

Exploring and Understanding Property Tax

Mitigating the Effects of Reappraisal



Class 4 (Residential and Commercial) Property Tax



June 2003

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Tax Policy and Research

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EXPLORING AND UNDERSTANDING PROPERTY TAX

Class 4 (Residential and Commercial) Property Tax

Questions

- What determines the property tax bill?
- How does reappraisal impact the property tax bill?
- What policy choices are available to the Montana Legislature to influence the property tax bill? What are the pros and cons of these policy choices?
- What will happen to the property tax bills when the 2003 reappraisal property tax fix (SB461) ends and the next reappraisal cycle is implemented?
- How do Montana property taxes compare with other states?

Taxpayer Concerns

- Taxpayers fear being taxed out of their homes.
- Taxpayers are concerned about being able to budget and having stability in the increase in their property tax bills.
- Taxpayers are concerned that property tax bills are becoming too large and taking more from their disposable income than they can afford.
- Landlords are concerned that higher property taxes cause rents to increase, making payments more difficult for renters or causing landlords to have a lower return on their investments.
- Taxpayers who have annual reappraisals are concerned that the property tax shift they experience each year is accepted because their changing property tax value is smaller than the six-year reappraisal cycle property tax value change, and thus, easier to absorb on an annual basis.

Major Policy Issues

- How does government control the level of property tax bills?
- Is there a defined portion of the property tax revenue that each class of property should pay? Or, should all types of property pay the same effective property tax rate?
- If current property tax laws are changed resulting in lower property tax revenue, how will the lost revenue be replaced?

TAXES: WHERE DO THEY COME FROM AND WHERE DO THEY GO?

A simple question....., But.....

- What taxes are you talking about? Federal, state, local, income tax, property tax, beer tax...?
- Do you mean fees too? Is there any difference?
- Taxes paid by whom? Individuals, businesses, corporations, somebody else?

When talking about taxes it is important to do two things:

1. Ask yourself what perspective is being viewed. The view of the county commissioner is different from the view of the property taxpayer is different from the view of the administrator...
2. Do not forget to associate taxes with services. Because I pay taxes, my street gets plowed, my employees are educated, my county has a sheriff...

Statement to the Governor...

"...We feel, however, that we should direct special attention to what continues to be our most serious problem; that is the unfair part of the tax burden born on property as applies particularly to real estate."

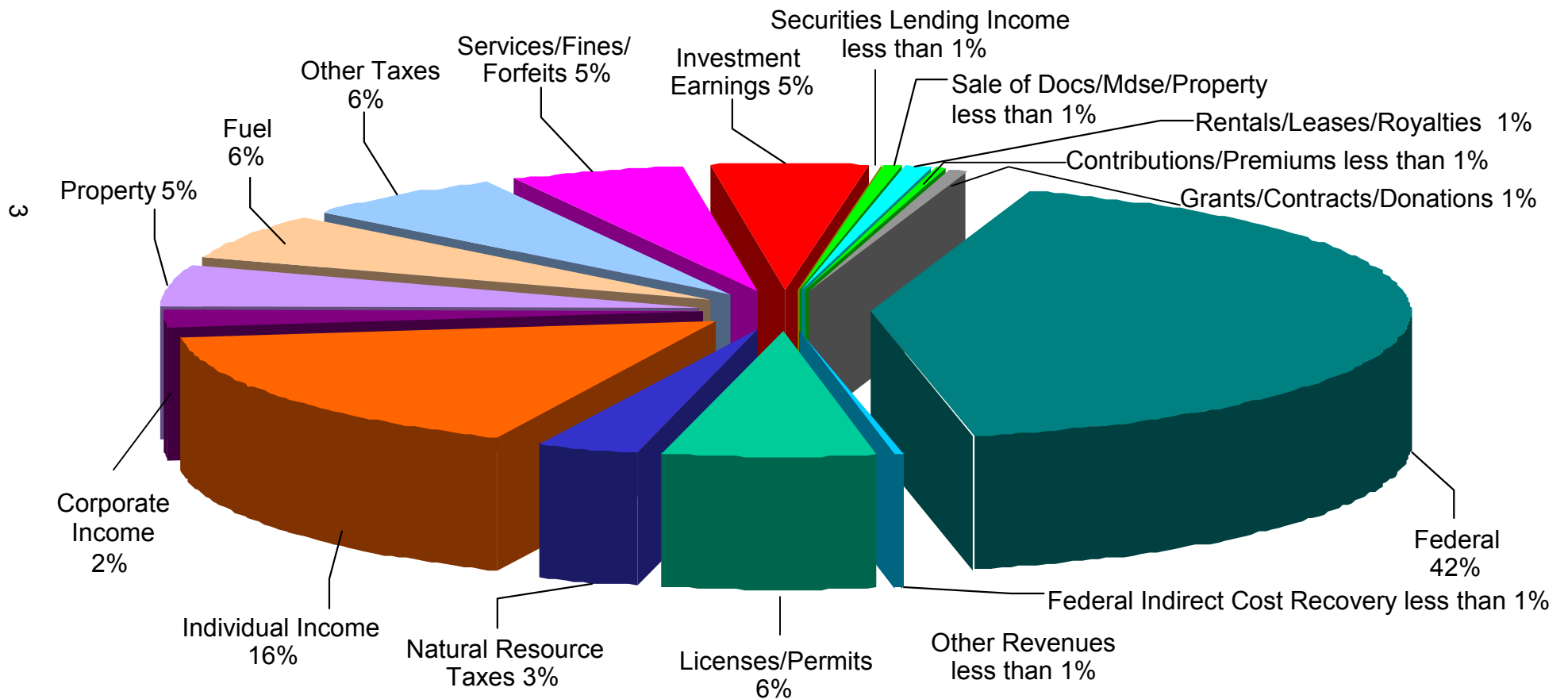
Montana State Board of Equalization to Governor Roy Ayers, December 1, 1936

State of Montana Constitution, Article VIII

Section 3. Property tax administration. The state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law.

State Revenue Sources

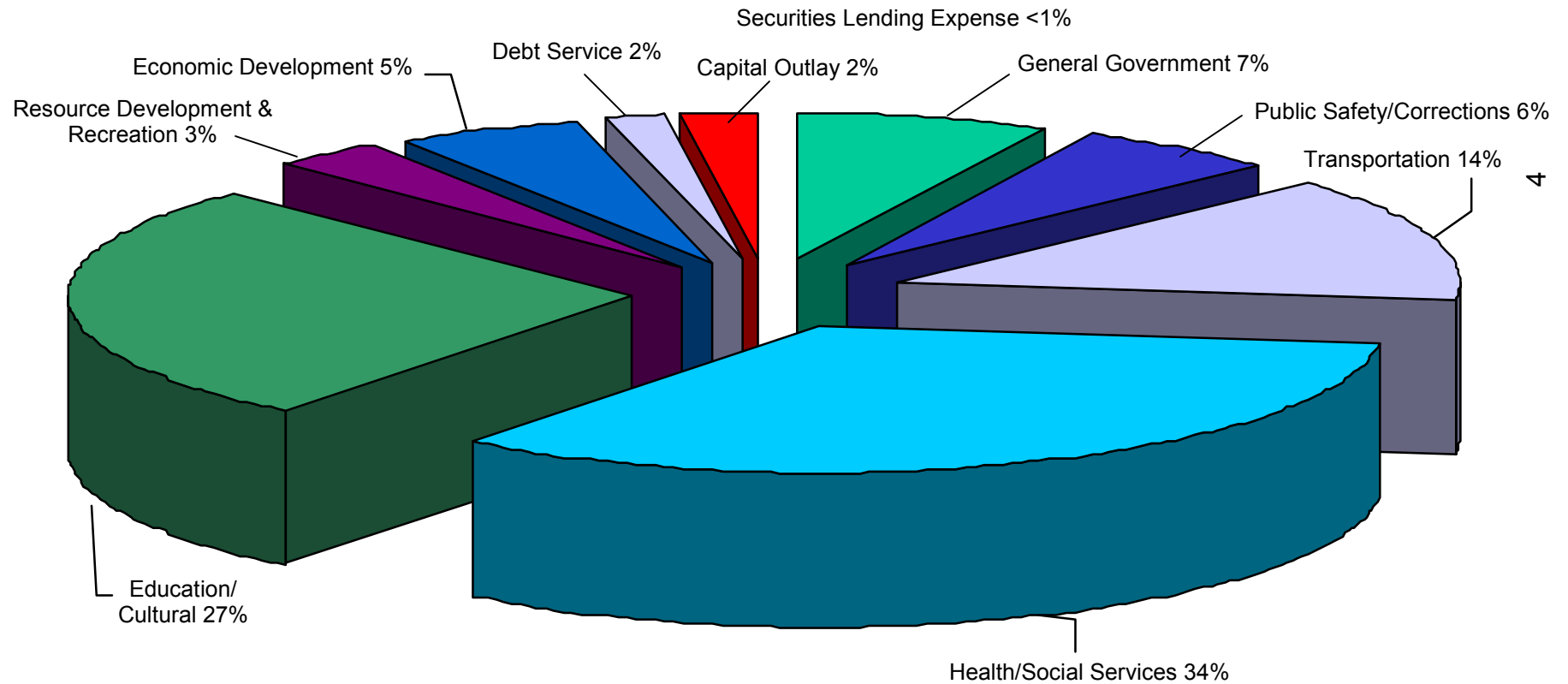
Where State Revenue Came From in FY2002



Source: 2002 Comprehensive Annual Financial

Total Expenditures

Where State Revenues Went In FY2002



Source: 2002 Comprehensive Annual Fiscal

Taxes In Actual Dollars

(Each Tax Type Displayed Separately)

5

Millions

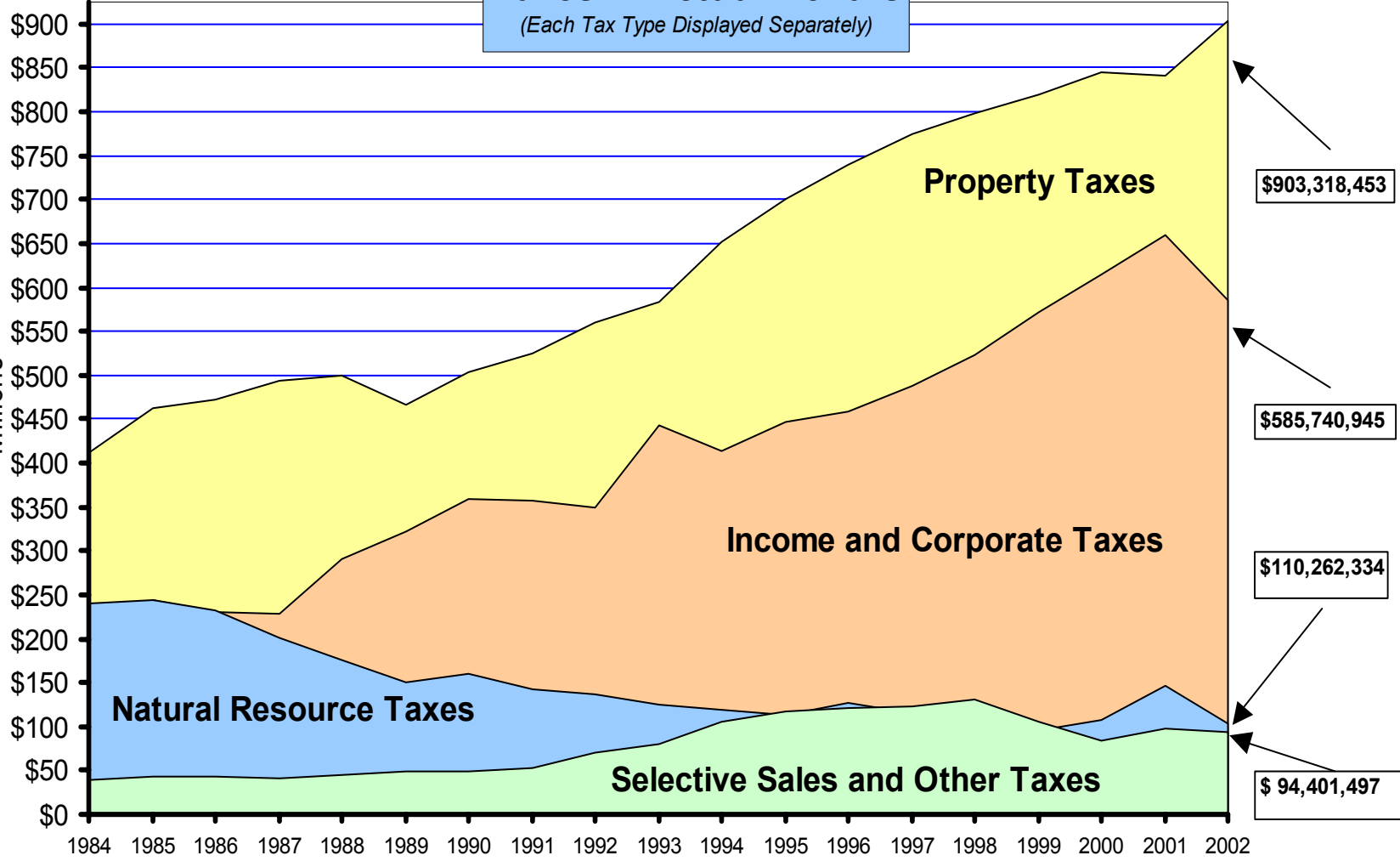


Table 1

Property Taxes Levied by Taxing Jurisdiction

Taxing Jurisdiction	Fiscal Year 2002		Fiscal Year 2003	
	Taxes Levied	% of Total	Taxes Levied	% of Total
State	\$ 172,732,683	20.4%	\$ 174,884,499	19.2%
County	169,656,560	20.1%	182,248,928	20.0%
Local Schools	273,218,014	32.3%	303,285,684	33.3%
Countywide Schools	59,165,700	7.0%	69,619,683	7.7%
Cities and Towns	66,590,272	7.9%	72,722,870	8.0%
Fire and Misc. Districts	23,011,161	2.7%	24,098,969	2.6%
SIDs and Fees	80,601,199	9.5%	83,033,029	9.1%
Total	\$ 844,975,590	100.0%	\$ 909,893,663	100.0%

Property Taxes Levied by Taxing Jurisdiction

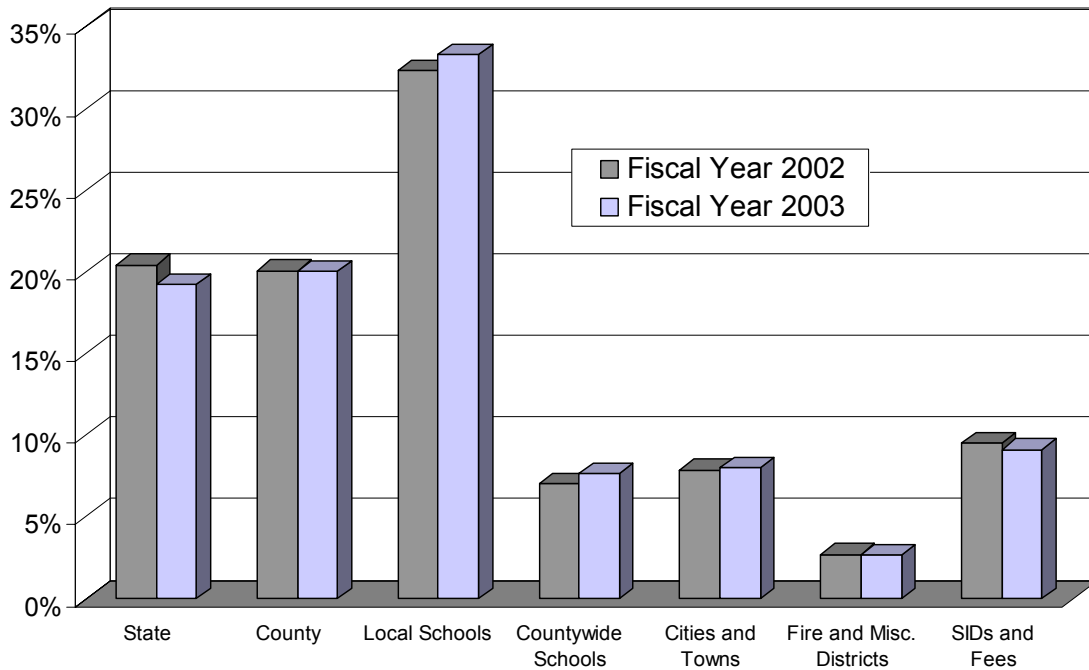


Table 2**Taxes Levied on the Montana Property Tax Bill**

	Tax Year 2001 (Fiscal Year 2002)	Tax Year 2002 (Fiscal Year 2003)
----- Valuation -----		
Market Valuation	\$ 44,267,268,656	\$ 46,488,551,722
Taxable Valuation Statewide Total	1,698,203,415	1,718,653,223
Taxable Valuation in Cities / Towns	615,204,516	623,137,679
----- Taxes Levied -----		
State		
University	\$ 10,193,553	\$ 10,334,649
Vo-Tech (General Fund)	903,354	917,916
State General Fund	161,397,918	163,631,935
State Assumption of Welfare	237,859	-
Subtotal State	<u>\$ 172,732,683</u>	<u>\$ 174,884,499</u>
County		
General	50,327,263	46,771,082
Road	20,274,727	21,505,215
Bridge	6,954,044	7,856,032
Poor	2,137,399	2,935,318
Bond Interest	123,897	289,132
County Fair	2,365,672	2,686,409
Library	6,325,233	6,904,349
Agricultural Extension	2,032,226	2,228,106
Planning	1,045,283	1,277,685
Health and Sanitation	4,129,110	4,232,538
Hospital	1,146,726	1,212,153
Airport	1,056,127	1,302,206
District Court	8,640,446	7,689,863
Weed Control	2,817,859	2,951,038
Senior Citizens	1,313,663	1,447,049
Other	58,966,883	70,960,753
Subtotal County	<u>\$ 169,656,560</u>	<u>\$ 182,248,928</u>
Local Schools		
Elementary	147,669,759	163,427,038
K-12 and High School	121,848,831	136,006,567
Jr. College	3,699,424	3,852,078
Subtotal Local Schools	<u>\$ 273,218,014</u>	<u>\$ 303,285,684</u>
Countywide Schools	59,165,700	69,619,683
Cities and Towns	66,590,272	72,722,870
Fire and Miscellaneous Districts	23,011,161	24,098,969
Total Property Tax	\$ 764,374,391	\$ 826,860,634
SIDs and Fees	<u>\$ 80,601,199</u>	<u>\$ 83,033,029</u>
Total Property Taxes, SIDs and Fees	\$ 844,975,590	\$ 909,893,663

DEPARTMENT OF REVENUE'S ROLE IN PROPERTY TAX

The state became responsible for overseeing the property valuation program under the 1972 constitution. This report gives an overview of how the Montana Legislature has dealt with the cyclical reappraisal of class 3 (agriculture land), class 4 (residential and commercial property), and class 10 (forest land) since 1972. The reason cyclical reappraisal becomes a policy issue each reappraisal cycle is that without intervention by the Montana Legislature, property taxes would increase significantly for most class 4 residential and commercial property owners and for some class 3 agricultural property owners. For classes of property appraised each year, property values change gradually. In contrast, cyclical reappraisal results in significant changes in property values in the year the cyclical reappraisal values are implemented. This is due to the time lag in recognizing property value changes in cyclical reappraisal.

