.

2. State Lottery. Local governments have shown much interest in using the proceeds from a state lottery to finance assistance programs for counties and municipalities. This interest was apparent during the Montana Association of Counties annual convention when the Association passed a resolution supporting a lottery. 51 Research indicates that lotteries have been very effective in generating revenues in other states in this region. For instance, the State of Washington began lottery sales to the public November 15, 1982. Virtually all 50,000,000 $1 tickets were sold out within seven weeks, in a state with 4,132,000 people. Sales for the first twelve months were $244,878,276, or $59.26 per person. Another example is the State of Colorado. The Colorado Lottery began sales January 24, 1983. Sales for the first seven weeks were $50,000,000 in a state with a population...
of 2,890,000. Sales for the first twelve months were $208,000,000, or $71.97 per person. If Montana implemented a lottery, it would not generate as much revenue as the Washington and Colorado lotteries because of population differences. However, the revenue generated could help fund local government operations and relieve some of the burden on the property tax payer. The next discussion will briefly examine a state sales tax.

3. **State Sales Tax.** The sales tax is a significant taxing method that is utilized throughout the nation. With the approval of the state legislature, local officials could compensate for some of the slack in property tax revenues by imposing a local sales tax. Although the sales tax is criticized as regressive in nature (especially if food or other essential items are not exempted), its popularity is due to the relative ease with which it can be collected and the apparent "painlessness" the taxpayer feels at the time of payment. Attempts to implement a sales tax in Montana have failed in the past and the Governor has publicly stated that he will oppose sales tax legislation in the 1985 Legislature. Montana may not be ripe for a sales tax, but the debate should continue. Local service charges will be examined next.

4. **Local Service Charges.** Local governments can defray costs by implementing service charges. A service charge is a fee upon the user of a service provided by the city or county. Generally a service charge can be levied when the service can be measured and sold in marketable units and the user can be identified. The rationale behind
service charges is that certain services are primarily for the benefit of individuals rather than the general public. Thus the individual benefiting from a service should pay the cost of that service. \textsuperscript{54} Refer to Appendix C for a partial list of service charges used by cities around the country.

The tax sources discussed above are not an exhaustive list of alternative tax sources that could supplement the property tax. Rather, it is a selective representation of the more talked about options within the political arena. The 1985 Legislature will spend much time discussing these various tax forms. The next discussion will focus on state assistance programs to local governments.

\textbf{C. STATE ASSISTANCE TO LOCAL GOVERNMENTS}

As is apparent throughout this paper, most of the restrictions which have been placed on local governments' fiscal authority have been the result of state legislative action. The fact that local governments are "creatures" of the state and must conform to its laws plays a role in any action a local official may desire to take. State laws are supreme in state-local finance as well as all other types of state and local interrelationships, thanks to Dillon's rule and various other judicial opinions and interpretations. \textsuperscript{55} Thus, only state government has the power to authorize local governments to raise revenue or to provide that revenue through state assistance programs. This section will briefly examine a few areas where state assistance would greatly benefit the financial condition of local governments in Montana.
1. Modification of The State Block Grant Program. It was discussed in Chapter IV that the block grant program was established to replace lost motor vehicle revenues to local governments and to compensate localities for the elimination of business inventory taxes and the reduction of collections from banks, railroads, commercial property, livestock, farm equipment, heavy machinery and other sources. However, if the block grant program funding is limited to one-third of a five percent oil severance tax, there will not be sufficient revenue to cover the cost of motor vehicle replacement, let alone additional funds for distribution to cities, towns and counties as initially proposed by the Governor in 1982.

The state legislature could modify the block grant program so that a full one-third of the oil severance tax be maintained as a permanent replacement for ad valorem vehicle taxes. Another source of funding could be earmarked for the general services block grant program, for distribution to counties, cities and towns. It has been suggested by local officials that if five percent of the state personal income tax were earmarked for the general services block grant program, financing would be at the level of $7.5 million annually, based on 1983 collections. This would bring the program in line with the Governor's projection of $16 million in new money for local governments per biennium. Currently, 64 percent of the personal income tax goes to the state's general fund, 25 percent is earmarked for the school foundation program, and 11 percent is channeled into the long-range building program.
A combination of oil severence and personal income taxes would be a good method of assuring reliable state financial assistance to local governments. However, there are other state revenues, including liquor, insurance premiums and corporate income taxes that could fund the block grant program. The block grant program, if adequately funded, could help to reduce the pressure on the property tax base around the state. The state could further reduce the pressure on the tax base by funding the state court system as discussed below.

