

West Yellowstone, Montana Resort Tax History

Authored by Ken Davis*

July 2025



Looking E. on Yellowstone.

Introduction.

The story of the Town of West Yellowstone's Resort Tax is a story of patience, perseverance and persistence. Many who presently live in West Yellowstone were not here when the town worked for the establishment of the Resort Tax and some of those who were involved in that process have either passed or moved from the area. Here we want to provide a recap of how the state's first Resort Area Tax came to be and what happened after it was adopted.

This paper was reviewed by surviving Town Council members as well as former and present town staff. Every attempt has been made to assure it's accuracy.

Identifying the Need.

To understand the story one has to go back to the 70's when the town was struggling to meet the needs of the community through its meager budget. The writer's recollection is, at the time, the town's general revenue budget was in the neighborhood of about \$250, 000. The town was functioning with a full time police department, volunteer fire and ambulance service, a public works department and was operating the town's central sewer system; everyone had their own wells for water. In addition, the town was the recipient of what is now referred to as the historic district. The town's streets were not much more than a single lane peppered with lots of potholes, there were no sidewalks except on Canyon Street, the main street in town, and a portion of Yellowstone Avenue.

Meanwhile. The number of visitors entering Yellowstone was somewhere around 250,000 per year and, as now, the West Entrance was the most popular way to enter the park. Even then the town councils of the day knew that sustaining the town's infrastructure and staffing with the limited budget was untenable. The town was already taxing property to the maximum, there were some federal revenue sharing dollars then. The town's repeated efforts to tap into the county's portion of Federal Payment in Lieu of Taxes were, and still are, rebuffed by elected officials in Bozeman.



Before: Looking N. from Dunraven & Yellowstone.(5/88)



Before: E. on Yellowstone from intersection with Dunraven. (5/88)



Before: Looking N. on Dunraven from intersection with Madison. (5/88)

A notable study was funded by what was known then as the Old West Trail Foundation which studied the economics of the town based on its limited resources and projections for the future. The essentials of the study revealed that without an additional source of revenue the town and its property owners would be unable to support the expected increasing demand of the visitors coming to the nation's first national park.



Before: Intersection Electric & Madison (5/88)

Planning Begins.

After considerable discussion among local community leaders it was clear that perhaps the only way out for the town was the imposition of some kind of tax on the visitors to the community who were putting the greatest demand on the town. After all it was the visitors who required the most of emergency services, street maintenance and other public services. Through the assistance of the Local Government Center at Montana State University it was determined that a local option tax was the best solution to this problem. The tax would be imposed on the things visitors purchased in the town; souvenirs, meals served at restaurants, accommodations and the like.

An analysis of the types of government allowed under Montana law revealed that the type of government in place in West Yellowstone was called General Powers; meaning that the town could only exercise the powers granted to it in state statutes. It was determined that in order to have any taxing authority the town would first have to have what statutes refers to as Self Government Powers. To do this the town would need to have its own town Charter.

A local resident, Ken Davis, and a council member, Cal Dunbar, sat down in Dunbar's kitchen one night and drafted the town's first charter. It was a fairly simple document much of which is still in place in the town's current charter, (The Charter and the way the town functions is reviewed every 10 years through a state constitutionally mandated process called Local Government Review.) The town charter went before the voters in the fall of 1981. Concurrent with that process, Dunbar, Mayor Larry Binfet and other community leaders including Bill Howell, Bob Jacklin and others began talking up the concept of a local option tax among legislative members in Gallatin County.

The Lobbying Begins.

In order to set a resort tax in the community the town would first need to get enabling legislation passed by the state's legislature. The town would have to find a legislator willing to introduce and carry the bill and the town would have to overcome a considerable amount of opposition. The concern was that adoption of any kind of local option sales tax would be the gateway to something bigger like a statewide sales



Before: Looking so. on Hayden, by pancake house(5/88)

tax and as many readers know, the state's residents are very proud of the fact that Montana has no sales tax. Additionally, many Democratic legislators were concerned that such a tax is "regressive" impacting the people who can least afford to pay it the most.