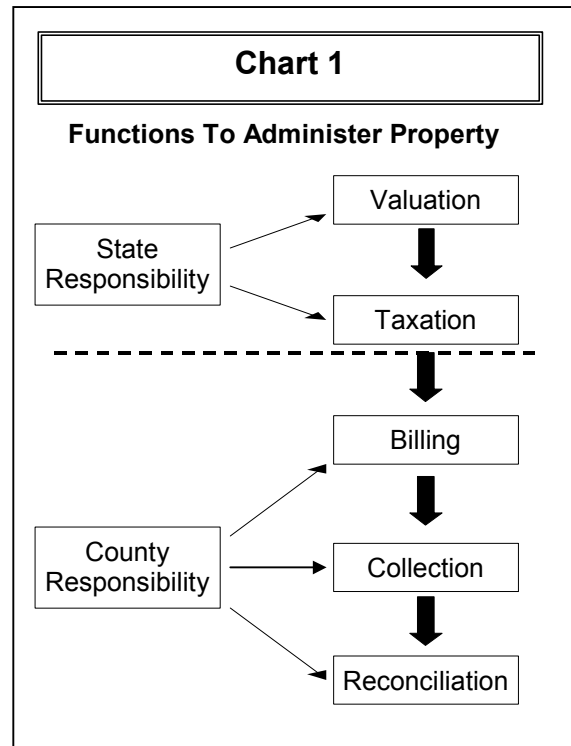
The goal of reappraisal is to insure that property is valued at current market value. If this is done, then the state is in compliance with Section 3, Article VIII of the State of Montana Constitution, which reads as follows.

“The state shall appraise, assess, and equalize the valuation of all property which is to be taxed in the manner provided by law.”

When cyclical reappraisal is completed, the state has met the constitutional obligation to equalize the valuation of all property. In theory, for every location in the state, all property of similar characteristics and use has a market value established for the same point in time.

Functions of Property Taxation

The various functions required to accomplish property taxation are identified in Chart 1. The valuation and taxation functions are currently the responsibility of the state. The tax billing, collection, and reconciliation functions are a county responsibility.



PROPERTY TAX CLASSES

Table 3 shows the tax year 2002 market values, tax rates, and taxable values for each of the 12 classes of property. All classes of property are reappraised annually with the exception of classes 3, 4 and 10, which are reappraised once every six years.

Table 3 shows that the total market value for the state is \$57.3 billion and the total taxable value is \$1.7 billion. Dividing the statewide total taxable value by the statewide total market value gives an average property tax rate of 3.0% for all property in the state.

Table 3						
Tax Year 2002 Valuations by Tax Class						
<u>Tax Class</u>	<u>Description</u>	<u>Tax Rate</u>	<u>2002 Market Value</u>	<u>% of MV</u>	<u>2002 Taxable Value</u>	<u>% of TV</u>
1	Mine Net Proceeds	100.00%	8,691,402	0.02%	8,691,402	0.51%
2	Gross Proceeds Metal Mines	3.00%	355,644,076	0.62%	10,669,321	0.62%
3	Agricultural Land	3.46%	3,845,087,046	6.72%	138,900,095	8.08%
4	Residential ¹	3.46%	30,906,164,239	53.98%	731,671,491	42.57%
4	Commercial ¹	3.46%	9,110,810,891	15.91%	271,202,451	15.78%
Sub 4	<i>Subtotal Class 4</i>	3.46%	40,016,975,130	69.89%	1,002,873,942	58.35%
5	Pollution Control Equipment	3.00%	1,180,181,662	2.06%	35,382,198	2.06%
6	Livestock	1.00%	616,075,480	1.08%	6,167,237	0.36%
7	Non-Centrally Assessed Public Util.	8.00%	2,705,175	0.00%	216,414	0.01%
8	Business Personal Property	3.00%	4,012,212,828	7.01%	118,348,926	6.89%
9	Non-Elec. Gen. Prop. of Electric Util.	12.00%	1,719,851,111	3.00%	206,360,123	12.01%
10	Forest Land	0.35%	2,048,625,084	3.58%	7,170,239	0.42%
12	Railroad and Airline Property	4.02%	1,161,404,952	2.03%	46,688,479	2.72%
13	Telecomm. & Electric Property	<u>6.00%</u>	<u>2,286,414,106</u>	<u>3.99%</u>	<u>137,184,847</u>	<u>7.98%</u>
Totals		<u>3.00%</u>	<u>57,253,868,052</u>	<u>100.00%</u>	<u>1,718,653,223</u>	<u>100.00%</u>

¹Market Value is prior to Homestead/Comstead.

The total market value of class 4 property is \$40 billion. This represents 69.89% of the total statewide market value. The total taxable value of class 4 property is \$1 billion. This represents 58.35% of the statewide taxable value. The class 4 share of total statewide taxable value is lower than class 4 share of total statewide market value. This indicates that the effective tax rate for class 4 property is lower than the statewide average tax rate. Although the tax rate for class 4 is listed as 3.46%, the portion of market value exempted from taxation under the homestead and comstead exemption percentages (31% and 13%, respectively) causes the effective tax rate for class 4 to be lower than 3.46%.

CALCULATION OF PROPERTY TAXES

Table 4 show the property tax calculation of property in class 3 (agricultural land), class 4 (residential), class 4 (commercial), and class 9 (utilities). The calculation for class 4 residential property includes a homestead exemption of 31%. The

calculation for class 4 commercial property has a comstead exemption of 13%. For class 9, and all classes of property other than class 4, there is no homestead or comstead exemption. With a homestead or a comstead exemption, a percentage of the property value is exempt from property tax.

Table 4				
Tax Year 2002 Property Tax Calculation of Selected Tax Classes				
Description	Tax Class 3	---- Tax Class 4 ----		Tax Class 9
		Residential	Commercial	
Market Value	\$100,000	\$100,000	\$100,000	\$100,000
Homestead / Comstead	<u>0</u>	<u>x 31%</u>	<u>x 13%</u>	<u>0</u>
Exempt Market Value	<u>\$0</u>	<u>\$31,000</u>	<u>\$13,000</u>	<u>\$0</u>
Net Assessed Value	\$100,000	\$69,000	\$87,000	\$100,000
Tax Rate	<u>x 3.46%</u>	<u>x 3.46%</u>	<u>x 3.46%</u>	<u>x 12.00%</u>
Taxable Value	\$3,460	\$2,387	\$3,010	\$12,000
Mill Levy	<u>x 400 Mills</u>	<u>x 400 Mills</u>	<u>x 400 Mills</u>	<u>x 400 Mills</u>
Tax Liability	<u>\$1,384</u>	<u>\$955</u>	<u>\$1,204</u>	<u>\$4,800</u>
÷ Market Value	\$100,000	\$100,000	\$100,000	\$100,000
Effective Tax Rate	<u>1.38%</u>	<u>0.95%</u>	<u>1.20%</u>	<u>4.80%</u>

The effective tax rate for agricultural land is 1.38%. The effective tax rate for class 4 property is 0.95% (residential) and 1.20% (commercial). Even though classes 3 and 4 have the identical tax rate of 3.46%, the effective tax rates for class 4 residential and commercial property are less than the effective tax rate for class 3 agricultural land. These lower effective tax rates are due to the residential property homestead exemption of 31% and the commercial property comstead exemption of 13%. The effective tax rate for class 9 property is 4.80%. This is higher than the effective tax rate for class 3 agricultural land and class 4 residential and commercial property. This is because class 9 property has a tax rate of 12% and does not receive the benefit of a homestead or comstead exemption.

There are three key ingredients for calculating property tax liability: assessed value for taxing purposes; tax rate; and mill levies.

Assessed Value for Taxing Purposes

The assessed value is determined based on law passed by the Montana Legislature. The Department of Revenue is responsible for setting the assessed value of property. This is done annually for all property except class 3 (agricultural land), class 4 (residential and commercial property), and class 10 (forest land). Class 3, class 4 and class 10 are reappraised on a cyclical basis. Currently, the reappraisal cycle is six years. The cycle length has varied over time. During the last two cycles

the actual determination of the new values for property was separated by a six-year period. While the total length of the next cycle is six years, the actual determination of the new values for property will be completed one year sooner than in the prior two cycles. This will make the time between the determination of values for property five instead of six years. The new values will still be implemented at the end of the six-year period. Completing the determination of values one year sooner allows the reappraisal results to be available for analysis and tax policy discussion to take place prior to the 2009 Legislative Session.

Tax Rate

The tax rates for each class of property are set by the Montana Legislature and were shown previously on page 9.

Mill Levies

A mill is 1/1000 (0.001) of a dollar. For each \$1,000 of taxable value, one mill will generate \$1 ($\$1,000 \times 0.001$) of property tax revenue. For example, if property has a taxable value of \$2,000 and the mill levy is set at 30 mills, the property tax bill would be \$60 ($\$2,000 \times 0.030$).

Mill levies are set by:

- The Montana Legislature sets the state mill levies in law. These are 95 mills for K-12 education, 6 mills for the university system and 1.5 mills for counties which have a vocational technical center.
- County commissioners annually set mill levies for counties and miscellaneous taxing jurisdictions.
- City commissioners set mill levies for cities.
- School boards annually set local school district mill levies.
- Counties, cities, and schools have some mill levy limits which, if exceeded, require a vote of the people.

Section 15-10-420, MCA sets limits on county and city mill levies by not allowing the amount of property tax collected (not considering new construction) to increase at one-half the average rate of inflation for the prior three years.

School districts have some mill levy limits that are generally considered to be less restrictive than mill levy limits applied to counties and city governments.

Generally, mill levy increases presented to Montana voters are passed.

The following table gives an estimate of the statewide average mill levy change for tax years 1999 to 2002. It is estimated that the average mill levy changed 5.7% from tax year 1999 to tax year 2000; 4.6% from tax year 2000 to tax year 2001; and 6.9% from tax year 2001 to tax year 2002.

Table 5							
Estimated Statewide Average Mill Levy Changes							
Tax Year 1999 to Tax Year 2002 (Fiscal 2000 to 2003)							
----- Taxes Levied -----	Average Mill Levy						
	TY99	TY00	TY01	TY02			
State							
University	6.00	6.00	6.00	6.00			
Vo-Tech (General Fund)	0.52	0.53	0.53	0.53			
State General Fund	95.00	95.00	95.00	95.00			
State Assumption of Welfare	3.70	3.85	0.14	0.00			
Subtotal State	105.21	105.38	101.67	101.54			
County							
General	23.64	26.92	29.64	27.21			
Road	10.12	10.96	11.94	12.51			
Bridge	3.59	4.01	4.09	4.57			
Poor	2.32	2.38	1.26	1.71			
Bond Interest	0.10	0.09	0.07	0.17			
County Fair	1.26	1.39	1.39	1.56			
Library	2.23	2.41	3.72	4.02			
Agri. Extension	1.10	1.18	1.20	1.30			
Planning	0.37	0.54	0.62	0.74			
Health and Sanitation	1.96	2.34	2.43	2.46			
Hospital	0.78	0.84	0.68	0.71			
Airport	0.58	0.62	0.62	0.76			
District Court	4.83	5.17	5.09	4.47			
Weed Control	1.29	1.72	1.66	1.72			
Senior Citizens	0.68	0.76	0.77	0.84			
Other	24.61	27.99	34.72	41.29			
Subtotal County	79.47	89.34	99.90	106.04	12.4%	11.8%	6.1%
Local Schools							
Elementary	77.28	79.83	86.96	95.09	3.3%	8.9%	9.4%
K-12 and High School	64.47	65.59	71.75	79.14	1.7%	9.4%	10.3%
Jr. College	1.79	2.18	2.18	2.24	21.3%	0.1%	2.9%
Subtotal Local Schools	143.54	147.60	160.89	176.47	2.8%	9.0%	9.7%
Countywide Schools	32.32	35.95	34.84	40.51	11.2%	-3.1%	16.3%
Cities and Towns	90.28	106.42	108.24	116.70	17.9%	1.7%	7.8%
Fire and Misc. Districts	11.99	13.52	13.55	14.02	12.8%	0.2%	3.5%
Total Property Tax	407.21	430.40	450.11	481.11	5.7%	4.6%	6.9%
SIDs and Fees					0.8%	12.5%	3.0%
Total Property Taxes, SIDs and Fees					-6.0%	6.3%	7.7%

Table 6 shows the taxes levied on the Montana property tax bill for tax year 1993 to tax year 2002. For this ten-year period, the total average mill levy increased 134.40 mills from 346.71 to 481.11 mills. This is an increase of 38.8%.

Table 6				
Taxes Levied on the Montana Property Tax Bill, Tax Year 1993 - 2002				
	<u>Tax Year 1993</u> <u>(Fiscal Year 2000)</u>	<u>Tax Year 2002</u> <u>(Fiscal Year 2003)</u>	<u>Avg Mill</u> <u>1993</u>	<u>Avg Mill</u> <u>2002</u>
Valuation				
Market Valuation	\$ 30,893,878,847	\$ 46,488,551,722		
Taxable Valuation Statewide Total	\$ 1,731,947,504	\$ 1,718,653,223		
Taxable Valuation in Cities / Towns	\$ 521,184,288	\$ 623,137,679		
State				
University	\$ 10,378,589	\$ 10,334,649	6.00	6.00
Vo-Tech (General Fund)	877,842	917,916		
State General Fund	<u>164,327,660</u>	<u>163,631,935</u>	95.00	95.00
Subtotal	\$ 175,584,091	\$ 174,884,500		
County Government				
General	\$ 45,659,049	\$ 46,771,082		
Road	15,546,248	21,505,215		
Bridge	5,885,882	7,856,032		
Poor	11,977,953	2,935,318		
Bond Interest	242,328	289,132		
County Fair	1,974,216	2,686,409		
Library	2,891,994	6,904,349		
Agri. Extension	1,665,357	2,228,106		
Planning	688,926	1,277,685		
Health and Sanitation	1,876,425	4,232,538		
Hospital	1,527,760	1,212,153		
Airport	1,112,968	1,302,206		
Other	<u>29,980,825</u>	<u>83,048,703</u>		
Subtotal	\$ 121,029,931	\$ 182,248,928	69.88	106.04
Local Schools				
Elementary	\$ 104,411,841	\$ 163,427,038	60.29	95.09
K-12 and High School	78,646,591	136,006,567	45.41	79.14
Jr. College	<u>3,155,333</u>	<u>3,852,078</u>	1.82	2.24
Subtotal	\$ 186,213,765	\$ 303,285,683	107.52	176.47
Countywide Schools				
	\$ 49,989,221	\$ 69,619,683	28.86	40.51
Cities and Towns				
	\$ 50,054,495	\$ 72,722,870	96.04	116.70
Fire & Misc. Districts				
	17,613,695	24,098,969	10.17	14.02
Total Property Tax				
	\$ 600,485,198	\$ 826,860,633	346.71	481.11
SIDs and Fees				
	56,132,941	83,033,029		
Grand Total				
	\$ 656,618,139	\$ 909,893,662		
			38.8% Increase	

Table 7 shows the total mill levy for tax year 2002 for each county. The total mill levy represents the total of all mills levied for state, county, and school purposes. The total does not include mills levied by cities or towns. The mill levies range from a high of 660.10 for Deer Lodge County to a low of 211.52 for Rosebud County.

Table 7							
TY 2002 State, Counties, and Average Schools Mill Levies							
County	University System	State General Fund	County *	Misc. & Fire	Countywide Trans & Ret	School Districts**	Total
Beaverhead	6.00	95.00	108.87	8.03	53.77	207.53	479.20
Big Horn	6.00	95.00	64.00	4.78	43.62	137.46	350.86
Blaine	6.00	95.00	150.18	4.53	46.29	94.27	396.27
Broadwater	6.00	95.00	104.02	14.69	14.51	124.27	358.49
Carbon	6.00	95.00	87.57	10.09	37.82	158.28	394.76
Carter	6.00	95.00	122.21	0.44	18.87	70.59	313.11
Cascade	6.00	96.50	108.96	15.98	44.81	201.76	474.01
Chouteau	6.00	95.00	115.21	26.36	28.60	146.26	417.43
Custer	6.00	95.00	147.17	3.26	39.04	242.66	533.13
Daniels	6.00	95.00	139.95	31.57	32.43	220.29	525.24
Dawson	6.00	95.00	159.67	6.39	43.13	271.15	581.34
Deer Lodge	6.00	95.00	232.53	62.19	39.44	224.94	660.10
Fallon	6.00	95.00	107.37	5.82	3.36	22.44	239.99
Fergus	6.00	95.00	107.94	9.52	48.86	187.47	454.79
Flathead	6.00	95.00	112.82	10.35	39.19	195.47	458.83
Gallatin	6.00	95.00	79.04	18.00	44.06	170.35	412.45
Garfield	6.00	95.00	181.83	1.31	44.51	117.52	446.17
Glacier	6.00	95.00	132.34	5.07	65.66	231.83	535.90
Golden Valley	6.00	95.00	65.77	2.75	30.45	152.92	352.89
Granite	6.00	95.00	122.55	8.22	30.21	163.21	425.19
Hill	6.00	95.00	112.49	8.51	52.11	173.93	448.04
Jefferson	6.00	95.00	94.80	10.30	34.79	161.98	402.87
Judith Basin	6.00	95.00	109.26	4.48	24.12	165.83	404.69
Lake	6.00	95.00	96.90	11.59	45.71	140.48	395.68
Lewis And Clark	6.00	96.50	144.81	11.41	47.51	233.38	539.61
Liberty	6.00	95.00	142.51	9.22	22.78	151.32	426.83
Lincoln	6.00	95.00	79.19	16.69	32.17	170.86	399.91
Madison	6.00	95.00	98.56	20.99	28.92	140.77	390.24
McCone	6.00	95.00	184.04	2.57	22.52	132.28	442.41
Meagher	6.00	95.00	121.98	7.90	22.31	117.18	370.37
Mineral	6.00	95.00	102.46	15.11	40.69	207.66	466.92
Missoula	6.00	96.50	142.24	27.59	44.05	217.65	534.03
Musselshell	6.00	95.00	143.16	11.05	46.89	188.57	490.67
Park	6.00	95.00	79.58	9.97	49.34	153.39	393.28
Petroleum	6.00	95.00	75.96	6.11	49.10	183.51	415.68
Phillips	6.00	95.00	74.36	5.68	6.98	139.28	327.30
Pondera	6.00	95.00	148.16	11.12	57.93	185.00	503.21
Powder River	6.00	95.00	225.58	2.29	60.36	126.43	515.66
Powell	6.00	95.00	101.09	4.35	37.37	201.57	445.38
Prairie	6.00	95.00	178.02	3.81	36.83	173.70	493.36
Ravalli	6.00	95.00	105.99	20.97	34.98	143.21	406.15
Richland	6.00	95.00	132.34	1.95	24.37	190.51	450.17
Roosevelt	6.00	95.00	104.37	6.43	63.78	151.68	427.26
Rosebud	6.00	95.00	19.15	11.74	15.92	63.71	211.52
Sanders	6.00	95.00	73.41	17.45	24.72	136.30	352.88
Sheridan	6.00	95.00	133.78	14.09	38.76	195.63	483.26
Silver Bow	6.00	96.50	167.59	24.14	52.09	209.92	556.24
Stillwater	6.00	95.00	92.72	9.44	27.98	119.78	350.92
Sweet Grass	6.00	95.00	114.93	7.29	35.58	126.51	385.31
Teton	6.00	95.00	125.12	5.67	42.51	202.32	476.62
Toole	6.00	95.00	120.19	4.28	47.96	156.51	429.94
Treasure	6.00	95.00	100.03	2.84	31.97	129.78	365.62
Valley	6.00	95.00	82.79	5.57	36.81	145.04	371.21
Wheatland	6.00	95.00	105.26	1.04	32.57	123.52	363.39
Wibaux	6.00	95.00	190.37	10.79	0.19	148.56	450.91
Yellowstone	6.00	96.50	86.39	12.79	48.67	208.22	458.57

* Adjusted for Non-City Mills (Road Fund, etc.). Includes entitlement levy.
 ** Value listed is the county average school levy.