2. State Assumption of District Courts. The function of District Courts is to provide a system of trial courts for interpretation of state law and adjudication of disputes. The state should assume the costs of the District Courts; such assumption of the costs of the District Court, Juvenile Probation, Justice of the Peace, Defender System, and Law Libraries, including staff salaries, operational and trial costs, and capital equipment, would save local governments approximately $5 million per year. Additional information on this recommendation is published in the Commission on Local Governments "State Assumption on Costs for District Court Operations."  

Greater state assistance to local governments through the block grant program and assumption of the district courts would help the financial condition of local governments in Montana. This assistance would also reduce pressure on the property tax and thereby reduce pressure on the residential property owner. The next discussion will focus on the outlook for the City of Great Falls.
D. OUTLOOK FOR GREAT FALLS

The dilemma confronting Great Falls is that the city faces financial difficulties and has no authority to fashion a satisfactory solution. The city must rely on the state government to solve its fiscal problems. The state legislature convenes in January, 1985, and Great Falls must lobby legislators for more fiscal authority, e.g., local option taxes, lottery, or for more financial assistance. The financial condition of the City of Great Falls will not improve until the state implements a revenue source that will supplement the city's property tax revenue and relieve some of the pressure on the residential property owner.
VI. CONCLUSIONS AND RECOMMENDATIONS

The financial condition of Great Falls and many other local governments in Montana has steadily declined over the past decade. The poor financial condition of local governments in Montana is related to: negative economic factors; a shrinking tax base; a decrease in tax revenues; an overreliance on the property tax as the major source of revenue; competition between the city, county, and school district for revenue; and local government-state fiscal relations. The state must act to lessen the dependence of local governments on the property tax as the primary source of revenue. This would also relieve some of the tax burden on the property owner. Local governments' fiscal problems will not disappear. The 1985 legislature will have the opportunity to grant local governments more authority to raise revenue or authorize more state assistance to local governments. Only then will the situation improve.
Since 1919 the classification law has been subjected to the following amendments:

1921: To net proceeds of mines in class one was added the right to enter upon land to explore or prospect or dig for oil, gas, coal or mineral where the surface title to the land has passed to another.

1929: Moneyed capital and shares of both national and state banks were made taxable at 30 percent.

1937: "All office and hotel furniture and fixtures" were placed in class three (33 1/3%). Added to class five (7%) were "all poles, lines, and other property used and owned by cooperative rural electrical associations organized under the laws of Montana."

1941: The property of cooperative rural electrical associations in Class 5 was explicitly declared to include "transformers, transformer stations, meters, tools, improvements, machinery."

1947: Grain, hay and vegetables on the farm or in storage awaiting processing were explicitly excluded from Class 3 (33 1/3%) and placed in Class 5 (7%). The inclusion of office and hotel furniture in Class 3 was changed to office "or" hotel furniture.

1951: Unprocessed products of livestock and poultry were explicitly included in Class 3. The inclusion of grain, hay and vegetables in Class 5 was changed to "All unprocessed agricultural products either on the farm or in storage irrespective of whether said products are owned by the elevator, warehouse or flour mill owner or company storing the same or by any other person whomsoever, and excepting livestock and poultry and unprocessed products of both." Industrial property, normally included in Class 4, was placed in Class 5 for a period of three years after such property is first assessed.

1957: Cooperative rural telephone associations were included in Class 5.
The provision for inclusion of new industrial property in Class 5 for three years was deleted. Bank surplus up to the amount of stated capital was changed to 7%.

Moneyed capital and shares of banks and surplus in excess of stated capital were retained at 30%.

1961: Class 4 was amended to include "and all trailers affixed to land owner, leased, or under contract of purchase by the trailer owner."

An additional class called New Industrial Property was added at a tax rate of 7% of true and full value and former Class 7 was redesignated Class 8.

1967: Placed freeport merchandise in Class 7 at 7%.
Clarified the definition of mobile homes and placed them in Class 4.

