

2015 Property Reappraisal

Department of Revenue
Property Assessment Division

Overview



- ❑ Basics of reappraisal
- ❑ How reappraisal is conducted
- ❑ Estimated impacts for 2015

Who is responsible for reappraisal?

- ❑ The Montana Constitution:

- ❑ Delegated the authority to the state to “appraise, assess, and equalize the valuation of all property”.

- ❑ Requires all taxing jurisdictions to use property assessed values established by the state.



Whose decisions impact property reappraisal?

- ❑ Department of Revenue
 - ❑ Completes reappraisal of all taxable property statewide
- ❑ Legislature
 - ❑ Establishes the tax rate for each class of property
 - ❑ Establishes exemptions, i.e. Homestead and Comstead
 - ❑ Establishes other mitigation measures, such as, phase-in
- ❑ County/City Governments
 - ❑ Establishes millage
 - ❑ Determines special fees and assessment charges
 - ❑ Bills and collects taxes
 - ❑ Distributes taxes to taxing jurisdictions

Tax Process

DOR

Cyclically Appraised Property

- Appraised Every Six Years
- Value Phased – In
- Homestead and Comstead Exemption Applied to Phased-In Value

Annual Appraised Property

- Annually Appraised
- No Value Phase - In

Certification of Values of Taxing Jurisdictions

Local Government and Schools

Taxing Jurisdictions Calculate Mills

County Commissions Approve Mill Levies

County Treasurers Mail Property Tax Bills

County Treasurers Collect Property Tax and Remit Them to Taxing Jurisdictions (Including the State)

What is reappraisal?

- ❑ The cyclical revaluation of:
 - ❑ Class 3 (agricultural)
 - ❑ Class 4
(residential/commercial/industrial)
 - ❑ Class 10 (forest properties)



When does the department reappraise?



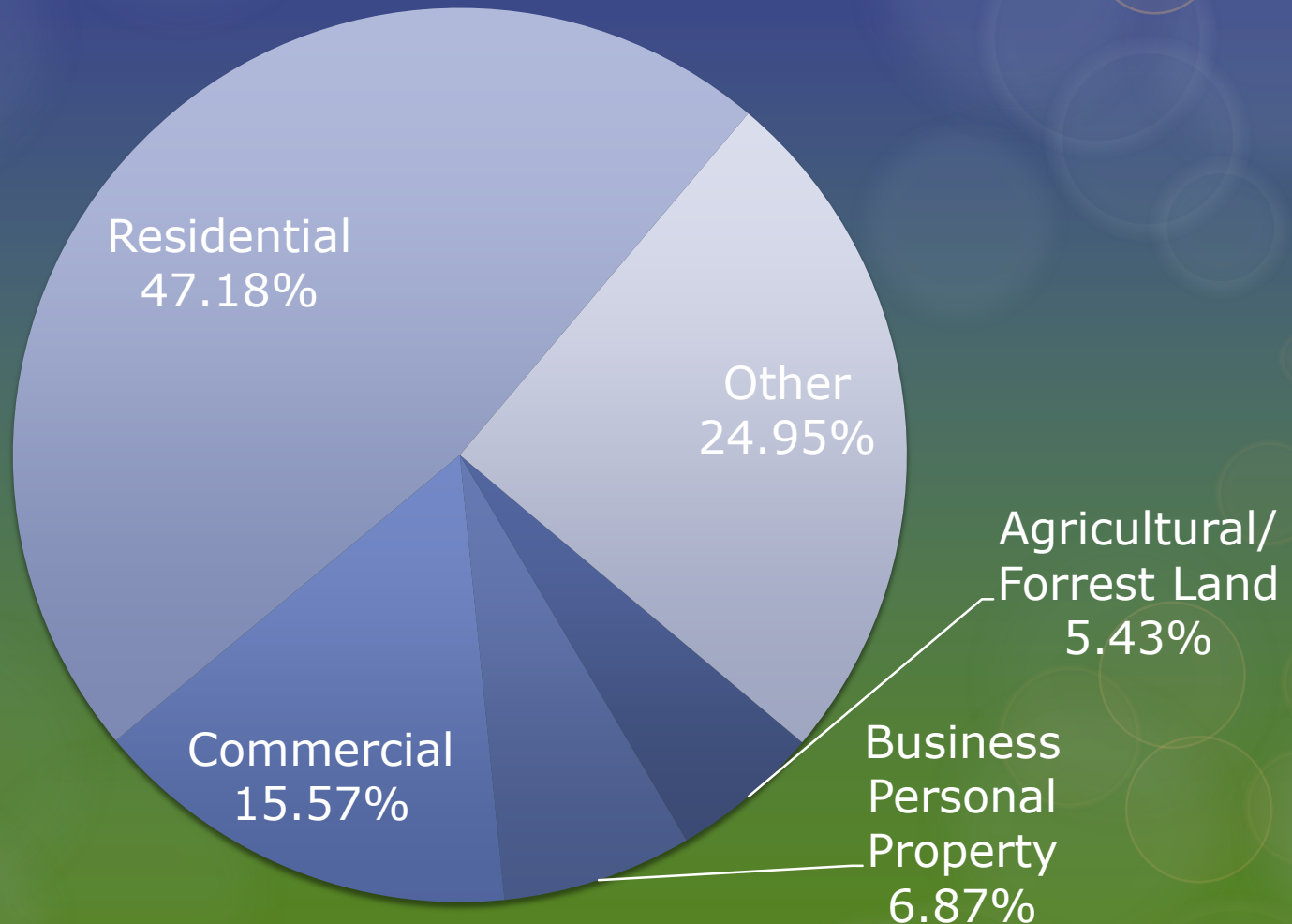
- The law requires cyclical reappraisal every six years.
- The current reappraisal cycle began January 1, 2009 and will end December 31, 2014.
- The new cycle begins January 1, 2015, and will end December 31, 2020.