Table 8 shows the total mill levy (includes all mills levied for state, county, school and city/town purposes) for tax year 2002 for each city and town in Montana. The mill levies range from a high of 1,009.58 for Westby to a low of 213.24 for Colstrip.

Table 8 Total of State, Local, and School Mill Levies and Taxable Values of Cities - Tax Year 2002							
County	City	Mill Levy	Taxable Value	County	City	Mill Levy	Taxable Value
Mineral	Alberton	623.70	288,729	Custer	Ismay	454.86	35,892
Deer Lodge	Anaconda	737.98	3,983,420	Carbon	Joliet	547.80	455,483
Roosevelt	Bainville	522.32	94,231	Garfield	Jordan	595.66	214,285
Fallon	Baker	422.49	1,109,889	Wheatland	Judith Gap	444.75	102,848
Carbon	Bearcreek	457.95	79,642	Flathead	Kalispell	638.68	24,426,507
Gallatin	Belgrade	549.40	6,427,559	Toole	Kevin	447.91	79,733
Cascade	Belt	614.12	452,896	Yellowstone	Laurel	567.67	5,815,575
Chouteau	Big Sandy	454.25	535,414	Golden Valley	Lavina	433.41	136,298
Sweetgrass	Big Timber	458.39	2,706,808	Fergus	Lewistown	647.76	5,309,461
Yellowstone	Billings	560.33	111,140,714	Lincoln	Libby	491.46	2,529,771
Jefferson	Boulder	587.10	777,255	Beaverhead	Lima	613.15	183,608
Gallatin	Bozeman	533.90	46,473,541	Park	Livingston	538.18	8,608,480
Carbon	Bridger	506.32	610,777	Big Horn	Lodge Grass	398.83	129,278
Powder River	Broadus	604.26	299,228	Phillips	Malta	571.18	1,650,863
Yellowstone	Broadview	407.31	206,450	Gallatin	Manhattan	515.25	1,708,805
Roosevelt	Brockton	363.09	59,126	Sheridan	Medicine Lake	696.61	122,521
Glacier	Browning	651.08	424,776	Musselshell	Melstone	627.34	93,746
Silver Bow	Butte/Silver Bow	602.10	56,955,187	Custer	Miles City	760.23	6,312,801
Cascade	Cascade	561.24	636,258	Missoula	Missoula	689.75	84,631,778
Liberty	Chester	412.88	698,424	Fergus	Moore	410.37	182,094
Blaine	Chinook	640.64	972,066	Valley	Nashua	617.91	198,020
Teton	Choteau	532.98	1,413,032	Cascade	Neihart	518.13	254,335
McCone	Circle	641.28	563,861	Valley	Opheim	494.97	75,421
Park	Clyde Park	495.78	295,795	Sheridan	Outlook	646.39	40,767
Rosebud	Colstrip	213.24	72,841,196	Granite	Phillipsburg	508.19	810,204
Flathead	Columbia Falls	580.19	4,132,921	Ravalli	Pinesdale	440.72	222,581
Stillwater	Columbus	453.99	6,776,733	Sanders	Plains	463.24	1,102,394
Pondera	Conrad	624.41	1,501,614	Sheridan	Plentywood	623.37	1,587,377
Roosevelt	Culbertson	528.81	423,595	Fallon	Plevna	330.70	70,454
Glacier	Cut Bank	630.92	2,415,167	Lake	Polson	484.68	5,626,883
Ravalli	Darby	438.80	704,268	Roosevelt	Poplar	468.54	442,497
Powell	Deer Lodge	570.94	2,320,293	Carbon	Red Lodge	471.16	4,671,252
Fergus	Denton	572.66	209,173	Lincoln	Rexford	366.32	96,214
Beaverhead	Dillon	569.83	4,068,918	Dawson	Richey	554.65	138,655
Phillips	Dodson	433.40	61,571	Lake	Ronan	495.88	1,641,330
Granite	Drummond	531.73	368,937	Musselshell	Roundup	601.62	1,455,901
Teton	Dutton	514.05	309,154	Golden Valley	Ryegate	389.06	138,827
Lewis & Clark	East Helena	599.07	2,544,693	Phillips	Saco	351.79	215,919
Carter	Ekalaka	683.42	169,176	Daniels	Scobey	693.33	704,969
Madison	Ennis	415.22	1,493,227	Toole	Shelby	641.36	3,152,882
Lincoln	Eureka	462.13	943,338	Madison	Sheridan	595.09	701,062
Teton	Fairfield	703.98	939,778	Richland	Sidney	582.50	3,543,790
Richland	Fairview	519.26	376,882	Lake	St. Ignatius	465.04	475,939
Daniels	Flaxville	462.24	41,251	Judith Basin	Stanford	437.03	325,406
Rosebud	Forsyth	528.56	1,454,537	Ravalli	Stevensville	475.32	1,868,133
Chouteau	Fort Benton	632.07	1,083,499	Toole	Sunburst	491.67	271,749
Valley	Fort Peck	472.96	187,288	Mineral	Superior	563.37	902,463
Roosevelt	Froid	604.92	98,622	Prairie	Terry	656.78	367,091
Carbon	Fromberg	603.93	264,366	Sanders	Thompson Falls	448.58	1,372,212
Chouteau	Geraldine	463.50	227,572	Gallatin	Three Forks	451.38	1,757,350
Valley	Glasgow	570.67	2,919,137	Broadwater	Townsend	435.92	1,511,619
Dawson	Glendive	829.28	4,332,673	Lincoln	Troy	594.87	723,332
Fergus	Grass Range	478.00	81,414	Madison	Twin Bridges	588.81	416,070
Cascade	Great Falls	577.20	64,793,086	Pondera	Valier	581.58	521,325
Ravalli	Hamilton	516.86	5,976,972	Madison	Virginia City	378.09	306,123
Big Horn	Hardin	536.60	2,445,769	Silver Bow	Walkerville	599.07	337,373
Blaine	Harlem	761.68	490,144	Gallatin	West Yellowstone	387.52	4,414,709
Wheatland	Harlowton	538.12	743,494	Sheridan	Westby	1,009.58	70,964
Hill	Havre	602.30	7,861,254	Meagher	White Sulphur	534.26	864,841
Lewis & Clark	Helena	647.74	44,248,162	Flathead	Whitefish	489.11	13,136,848
Hill	Hingham	462.73	154,484	Jefferson	Whitehall	446.16	946,343
Judith Basin	Hobson	411.49	154,936	Wibaux	Wibaux	501.20	341,677
Sanders	Hot Springs	566.93	391,753	Fergus	Winifred	501.85	108,136
Treasure	Hysham	541.22	195,970	Petroleum	Winnet	526.22	101,688
				Roosevelt	Wolf Point	607.29	1,474,033

BASIS OF CLASS 4 PROPERTY VALUATION

The prime objective of mass appraisal for tax purposes is to value at market value and to equalize property values. Residential and commercial property values must be equalized with similar properties in the market area. An appraisal is an opinion or estimate of value. It is the appraisers responsibility to determine, through the appraisal process, the full market value of the property as of the appraisal date.

For residential property, full market value can be arrived at either by the sales comparison approach or the cost approach. The sales comparison approach involves the compiling of sales data on properties that are comparable to the target property being appraised. These sales are then adjusted for any dissimilarities, and a value is obtained by comparison of like properties. This approach is best suited for appraising land and residential housing. The cost approach involves making an estimate of the depreciated replacement of the building and site improvements. Replacement cost refers to the cost at a given point in time of reproducing a building of equal utility. To arrive at a market value of a property the appraiser reconciles the two separate approaches (sales comparison approach and cost approach) to value and assigns the approach most suited for the individual property.

For commercial property, full market value can be arrived at either by the income approach or the cost approach. The 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 cost approach is best suited for properties universally bought and sold on their ability to generate and maintain a stream of income for the owner.

For ad valorem tax purposes, the value sought is market value. The descriptive term "market" indicates the activity of buyers and sellers. Market value is the justified price, or that price which an informed and intelligent buyer, fully aware of the existence of competing properties, and not being compelled to act, would be justified in paying for a particular property. This is true for both residential and commercial properties.

If an improvement is added to an existing property or a property is newly constructed during the six-year reappraisal period, a revised or new value is assigned to reflect the new construction. The new value is an estimate of what the improved or new property would have been appraised at had it existed at the beginning of the reappraisal cycle. In doing this, the new construction is valued on an equal basis with the older property that did exist at the beginning of the reappraisal cycle.

REAPPRAISAL CYCLES

(A reappraisal time-line guide can be found in Appendix A)

There have been five reappraisal cycles since 1972. Each cycle has a base year. The base year is generally the year prior to the start of a reappraisal cycle. The reappraisal value of a property in the reappraisal cycle is reflective of the true market value of the property in the base year. For example, for the upcoming six-year reappraisal cycle from January 2003 to December 2008, the base year is 2002. In 2003, each piece of property will be assigned a new reappraisal value that is an estimate of the true market value of that property in 2002. This new reappraisal value will be one of the components used in calculating the taxable value of the property in each year of the 2003 to 2008 cycle. If the characteristics of the property do not change during the cycle, then the reappraisal value will not change. If there is a change to the property, due to remodeling, new construction, or severe natural disaster damage, a new reappraisal value will be calculated. The new reappraisal value will be calculated using 2002 as the base year.

First Reappraisal Cycle, January 1, 1972 – December 31, 1977

On January 1, 1972 the Department of Revenue was created and assumed the responsibility for the valuation of all property in the state, including all residential, commercial, agricultural and forest lands. Values for class 4 residential and commercial properties were established as of January 1, 1972. The values were based on the values already in place from the Montana Board of Equalization, the forerunner of the department. The values were determined based on the cost approach and were considered the market value of the property.

The 1973 Legislature directed the department to develop a reappraisal plan. Under the Administrative Procedures Act, the department developed a five-year plan that would require 20% of the property be re-valued each year of the cycle. Subsequent legal action prevented the plan from being fully implemented according to schedule and all values were returned to prior levels.

To determine the taxable value, an assessment factor was in use. The assessment factor was used in addition to the tax rate. The assessment factor was applied to the market value to determine an assessed value. For class 4 residential and commercial properties the assessment factor was 40%. That is, 40% of the market value was considered the assessed value. The assessed value was then multiplied by a tax rate of 30% to yield the taxable value. In effect, this creates a 12% tax rate ($40\% \times 30\% = 12\%$) on class 4 property. This practice was used on all property, although the assessment factors and tax rates varied based on the class of property.

The 1975 Legislature passed the “Realty Transfer Act” which required that sales information on certain properties be provided to the department. Having the sales information allowed the department to develop a market approach to value.

The 1977 Legislature removed the assessment factor on properties and instructed the department to apply a single tax rate against the market value of property. The tax rates established by the Legislature resulted in a “taxable value neutral” position on most properties. The 1977 Legislature also established the market value standard when determining the assessed value of property. The market value standard was effective after December 31, 1977 or for the next reappraisal cycle.

In 1977, the last year of the reappraisal cycle, the tax rate on residential and commercial property was fixed in statute at 12%. In the next tax year, 1978, new reappraisal values would be implemented. The 1977 Legislature, anticipating that implementing the new reappraisal values would result in significantly higher market values, required the tax rate for residential and commercial property be reduced from 12%. The purpose of the reduced rate was to offset the overall increase in market value due to reappraisal. The new tax rate, calculated by formula, was to be reduced to a level such that the statewide taxable value of residential and commercial property remained revenue neutral. The implementation of the new reappraisal values resulted in a 47% increase in total market value of residential and commercial property. The tax rate was reduced from 12% to 8.55% beginning in tax year 1978.

Second Reappraisal Cycle, January 1, 1978 – December 31, 1985

The second reappraisal cycle began in 1978 and was originally scheduled for five years, from 1978 through 1983. The base year for this second reappraisal cycle was 1972. Under the original five-year schedule, the next reappraisal cycle would have been from 1983 through 1987, with the base year for that reappraisal cycle being 1982. However, it was necessary to extend the second reappraisal cycle an additional two years. So the second reappraisal cycle was the period 1978 through 1985. The next reappraisal cycle would begin in 1986, but the base year for that reappraisal cycle would remain 1982 (as originally scheduled).

The Montana Legislature, again anticipating that implementing new reappraisal values would result in significantly higher market values, required the tax rate for residential and commercial property be reduced from 8.55%. As before, the new tax rate, calculated by formula, was reduced to a level such that the statewide taxable value of residential and commercial property remained revenue neutral. The tax rate was reduced from 8.55% to 3.86% beginning in tax year 1986.

Third Reappraisal Cycle, January 1, 1986 – December 31, 1992

The third reappraisal cycle was scheduled to be completed by December 31, 1990, per the five year cycles established by the department. HB 53 extended the reappraisal cycle for 2 years, to a completion date of December 31, 1992. The following reappraisal cycle would be from 1993 through 1997, with the base year 1992.

The 1987 Legislature required annual property value adjustments for class 4 residential and class 4 commercial property beginning in 1987. The department was to do annual sales assessment studies for the purpose of adjusting assessments of real property to reflect changing market conditions. The adjustments did not replace the cyclical reappraisal, but were average property adjustments for the interim years to reflect market changes by location. Thus, the goal was to reduce the 'sticker shock' of reappraisal changes that occur when the property values were changed only once every reappraisal cycle.

Many property appeals followed and the Supreme Court ruled that the implementation of the sales assessment study adjustments were unconstitutional. The Court did allow the adjusted values to remain in effect for the 1990 tax year.

The 1991 Legislature passed legislation that continued the sales assessment studies and changed the reappraisal cycle from five to three years. This meant the upcoming reappraisal cycle would be the three-year period 1993 through 1995. This did not last long. The 1992 special session provided for a transitional four-year reappraisal cycle. The upcoming reappraisal cycle would be 1993 through 1996, with subsequent reappraisal cycles being three-year periods.

The implementation of the prior two reappraisals included reductions in the tax rate for residential and commercial property to offset the increases in market value. In implementing the 1993 reappraisal values, the Montana Legislature did not reduce the tax rate for residential and commercial property. The 'sticker shock' generally associated with the implementation of new reappraisal values was absent. This is because the changes in market value due to reappraisal were small as a result of the sales assessment study adjustments in the prior years.

Fourth Reappraisal Cycle, January 1, 1993 – December 31, 1997

This reappraisal cycle went on as scheduled and was uneventful. Of significance during this period is the revaluation of agricultural land. For the first time since 1962 the value of agricultural land was changed. New land schedules were adopted and implemented in 1994. To mitigate the impact on agricultural land taxpayers, statute required that the changes in value, both increases and decreases, be phased-in over a four-year period.

REAPPRAISAL – TAX POLICY BASICS

The new reappraisal value assigned to property on January 1, 1993, was an estimate of the January 1, 1992 market value of the property. The reappraisal value established in 1993 was the assessed value of residential (and commercial) property until the next reappraisal four year later in 1997. The assessed value for a residence reappraised at \$75,000 in 1993 remained fixed at \$75,000 for 1994, 1995, and 1996, if the residence remained unchanged.

In 1993 the new reappraised value represented the assessed value of residential property. The tax rate for residential property in 1993 was 3.86%. The property taxes on a residence with a reappraised value of \$75,000 in various cities are listed in Table 9 below.

Table 9					
Example of Difference in Tax Liability due to Mill Levy					
Tax Year 1993					
<u>City</u>	<u>Assessed Value</u>	<u>Tax Rate</u>	<u>Taxable Value</u>	<u>1993 Mills</u>	<u>Tax Liability</u>
Billings	\$ 75,000	3.86%	\$ 2,895	397.48	\$ 1,151
Missoula	75,000	3.86%	2,895	553.62	1,603
Great Falls	75,000	3.86%	2,895	436.04	1,262
Bozeman	75,000	3.86%	2,895	395.29	1,144
Helena	75,000	3.86%	2,895	463.82	1,343
Kalispell	75,000	3.86%	2,895	451.15	1,306
Butte	75,000	3.86%	2,895	474.17	1,373
Havre	75,000	3.86%	2,895	410.02	1,187
Miles City	75,000	3.86%	2,895	505.37	1,463
Livingston	75,000	3.86%	2,895	441.32	1,278
Glendive	75,000	3.86%	2,895	519.95	1,505

The ending property tax liability differs because different local governments have different mill levies. Local governments and schools determine what mill level is necessary to fund the city and county taxing jurisdictions. State mill levies apply to all property equally statewide.