1969: Included telephone companies serving rural areas and cities and towns with 800 or less inhabitants and with average circuit miles for each station of more than 1½ mile in Class 2.

Increased the valuation and income limits on owner-occupied real property in Class 8 to $17,500 valuation and $3,300 income ($4,500 if married) per year. The tax rate on Class 8 property was reduced from 20% to 15%.

1971: Freeport merchandise was made a separate class and the tax rate was reduced to 1%.

Added mobile homes to Class 8 (tax reduction for certain widows, widowers, retirees) and increased the income limitations to $4,000 ($5,200 if married).

The residence of a totally disabled veteran was placed in Class 5 at 7% of true and full value.

Moved the equipment of co-operative rural electrical and telephone companies serving less than 95% of the population within an incorporated city or town from 7% of true and full value to 20%.

1973: Freeport merchandise was exempted from property taxation.
Unprocessed, perishable fruits and vegetables in farm storage and owned by the producer were removed from Class 5 (7%) and exempted from property taxation.

1974: Household goods and personal property used for personal or domestic purposes was exempted from property taxation.
1975: Business inventories were removed from Class 3 (33 1/3%) and placed in Class 7 (7%).

Money and credits (7%) were exempted from property taxation. This did not apply to banks.

Placed centrally assessed utility allocations, after deduction of locally assessed property, in Class 9 (40%). Revised the valuation and income limitations for certain widows, widowers, and retirees (Class 8 {15%). Valuation limit was increased to $27,500 and income limit became $6,000 ($6,800 if married). The size of the lot appurtenant to the dwelling was allowed to be up to 5 acres. The assessed value of such a residence was frozen during the life of the person who qualified for this class unless such person made a "substantial" improvement in the dwelling.

Created a new class for the incremental increase in the value of real estate attributable to repairing, maintaining or improving existing improvements. The tax rate on the increment began in the first year following completion of the repair at 6% and increased each year until it reached 30%.

Excluded from Class 7 (7%) any new industrial plant which would create an "adverse" impact upon existing state, county, or municipal services.

Removed coal mines from Class 1 (100%). Placed the annual gross proceeds of underground coal mines in Class 3 (33 1/3%) and the annual gross proceeds of coal mines using a strip mining method in a new Class 9 (45%).

Included certain capital investments in recognized non-fossil forms of energy generation in Class 7 (7%) and certain capital investments in a building for energy conservation purpose in Class 8 (15%).

1977: Generally revised and recodified sections relating to classifications revised percentages applicable to several classes due to statewide reappraisal.

Established market value as basis of taxation, except for certain cases.

Removed livestock, poultry and the unprocessed products of both from Class 3 (33 1/3%) and placed them in Class 2 (20%).

Removed metal mines from Class 1 (100% of net proceeds) and placed in a separate class at 7.5%.

Revised the valuation and income limits of property owned and occupied by certain widows, widowers and retirees. The valuation limit was raised to $35,000 and the income limits were increased to $7,000 ($8,000 if married). Deleted the prohibition against reappraising this class of property during the occupancy of the dwelling of a qualified taxpayer.
Created a class for pickup campers, travel trailers and motor homes owned and actually used by certain senior citizens and applied a taxable rate of 10%.

Transferred the alternative energy and energy conservation property tax incentives created in 1975 to the state income and corporation license tax system and made such capital investments deductible.

Exempted from taxation the real estate and improvements of certain community service organizations.

Exempted certain toppers and truck canopy covers from property taxation.

Exempted swine that had not attained the age of 3 months as of January 1.

1979: Generally reorganized property tax classes and adjusted percentages applicable to certain classes to maintain status quo.

Reduced temporarily the taxable value of certain golf courses, including land and improvements, to one-half the taxable rate applicable to other land and improvements.

Reduced the taxable percentage applicable to personal and real property used primarily in the production of gasohol during construction and for the first three years of its operation.

Required that all operating property owned by centrally assessed companies be assessed by the Department of Revenue and to apply a single property tax rate to that property.

Exempted antique aircraft.

Provided a fee in lieu of property tax for motor homes, travel trailers, snowmobiles and campers.

Exempted mopeds from property taxation.

Exempted sprinkler irrigation systems from property taxes.

1981: Provided for a graduated schedule, if local government approved, of a 5 year temporarily reduced tax rate applicable to improvements on existing real property and for new construction or expansion of existing manufacturing industries.