Why does the department reappraise?

- Statutory requirement
 - Property assessed at the current market value, as of a specific date
 - Equitable distribution of property taxes



Percent of Property Taxes Paid By Type in 2013



What is Market Value?

- ❑ Willing buyer and seller
- ❑ Both parties are well informed
- ❑ Reasonable time is allowed for exposure in
 - ❑ the open market
- ❑ Payment is made in US cash or equivalent
- ❑ NOTE: Auction sales, short sales, and real estate owned/foreclosed sales may be an indication of market value in a distressed area even though they do not meet the statutory criteria above for an arm's length transaction



Valuation Date (2015 Cycle)

1/2014

2015 Cycle Begins

1/2015

Jan
2014

| Apr

| Jul

| Oct

Jan
2015

| Apr

| Jul

| Oct

State & County Reapdata to RTIC
11/2014

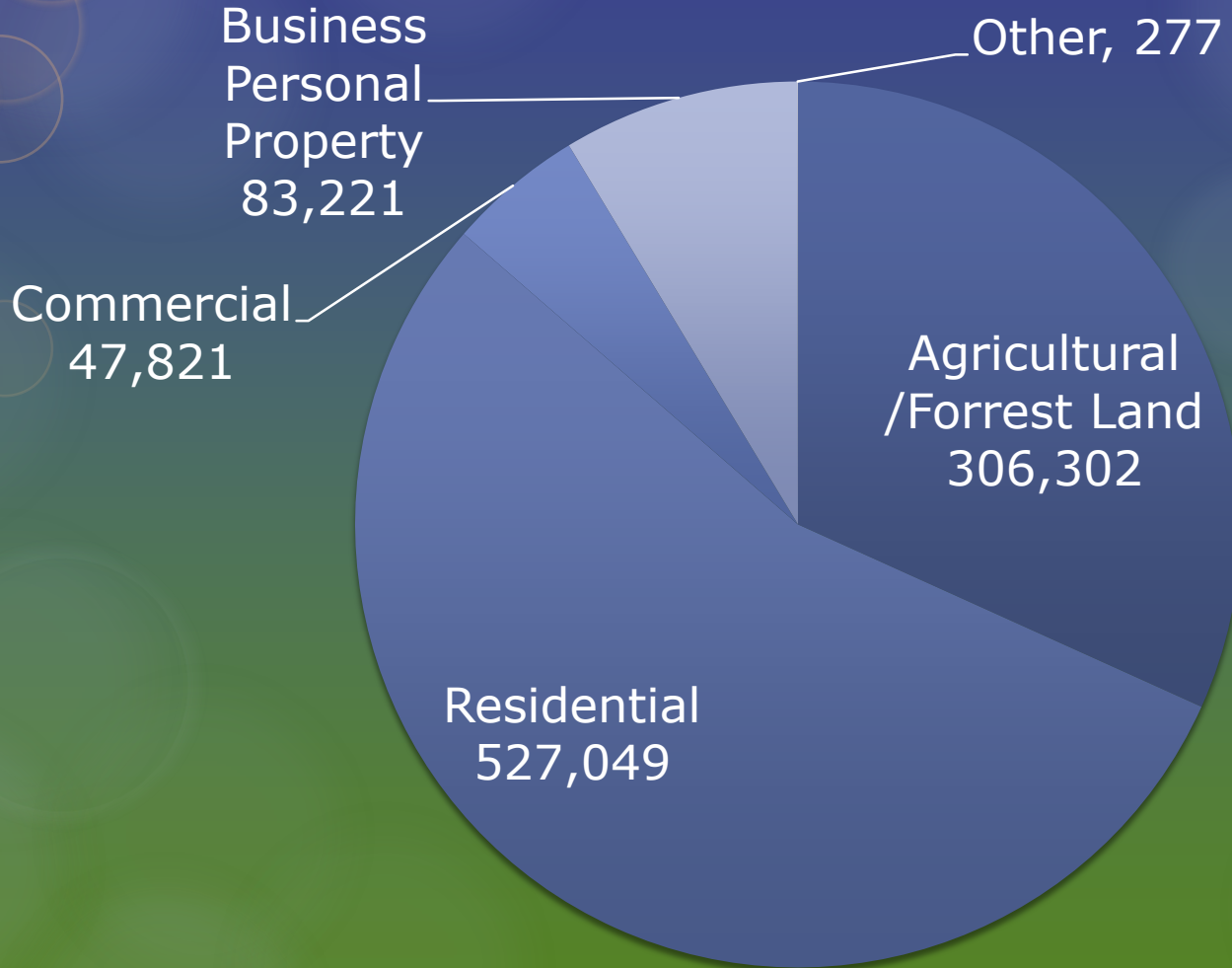
Legislature Considers Mitigation
1/2015

How is reappraisal accomplished?

□ Mass appraisal

- Systematic appraisal of groups of properties as of a given date using standardized procedures and statistical testing
- Valuation models used for groups of similar properties by location, characteristics, etc.

Count of Parcels by Type in 2013



Residential Property Valuation

❑ **Sales Comparison Approach**

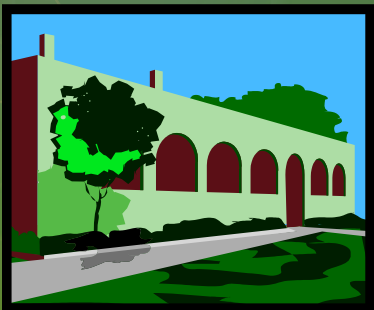
estimates the value of a property from the sale prices of comparable properties adjusted for physical and locational differences.

❑ **Cost Approach** is based on the theory that the market value of an improved parcel can be estimated as the sum of the land value and the estimated depreciated value of the improvements.