What Happens if There is No Reappraisal?

The market value of property appreciates or depreciates over time. As time goes on, the last reappraisal value becomes more and more inaccurate as a measure of current market value. This would not be a problem if all property had the same rate of appreciation or depreciation (the value of property could still be considered equalized if the assessed value of all property were 75% of market value).

Below are examples of the change in market value of residences given different rates of appreciation.

Table 10					
Change in Market Value of Residence Over Time					
Residence	Rate of Change	----- True Market Value -----			
		1993	1994	1995	1996
A	12%	75,000	84,000	94,080	105,370
B	8%	75,000	81,000	87,480	94,478
C	-2%	75,000	73,500	72,030	70,589
D	-4%	75,000	72,000	69,120	66,355

It does not take long for the 1993 market values to become disparate. In 1996 the market value of residence A is \$105,370 and the market value of residence D is \$66,355. Yet, in 1996, both residences have an assessed value of \$75,000 for the purposes of calculating property taxes. Since the owner knows that property tax is based on assessed value, the owner of residence D is going to do some thinking.

The amount of property tax paid to the state 95-mill levy for the four residences in 1996 is calculated in Table 11.

Table 11					
Property Taxes Paid to the State 95 Mill Levy in 1996					
Residence	Assessed Value	Tax Rate	Taxable Value	Mills	Tax Liability
A	75,000	3.86%	2,895	95	275
B	75,000	3.86%	2,895	95	275
C	75,000	3.86%	2,895	95	275
D	75,000	3.86%	2,895	95	275

Since the assessed value, the tax rate, and the mill levy are the same for each residence, the resulting tax liability is also the same for each residence.

But here is what the owner of residence D is thinking as illustrated in Table 12.

“For each \$1,000 in true market value, the owner of residence A only pays 2.6 cents to the state. But for each \$1,000 of true market value, I pay 4.1 cents to the state. We are both paying the state for the same services, yet I pay at a rate that is 57% more than the other owner.”

<u>Residence</u>	<u>1996 Market Value</u>	<u>Tax Liability</u>	<u>Effective Tax Rate</u>
A	105,370	275	0.26%
B	94,478	275	0.29%
C	70,589	275	0.39%
D	66,355	275	0.41%

Three years after the last reappraisal (1993), the owners are paying at different effective tax rates to the state. Not because the mill levy differs (it is 95 mills for all owners), not because the tax rate differs (it is 3.86% for all owners), but because the 1993 market value of \$75,000 is still being used to calculate the property tax liability rather than the current 1996 market value.

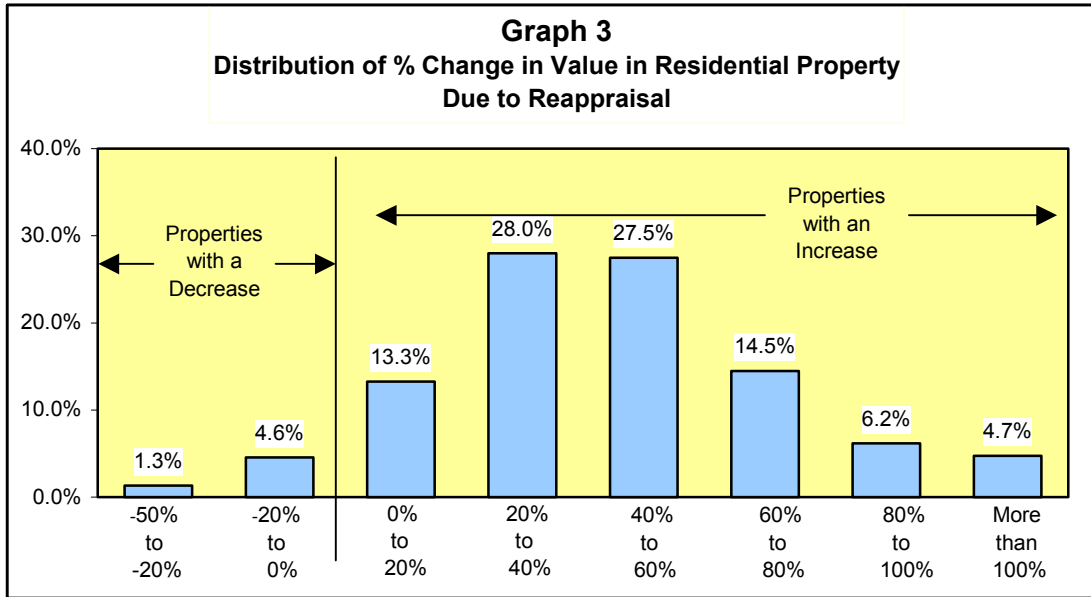
This inequity is caused by the passage of time since the last reappraisal in 1993. This suggests that it is time for another reappraisal.

The results of the 1997 reappraisal indicate that residential and commercial property had appreciated in value from 1993 to 1997 at various rates. The average increase in reappraisal value from 1993 to 1997 for each county is listed in the Table 13.

Table 13
Impact of the 1997 Reappraisal - (1993 to 1997)

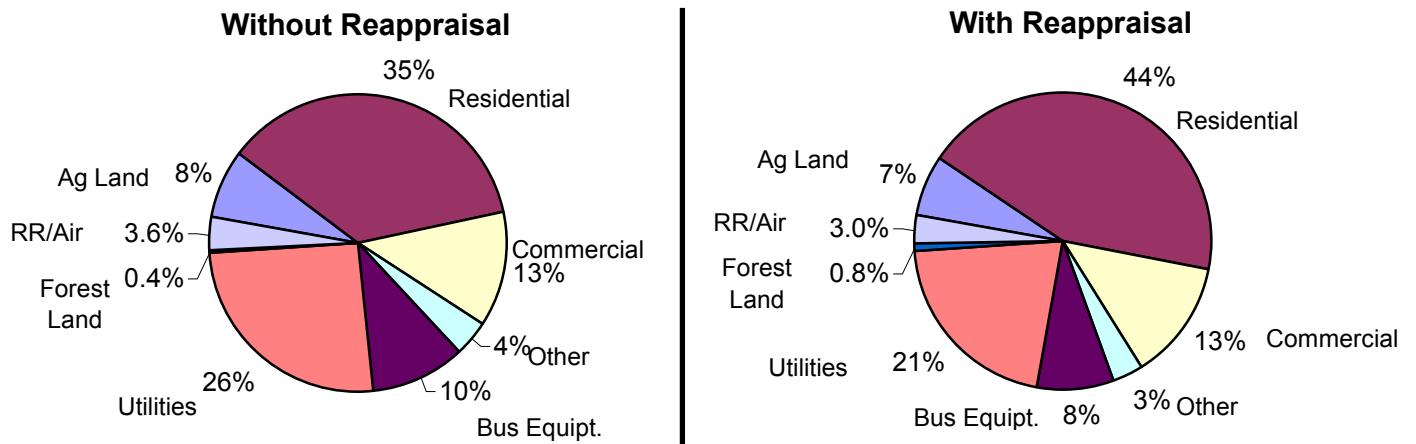
County	Commercial Property		Residential Property	
	Total Change	Annual Change	Total Change	Annual Change
Beaverhead	47%	10%	50%	11%
Big Horn	8%	2%	38%	8%
Blaine	-4%	-1%	7%	2%
Broadwater	12%	3%	47%	10%
Carbon	46%	10%	66%	14%
Carter	12%	3%	0%	0%
Cascade	24%	5%	31%	7%
Chouteau	2%	1%	35%	8%
Custer	2%	0%	36%	8%
Daniels	7%	2%	5%	1%
Dawson	1%	0%	32%	7%
Deer Lodge	0%	0%	68%	14%
Fallon	5%	1%	2%	1%
Fergus	12%	3%	49%	11%
Flathead	12%	3%	39%	9%
Gallatin	53%	11%	54%	11%
Garfield	0%	0%	2%	0%
Glacier	4%	1%	31%	7%
Golden Valley	10%	2%	40%	9%
Granite	50%	11%	69%	14%
Hill	10%	2%	30%	7%
Jefferson	24%	5%	46%	10%
Judith Basin	5%	1%	33%	7%
Lake	31%	7%	59%	12%
Lewis And Clark	40%	9%	48%	10%
Liberty	0%	0%	23%	5%
Lincoln	32%	7%	51%	11%
Madison	36%	8%	60%	12%
McCone	0%	0%	-3%	-1%
Meagher	26%	6%	40%	9%
Mineral	49%	10%	44%	10%
Missoula	28%	6%	56%	12%
Musselshell	-7%	-2%	32%	7%
Park	25%	6%	77%	15%
Petroleum	-15%	-4%	48%	10%
Phillips	3%	1%	9%	2%
Pondera	6%	1%	40%	9%
Powder River	7%	2%	1%	0%
Powell	35%	8%	27%	6%
Prairie	-2%	0%	3%	1%
Ravalli	26%	6%	49%	10%
Richland	17%	4%	20%	5%
Roosevelt	7%	2%	12%	3%
Rosebud	-9%	-2%	20%	5%
Sanders	39%	8%	58%	12%
Sheridan	1%	0%	11%	3%
Silver Bow	24%	5%	41%	9%
Stillwater	16%	4%	49%	10%
Sweet Grass	15%	4%	86%	17%
Teton	4%	1%	50%	11%
Toole	5%	1%	34%	8%
Treasure	-17%	-5%	30%	7%
Valley	7%	2%	32%	7%
Wheatland	3%	1%	46%	10%
Wibaux	0%	0%	5%	1%
Yellowstone	19%	5%	36%	8%
State Average	24%	6%	44%	10%

The impact to individual residential properties is seen in Graph 3. Reappraisal decreased the taxable value on 5.9% of the residential properties in the state. The graph shows 41.3% of the residential properties in the state had an increase of 40% or less. The remaining 52.9% of residential properties had an increase of 40% or more. The distribution of change in value represented in the graph is a reflection of the natural economic forces in different locations changing the market value of residential property from 1993 to 1997.



With no law change, a major impact of reappraisal would be a shift in the share of the property tax base to residential and commercial property from the other classes of property. This shift can be seen in the following graph.

Graph 4
Shift in the Share of the State Tax Base



Residential property increases its share of the tax base from 35% to 44%. Commercial property maintains its 13% share of the tax base. Forest land's share increases from 0.4% to 0.8%. All other property classes realize a decrease in their share of the tax base.

What if Reappraisal is Implemented with No Changes in Law or Mill Levies?

The question policymakers asked is what would happen if no changes in law were made to offset the market value increases in residential and commercial property. That is, the new 1997 reappraisal values would become the new market values used to calculate tax liability.

To display the impact of the 1997 reappraisal under current law, a simplified sample county example is used. The impact to residential and commercial property is assumed to be the statewide averages of 44% and 24% respectively. It is also assumed that 85 mills will generate the desired level of property tax revenue. The first part of the table shows what happens before the reappraisal numbers are applied. The second half of the table shows what happens after the reappraisal numbers are applied.

Table 14 Example Impact of Reappraisal Without a Law or Mill Levy Change						
Before Reappraisal						
Property Type	Total Market Value	Tax Rate	Taxable Value	Mills	Tax Liability	
Residential	118,134,715	3.86%	4,560,000	85	387,600	
Commercial	43,523,316	3.86%	1,680,000	85	142,800	
Utility	27,000,000	12.00%	3,240,000	85	275,400	
Personal Property	48,000,000	3.00%	1,440,000	85	122,400	
Ag Land	<u>27,979,275</u>	3.86%	<u>1,080,000</u>	85	<u>91,800</u>	
Total	<u>264,637,306</u>		<u>12,000,000</u>		<u>1,020,000</u>	
After Reappraisal, No Other Changes						
Property Type	Total Market Value	Tax Rate	Taxable Value	Mills	--- Tax Liability --- Amount	Chg
Residential	170,113,990	3.86%	6,566,400	85	558,144	44%
Commercial	53,968,912	3.86%	2,083,200	85	177,072	24%
Utility	27,000,000	12.00%	3,240,000	85	275,400	0%
Personal Property	48,000,000	3.00%	1,440,000	85	122,400	0%
Ag Land	<u>27,979,275</u>	3.86%	<u>1,080,000</u>	85	<u>91,800</u>	0%
Total	<u>327,062,176</u>		<u>14,409,600</u>		<u>1,224,816</u>	20%

Table 14 shows the impact of implementing reappraisal with no changes in law when a 44% and 24% increase is applied to the value of residential and commercial property respectively, and no other changes are made. The results are:

- A windfall of property tax revenue for the county.
- Property tax liability for residential property increases 44%.
- Property tax liability for commercial property increases 24%.
- Property tax liability for other property types does not change.

What if the Mill Levy is Reduced to Generate Same Revenue as Prior to Reappraisal?

Table 15 shows that if the mill levy was reduced from 85.00 to 70.79 mills, then \$1,020,000 in property tax revenue will be generated. This is the same amount of property tax revenue generated prior to reappraisal.

Table 15						
Example of Impact of Reappraisal if Mill Levy is Reduced						
<u>Property Type</u>	<u>Total Market Value</u>	<u>Tax Rate</u>	<u>Taxable Value</u>	<u>Mills</u>	<u>--- Tax Liability --- Amount</u>	<u>Chg</u>
Residential	170,113,990	3.86%	6,566,400	70.79	464,835	20%
Commercial	53,968,912	3.86%	2,083,200	70.79	147,470	3%
Utility	27,000,000	12.00%	3,240,000	70.79	229,360	-17%
Personal Property	48,000,000	3.00%	1,440,000	70.79	101,938	-17%
Ag Land	<u>27,979,275</u>	3.86%	<u>1,080,000</u>	70.79	<u>76,453</u>	-17%
Total	<u>327,062,176</u>		<u>14,409,600</u>		<u>1,020,056</u>	<u>0%</u>

The results are:

- No windfall of property tax revenue for the county.
- Property tax liability for residential property increases 20%.
- Property tax liability for commercial property increases 3%.
- Property tax liability for other property types decreases 17%.

What if the Tax Rate for Class 4 (Residential and Commercial) Property is Reduced?

The tax rate for class 4 property could be reduced to a level such that the total taxable value of the county remains the same as prior to reappraisal. This would impact the taxable value of residential and commercial property and agricultural land. Agricultural land is impacted because the tax rate for agricultural land (class 3 property) is tied to the tax rate for class 4 property. Table 16 shows this calculation.

Table 16						
After Reappraisal, Reduce Class 4 Tax Rate						
<u>Property Type</u>	<u>Total Market Value</u>	<u>Tax Rate</u>	<u>Taxable Value</u>	<u>Mills</u>	<u>--- Tax Liability --- Amount</u>	<u>Chg</u>
Residential	\$ 170,113,990	2.91%	\$ 4,950,317	85.00	\$ 420,777	9%
Commercial	53,968,912	2.91%	1,570,495	85.00	133,492	-7%
Utility	27,000,000	12.00%	3,240,000	85.00	275,400	0%
Personal Property	48,000,000	3.00%	1,440,000	85.00	122,400	0%
Ag Land	<u>27,979,275</u>	2.91%	<u>814,197</u>	85.00	<u>69,207</u>	-25%
Total	<u>327,062,176</u>		<u>12,015,009</u>		<u>1,021,276</u>	<u>0%</u>

The results are:

- No windfall of property tax revenue for the county.
- Property tax liability for residential property increases 9%.
- Property tax liability for commercial property decreases 7%.
- Property tax liability for agriculture land decreases 25%.
- Property tax liability for other property types does not change.

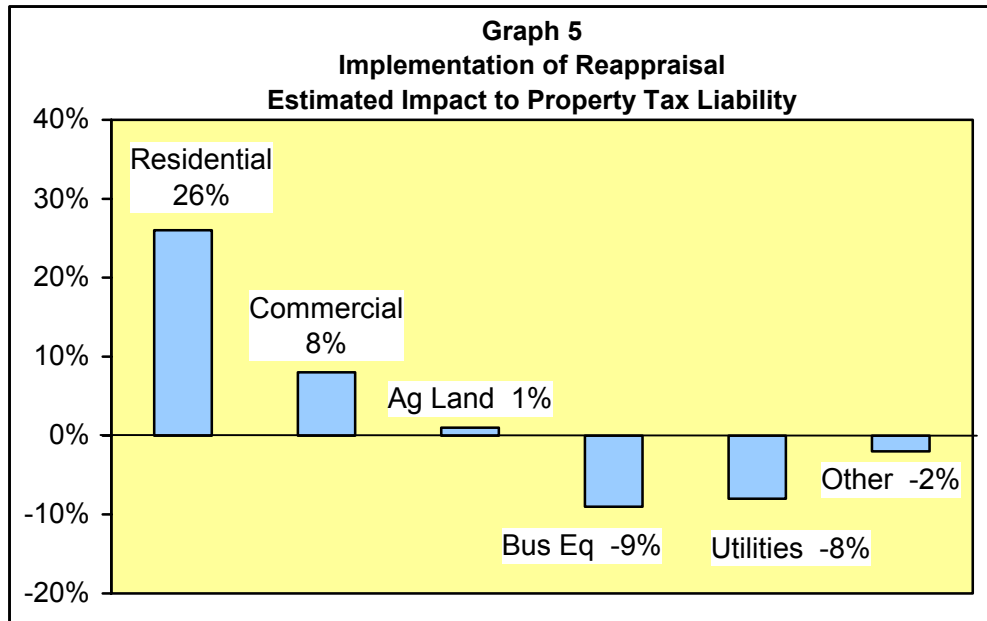
The result of reducing the tax rate of class 4 property increased the tax liability of residential property by 9%. This represents an average impact to residential property. Individual taxpayers won't know the average impact to residential property. But they will know the impact to their own property. Reducing the tax rate for class 4 property will have varied impacts to individual property tax payers as shown in Table 17.

The owner of residence A sees an increase of 19%. This is more than the average increase for residential property. The owner of residence D sees a decrease of 36%.