Increased the income limits for certain widows, widowers, and retirees to $8,000 ($10,000 if married) and provided a sliding scale to determine the taxable percentage applicable to such property.

Reduced the taxable percentage applicable to livestock, poultry, and unprocessed products of both from 8% of the market value to 4%.

Reduced from 1½ to 1 mile the mileage limitation between stations on telephone communications equipment that qualified for the 8% taxable rate as opposed to a 15% rate.
Exempted automobiles and light trucks from property taxation and provided for a fee in lieu of property taxes.
Permitted the Department of Revenue to modify the percentage multiplier used in converting the market value of railroad property to taxable value to achieve compliance with the Federal 4-R Act.
Included the allocations of properties constructed, owned or operated by public agencies created by congress to transmit or distribute electric energy at privately owned generating facilities within the class of property taxable at 12%.

1983: Exempted the right of entry reserved in land that is held to explore, prospect, or dig for oil, gas, coal or minerals.
Made the tax reduction for certain golf courses permanent.
Created a new class for trailers and mobile homes, regardless of size, when used as residences.
Clarified the status of goods and equipment intended for rent or lease as taxable at either 11% or 4%.
Provided that trailers 18,000 lbs. or under are taxable at 11% of market value and those over 18,000 lbs. are taxable at 16% of market value.
Exempted real estate and improvements of certain water associations.

APPENDIX B

CLASSIFICATION OF PROPERTY FOR PURPOSES OF TAXATION

15-8-111. Assessment - market value standard - exceptions.
(1) All taxable property must be assessed at 100% of its market value except as provided in subsection (5) of this section and in 15-7-111 through 15-7-114.

(2) (a) Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

(b) The market value of all motor trucks; agricultural tools, implements, and machinery; and vehicles of all kinds, including but not limited to motorcycles, aircraft, and boats and all watercraft, is the average wholesale value shown in national appraisal guides and manuals or the value of the vehicle before reconditioning and profit margin. The Department of Revenue shall prepare valuation schedules showing the average wholesale value when no national appraisal guide exists.

(3) The Department of Revenue or its agents may not adopt a lower or different standard of value from market value in making the official assessment and appraisal of the value of property in subsection (1)(a) of 15-6-131 and 15-6-134 through 15-6-140. For purposes of taxation, assessed value is the same as appraised value.

(4) The taxable value for all property in subsection (1)(a) of 15-6-131 and classes four through eleven is the percentage of market value established for each class of property in subsection (2)(a) of 15-6-131 and 15-6-134 through 15-6-141.

(5) The assessed value of properties in subsection (1)(b) of 15-6-131, 15-6-132, and 15-6-133 is as follows:

(a) Properties in subsection (1)(b) of 15-6-131, under class one, are assessed at 100% of the annual net proceeds after deducting the expenses specified and allowed by 15-23-503.

(b) Properties in 15-6-132 under class two are assessed at 100% of the annual gross proceeds.

(c) Properties in 15-6-133, under class three, are assessed at 100% of the productive capacity of the lands when valued for agricultural purposes. All lands that meet the qualifications of 15-7-202 are valued as agricultural lands for tax purposes.

(6) Land and the improvements thereon are separately assessed when any of the following conditions occur:

(a) ownership of the improvements is different from ownership of the land;

(b) the taxpayer makes a written request; or

(c) the land is outside an incorporated city or town.

(7) The taxable value of all property in subsection (1)(b) of 15-6-131 and classes two and three is the percentage of assessed value
established in 15-6-131(2)(b), 15-6-132, and 15-6-133 for each class of property.

(1) All property in this state is subject to taxation, except as provided otherwise.
(2) For the purpose of taxation, the taxable property in the state shall be classified in accordance with 15-6-131 through 15-6-141.

(1) Class one property includes:
(a) the right of entry that is a property right reserved in land or received by mesne conveyance (exclusive of leasehold interests), descent, or succession to enter land whose surface title is held by another to explore, prospect, or dig for oil, gas, coal, or minerals; and
(b) the annual net proceeds of all mines and mining claims except coal and metal mines.
(2) Class one property is taxed as follows:
(a) Property described in subsection (1)(a) is taxed at 100% of its market value, as determined by the Department of Revenue.
(b) Property described in subsection (1)(b) is taxed at 100% of its annual net proceeds after deducting the expenses specified and allowed by 15-23-503.