When the first attempt was made in 1983 the tax proposal did not make it out of committee. It was the consensus locally that another attempt would be made during the 1985 legislative session and that lobbying the Gallatin County legislative delegation would be needed to make that happen. Dunbar knew two of the delegates quite well. Senator Paul Boylan; a Democrat and Representative Bob Ellerd; a Republican. While they did not always share the same political views, both were sympathetic to the plight of their neighbor to the south. So over the next year or so, the town continued to lobby support from Ellerd and Boylan. In the end Bob Ellerd said he would carry the bill in the house and Boylan said he would carry the bill in the senate. The final version of the bill was pretty open as to what could be taxed however it was restrictive as to what communities could implement the tax. First it would have to be approved by local voters; it could only be implemented in communities that could demonstrate that their communities met the definition of resort; derive a majority of its business from tourists and there was a population limit on the size of the communities that could put the tax in place.

When the legislature convened in 1985 the bill was introduced, hearings were held, the bill actually died in committee more than once but support was growing and the bill was passed out of committee on the third attempt which led Ellerd to refer to it as the Lazarus bill. Once making it out of committee the bill had a rough go in the full house and senate, however the veteran legislators who had supported the bill from the beginning were able to sway enough members of their bodies and the bill passed and was signed by then governor Ted Schwinden in May of 1985.

Beginning the Local Approval Process.

Having gained approval from the state's legislature and having the town charter in place, now the process of drafting a local ordinance would begin. The town council appointed the Resort Tax Advisory Committee, made up of local business people, to begin the process of drafting a local ordinance to put on the ballot in the fall of 1985.

The committee knew there would need to be guardrails in place in order to get

the ordinance passed as well as make it palatable to local businesses who would be charged with collecting and remitting their collections to the town. As promised, the ordinance set a three percent tax on prepared and served meals, motel accommodations, souvenir type items and some other goods and services. Exempt were groceries, prescription medicine and supplies needed to run a business. The ordinance also allowed businesses collecting the tax to withhold five percent of their collections for their efforts.

At the same time local elections were coming up for members of the town council. It was an important election because for the first time a local town council would have the ability to determine how to spend the revenues from the new tax. The tax was approved by a 5 to 1 margin and, having served on the town council for two years, Ken Davis was selected to be the mayor in accordance with the new town charter; others serving on the council at the beginning of the new year were Cal Dunbar, Bob Jacklin, Kent Wilhelm and Bill Howell.

The Planning Process.

In the winter of 1986 planning began in earnest for the reconstruction of the town's streets. In the run-up to the election the Town Council had promised voters that if they would approve the resort tax for 20 years, they would implement a plan to build new storm drainage system, curbs, gutters and streets. Twenty years not to build all of the improvements but to pay for them, the building project itself would be rather short starting in 1987 and concluding in 1988.

An engineering firm was selected, Forsgren-Perkins of Rexburg, Idaho. Forsgren would design the project, obtain necessary approvals and oversee construction.

Also, at about this time, a finance committee was charged to work out the details of how to pay for the project. Through consultation with Forsgren and others, it was determined that money could be borrowed from a rural improvement program operated by the Farmers Home Administration. The loan would then have to be paid off by a bond issue.

The Montana firm D.A. Davidson was tasked with putting together the bond issue but first they would have to overcome the issue that no community in Montana

had ever used the proceeds from a local option tax to pay off a bond issue before. Bond issues are typically paid off by a levy on property with those revenues used to pay off the bonds. For the process the town would need bond counsel and the firm of Dorsey-Whitney of Missoula would be contracted to set up the bond issue. The representative for Dorsey-Whitney was Mae Nan Ellingson, a person who was highly recommended and respected in the state. The belief was that if anyone could put together such a bond sale it would be Dorsey-Whitney. (Ms. Ellingson served at Montana's 1972 Constitutional Convention.)



Survey stakes showing extent of encroachment

Construction.

As planning for the project continued a new town survey revealed there were a number of encroachments in the town right of way. All of those encroachments would have to be mitigated before any construction would begin.