Table 17					
Calculation of Property Tax Liability Before and After Reappraisal Without a Change in Mill Levy					
Property Taxes Paid Before Reappraisal					
<u>Residence</u>	<u>Market Value</u>	<u>Tax Rate</u>	<u>Taxable Value</u>	<u>Mills</u>	<u>Tax Liability</u>
A	75,000	3.86%	2,895	85	246
B	75,000	3.86%	2,895	85	246
C	75,000	3.86%	2,895	85	246
D	75,000	3.86%	2,895	85	246
Property Taxes Paid After Reappraisal and Rate Reduction					
<u>Residence</u>	<u>Market Value</u>	<u>Tax Rate</u>	<u>Taxable Value</u>	<u>Mills</u>	<u>Tax Liability</u>
A	118,014	2.91%	3,434	85	292
B	102,037	2.91%	2,969	85	252
C	69,178	2.91%	2,013	85	171
D	63,701	2.91%	1,854	85	158
Property Taxes Paid					
<u>Residence</u>	<u>Before</u>	<u>After</u>	<u>Change</u>		
A	246	292	19%		
B	246	252	3%		
C	246	171	-30%		
D	246	158	-36%		

Comprehensive View of Reappraisal Impacts

The table below shows the impact of implementing the 1997 reappraisal without any changes in law. It is assumed that local governments would adjust mill levies to generate an amount of property tax revenue equal to that generated prior to reappraisal. State mill levies remain fixed at 101 mills. The impacts shown below are a result of a combination of the shift in the tax base caused by implementing reappraisal and state mill levies remaining fixed at 95 and 6 mills.



Residential property would have had an average tax increase of 26%. Commercial property would have had an average tax increase of 8%. Agricultural land would have increased 1%. All other classes of property's tax liability would have decreased.

1997 REAPPRAISAL SOLUTION

The 1997 Legislature was aware of the potential impact of implementing the 1997 reappraisal. The Legislature was also aware that the solutions discussed above resulted in property tax burden shifts between property types.

The solution that came out of the 1997 Legislature was to phase-in the impact of the 1997 reappraisal over a 50-year period. That is, the assessed value of property would creep from the 1993 reappraisal value to the 1997 reappraisal value over 50 years.

Such a phase-in had very little impact on assessed valuations. This made the owner of residence A happy. The assessed value of residence A would creep from \$75,000 to \$118,014 (the 1997 market value) over a 50-year period.

The owner of residence D was not happy. The assessed value of residence D would creep from \$75,000 to \$63,701 (the 1997 market value) over a 50-year period.

A lawsuit soon ensued. The Supreme Court agreed that phase-down to a reappraisal value over 50 years was unfair treatment.

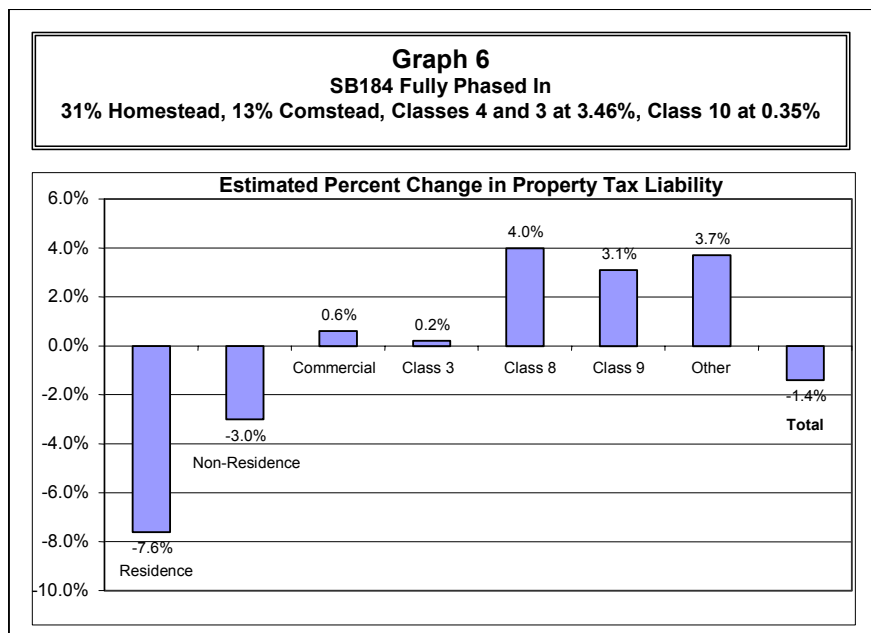
1999 SOLUTION TO REAPPRAISAL

The 1999 Legislature, faced with a Supreme Court decision that negated the 50-year phase-in solution from the 1997 Legislature, devised the current solution. The new solution (SB184 of the 1999 Legislature) was a combination of five factors to be fully implemented in tax year 2002.

1. For those properties that saw an increase in value due to reappraisal (96% of all properties), phase-in the increase in value over a four-year period (1999 to 2002).
2. For those properties that decreased in value due to reappraisal (4% of all properties), reduce the value immediately to the lower reappraised value as required by the Supreme Court decision.
3. Decrease the tax rate of class 4 property from 3.86% to 3.46% over a four-year period (1999 to 2002).
4. Phase-in a 31% homestead exemption for residential property over a four-year period (1999 to 2002).
5. Phase-in a 13% comstead exemption for commercial property over a four-year period (1999 to 2002).

When fully implemented, SB184 would cause a tax shift between property tax classes. The estimated shift is shown in Graph 6.

Graph 6 shows the impact of SB184 from a statewide perspective. The impacts on property in individual counties will vary from the statewide average impacts.



Shown in Appendix B is the estimated impact of SB184 on the property tax on class 4 residences. On the first page is the statewide impact. It was estimated that 74% of class 4 residences would have reduction in property taxes.

Examining the charts of selected counties shows that the impact of SB184 varied. In McCone County, 92% of class 4 residences were expected to receive a property tax decrease. The rate was lower in Park County where only 42% of residences were expected to receive a tax decrease. In Sweet Grass County, it was estimated that only 22% of the residences would receive a property tax decrease, meaning 78% would receive a property tax increase.

ANALYSIS OF PRELIMINARY 2003 REAPPRAISAL VALUATIONS

The Department of Revenue began the process of reappraising class 4 residential and commercial property in early 2000. The reappraisal effort is a massive, complex, and time consuming effort. By December 2002, a great deal of progress had been made in this effort. The following represents analysis on the preliminary reappraisal values calculated as of December 2002. While work continued on finalizing reappraisal values, there was enough progress by December 2002 to provide the Montana Legislature convening in January 2003 some insight into the potential impact of implementing the new reappraisal.

The goals of the analysis were to: estimate the overall impact of reappraisal to property classes within each county, examine the distribution of the change in valuations of class 4 residential and commercial properties, estimate the impact of reappraisal on property tax liabilities, illustrate how simple adjustments can be made to the class four tax rate and homestead and comstead exemption levels to neutralize the overall impact of reappraisal, and finally, to provide an examination of effective tax rates for class 4 residences.

Generally, reappraisal results in increases in valuation to class 4 residential and commercial property and to class 3 agricultural land. Under current law, the changes in valuations will be implemented by phasing-in increases in values over a six-year period. Those properties that decrease in value will be phased-down to the lower reappraisal value immediately. The impact of phasing-in the increased values is included in the analysis. The impacts will be estimated for the first, second, and last year (full implementation) of the six-year phase-in period.

Overall Impact of the 2003 Reappraisal

Table 18 shows the overall impact of reappraisal to class 4 residential and commercial property and class 3 agricultural land.

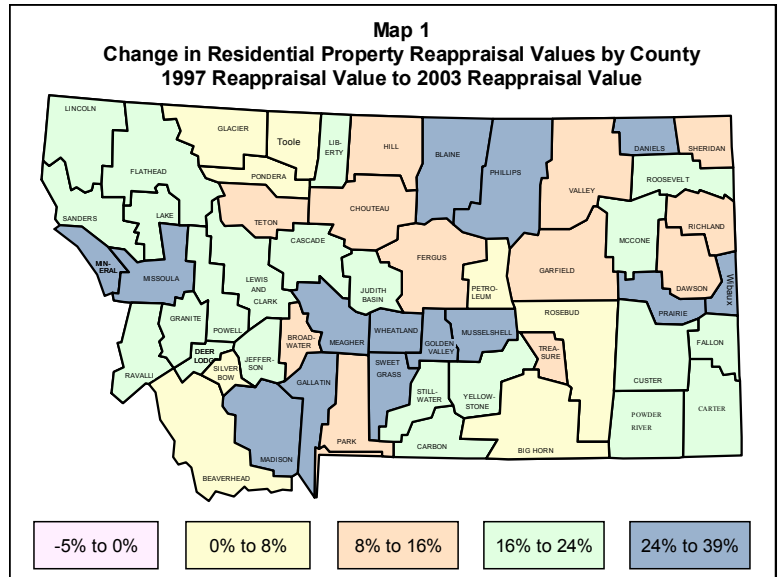
Table 18
Class 4 Residential and Commercial and Class 3 Ag Land
Percent Change in Full Reappraisal

County	Residential % Change	Commercial % Change	Ag Land % Change
Beaverhead	7.1%	9.9%	15.2%
Big Horn	0.1%	1.3%	15.5%
Blaine	38.8%	22.4%	15.1%
Broadwater	8.2%	5.0%	11.8%
Carbon	16.2%	25.2%	11.6%
Carter	21.4%	-2.7%	15.6%
Cascade	16.9%	20.8%	15.9%
Chouteau	14.3%	11.6%	15.1%
Custer	19.1%	15.5%	14.7%
Daniels	29.2%	20.0%	15.2%
Dawson	11.4%	8.7%	14.7%
Deer Lodge	22.0%	27.6%	16.1%
Fallon	20.9%	-1.0%	15.5%
Fergus	11.6%	12.8%	15.4%
Flathead	19.3%	25.1%	18.0%
Gallatin	25.5%	26.5%	15.6%
Garfield	10.6%	1.5%	15.6%
Glacier	7.7%	6.3%	15.8%
Golden Valley	33.6%	4.9%	15.3%
Granite	16.4%	17.6%	16.2%
Hill	11.5%	6.2%	15.2%
Jefferson	17.4%	3.7%	16.3%
Judith Basin	16.7%	7.7%	15.6%
Lake	20.6%	12.4%	14.8%
Lewis & Clark	19.7%	15.5%	15.4%
Liberty	17.7%	7.0%	14.9%
Lincoln	17.3%	10.9%	18.0%
Madison	28.0%	13.5%	17.4%
McCone	21.5%	3.9%	15.0%
Meagher	28.7%	-4.8%	16.7%
Mineral	32.7%	16.0%	14.8%
Missoula	27.2%	18.8%	16.9%
Musselshell	32.3%	8.8%	15.1%
Park	14.9%	12.3%	16.3%
Petroleum	5.9%	-1.1%	15.3%
Phillips	24.7%	11.0%	16.9%
Pondera	7.6%	9.0%	16.3%
Powder River	23.5%	4.2%	15.7%
Powell	22.1%	24.6%	16.8%
Prairie	30.1%	-1.4%	13.9%
Ravalli	19.8%	12.0%	17.2%
Richland	8.5%	12.6%	13.1%
Roosevelt	18.9%	10.2%	14.3%
Rosebud	7.4%	7.1%	14.8%
Sanders	17.6%	12.6%	13.9%
Sheridan	14.8%	-0.9%	15.0%
Silver Bow	3.8%	3.5%	15.0%
Stillwater	22.4%	14.0%	15.0%
Sweet Grass	29.9%	21.0%	16.2%
Teton	8.5%	10.4%	17.7%
Toole	6.4%	1.6%	15.2%
Treasure	12.6%	-3.2%	11.9%
Valley	14.2%	1.3%	16.1%
Wheatland	27.0%	6.5%	15.9%
Wibaux	29.1%	0.8%	15.5%
Yellowstone	21.9%	22.9%	11.4%
Statewide	20.2%	18.5%	15.3%

The percents listed in Table 18 represent the change from the old 1997 reappraisal value to the new 2003 reappraisal value. If the new 2003 reappraisal values were fully implemented, the result would be an increase in total valuation of 20.2% for class 4 residential property, 18.5% for class 4 commercial property, and 15.3% for class 4 agricultural land.

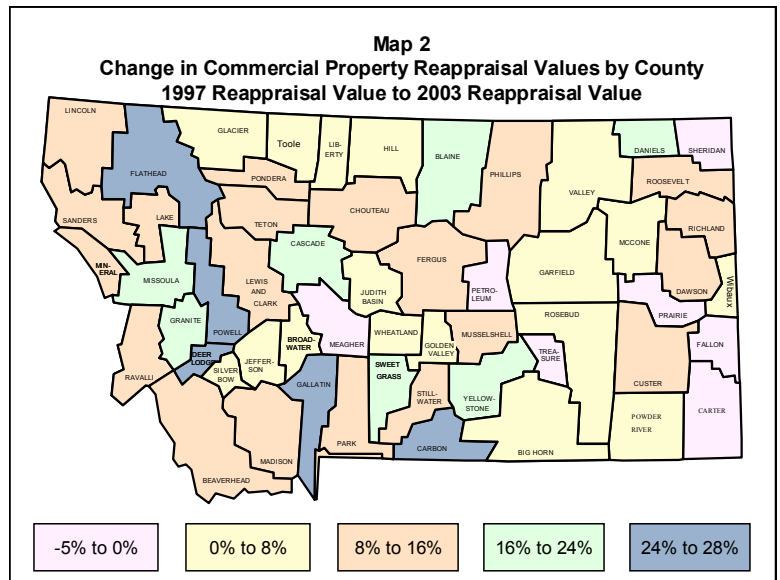
Class 4 Residential Property

The changes for residential property range from a high of 38.8% in Blaine County to a low of 0.1% in Big Horn County. Map 1 displays the change in valuation of residential property for each county. There does not appear to be any geographic pattern to the level of change. Counties with a high change (24% to 39%) are distributed throughout the state as well as counties with a relatively low change (0% to 8%).



Class 4 Commercial Property

The changes for commercial property range from a high of 26.5% in Gallatin County to a low of -4.8% in Meagher County. Map 2 displays the change in valuation of commercial property for each county. Unlike the distribution of change in residential value, for commercial property there does appear to be some geographic pattern to the level of change. The counties with high changes tend to be located in the western part of the state.



Class 3 Agricultural Land

The changes for agricultural land are not as varied as those of residential and commercial property. The changes for agricultural land range from a high of 18.0% in Flathead and Lincoln Counties to a low of 11.4% in Yellowstone County.

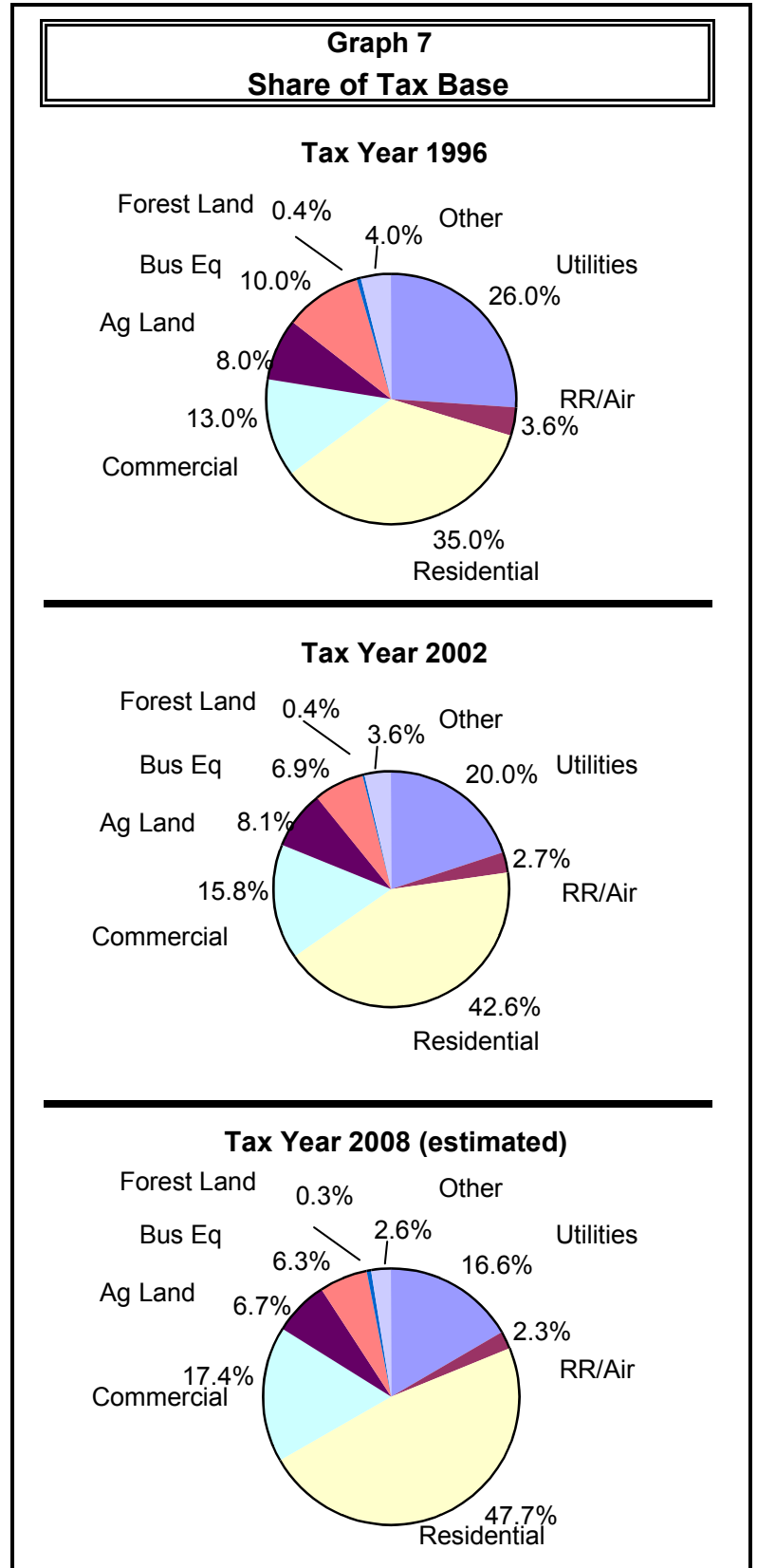
Change in the Tax Base

One of the impacts of reappraisal is change to the tax bases of governments. The share of the tax base is a measure of tax burden. Graph 7 displays the share of the statewide tax base for tax years 1996, 2002, and 2008 (estimated).

The change in the tax base from tax year 1996 to tax year 2002 includes the impact of the 1997 reappraisal and the solutions of the 1999 Legislature mitigating the impact of the 1997 reappraisal. There are other factors impacting the tax base. Each class of property has natural growth from year to year (new construction, purchase of new equipment, etc.). The natural growth of each class is also included in the change.

Other important changes from 1996 to 2002 were the reductions in tax rates for business equipment and some utility property. In tax year 2000, the tax rate for class 8 business equipment was reduced from 6% to 3%, and the tax rate on telecommunication property and electric energy producing equipment was reduced from 12% to 6%.