(1) Class two property includes:
(a) the annual gross proceeds of metal mines;
(b) the annual gross proceeds of underground coal mines; and
(c) the annual gross proceeds of coal mines using the strip-mining method.
(2) Class two property is taxed as follows:
(a) Property described in subsection (1)(a) is taxed at 3% of its annual gross proceeds, as defined in 15-23-801.
(b) Property described in subsection (1)(b) is taxed at 33 1/3% of its annual gross proceeds.
(c) Property described in subsection (1)(c) is taxed at 45% of its annual gross proceeds.

15-6-133. Class three property – description – taxable percentage.
(1) Class three property includes agricultural land as defined in 15-7-202.
(2) Class three property is taxed at 30% of its productive capacity.

15-6-134. Class four property – description – taxable percentage.
(1) Class four property includes:
(a) all land except that specifically included in another class;
(b) all improvements except those specifically included in another class;
(c) all trailers and mobile homes used as permanent dwellings except;
(i) those held be a distributor or dealer of trailers or mobile homes as his stock in trade; and
(ii) those specifically included in another class;
(d) the first $35,000 or less of the market value of any improvement on real property or a trailer or mobile home used as a permanent dwelling and appurtenant land not exceeding 5 acres owned or under contract for deed and actually occupied for at least 10 months a year as the primary residential dwelling of:
   (i) a widow or widower 62 years of age or older who qualifies under the income limitations of (iii) of this subsection;
   (ii) a widow or widower of any age with dependent children who qualifies under the income limitations of (iii) of this subsection;
   (iii) a recipient or recipients of retirement or disability benefits whose total income from all sources including otherwise tax-exempt income of all types is not more than $8,000 for a single person or $10,000 for a married couple;
(e) all golf courses, including land and improvements actually and necessarily used for that purpose, that:
   (i) consist of at least 9 holes and not less than 3,000 lineal yards; and
   (ii) were used as a golf course on January 1, 1979, and were owned by a nonprofit Montana corporation.

(2) Class four property is taxed as follows:
   (a) Except as provided in 15-24-1402 or 15-24-1501, property described in subsections (1)(a) through (1)(c) is taxed at 8.55% of its market value.
   (b) Property described in subsection (1)(d) is taxed at 8.55% of its market value multiplied by a percentage figure based on income and determined from the following table:

<table>
<thead>
<tr>
<th>Income</th>
<th>Percentage Multiplier</th>
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<tbody>
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<td>$0 - $1,000</td>
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<td>9,001 - 10,000</td>
<td>9,001 - 10,000</td>
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</tbody>
</table>

(c) Property described in subsection (1)(e) is taxed at one-half the taxable percentage established in subsection (2)(a), or 4.275%.

15-6-135. Class five property - description - taxable percentage.
(1) Class five property includes:
   (a) all property used and owned by cooperative rural electrical and cooperative rural telephone associations organized under the laws of Montana, except property owned by cooperative organizations described in subsection (1)(c) of 15-6-137;
(b) air and water pollution control equipment as defined in this section;
(c) new industrial property as defined in this section;
(d) any personal or real property used primarily in the production of gasohol during construction and for the first 3 years of its operation.

(2)(a) "Air and water pollution equipment" means facilities, machinery, or equipment used to reduce or control water or atmospheric pollution or contamination by removing, reducing, altering, disposing, or storing pollutants, contaminants, wastes, or heat. The Department of Health and Environmental Sciences shall determine if such utilization is being made.

(b) The Department of Health and Environmental Sciences' determination as to air and water pollution equipment may be appealed to the Board of Health and environmental Sciences and may not be appealed to either a county tax appeal board or the State Tax Appeal Board. However, the appraised value of the equipment as determined by the Department of Revenue may be appealed to the county tax appeal board and the state tax appeal board.

(3) "New industrial property" means any new industrial plant, including land, buildings, machinery, and fixtures, used by new industries during the first 3 years of their operation. The property may not have been assessed within the state of Montana prior to July 1, 1961.

(4)(a) "New industry" means any person, corporation, firm, partnership, association, or other group that establishes a new plant in Montana for the operation of a new industrial endeavor, as distinguished from a mere expansion, reorganization, or merger of an existing industry.

