

## Handbook Highlight from the Montana Municipal Officials Handbook

### 4.110 Municipal Government Revenue Sources

In the most general terms, the two sources of revenue available to municipal governments are local *tax revenue* (primarily from local property tax) and *non-tax revenue*. In Montana, approximately half of municipal general fund expenditures are funded by locally imposed property taxes. The balance of the annual city or town budget is typically funded by non-tax revenues. Each of these two sources of revenue for local government is described below.

#### 1. Local Taxes

Locally imposed *property tax* usually provides the largest single source of a municipal government's operating revenue. The actual amount of property tax revenue available to a particular local government depends upon two variables:

- a) the *taxable value* of property located within the municipal jurisdiction; and
- b) the amount of the municipal government's annual *mill levy*.

The average mill levy for municipal governments in FY 2009 was approximately 154 mills. However, the average mill value (taxable value divided by 1,000) for FY 2009 of 127 municipalities (not including the two consolidated governments) was \$5,908 but varied from a low of \$34 in Ismay, Montana's smallest town, to a high mill value of more than \$129,425 in Billings, Montana's largest city. Needless to say, low property tax mill values usually equate to modest revenues available to fund local services.

Even though Montana's municipalities derive most of their operating revenues from property tax, local governments are not free to impose whatever amount of property tax they may wish. Montana law ([15-10-420](#), MCA) sets strict mill levy limits, which may only be exceeded by a favorable vote of the local electorate as provided in [15-10-425](#), MCA.

In addition to local property tax revenues, resort taxes provide an important supplementary source of local tax revenue for those resort communities that are enabled by law ([7-6-1501](#), MCA) and their local voters to impose this 3 percent sales tax on the sale of luxury goods and resort related services. In at least one of these resort communities (West Yellowstone) the resort tax generates well in excess of \$1 million per year to provide significant property tax relief and to help fund the town's aggressive capital improvements program as well as its yearly operations budget.

## **2. Non-Tax Revenue**

In addition to the revenue derived from local taxation, municipal governments in Montana also have access to a number of additional revenue sources. These additional revenues are usually categorized as:

- *Fees for services*, primarily for municipal utilities such as water, wastewater and solid waste collection and disposal, but also for other fee supported services such as swimming pools.
- *Fines and forfeitures*, resulting primarily from traffic tickets, imposed by city courts or as forfeited bond by the offender.
- *Interest* earned on idle funds deposited in interest bearing, demand accounts and from direct investment in government securities, or in the state's pooled, Short Term Investment Program, commonly referred to as STIP.
- *Inter-governmental transfer payments* from the state and federal governments which include a wide range of payments directly to city governments such as federal and state grants, especially the federally funded Community Development Block Grant (CDBG) program or Montana's Treasure Sate Endowment Program (TSEP) for infrastructure renewal. Additionally, a number of state revenue sharing programs (derived, for example, from state taxes on electronic gambling, gasoline, liquor and motor vehicles) have recently been consolidated into a single "entitlement distribution" to local government as a result of the enactment of HB 124 during the 2001 legislative session.