



# MONTANA LEGISLATIVE BRANCH

## Legislative Fiscal Division

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DATE: September 24, 2009  
TO: Legislative Finance Committee  
FROM: Terry W. Johnson, Jim Standaert  
RE: Property Tax Reappraisal

### INTRODUCTION

During the last legislative session, HB 658 was enacted by the legislature. This legislation was designed to mitigate the effects of property tax reappraisal on class 3 (agricultural land), class 4 (residential and commercial property), and class 10 (forest land). Because property reappraisal is such a complex issue and impacts a significant portion of Montana taxpayers, the legislature appointed a special sub-committee to review and recommend legislation to address the potential tax increases due to reappraisal. The sub-committee members were senators Gebhardt-Chair, Gillan, Kaufmann, Tutvedt and representatives Jopek-Vice-chair, Pomnichowski, Hoven and Stahl. These members worked endless hours with assistance from Department of Revenue (DOR) and Legislative Branch staff to craft legislation that would mitigate the effects of reappraisal and to provide revenue neutrality at the state level.

### ISSUE

As the sub-committee worked through the information provided by the DOR, the focus of the committee was on residential property taxpayers although information was provided on commercial, agricultural, and timber land values. The data provided to the committee throughout the session, represented a "snapshot" of property market values at that point in time and did not reflect the "final" values. This was because DOR staff continued, as in every six-year reappraisal cycle, to update and refine their reappraisal numbers for each of the three classes of property especially for commercial, agricultural, and timber values.

As the legislative session drew to an end, the legislature generally agreed that their goal was to maintain revenue neutrality at the state level (imposition of the 95 and 6 mills). To achieve this goal, the legislature incorporated property tax rates and exemptions into HB 658 that would provide revenue neutrality at the state level. Revenue neutrality at the local level was expected because of MCA 15-10-420, which limits the growth in local revenues to one half the rate of inflation for the previous 3 years. The tax policies implemented in HB 658, however, were based on a "snapshot" of property market values provided by the DOR towards the end of the session.

At the September 18, Revenue and Transportation Interim Committee, the DOR presented the attached information addressing an updated “snapshot” that illustrates the changes in property values due to reappraisal. As shown in Table 1 on Page 2 of the attachment, the bottom line summarizes the change in property values by class when comparing the estimates used during the session versus the post assessment notice that was recently sent to the counties. As shown in Table 1, the most recently released values have increased from the estimates used during the session for all classes except residential property. This begs the question “are the tax policy parameters implemented in HB 658 still providing the same amount of revenue neutrality at the state level?” To answer this question, the DOR was asked to prepare a document that shows the state revenue differential using the legislative session estimates for property values versus the post assessment notice values. Attachment 2 is the document supplied by the DOR. This document shows (Table Z) that state property tax revenues will increase by \$0.5 million in FY 2010 and \$1.0 million in FY 2011 for a biennial increase of \$1.5 million due to the change in values. In other words, the mitigation strategy contained in HB 658 no longer maintains the same amount of revenue neutrality at the state level. Table Z also shows that residential taxpayers will experience a state revenue reduction while commercial, agricultural, and timber property owners will pay higher state property taxes.

## **CONCLUSION**

The mitigation parameters contained in HB 658 were based on a “snapshot” of property tax values prior to the adjournment of the 61<sup>st</sup> Legislature. This snapshot represented work in progress by DOR staff at the time the snapshot was taken. Five months later, the DOR has finalized the property tax values for assessment notice mailing and because the values for commercial, agricultural, and timber properties are higher than presented during the session, the mitigation parameters contained in HB 658 no longer maintain the same level of revenue neutrality at the state level as noted in the fiscal note.



# Property Reappraisal Update

## Post Assessment Notice Overview of House Bill 658 Impacts

September 17, 2009

In this report, we provide information about the cyclically reappraised classes of property — Class 4 Residential, Class 4 Commercial, Class 3 Agricultural Land and Class 10 Forest Land. The tables and graphs on the following three pages compare the 2009 legislative session estimates to the actual values on assessment notices, as well as show the change in tax liability and the percentage of change.

### **Page 2: Comparison of legislative session estimated values to post assessment-notice values**

Table 1 on page 2 compares the estimates of reappraised property values used during the legislative session to those values actually mailed as assessment notices of like properties. It is important to note that we continuously refine the reappraisal valuations to ensure maximum accuracy right up to the distribution of assessment notices.