(b) New industry includes only those industries that:
(i) manufacture, mill, mine, produce, process, or fabricate materials;
(ii) do similar work, employing capital and labor, in which materials unserviceable in their natural state are extracted, processed, or made fit for use or are substantially altered or treated so as to create commercial products or materials; or
(iii) engage in the mechanical or chemical transformation of materials or substances into new products in the manner defined as manufacturing in the 1972 Standard Industrial Classification Manual prepared by the United States Office of Management and Budget.

(5) New industrial property does not include:
(a) property used by retail or wholesale merchants, commercial services of any type, agriculture, trades, or professions;
(b) a plant that will create adverse impact on existing state, county, or municipal services; or
(c) property used or employed in any industrial plant that has been in operation in this state for 3 years or longer.

(6) Class five property is taxed at 3% of its market value.
15-6-136. (Temporary) Class six property - description - taxable percentage. (1) Class six property includes:
(a) business inventories as defined in this section; and
(b) all unprocessed agricultural products on the farm or in storage except perishable fruits and vegetables in farm storage and owned by the producer.
(2) "Business inventories" includes goods intended for sale or lease in the ordinary course of business and raw materials and work in progress with respect to such goods. Business inventories do not include goods leased or rented or mobile homes held by a dealer or distributor as part of his stock in trade. The market value of business inventories, for property tax purposes, is the cost to the person subject to the inventory tax.
(3) Class six property is taxed at 4% of its market value.

15-6-136. (Effective January 1, 1983) Class six property - description - taxable percentage. (1) Class six property includes:
(a) livestock and poultry and the unprocessed products of both;
(b) all unprocessed agricultural products on the farm or in storage except all perishable fruits and vegetables in farm storage and owned by the producer.
(2) Class six property is taxed at 4% of its market value.

15-6-137. Class seven property - description - taxable percentage. (1) Class seven property includes:
(a) all property used and owned by persons, firms, corporations, or other organizations that are engaged in the business of furnishing telephone communications exclusively to rural areas or to rural areas and cities and towns of 800 persons or less;
(b) all property owned by cooperative rural electrical and cooperative rural telephone associations that serve less than 95% of the electricity consumers or telephone users within the incorporated limits of a city or town;
(c) electric transformers and meters; electric light and power substation machinery; natural gas measuring and regulating station equipment, meters, and compressor station machinery owned by non-centrally assessed public utilities; and tools used in the repair and maintenance of this property; and
(d) tools, implements, and machinery used to repair and maintain machinery not used for manufacturing and mining purposes.
(2) To qualify for this classification, the average circuit miles for each station on the telephone communication system described in subsection (1)(b) must be more than 1 mile.
(3) Class seven property is taxed at 8% of its market value.

15-6-138. Class eight property - description - taxable percentage. (1) Class eight property includes:
(a) all agricultural implements and equipment;
(b) all mining machinery, fixtures, equipment, tools, and supplies except;
(i) those included in class five; and
(ii) coal and ore haulers;
(c) all manufacturing machinery, fixtures, equipment, tools, and supplies except those included in class five;
(d) motorcycles;
(e) watercraft;
(f) light utility and boat trailers;
(g) airfraft;
(h) all-terrain vehicles;
(i) harness, saddlery, and other taxk equipment; and
(j) all other machinery except that specifically included in another class.

(2) Class eight property is taxed at 11% of its market value.

15-6-139. Class nine property - description - taxable percentage.

(1) Class nine property includes:
(a) buses and trucks having a rated capacity of more than three-quarters of a ton but less than or equal to 1.5 tons;
(b) stock trailers;
(c) truck toppers weighing more than 300 pounds;
(d) furniture, fixtures, and equipment, except that specifically included in another class, used in commercial establishments as defined in this section;
(e) x-ray and medical and dental equipment; and
(f) citizens' band radios and mobile telephones.
(2) "Commercial establishment" includes any hotel; motel; office; petroleum marketing station; or service, wholesale, retail, or food-handling business.
(3) Class nine property is taxed at 13% of its market value.

15-6-140. Class ten property - description - taxable percentage.