Removing sidewalk encroachment, Stagecoach Inn (5/88)

The local town staff, basically the mayor and town clerk, were tasked with making contact with all of the owners of the encroachments and agreements made for their removal.

Many property owners may not have realized that some of the improvements to their property were actually on the town's right of way. Most were removed with little difficulty by the land owners. Some required some persuasion and a few required lawyers. The largest of these encroachments was the entire east face of a building which was three feet in the right of way (currently known as the White Buffalo). Another was a sign whose base was four inches in the right of way; it too was removed. All together 75 encroachments were either removed or permitted through a permitting process



Photo of encroachment at Executive Inn. (5/12/88)

In the fall of 1987 the town began construction of the first phase, the storm drainage system. In the spring of 1988 construction on the streets began with the demolition of the old streets, taking the streets out to their current width and all that goes with building new roads. (It is worth noting here that as the town was originally platted, the north south streets of Dunraven, Canyon, Boundary, Yellowstone and Madison were set down as 100' wide sheets and all the others were 60 feet. A collection of photos taken during demolition and construction of the streets was given to the Yellowstone Historic Center by Davis. Prior to the project in 1988 none of the streets with the exception of Canyon Street, which is a state highway, was at its full width. Dunraven, Yellowstone and Boundary, were not at their full 100' width the rest of the streets in the original townsite, the three by seven block area, were 60 feet.



Connecting storm sewer collectors. Mad. at Dun. 5-11-88



Storm drain collector. 20 & Dunraven.



Storm sewer pipe ready for installation.(Iris Street)



Installing drainline down highway 20.



Connecting storm sewer collectors. Mad. at Dun. (5-11-88)



Cutting down U.S.20 (6-7-88)



Cutting Dunraven down to grade.(5-19-88)



View along U.S. 20 w/o Prospector.



1st curb section goes down on Madison, across from school. (5-25-88)



Finishing 1st curb section. (5-25-88)



Pouring 1st. sidewalk section. Across from school, (about (5-30-88)



Finish work on 1st sidewalk section. (5-30-88)



Conversation corner, Dun. at Yel. (6-14-88)



Finishing sub-grade on Mad. (6-24-88)



Looking E. On Mad. Curbs are in. Ready for prime.



Looking E. on Yel., prime is in place.



Miller Ice is gone, note smoke is from North Fork fire.(8-15-88)



First asphalt section goes down, in front of school.(8-17-88)





Rolling out asphalt in front of school. Smoke from North Fork Fire.



After photo, So. on Electric from Mad. 10-88



Looking N. on Dunraven from Mad. intersec.



Pony Express installed new walkways and Red Lava rock after street project was done.



Councilmen Dunbar talking with Liz Laden, Boz. Chronicle.

There was an added complication in that US 20 from Canyon Street to the west edge of town was not an official state highway. The state of Montana had maintained a prescriptive easement for the road based on historical use of the route across private property. While the state was willing to partner with the town on the reconstruction of the road, the town would have to run point on acquiring right of way so that the state could actually own the completed highway. Once again town staff, including the town attorney at the time, Pete Linebarger of Bozeman, and the town engineer, worked together to purchase the land where the highway now sits.

It is worth noting here that while all of this was going on, wildfires had taken off in Yellowstone National Park. Through the summer and into the fall of that year there were many days the smoke over the town was so thick one could barely see across the street. The town was threatened by the fires more than once but survived. The town also became headquarters, along with the Yellowstone Airport, for the huge contingent of military that came to town to support the firefighting effort.



National Park Service.



National Park Service.



Ribbon Cutting, Mad. & Canyon. Project is 95% complete. (9-23-88)
From L - R, Councilmen Steve Daniels, Cal Dunbar, Bob Jacklin and Mayor Ken Davis.

In September of 1988 the town streets were ready to be dedicated. The dedication occurred during the schools homecoming celebration and a ribbon cutting was held on Madison Avenue. From the fall of 1987 to the fall of 1988 the town had spent over \$9 million dollars to complete the improvements.