For residential property, the Legislature used the estimated statewide average increase of 55.50 percent to help determine a strategy to mitigate increases in property tax. When comparing properties that fit the same statistical screens as used during the legislative session — HB658 data set — the change was 54.14 percent.

For commercial property, the increase was 43.38 percent. The estimate used during the legislative session was 34.06 percent.

For agricultural property, the increase was 32.8 percent. The estimate used during the legislative session was 29.29 percent.

The estimate for forest land used during the legislative session was 19.06 percent. This figure was never formatted into a county-by-county change like the rest of the classes of property, but was the value used to set policy.

These percentage changes in value may decline after informal reviews are completed.

### **Page 3: Change in tax liability for residential properties**

The third page shows the change in tax liability for residential properties that met the same statistical tests as used during the legislative session. Comparing 2008 to 2009, assuming that the mills are constant, 58 percent of all Montana property taxpayers are projected to see a tax change of plus or minus \$40 in 2009 because of reappraisal. The policy in HB 658 is based on 321,798 properties. There are 321,400 properties that meet the same statistical criteria based on the values printed on assessment notices.

### **Page 4: Percentage change in tax liability for residential properties**

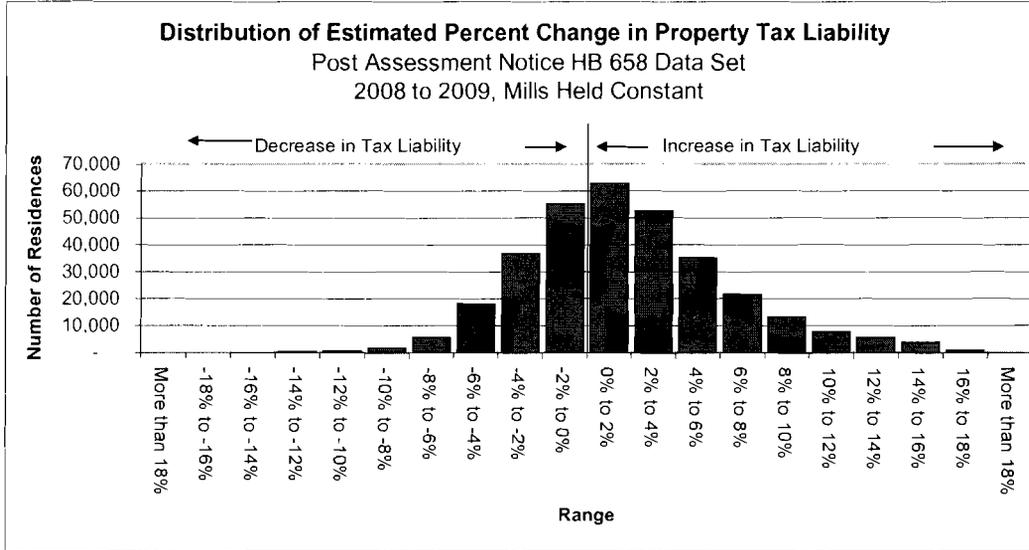
The fourth page shows the percentage change in tax liability for the same properties used on page two's graph. Between 2008 and 2009, 94 percent of taxpayers will see an increase of less than 10 percent, assuming mills do not change. No properties in the data set will have more than an 18 percent increase in 2009 than 2008.

Table 1  
**Percent Change in Property Values Due to Reappraisal**  
**Comparison between Estimates During 2009 Legislative Session and Post Assessment Values (HB 658 Data Set)**