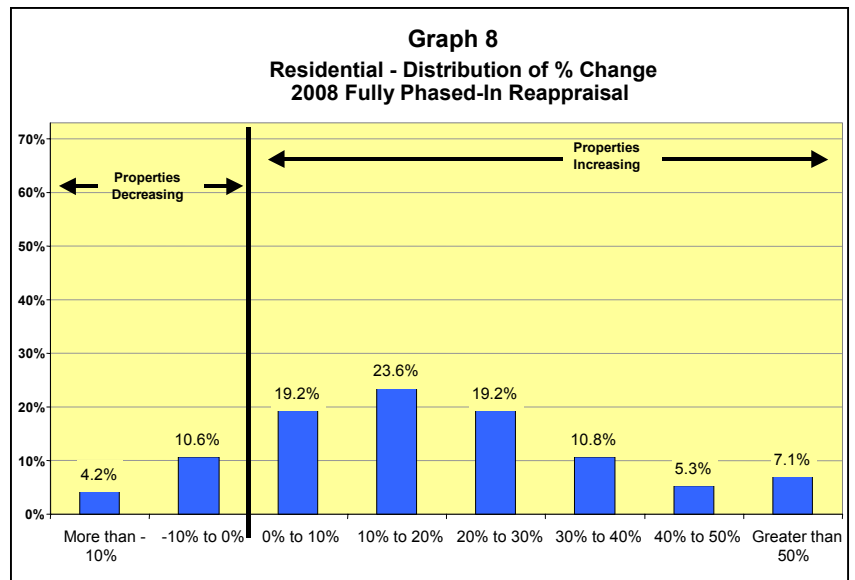
The tax base for tax year 2008 reflects the estimated impact of fully implementing the 2003 reappraisal and estimated natural growth for each class of property.



Distribution of Change in Valuation Due to Reappraisal

In Table 18 it is shown that the statewide change in total residential property due to reappraisal is 20.2%. The statewide change in total commercial property is 18.5%. These changes reflect an average change. Of course not all residential property will change 20.2% and not all commercial property will change 18.5%. Some property will change more and some property will change less. Some property will decline in value due to the reappraisal.

The distribution of change to residential property is shown in Graph 8. Graph 8 represents residential property that have an improvement value of \$7,500 or greater. Less than 15% of residential properties will decrease in value. Slightly more than 85% will increase in value. 57.6% of the properties have a change in valuation less than 20%.



The distribution of change to commercial property is shown in Graph 9. 22% of commercial properties will decrease in value and 78% will increase in value. 60% of the properties have a change in valuation less than 20%. There are more commercial properties with a 50% or more increase in value than residential properties with a 50% or more increase.

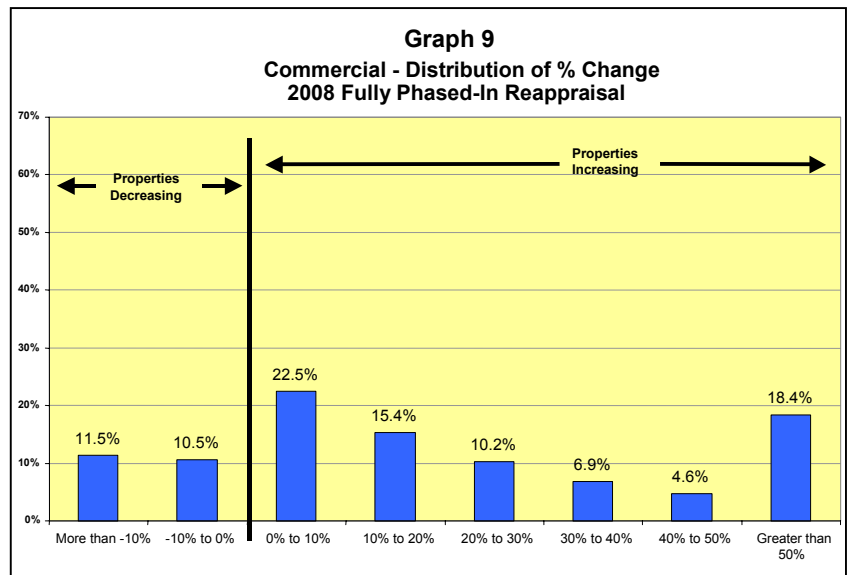


Table 19 shows an analysis of the changes in valuations for residential and commercial properties. The analysis for residential property is for residential property with an improvement value of \$7,500 or more.

For residential properties with an increase, the average change in appraised value is \$20,567. This is an increase from \$91,867 to \$112,434. This is a 22.39% increase in appraised value. This calculates to an average change of \$491 in taxable value. This increase in value would be phased-in over a six-year period.

The average decrease in appraised value is \$5,932 for those residential properties that have a decrease in value. This is a 7.16% decrease in value. This decrease would be fully implemented in tax year 2003.

Table 19					
Analysis of Properties that Increase or Decrease					
<u>Residential Property</u>					
	Number	Before Reappraisal	After Reappraisal	Change	Percent Change
<u>Increase in Value</u>	260,894				
Average Reappraisal Value		\$ 91,867	\$ 112,434	\$ 20,567	22.39%
Average Taxable Value		\$ 2,193	\$ 2,684	\$ 491	22.39%
<u>Decrease in Value</u>	45,508				
Average Reappraisal Value		\$ 82,828	\$ 76,896	\$ (5,932)	-7.16%
Average Taxable Value		\$ 1,977	\$ 1,836	\$ (142)	-7.16%
<u>No Change in Value</u>	450				
Average Reappraisal Value		\$ 78,584	\$ 78,584	\$ -	0.00%
Average Taxable Value		\$ 1,876	\$ 1,876	\$ -	0.00%
<u>Overall Totals</u>	306,852				
Average Reappraisal Value		\$ 90,507	\$ 107,114	\$ 16,607	18.35%
Average Taxable Value		\$ 2,161	\$ 2,557	\$ 396	18.35%
<u>Commercial Property</u>					
	Number	Before Reappraisal	After Reappraisal	Change	Percent Change
<u>Increase in Value</u>	35,328				
Average Reappraisal Value		\$ 197,254	\$ 244,373	\$ 47,119	23.89%
Average Taxable Value		\$ 5,938	\$ 7,356	\$ 1,418	23.89%
<u>Decrease in Value</u>	10,445				
Average Reappraisal Value		\$ 133,021	\$ 123,269	\$ (9,752)	-7.33%
Average Taxable Value		\$ 4,004	\$ 3,711	\$ (294)	-7.33%
<u>No Change in Value</u>	1,701				
Average Reappraisal Value		\$ 53,069	\$ 53,069	\$ -	0.00%
Average Taxable Value		\$ 1,597	\$ 1,597	\$ -	0.00%
<u>Overall Totals</u>	47,474				
Average Reappraisal Value		\$ 177,956	\$ 210,873	\$ 32,917	18.50%
Average Taxable Value		\$ 5,357	\$ 6,348	\$ 991	18.50%

For commercial properties with an increase, the average change in appraised value is \$47,119. This is an increase from \$197,254 to \$244,373. This is a 23.89% increase in appraised value. This calculates to an average change of \$1,418 in taxable value. This increase in value would be phased-in over a six-year period.

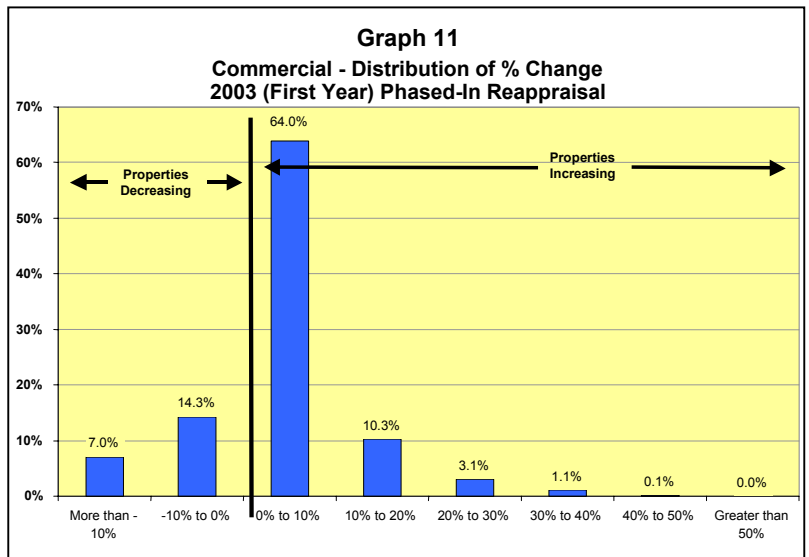
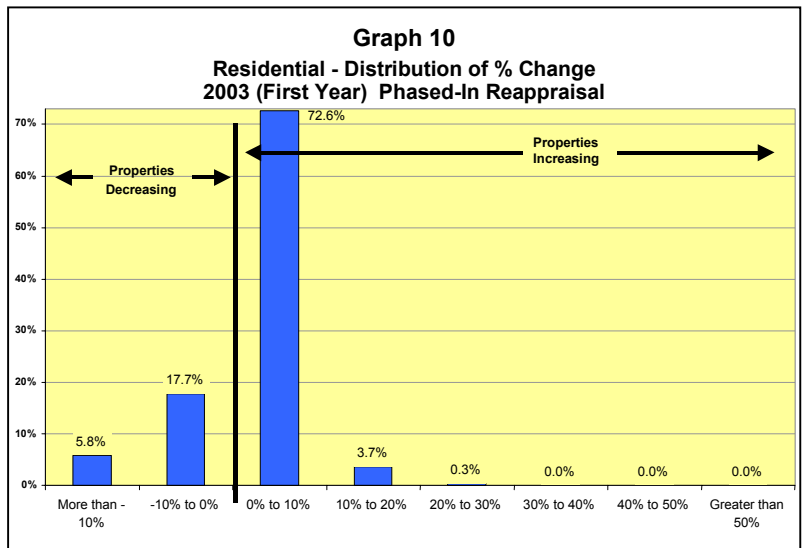
The average decrease in appraised value is \$9,752 for those commercial properties that have a decrease in value. This is a 7.33% decrease in value. This decrease would be fully implemented in tax year 2003.

Graphs 8 and 9 show the impact of fully implementing reappraisal. The change in values displayed in Graphs 8 and 9 will not be realized until tax year 2008. Current statute requires an increase in valuation to be phased-in over a six-year period. This means that full increase of 24% will be phased-in at 4% each year through 2008.

A chart of valuation increases in the first year of the six-year phase-in period shows properties with a small growth. This is seen in Graphs 10 and 11.

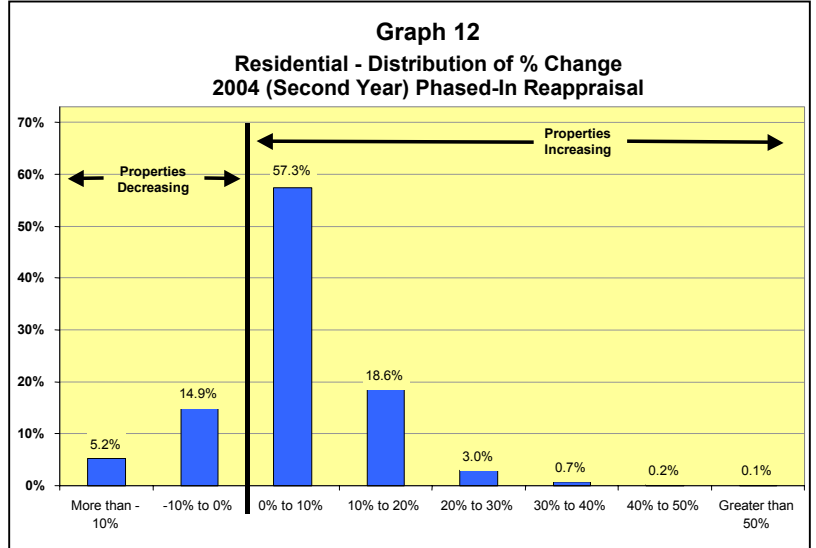
Over two-thirds of residential property increase less than 10% above current year assessed values in the first year of the phase-in of reappraisal. Only 4% of residential properties have an increase of more than 10% above current year values. 23.5% of residential properties have a decrease in value.

Nearly two-thirds of commercial property increase less than 10% above current year assessed values in the first year of the phase-in of reappraisal. Only 14.5% of commercial properties have an increase of more than 10% above current year values. 21.3% of commercial properties have a decrease in value in the first year of the phase-in.

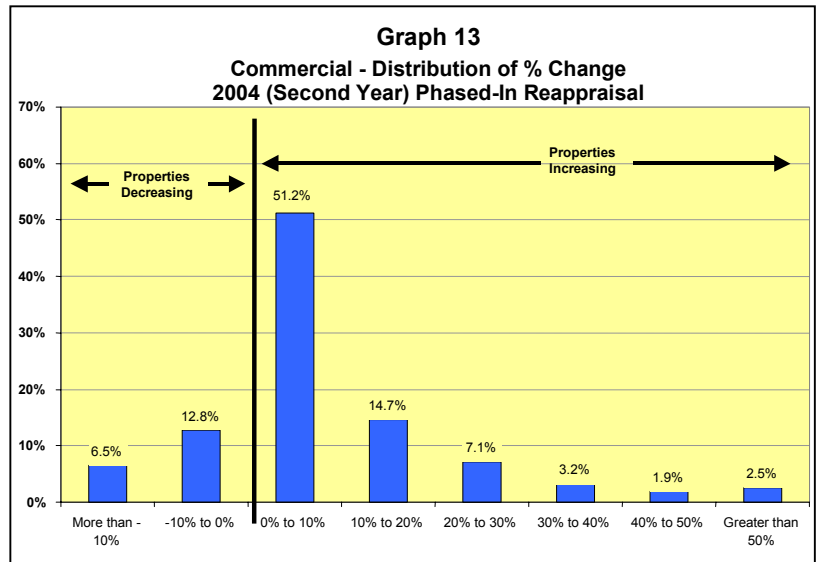


When compared to the first year of phasing-in valuations, a chart showing the second year of phasing-in valuations should show movement to the right. Valuations during the second year of the six-year phase-in period are moving closer to the full reappraisal value. Graphs 12 and 13 show the distribution of change in valuation at the second year of phasing-in to full reappraisal.

At the second year of the phase-in, 57.3% of residential properties have a 10% increase in value above current assessed values. At the second year, 22.6% of the properties have an increase more than 10% of current year values. 20.1% of residential properties have a value lower than current year values.



At the second year of the phase-in, 51.2% of commercial properties have a 10% increase in value above current assessed values. At the second year, 29.4% of the properties have an increase more than 10% of current year values. 19.3% of commercial properties have a value lower than current year values.



It is not surprising that the bars (increases in valuation) move to the right as the phase-in period progresses. This is because, for properties that increase in value, the phase-in brings the assessed value closer to the full reappraisal value and further above the current year assessed value. What may appear surprising is the percent of properties that have a decrease in value decreases each year of the

phase-in. This is because land and improvements are assessed separately. It is possible that the land value of a residence has an increased reappraisal value but the improvement value has a decrease in value. The value of the land is phased-in over the six-year period, but the improvement is fully reduced in the first year. Eventually, the phasing-in of the land value will offset the decrease in the improvement value.

Estimated Change in Property Taxes Paid

Up to this point, the analysis has focused on the estimated change in assessed value due to implementing the new reappraisal values. Overall, it is estimated that residential property values will increase 20.2% and commercial property values will increase 18.5% due to reappraisal. These increases are estimates for the full implementation of reappraisal. The impact of implementing reappraisal is much less in years leading up to tax year 2008 (full reappraisal) due to phasing-in the increase in values.

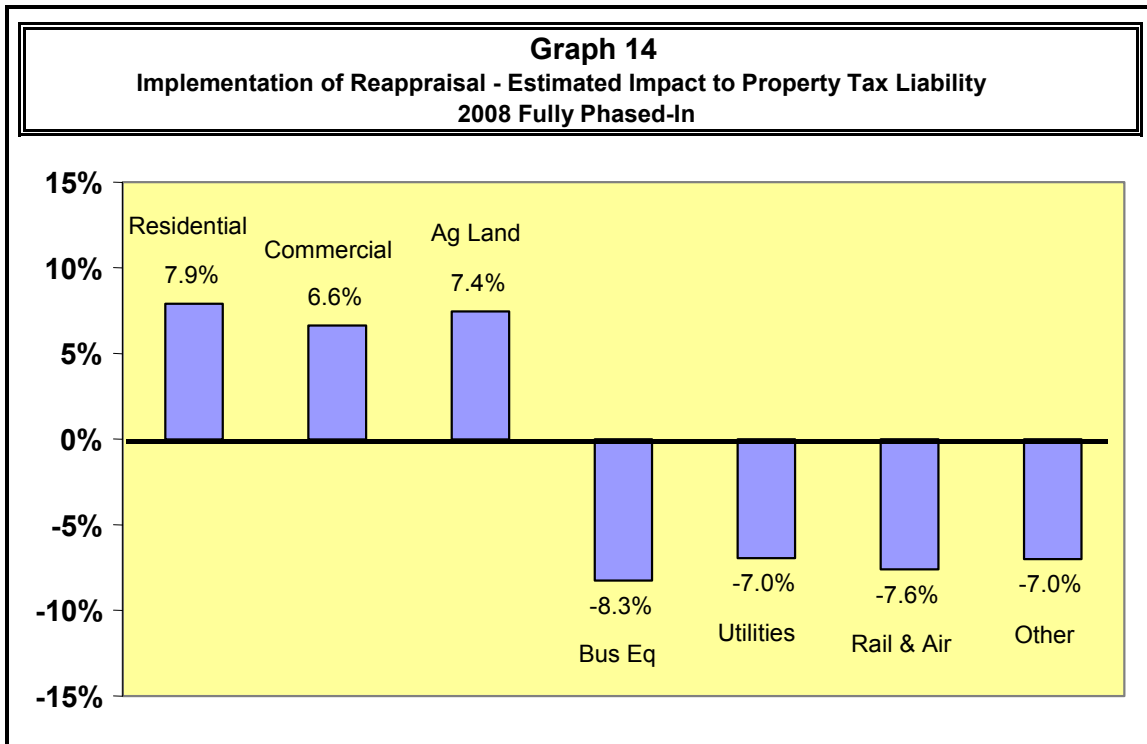
The analysis now shifts to estimating the impact on the amount of property taxes paid, due to implementing reappraisal. The increases in property taxes paid by residential, commercial, and agricultural land properties can be expected to increase over the next six years. However, the increases in property taxes paid should be less than the increases in valuation. This is because implementation of reappraisal should result in lower mill levies. As the valuation of residential, commercial, and agricultural land properties increase, the tax base of local governments increase. Under the maximum mill levy calculation in 15-10-420, MCA, an increase in the tax base of a local government due to reappraisal must result in a lower calculated mill levy than had the tax base not increased at all.