Commercial Property Valuation

- ❑ **Income Approach** measures the present worth of the future benefits of a property by the capitalization of the net income stream over the remaining economic life of the property.
 - ❑ The approach's basic premise is that commercial properties are bought and sold based upon their ability to generate and maintain a stream of income for their owners.
- ❑ **Cost Approach** is based on the theory that the market value of an improved parcel can be estimated as the sum of the land value and the estimated depreciated value of the improvements.



Income Formula

❑ Market Value = Income/Rate

❑ Example:

❑ Net Operating Income = 8,500

❑ Rate (Cap) = 8.5%

❑ Value (Market Value) = \$100,000

❑ Net Operating Income is arrived at from the income and expense data sheets that are mailed to businesses in the State of Montana either through a mass mailing or when a commercial property sells.

❑ All potential gross income, this is the income that would be generated if the property were rented at market rent and fully occupied and all income collected for the property.

❑ The next step is to calculate the effective gross income, this is the income for the property after any vacancies and collection losses.

❑ The next step is to calculate the net operating income of the property that is accomplished by subtracting from the effective gross income the expenses associated with the property.

❑ Capitalization rate (Cap Rate) is established by using properties that have sold. The net operating income for the sold properties is divided by the sale price to establish the rate of return of the property.

❑ Market Value from the income approach is the rent (or net operating income) divided by the cap rate.

Agricultural Land Valuation

- ❑ **MCA 15-7-201. Legislative intent -- value of agricultural property**
- ❑ (1) Because the market value of many agricultural properties is based upon speculative purchases that do not reflect the productive capability of agricultural land, it is the legislative intent that bona fide agricultural properties be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.
- ❑ **Agricultural land is valued at a productive value according to the lands ability to produce crops.**
- ❑ **Cost Approach** is used to value improvements.



Estimated Changes



❑ **Commodity Prices**

❑ 15-7-201(5)(b), MCA; ARM 42.20.660 through ARM 42.20.680

❑ Spring Wheat

❑ Increase over 60% (\$4.58/bu. to \$7.36/bu.)

❑ Alfalfa Hay

❑ Increase between 35% to 40% (\$63.04/ton to \$85.76/ton)

❑ Private Grazing Fees

❑ Increase between 15% to 20% (\$15.72/aum to \$18.38 /aum)

❑ **Size of the Base AUM (cow)**

❑ 15-7-201(5)(d), MCA

○ Increase 20% (1000# cow to 1200# cow)



Forest Land Valuation



- ❑ **MCA 15-44-103. Legislative intent -- value of forest lands**
- ❑ (1) In order to encourage landowners of private forest lands to retain and improve their holdings of forest lands, to promote better forest practices, and to encourage the investment of capital in reforestation, forest lands must be classified and assessed under the provisions of this section.
- ❑ **Forest land is valued at a productive value according to the lands ability to produce timber**
- ❑ **Cost Approach** is used to value improvements.

Estimated Changes

□ Salvage Timber Values per Zone

□ (\$/MBF 4th Qtr. 2013 dollars)