(1) Class ten property includes:
(a) radio and television broadcasting and transmitting equipment;
(b) cable television systems;
(c) coal and ore haulers;
(d) trucks having a rated capacity of more than 1.5 tons, including those prorated under 15-24-102;
(e) trailers, except those included in class eight or nine, including those prorated under 15-24-102, and except those subject to a fee in lieu of property tax;
(f) theatre projectors and sound equipment; and
(g) all other property not included in the preceding nine classes except that property subject to a fee in lieu of a property tax.

(2) Class ten property is taxed at 16% of its market value.

15-6-141. (Temporary) Class eleven property - description - taxable percentage.

(1) Class eleven property includes:
(a) centrally assessed electric power companies' allocations;
(b) allocations for centrally assessed natural gas companies having a major distribution system in this state; and
(c) centrally assessed companies' allocations except;
(1) electric power and natural gas companies' property;
(ii) property owned by cooperative rural electric and cooperative rural telephone associations and classified in class five; and
(iii) property owned by organizations providing telephone communications to rural areas and classified in class seven.
(2) Class eleven property is taxed as follows:
(a) Property described in subsection (1)(a) and (b) is taxed at 12% of market value.
(b) Except as provided in 15-23-202, property described in subsection (1)(c) is taxed at 15% of market value.

15-6-141. (Effective as provided below) Class eleven property — description — taxable percentage. (1) Class eleven property includes:
(a) centrally assessed electric power companies' allocations, including allocations of properties constructed, owned, or operated by a public agency created by the congress to transmit or distribute electric energy produced at privately owned generating facilities (not including rural electric cooperatives);
(b) allocations for centrally assessed natural gas companies having a major distribution system in this state; and
(c) centrally assessed companies' allocations except;
(i) electric power and natural gas companies' property;
(ii) property owned by cooperative rural electric and cooperative rural telephone associations and classified in class five; and
(iii) property owned by organizations providing telephone communications to rural areas and classified in class seven.
(2) Class eleven property is taxed as follows:
(a) Property described in subsection (1)(a) and (b) is taxed at 12% of market value.
(b) Except as provided in 15-23-202, property described in subsection (1)(c) is taxed at 15% of market value.
(Not effective until congress passes legislation that allows the state to tax property owned by an agency created by congress to transmit or distribute electric energy.)

SOURCE: Report of the State Department of Revenue, July 1, 1980 to June 30, 1982, p. 3-5.
APPENDIX C
LOCAL SERVICE CHARGES

### Park and Recreation

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<td>Swimming pool fees</td>
<td>Trip fees</td>
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<td>Picnic reservations</td>
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<td>Park fees</td>
<td>Marina operations/concessions</td>
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<td>Lecture and Workshop fees</td>
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<td>Driving range fees</td>
<td>Senior citizen trip charges</td>
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<td>Racquetball fees</td>
<td>Parent payments/child care</td>
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<td>Community garden fees</td>
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<td>Art gallery admissions</td>
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<td>Elementary outdoor club</td>
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<tr>
<td>Junior crafts</td>
<td>Cultural program</td>
</tr>
<tr>
<td>Junior art</td>
<td>Junior ceramics</td>
</tr>
<tr>
<td>Baton twirling</td>
<td>Guitar</td>
</tr>
<tr>
<td>Hawaiian dance</td>
<td>Tumbling and gym</td>
</tr>
<tr>
<td>Karate</td>
<td>Sculpture</td>
</tr>
<tr>
<td>Drill team</td>
<td>Tap and ballet</td>
</tr>
<tr>
<td>Women's league activities</td>
<td>Slim and trim</td>
</tr>
<tr>
<td>Kung Fu</td>
<td>Creative dance</td>
</tr>
<tr>
<td>Tennis reservation fees</td>
<td>Dog obedience training</td>
</tr>
<tr>
<td>Equipment rental</td>
<td>Tennis instruction</td>
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</tbody>
</table>

### Public Safety Services

<table>
<thead>
<tr>
<th>Charge</th>
<th>Charge</th>
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<tbody>
<tr>
<td>Animal shelter fees and charges</td>
<td>Special police protection fees</td>
</tr>
<tr>
<td>Civil subpoena fees</td>
<td>Paramedic service charge</td>
</tr>
<tr>
<td>False alarm fees</td>
<td>Fire training fees</td>
</tr>
<tr>
<td>Special fire service fees</td>
<td>Fire inspection fees</td>
</tr>
<tr>
<td>Fire report fee</td>
<td>Accident report copies</td>
</tr>
<tr>
<td>Insurance report copies</td>
<td>Fingerprint fee</td>
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<tr>
<td>Burgular alarm service</td>
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66
Public Works