Calculating the estimated change in property taxes paid due to reappraisal requires some simple assumptions. First, the taxable value of all classes of property not subject to reappraisal is held constant. Any change can then be determined to be due solely to the change in valuations due to reappraisal. Second, the mill levies for local governments (counties and cities) and the non-general fund mill levies of schools are assumed to adjust to offset any increase or decrease in the tax base. The new adjusted mill levy, when applied to the new tax base, will result in the same property tax revenue as applying the current mill levy to the current tax base. Third, the general fund mill levy for schools are determined by a school funding model. Mill Levies for the state (101 mills total) remain fixed.

Because the valuations of residential, commercial, and agricultural land properties are increasing, it can be expected that the total property taxes paid by residential, commercial, and agricultural land properties will also increase. Though the increases should be somewhat less than the level of increases in valuation. Also, the increase in valuations combined with fixing the property tax revenues of local

governments to be neutral should result in property tax decreases for other classes of property.

Graph 14 shows the estimated change in property taxes paid by different groups of property as a result of implementing reappraisal.

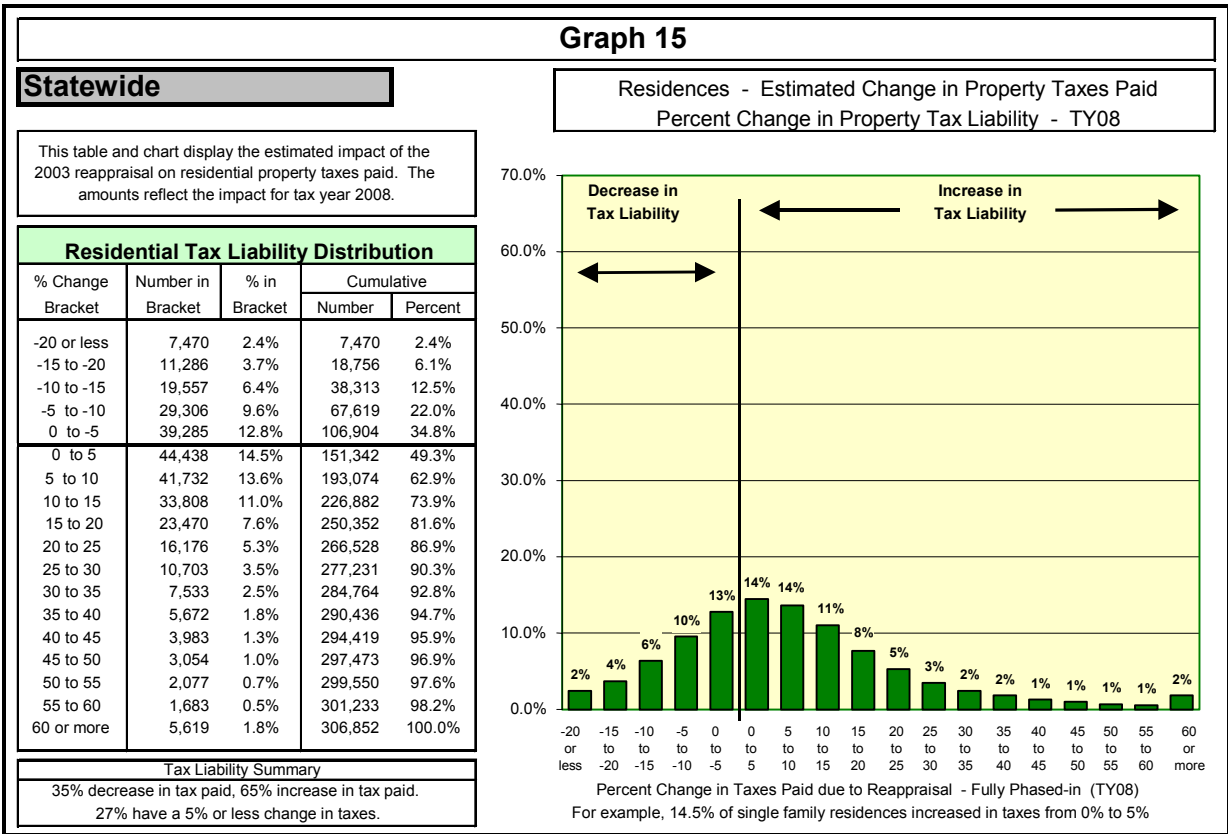


While the valuation of residential property increased 20.2%, the estimated taxes increased 7.9%. The close grouping of estimated increases in taxes paid for residential property, commercial property, and agricultural land reflects the close grouping of increases in valuation. As expected, there is a tax shifting as the other groups of property have a decrease in taxes paid.

The average increase in taxes paid for residential property is 7.9%. This number is a statewide average. There will be taxpayers that will have an increase lower than 7.9% and some who will have an increase higher than 7.9%. There will be some residential taxpayers who will see a decrease in property taxes.

The statewide distribution of estimated change in property taxes paid on residential property is shown in Graph 15. This analysis accounts for change due to reappraisal only. Other changes in mill levies caused by factors other than reappraisal could also impact the level of property taxes paid. The estimated changes in this analysis are due solely to changes in valuation due to reappraisal. All other factors are absent.

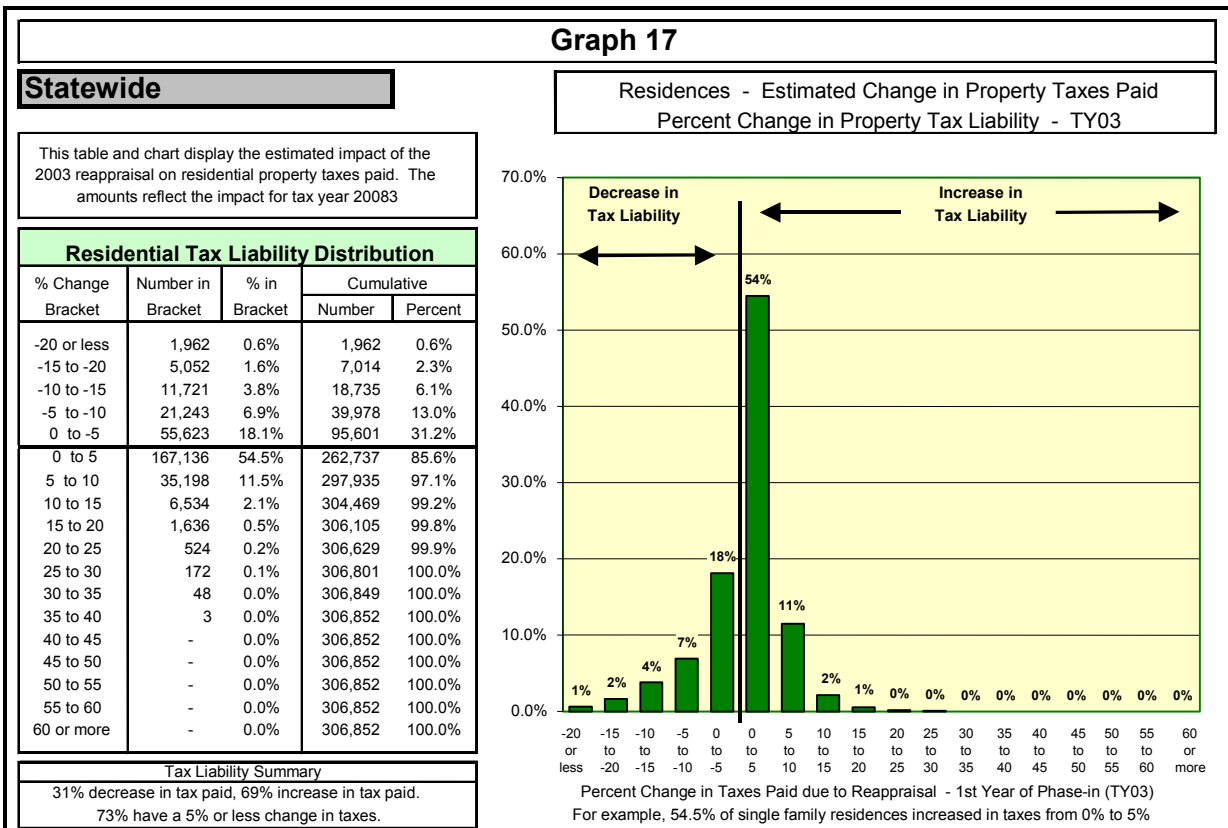
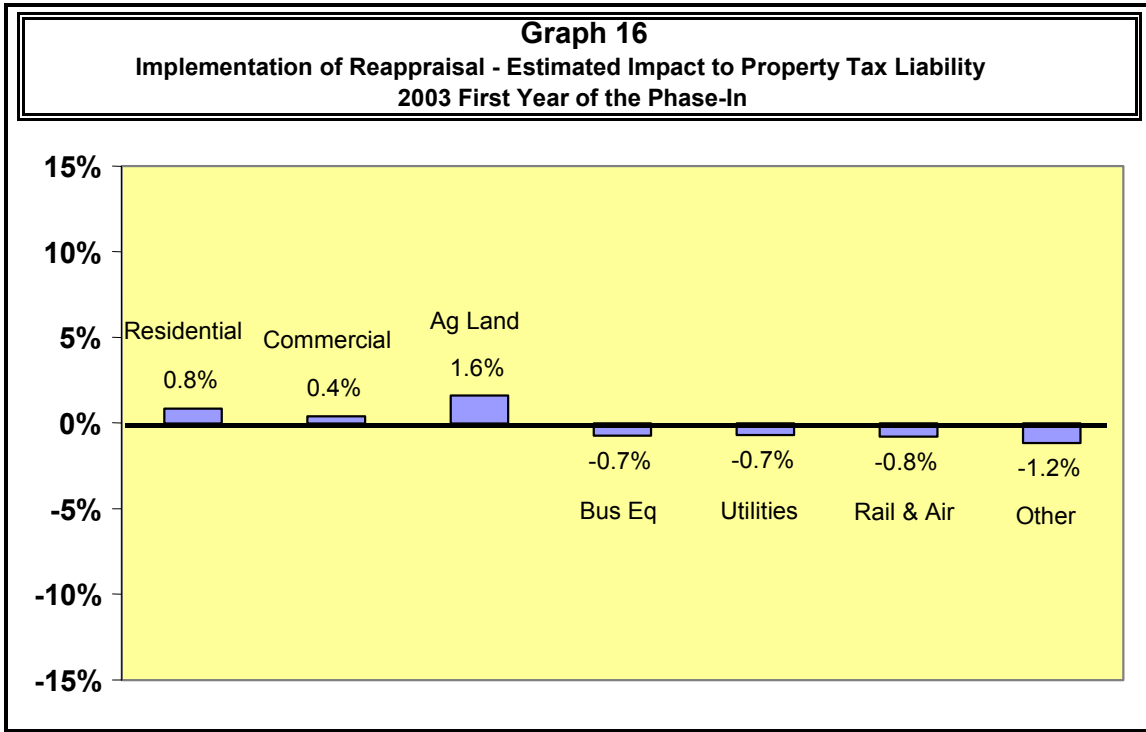
Statewide, it is estimated that 35% of residential property taxpayers will pay less property taxes in tax year 2008 after full reappraisal is implemented, than in tax year 2002.



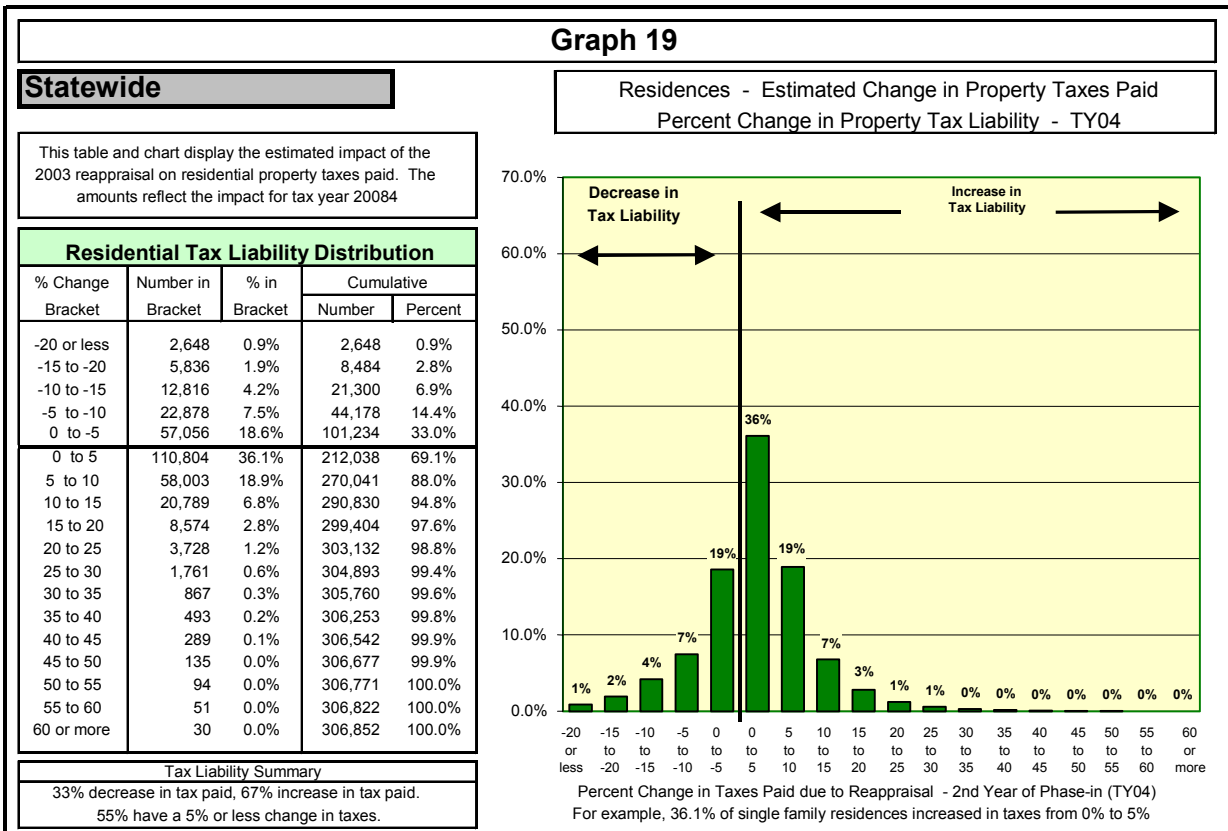
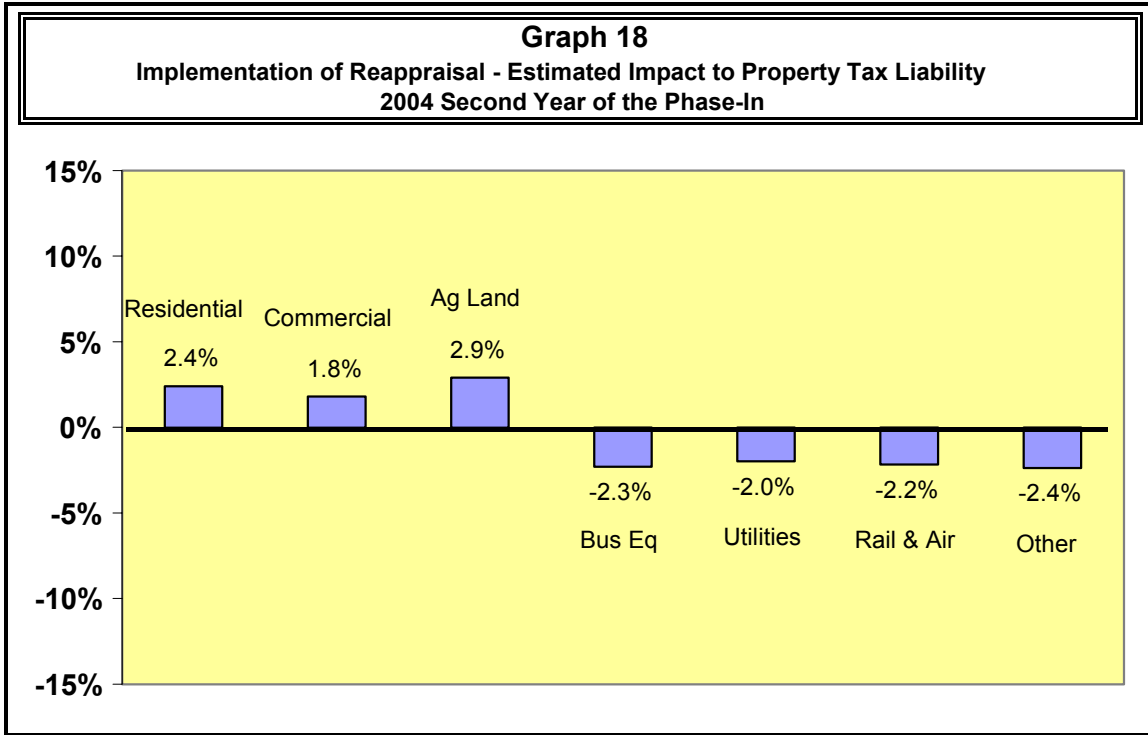
More than a quarter of residential taxpayers will have a change of less than 5% in property taxes paid. The estimated impact for each county is displayed in Appendix C.

The average increase of 7.9% is after full implementation of reappraisal. This increase will be phased-in over a six-year period. The average changes in property taxes paid should be lowest in the first year of the phase-in, increasing incrementally each year of the phase-in until reaching the full phase-in levels.

Graph 16 shows the estimated change in property taxes paid in the first year of the phase-in by property class. Graph 17 shows the distribution of estimated change property tax paid for residential property taxpayers in the first year of the phase-in.



Graph 18 shows the estimated change in property taxes paid at the second year of the phase-in by property class. Graph 19 shows the distribution of estimated change in property taxes paid by residential property taxpayers at the second year of the phase-in.



MITIGATING THE IMPACTS OF THE 2003 REAPPRAISAL

It is estimated that under current law, fully implementing the 2003 reappraisal will result in overall valuation increases of 20.2%, 18.5%, and 15.3% for residential, commercial, and agricultural land properties respectively. It is estimated that the valuation increases will result in overall increases in property taxes paid of 7.9%, 6.6%, and 7.4% for residential, commercial, and agricultural land properties respectively, while decreasing the amount of property taxes paid of all other types of property by around 7%. These changes in valuations and taxes paid would be phased-in over a six-year period.