County	Class 4 Residential		Class 4 Commercial		Class 3 Agricultural Land		Class 10 Forest Land	
	2009 Legislative Session Estimate	2009 Post Assessment Notice - HB 658 Data Set	2009 Legislative Session Estimate	2009 Post Assessment Notice - HB 658 Data Set	2009 Legislative Session Estimate	2009 Post Assessment Notice - HB 658 Data Set	2009 Legislative Session Estimate	2009 Post Assessment Notice - HB 658 Data Set
Beaverhead	57.07%	53.70%	42.68%	43.16%	-2.49%	10.72%	8.19%	164.31%
Big Horn	40.92%	45.20%	45.27%	35.83%	3.42%	10.65%	-68.06%	-38.81%
Blaine	38.03%	23.58%	31.73%	77.51%	53.15%	50.82%	236.73%	309.99%
Broadwater	61.11%	55.01%	55.33%	39.55%	51.99%	58.47%	12.21%	24.66%
Carbon	52.48%	63.39%	29.04%	45.81%	11.49%	15.96%	-50.73%	-16.55%
Carter	37.38%	17.24%	41.39%	63.57%	30.24%	37.85%	-54.59%	-35.95%
Cascade	39.86%	38.45%	19.33%	36.91%	19.08%	20.60%	8.26%	7.73%
Chouteau	41.82%	28.28%	35.90%	31.24%	3.66%	4.02%	129.45%	133.71%
Custer	54.94%	42.70%	24.79%	43.10%	56.25%	55.14%	-33.33%	-7.05%
Daniels	24.68%	12.87%	31.88%	10.21%	43.01%	42.77%	0.00%	0.00%
Dawson	79.36%	58.21%	59.63%	37.71%	41.06%	44.07%	0.00%	0.00%
Deer Lodge	48.85%	46.95%	40.57%	48.48%	24.03%	34.04%	-12.96%	-9.17%
Fallon	54.24%	30.95%	59.28%	49.72%	66.84%	75.25%	-82.77%	51.77%
Fergus	51.56%	48.17%	42.57%	48.07%	20.84%	32.79%	76.60%	93.97%
Flathhead	72.61%	65.55%	46.92%	40.74%	-20.07%	36.43%	9.53%	12.10%
Gallatin	51.09%	66.96%	42.79%	45.64%	30.90%	54.47%	-51.86%	-47.90%
Garfield	76.92%	19.95%	18.64%	17.32%	40.35%	50.85%	-100.00%	0.00%
Glacier	32.52%	23.68%	49.85%	39.72%	32.70%	34.90%	9.10%	31.22%
Golden Valley	37.67%	28.32%	6.80%	39.03%	25.68%	31.37%	47.30%	148.22%
Granite	53.70%	53.70%	20.39%	46.74%	2.95%	24.72%	-24.76%	-20.96%
Hill	41.39%	37.79%	37.19%	40.42%	31.62%	31.95%	134.95%	135.72%
Jefferson	49.56%	47.76%	57.09%	30.94%	29.57%	32.30%	73.33%	82.89%
Judith Basin	44.03%	27.97%	53.13%	50.38%	15.40%	29.22%	36.41%	49.23%
Lake	74.01%	66.67%	49.13%	44.87%	18.06%	30.65%	24.49%	27.51%
Lewis And Clark	61.70%	52.53%	45.79%	55.40%	29.07%	28.00%	54.40%	57.96%
Liberty	21.66%	28.70%	39.64%	61.41%	17.07%	17.50%	0.00%	0.00%
Lincoln	35.52%	74.66%	23.52%	53.71%	-30.62%	28.24%	47.03%	49.25%
Madison	37.28%	65.26%	35.29%	42.10%	22.65%	32.85%	-3.29%	3.60%
McCone	54.28%	15.18%	7.90%	27.77%	51.26%	53.34%	0.00%	0.00%
Meagher	48.02%	30.45%	29.46%	52.33%	22.91%	22.56%	0.36%	2.12%
Mineral	58.79%	58.70%	37.07%	42.72%	-44.24%	-3.58%	44.85%	48.47%
Missoula	60.40%	55.85%	25.19%	35.02%	-28.18%	-8.43%	26.23%	27.00%
Musselshell	35.95%	23.10%	29.43%	47.48%	6.46%	6.09%	29.97%	34.57%
Park	64.78%	60.56%	49.69%	55.72%	40.70%	52.81%	-43.67%	-41.06%
Petroleum	69.66%	21.21%	14.84%	25.65%	16.28%	24.34%	-50.95%	292.65%
Phillips	39.19%	37.71%	39.53%	65.47%	50.71%	54.68%	57.68%	199.72%
Pondera	25.26%	19.39%	34.80%	34.64%	25.66%	27.50%	-33.57%	752.39%
Powder River	42.35%	21.60%	40.40%	43.59%	25.82%	33.11%	103.66%	146.25%
Powell	46.39%	50.36%	67.27%	58.16%	7.88%	22.25%	8.02%	7.52%
Prairie	34.97%	20.83%	11.99%	33.44%	23.06%	35.55%	-100.00%	0.00%
Ravalli	59.86%	54.71%	28.88%	71.54%	12.23%	13.32%	40.99%	51.13%
Richland	79.63%	68.30%	29.12%	25.82%	51.15%	33.51%	0.00%	0.00%
Roosevelt	26.13%	14.44%	24.91%	14.66%	42.58%	45.75%	0.00%	0.00%
Rosebud	60.48%	51.71%	57.77%	35.88%	35.30%	36.42%	-8.42%	56.46%
Sanders	61.68%	54.75%	51.39%	50.43%	16.40%	53.51%	43.27%	43.58%
Sheridan	30.96%	24.47%	50.45%	21.42%	46.46%	46.62%	0.00%	0.00%
Silver Bow	61.94%	48.99%	47.48%	32.87%	-54.10%	-33.99%	54.41%	60.95%
Stillwater	41.45%	27.60%	16.77%	21.62%	-0.61%	9.04%	-13.17%	4.35%
Sweet Grass	33.57%	22.27%	30.92%	37.59%	81.23%	67.04%	28.52%	31.17%
Teton	51.05%	33.22%	26.78%	40.55%	27.83%	29.95%	-53.93%	-28.44%
Toole	30.00%	22.59%	40.82%	25.60%	24.99%	25.39%	0.00%	0.00%
Treasure	28.88%	12.70%	14.39%	34.08%	51.19%	46.11%	-90.50%	-54.27%
Valley	44.67%	38.98%	46.42%	28.99%	45.00%	41.94%	0.00%	0.00%
Wheatland	43.12%	27.69%	22.57%	53.25%	44.54%	50.51%	67.47%	98.40%
Wibaux	70.75%	24.98%	53.77%	74.06%	29.64%	41.98%	0.00%	0.00%
Yellowstone	49.43%	43.07%	22.48%	51.57%	41.02%	15.27%	0.73%	35.21%
Statewide	55.50%	54.14%	34.06%	43.38%	29.29%	32.48%	19.06%	23.67%