Nearly 20 years later the town's bonds were paid off early and the need for the resort tax had been clearly demonstrated. Voters approved the tax for another 20 years in 2002 and again in 2019.

Since its inception, other communities in the state have also voted in the resort tax, later the legislation was amended allowing the tax to be collected in unincorporated areas like Big Sky.



The Central Water System and Whiskey Springs Development.

While not a major part of the Resort Tax lobbying efforts, the central water system became a significant accomplishment during the town's rebuild in 1988.

At that time everyone was on individual private wells. Councilman Howell put forth the idea that we should look to the future and have a central water system in the town. Foremost, central water would provide better fire protection for the town and possibly lower the town's ISO rating and thus insurance rates for every property

owner. (The Town's ISO rating was 10 at the time which is defined essentially as unprotected.) There was already a central water system and wells for the Madison Addition subdivision, annexed in 1984, and the town had a functioning well in the present day Historic District, otherwise known as the railroad well; a remnant of the railroad era in West Yellowstone. The consensus was, as discussions continued, that it would make the most sense to construct a water system before the streets were completed so that they would not have to be dug up to install water later and service lines could be run to corner lots while the ground was open.

To accomplish this, the town's folk would have to sign what were called subscription agreements which held that when the town built a suitable water supply, everyone would be required to connect. The system would be funded through a Special Improvement District which would be paid for through revenues from water sales.

Because of the way the town is laid out, all the water mains were installed in the alley ways and service lines to individual properties were 'stubbed' to each property for later connection.

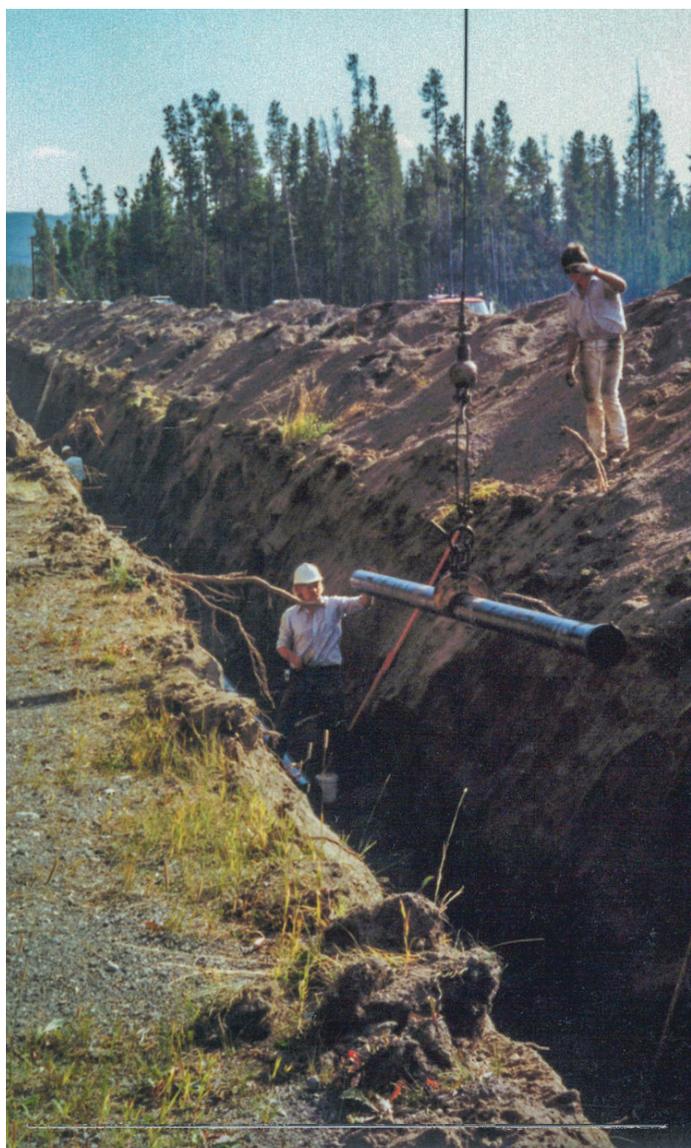


Burying waterline on Iris. (In front of J. Eagle's house.)