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Fee Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Street name signs</td>
<td>Clearing vacant lots fee</td>
</tr>
<tr>
<td>Barricade rental and repair</td>
<td>Street tree charges</td>
</tr>
<tr>
<td>Street light charge</td>
<td>Water taps and connections fee</td>
</tr>
<tr>
<td>Fire hydrant connections fee</td>
<td>Fire hydrant rental</td>
</tr>
<tr>
<td>Sewer connection charge</td>
<td>Sewer subtrunk extension charge</td>
</tr>
<tr>
<td>Sewer service charge</td>
<td>Plumbing permit</td>
</tr>
<tr>
<td>Weed control/cleaning charges</td>
<td>Refuse collection charges</td>
</tr>
<tr>
<td>Refuse commercial waiver fees</td>
<td>Street repair fees</td>
</tr>
<tr>
<td>Refuse salvage privileges</td>
<td>Refuse extra hauling charges</td>
</tr>
<tr>
<td>Storm drain fees</td>
<td>Refuse disposal fee</td>
</tr>
<tr>
<td>Property maintenance-demolition</td>
<td>Acreage drainage fees</td>
</tr>
<tr>
<td>Signal maintenance charges</td>
<td>Street stripping charges</td>
</tr>
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<td></td>
<td>Lawn and garden service charges</td>
</tr>
</tbody>
</table>

General/Miscellaneous

<table>
<thead>
<tr>
<th>Service Description</th>
<th>Fee Description</th>
</tr>
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<tbody>
<tr>
<td>Copying fees</td>
<td>Utility account service charge</td>
</tr>
<tr>
<td>Airport landing fees</td>
<td>Aircraft fee-down fees</td>
</tr>
<tr>
<td>Miscellaneous airport rental</td>
<td>Dial-a-ride-fees</td>
</tr>
<tr>
<td>Bus passenger revenue</td>
<td>Commuter books</td>
</tr>
<tr>
<td>Monthly bus passes</td>
<td>Marriage license fee</td>
</tr>
<tr>
<td>Passport fee</td>
<td>Library fines</td>
</tr>
<tr>
<td>Library film user charge</td>
<td>Library sale of books</td>
</tr>
<tr>
<td>Library use fee</td>
<td>Computer lease</td>
</tr>
<tr>
<td>Election service fee</td>
<td>Abandoned vehicle abatement</td>
</tr>
<tr>
<td>Cemetary fees and charges</td>
<td>Archive review board fees</td>
</tr>
<tr>
<td>Fleet management internal service charges</td>
<td>Radio repair service</td>
</tr>
</tbody>
</table>

1. Local Government Financial Condition, Prepared by: Consulting Services Bureau, Department of Administration, As Staff to the Temporary Committee on Local Government Finance, February 1982.

2. Ibid.


5. Report of the State Department of Revenue, for the period July 1, 1980 to June 30, 1982, pp. 3-5.


7. Ibid.


14. Information obtained from Mike Rattray, Community Development Department, City of Great Falls.


18. Ibid.


20. Ibid.


22. Information obtained from the City of Great Falls Annual Budget Reports, 1974-1984.


26. Montana Codes Annotated, 7-3-301.

27. Montana Codes Annotated, 7-3-303.


29. Montana Codes Annotated, 7-3-304.

30. Montana Codes Annotated, 7-3-312 through 7-3-318.

32. Ibid.


35. Montana Codes Annotated, 7-6-4401.

36. The laws governing local finance officers are located in Montana Codes Annotated, Title 7, Chapter 3, Parts 43-44.

37. The Great Falls organizational chart was obtained from the City Manager's Office.

38. Intercity memorandum by the Montana League of Cities and Towns, Alec Hansen, Director.

39. Ibid.

40. Tax levies obtained from the Montana Property Tax Mill Levy Annual Reports, published by the Montana Tax Foundation.


43. Ibid.

44. Ibid.


46. Ibid.


51. Ibid.

52. Scientific Games Inc. paid advertisement.