\*Estimates published during the session showed a 52% increase in productivity value of forest land. The figure above of 19.06% is the estimate actually used as the bench mark for mitigating the increase in forest land productivity values based upon legislative decisions to use a weighted mean productivity and an 8% capitalization rate.

**Statewide  
Class 4 Residences**



<b>Decreases in Tax Liability</b>		<b>Increases in Tax Liability</b>	
Range	Residences	Range	Residences
More than 18%	-	0% to 2%	62,728
-18% to -16%	-	2% to 4%	52,499
-16% to -14%	122	4% to 6%	35,211
-14% to -12%	330	6% to 8%	21,578
-12% to -10%	591	8% to 10%	13,184
-10% to -8%	1,752	10% to 12%	7,779
-8% to -6%	5,725	12% to 14%	5,330
-6% to -4%	18,118	14% to 16%	3,826
-4% to -2%	36,633	16% to 18%	738
-2% to 0%	55,256	More than 18%	-
<b>Total Decreases</b>	<b>118,527</b>	<b>Total Increases</b>	<b>202,873</b>

Total Residential Taxpayers 321,400

**Table Z - Summary of Change in General Fund Property Tax Revenue (95 + 1.5 Mills): Post Assessment Notice Estimates minus HB 658 on Passage**

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>Class 3 - Agricultural Land</b>	\$0	\$174,817	\$336,509	\$488,389	\$634,530	\$770,905	\$904,706
Class 4 - Residential	\$0	(\$148,481)	(\$278,392)	(\$392,921)	(\$494,728)	(\$590,221)	(\$680,298)
Class 4 - Commercial: Multifamily Property	\$0	\$69,401	\$130,121	\$183,652	\$231,237	\$275,871	\$317,973
Class 4 - Commercial: All Other Property	\$0	\$411,514	\$790,023	\$1,137,047	\$1,460,850	\$1,762,054	\$2,057,004
Subtotal Class 4 - Commercial:	\$0	\$480,915	\$920,144	\$1,320,699	\$1,692,087	\$2,037,925	\$2,374,976
<b>Class 4 Total</b>	\$0	\$332,433	\$641,752	\$927,778	\$1,197,360	\$1,447,703	\$1,694,679
<b>Class - 10 Forest Land</b>	\$0	\$4,884	\$9,481	\$13,681	\$17,567	\$21,141	\$24,408
<b>Total</b>	<b>\$0</b>	<b>\$512,135</b>	<b>\$987,741</b>	<b>\$1,429,849</b>	<b>\$1,849,457</b>	<b>\$2,239,749</b>	<b>\$2,623,793</b>