Northwest Zone \$188.15 -49%

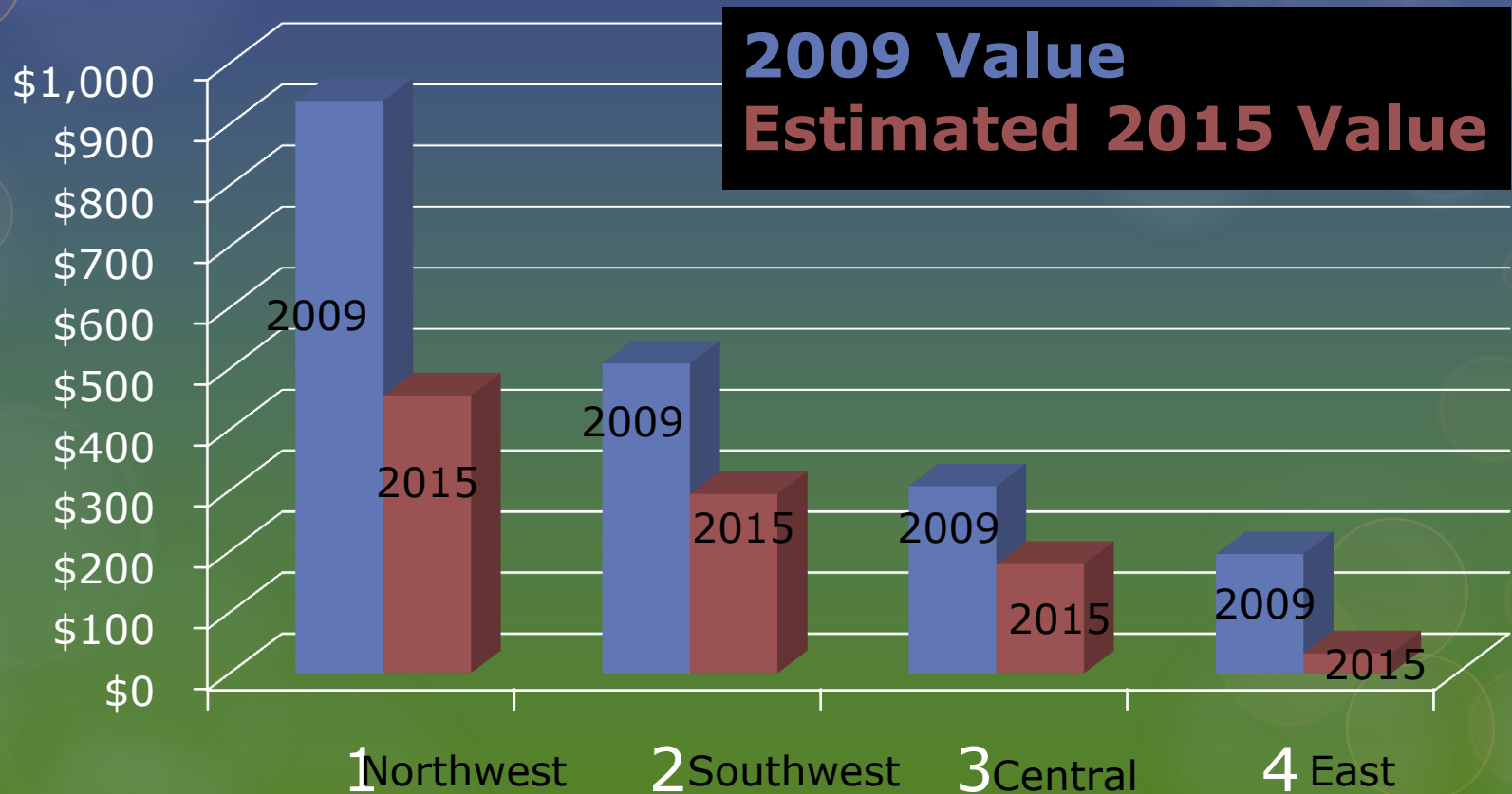
Southwest Zone 181.15 -43%

Central Zone 103.55 -46%

Eastern Zone 14.61 -89%



Forest Land Values per zone



Preliminary Analysis of Impacts for 2015

- ❑ Commodity Prices – Wheat prices are expected to increase by a minimum of 50% statewide.
- ❑ Commercial Construction Costs – Residential construction costs are expected to increase up to 15% statewide. Commercial construction costs will see a minimal increase.
- ❑ Home Sales – Preliminary analysis indicates minimal value increases statewide with the exception of the counties impacted by the Bakken oil fields.
- ❑ Timber Sales – Stumpage values are expected to decrease by approximately 50% statewide.
- ❑ *NOTE: With the exception of timber sales, each of the expected impacts are not a direct correlation to value as there are other variables in the formula in valuing a particular property type that must be considered in addition to the legislature's mitigation strategies.*

Questions