A water source was identified on the Madison Plateau known by old timers as Whiskey Springs. During the period between street construction and 1990 the town worked on engineering a way to capture a portion of the water and pipe it to a large tank on Windy Ridge, located southwest of town. As both the spring and the tank were higher in altitude than the town, it would allow the community to have water even during power outages. It is also noteworthy that at the time of completion the water met all applicable EPA standards without being treated.

However before the town could actually build the project it had to obtain a water right. At this point the town learned that the Montana Power Company believed it owned all of the “free flowing water” in Montana. The town fought the power company and in a case that ended up before the Montana Supreme Court the town prevailed.

The Whiskey Spring water system was dedicated in 1990 after Davis left office.



Installing waterline, corner Iris & Firehole



Base of milliion gallon holding tank on Whiskey Ridge.



Gravity feed line North to West Yellowstone.



Line from the Whiskey Springs holding tank.



Holding tank complete with the top.

A few anecdotes:

It was late one night during a committee meeting and the legislators had ordered in from a nearby establishment. They were eating chicken fingers and Howell recalls saying “what, we don’t get chicken fingers.”

At another hearing a legislator questioned Dunbar about the need for the tax and don’t you have a state highway they asked? Cal responded yes we have two state highways and 10 miles of streets. The legislator was from another small town in Montana and could not comprehend why a town of less than 1000 people and two state highways would need more money for streets.

After the end of the first legislative session where the tax was defeated Dunbar was reporting on the vote to the rest of the town council. His final quip was “I guess we’re not dying fast enough.”

After the tax had been established and collections had begun, a staffer from the Department of Revenue called the town office to verify that the tax was being collected and who authorized the town to do so. The clerk had to explain that the Governor had signed the legislation into law after the last legislative session and the local voters had approved implementing it locally. Apparently the whole thing took them by surprise at the Department of Revenue in Helena.

During the street survey it was discovered that while Iris was a hundred foot street, half of it was on National Forest Land, an issue later resolved through a permitting process. Now, with the acquisition of the 80 area parcel west of town the town now owns the entire street.

Local voters approved the 3% Resort Tax the first time by a vote of 5 to 1. The second time it was approved by 88% of the vote and the third time by 86% also voting to add another 1% for water and sewer improvements.

Since its inception, the Town of West Yellowstone’s Resort tax has collected \$83 million and while first approved to address the issues of public safety and streets, it has since been used to help fund improvements to the sanitary sewer system, a recreation program, parks improvements, a town hall and preservation of the town’s historic buildings.

When one reads this account it may seem amazing that the town could

accomplish all of this in such a short period of time. Once the tax was approved by local voters everyone involved from the elected town council and Mayor; who were all volunteers, to the Town Clerk of which there was one and a part time assistant and the engineering staff, all were determined to get the job done. The reader, if they are not from the West Yellowstone area, may not be aware either that the construction season in those days was about May through October. From 1986 the town took the first ever Resort Tax to the voters, received approvals, adopted necessary ordinances, planned the projects, dealt with over 75 encroachments in the right of way and saw the street project completed in just over two years is quite a feat, Add on planning and developing a reliable water source and seeing it to fruition in a four year period is something that may never happen again in Southwest Montana.

Timeline for Resort Tax.

1983 48th Montana Legislature. Resort Area Tax fails to pass

1985 49th Montana Legislature passes HB 826, signed by Governor in May.

1985 Local voters approved Resort Tax

1986 Collections of RT begin on January 1. RT collection first year, \$502,214

1986 RT 1 Bonds issued to pay for storm water collection system

1987 Special Improvement District created to pay for Whiskey Springs project.

1988 RT 2 Bonds issued to pay for street project.

* This paper was reviewed by:

Former Councilman Bill Howell

Former Councilman Bob Jacklin

Former Town Clerk Jo Whitman (1976-2007)

Former Town Clerk Lanie Gospoderek (2007-2022)

Deputy Town Clerk Elizabeth Roos (1998-2001)

Town Clerk Elizabeth Roos (2001-Present)