**Table X - Summary of Change in General Fund Property Tax Revenue (95 Mills): Post Assessment Notice Values**

	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>Post Session Appraisal Adjustments (six-year phase-in)</b>							
<b>Class 3 - Agricultural Land</b>	\$13,574,717	\$13,929,242	\$14,094,760	\$14,303,673	\$14,596,291	\$14,842,818	\$15,165,431
<b>Class 4 - Residential</b>	\$92,450,461	\$97,604,623	\$100,573,277	\$103,192,822	\$105,504,388	\$108,369,996	\$111,477,066
Class 4 - Commercial: Multifamily Property	\$4,224,511	\$4,370,258	\$4,438,910	\$4,499,150	\$4,550,881	\$4,631,307	\$4,724,894
Class 4 - Commercial: All Other Property	\$28,020,866	\$30,556,769	\$31,779,498	\$32,846,685	\$33,901,789	\$34,881,532	\$36,042,591
<b>Subtotal Class 4 - Commercial:</b>	<b>\$32,245,377</b>	<b>\$34,927,027</b>	<b>\$36,218,407</b>	<b>\$37,345,835</b>	<b>\$38,452,670</b>	<b>\$39,512,839</b>	<b>\$40,767,485</b>
<b>Class 4 Total</b>	<b>\$124,695,838</b>	<b>\$132,531,650</b>	<b>\$136,791,685</b>	<b>\$140,538,657</b>	<b>\$143,957,059</b>	<b>\$147,882,835</b>	<b>\$152,244,551</b>
<b>Class - 10 Forest Land</b>	<b>\$651,100</b>	<b>\$657,449</b>	<b>\$662,330</b>	<b>\$660,484</b>	<b>\$657,360</b>	<b>\$652,972</b>	<b>\$647,334</b>
<b>Total</b>	<b>\$138,921,655</b>	<b>\$147,118,341</b>	<b>\$151,548,775</b>	<b>\$155,502,815</b>	<b>\$159,210,710</b>	<b>\$163,378,625</b>	<b>\$168,057,316</b>

Table 7 - Summary of Change in General Fund Property Tax Revenue (95 + 1.5 Mills) - HB 658 as Passed

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
<b>HB 658 (six-year phase-in)</b>							
<b>Class 3 - Agricultural Land</b>	\$13,574,717	\$13,754,424	\$13,758,251	\$13,815,284	\$13,961,760	\$14,071,913	\$14,260,725
<b>Class 4 - Residential</b>	\$92,450,461	\$97,753,104	\$100,851,669	\$103,585,742	\$105,999,116	\$108,960,217	\$112,157,364
Class 4 - Commercial: Multifamily Property	\$4,224,511	\$4,300,858	\$4,308,789	\$4,315,498	\$4,319,644	\$4,355,437	\$4,406,922
Class 4 - Commercial: All Other Property	\$28,020,866	\$30,145,255	\$30,989,475	\$31,709,639	\$32,440,939	\$33,119,478	\$33,985,587
<b>Subtotal Class 4 - Commercial:</b>	<b>\$32,245,377</b>	<b>\$34,446,113</b>	<b>\$35,298,264</b>	<b>\$36,025,136</b>	<b>\$36,760,583</b>	<b>\$37,474,915</b>	<b>\$38,392,509</b>
<b>Class 4 Total</b>	<b>\$124,695,838</b>	<b>\$132,199,217</b>	<b>\$136,149,933</b>	<b>\$139,610,879</b>	<b>\$142,759,699</b>	<b>\$146,435,132</b>	<b>\$150,549,873</b>
<b>Class - 10 Forest Land</b>	<b>\$651,100</b>	<b>\$652,565</b>	<b>\$652,849</b>	<b>\$646,803</b>	<b>\$639,793</b>	<b>\$631,830</b>	<b>\$622,926</b>
<b>Total</b>	<b>\$138,921,655</b>	<b>\$146,606,206</b>	<b>\$150,561,033</b>	<b>\$154,072,966</b>	<b>\$157,361,253</b>	<b>\$161,138,875</b>	<b>\$165,433,523</b>