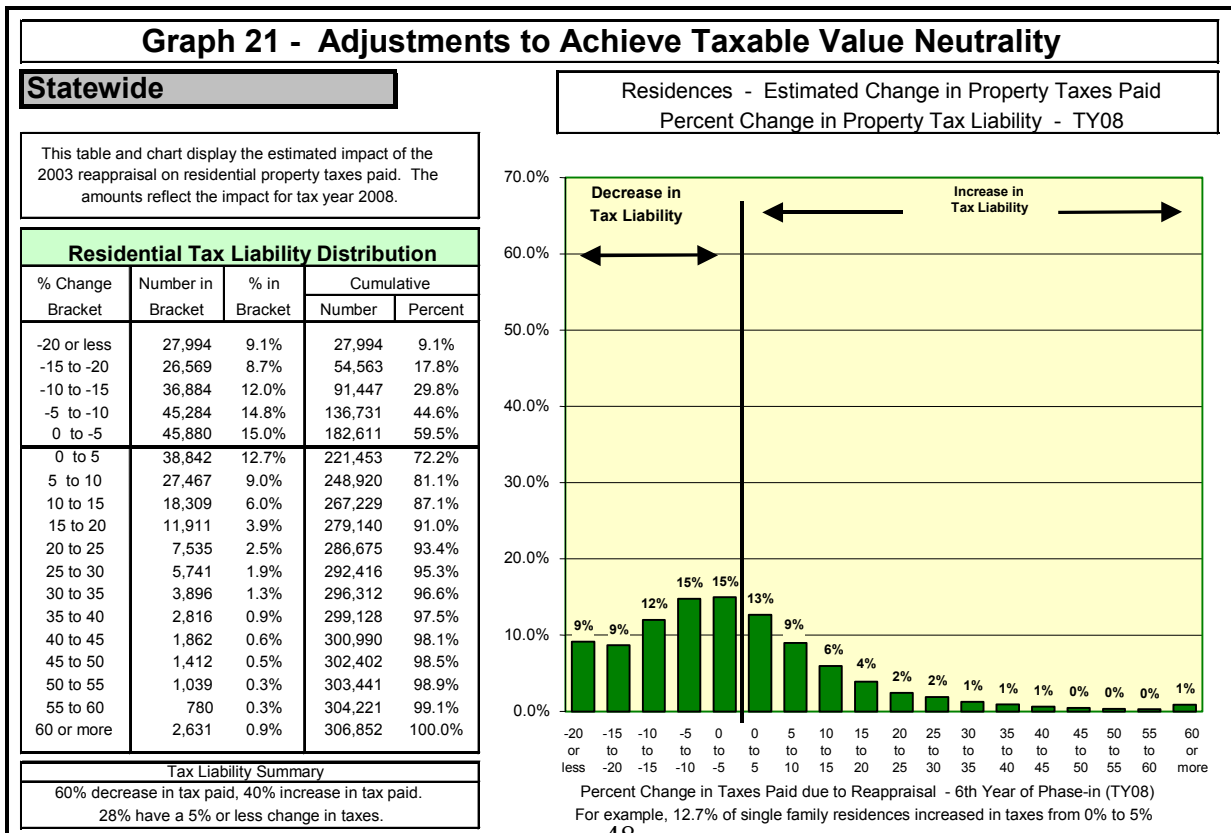
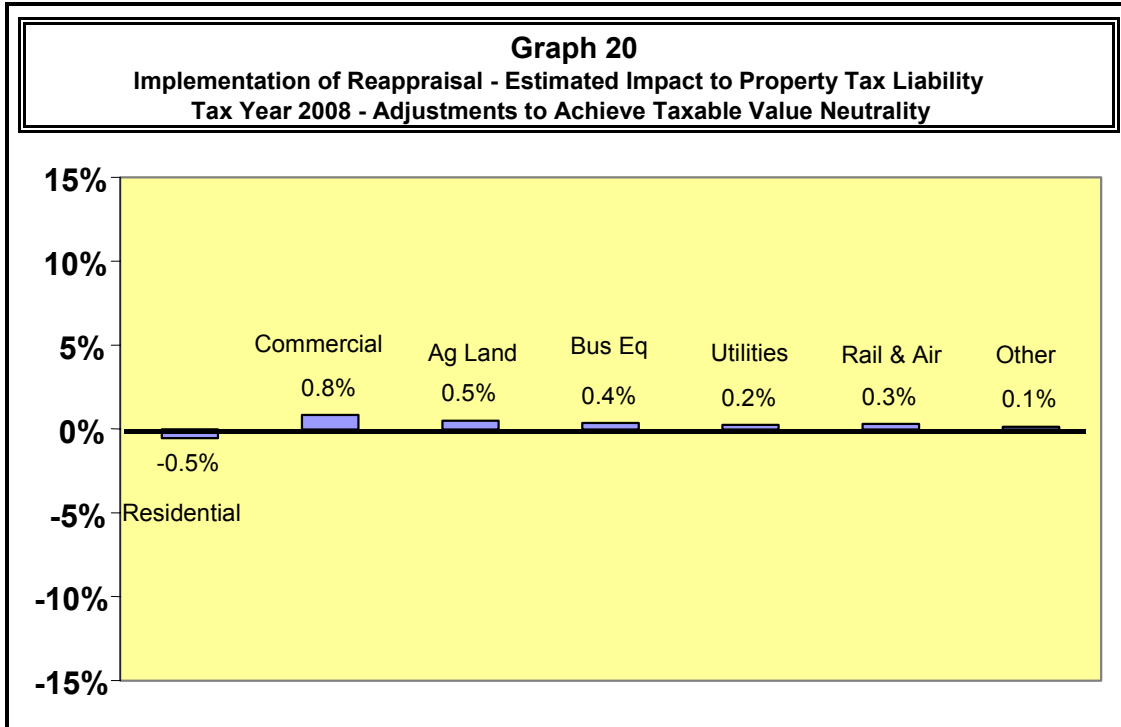
Simple adjustments to current law parameters can be made to mitigate the impacts of the 2003 reappraisal. The goal of the adjustments is to allow implementation of the 2003 reappraisal, while keeping total statewide taxable value of each class of property at current law levels. This is done by making adjustments to the current law tax rate of 3.46% for class 3 and 4 property combined with adjustments to the current law residential homestead exemption of 31% and the commercial comstead exemption of 13%.

This is similar to the action taken by the 1999 Legislature to address the implementation of the 1997 reappraisal. A slight difference is that the 1999 Legislature intended for the taxable value of residential property to decrease. The taxable values of commercial property and agricultural land were intended to remain neutral. An analysis of the impact the 1999 adjustment showed that the intended results were achieved.

With the goal of achieving taxable value neutrality in 2008, the first adjustment to be made is to lower the tax rate for class 3 and 4 property. The tax rate for class 3 property is tied to the class 4 tax rate. This means that a change in the class 4 tax rate is also a change to the tax rate for class 3 property. The valuation for class 3 agricultural land increased 15.3%. Reducing the tax rate from 3.46% to 3.00% would result in the taxable value of agricultural land remaining at current law levels. However, since the increases in valuation for residential and commercial property were 29.2% and 18.5% respectively (higher than the 15.3% for agricultural land), lowering the tax rate 3.46% to 3.00% for residential and commercial property will result in a decrease in taxable value, but not enough to offset the increase due to reappraisal. To offset the remaining increase requires slight adjustments to the homestead and comstead exemptions. Increasing the homestead exemption from 31% to 34% and increasing the comstead exemption from 13% to 15% is enough to offset the remaining increase in taxable value.

Table 20		
Adjustments to Achieve Taxable Value Neutrality in Tax Year 2008		
	Current Law Tax Year 2002	Adjusted Tax Year 2008
Class 4 Tax Rate	3.46%	3.00%
Homestead Exemption	31%	34%
Comstead Exemption	13%	15%

Graph 20 shows the impact of full reappraisal and the adjusted tax rates and exemptions from Table 20. As expected, the change in estimated property taxes paid by property type is very slight for each type of property. Graph 21 shows the impact by residential taxpayer. Sixty percent of residential taxpayers have a tax decrease.



Appendix D shows the impact on residential properties for each county. The impact of a statewide solution causes the number of properties with a tax decrease to vary from county to county. For example, in Big Horn County, 84.1% of residential properties are estimated to have a tax decrease, compared to 22.2% in Golden Valley County.

EXTENDED PROPERTY TAX ASSISTANCE PROGRAM

There is considerable concern about the rapidly rising property values in select locations in the state. For example, the land value for lakeshore property on Whitefish Lake has increased dramatically. There were a number of policy changes proposed to address this situation: acquisition value where the taxable value of the property is the arms length purchase price; land cap (see report in Appendix E); and a variety of selected property tax caps.

The 2003 Legislature chose to cap the increase in assessed value for taxing purposes. The cap is subject to an income test. Any residential property with a dwelling that has a taxable value increase of 24% or more can apply for the extended property tax assistance program. The criteria are that the property tax liability, based on tax year 2002 mill levies, must increase by \$250 or more when the full reappraisal value is used (that is, at the end of the six-year phase in, the tax liability would increase more than \$250 from the tax year 2002 tax liability).

As shown in Table 21, if the criteria is met and if the household income is \$25,000 or less, the property taxable value would be phased in at 4% each year of the six-year reappraisal cycle, for a total cap of 24% over the six-year period. If the household income is between \$25,000 and \$50,000, the property taxable value would be phased in at 5% each year. If the household income is between \$50,000 and \$75,000, the property taxable value would be phased in at 6% each year.

Table 21			
Extended Property Tax Assistance Program			
For Properties with a Reappraisal Increase Greater than 24% and a Tax Increase of More than \$250			
Annual Phase-in of New Valuation			
	----- Gross Household Income -----		
<u>Greater than \$250</u>	<u>(\$25,000 or less)</u>	<u>(\$25,001 to \$50,000)</u>	<u>(\$50,001 to \$75,000)</u>
Tax Increase Cap	24%	30%	36%
Percent Increase			
Year 1	4%	5%	6%
Year 2	8%	10%	12%
Year 3	12%	15%	18%
Year 4	16%	20%	24%
Year 5	20%	25%	30%
Year 6	24%	30%	36%

Table 22 gives an example of the Extended Property Tax Assistance Program.

Table 22				
Example of Extended Property Tax Assistance				
Description	Tax Year 2002	Tax Year 2008	Change	Percent Change
Reappraisal Value	100,000	223,819	123,819	124%
Homestead	31.0%	34.0%		
Phase-in Value	69,000	147,720	78,720	114%
Tax Rate	3.46%	3.01%		
Taxable Value	2,387	4,446	2,059	86%
Mill Levy	500	500		
Tax Liability	\$1,194	\$2,223	\$1,029	86%

Income Test:		New 2008 Tax Liability
- Income is Less Than \$25,000 (24%)		\$1,480
- Income is Between \$25,000 and \$50,000 (30%)		\$1,552
- Income is Between \$50,000 and \$75,000 (36%)		\$1,612
- Income is Greater Than \$75,000 (Not Applicable)		\$2,223

Table 23 shows the estimated number of residential parcels (6,984) that meet the criteria for application for the extended property tax assistance program. That is, the number of residential parcels that would increase more than 24% in taxable value and would increase more than \$250 in tax liability. The final determination for qualification for the program would be the income test.

Table 23	
SB461 Extended Property Tax Assistance	
Tax Year 2008 Tax Rate	3.01%
Tax Year 2008 Homestead Exemption	34.0%
<u>Estimated Eligibility Prior to Income Test</u>	
Estimated Number of Eligible Properties	6,984
<small>(Taxable value increased more than 24% and tax liability increased more than \$250)</small>	
Estimated Change in Taxable Value TY 2008	(\$3,243,908)
<small>(If all 6,984 owners qualify for a 24% cap)</small>	
<u>Estimated Eligibility with Income Test</u>	
Estimated Number of Qualifying Owners	3,301
<small>(Household income is less than \$75,000 per year)</small>	
Change in Taxable Value TY 2008	(\$998,425)
<small>(All 3,301 owners qualify)</small>	

For purposes of estimating the impacts of the income test for Extended Property Tax Assistance, the income level was assigned based on the value of the residential property. This calculation is shown in the following table. It is estimated that 3,301 parcels will qualify with a taxable value change of \$998,425, which at 500 mills would be property tax revenue decrease for these parcels of about \$500,000.

Table 24				
Estimated Number of Eligible Properties and Eligible Owners				
Income Level Based on Property Valuation				
<u>Income Level</u>	<u>Property Value</u>	<u>Number of Properties</u>	<u>TV Cap</u>	<u>Estimated # Qualifiers</u>
Less than \$25,000 per year	Less than \$50,000	23	24%	23
\$25,000 to \$50,000 per year	\$50,000 - \$150,000	2,865	30%	2,143
\$50,000 to \$75,000 per year	\$150,000 - \$350,000	3,113	36%	1,135
\$75,000 or more per year*	More than \$350,000	983		-
Total Properties with an Increase of at least 24%		6,984		3,301

*Owners do not qualify for the extended property tax assistance if their income level is greater than \$75,000 per year.

Estimated Change in Taxable Value - Qualifying Owners By Estimated Income Level				
<u>Description</u>	<u>Number</u>	<u>'08 Proposed Taxable Value</u>	<u>'08 Extended PTA Taxable Value</u>	<u>Change Taxable Value</u>
Less than \$25k	23	20,241	13,203	(7,038)
\$25k - \$50k	2,143	4,513,413	3,969,656	(543,757)
\$50k - \$75k	1,135	5,064,341	4,616,711	(447,630)
Total	3,301	9,597,995	8,599,570	(998,425)

EFFECTIVE TAX RATES FOR RESIDENTIAL PROPERTY

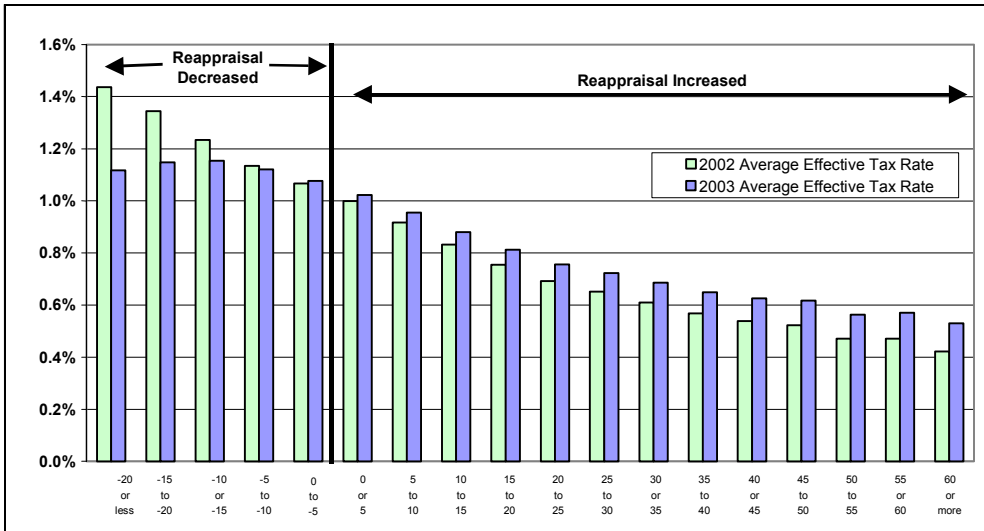
The effective property tax rate of property is defined to be the amount of property taxes paid as a percent of the true market value of the property. For example, if a total of \$900 was paid in taxes on property that had a true market value of \$100,000, then the effective property tax rate on that property is 0.9% ($\$900 / \$100,000$).

The 2003 reappraisal value represents an estimate of the current true market value of property. Completing a reappraisal on residential property allows the opportunity to calculate the effective property tax rate for all residential property in the state. The effective tax rate will be calculated for tax year 2002 using the 1997 reappraisal value and a tax year 2002 property tax. A comparison effective tax rate is calculated using the 2003 reappraisal value and a tax year 2003 estimated tax liability.

The total population of residential property was divided into groups based on the change in valuation due to the 2003 reappraisal. Then the average effective tax rate was found for each grouping. The results are shown in Graph 22.

Graph 22
Residential - Average Effective Tax Rates by Change in Reappraisal Value
Tax Year 2002 and 2003

Average Effective Tax Liability		
% Change Bracket	Tax Year 2002	Tax Year 2003
-20 or less	1.44%	1.12%
-15 to -20	1.34%	1.15%
-10 to -15	1.23%	1.15%
-5 to -10	1.13%	1.12%
0 to -5	1.07%	1.08%
0 to 5	1.00%	1.02%
5 to 10	0.92%	0.95%
10 to 15	0.83%	0.88%
15 to 20	0.75%	0.81%
20 to 25	0.69%	0.76%
25 to 30	0.65%	0.72%
30 to 35	0.61%	0.69%
35 to 40	0.57%	0.65%
40 to 45	0.54%	0.62%
45 to 50	0.52%	0.62%
50 to 55	0.47%	0.56%
55 to 60	0.47%	0.57%
60 or more	0.42%	0.53%



It is clear from Graph 22 that properties that have the higher increases in valuation due to reappraisal actually have the lower effective property tax rates. As change in valuation due to reappraisal increases, the effective property tax rate decreases. For example, properties that decrease in valuation from 15% to 20% have an average effective property tax rate of 1.34% using the 1997 reappraisal value (tax year 2002) and an average effective tax rate of 1.15% using the 2003 reappraisal value. Those properties that have an increase in valuation due to reappraisal from 50% to 55% have an average effective tax rate of 0.47% using the 1997 reappraisal value and an average effective tax of 0.56% using the 2003 reappraisal value.

EVOLUTION OF SB461

The following describes the major issues in SB461 becoming law. The process begins with tax year 2002, the end of the last reappraisal cycle. Large increases in taxable value and thus taxes paid would occur in fiscal years 2003 through 2009 unless changes were made to the current law tax rate and exemption levels shown in Table 25.

Table 25 Tax Year 2002	
	Exemption Level
All Residential	31%
Multi-Family Housing	31%
Commercial	13%
- Tax Rate : 3.46%	

Governor Martz appointed an advisory council to study the issues and make recommendations for change. The advisory council was comprised of a mix of legislators and citizens. The council studied data regarding the impact of reappraisal and the degree of potential increases in property taxes.

The advisory council recommended that current law exemption levels be increased and the tax rate be reduced from the current law level of 3.46%. These changes were designed to result in taxable revenue neutrality for agricultural land, residential property, and commercial property. Revenue neutral means that overall, there is no appreciable gain or loss in taxable value. It is desirable to have any solution be taxable revenue neutral. This removes the necessity for mill levies to increase to offset taxable value loss.

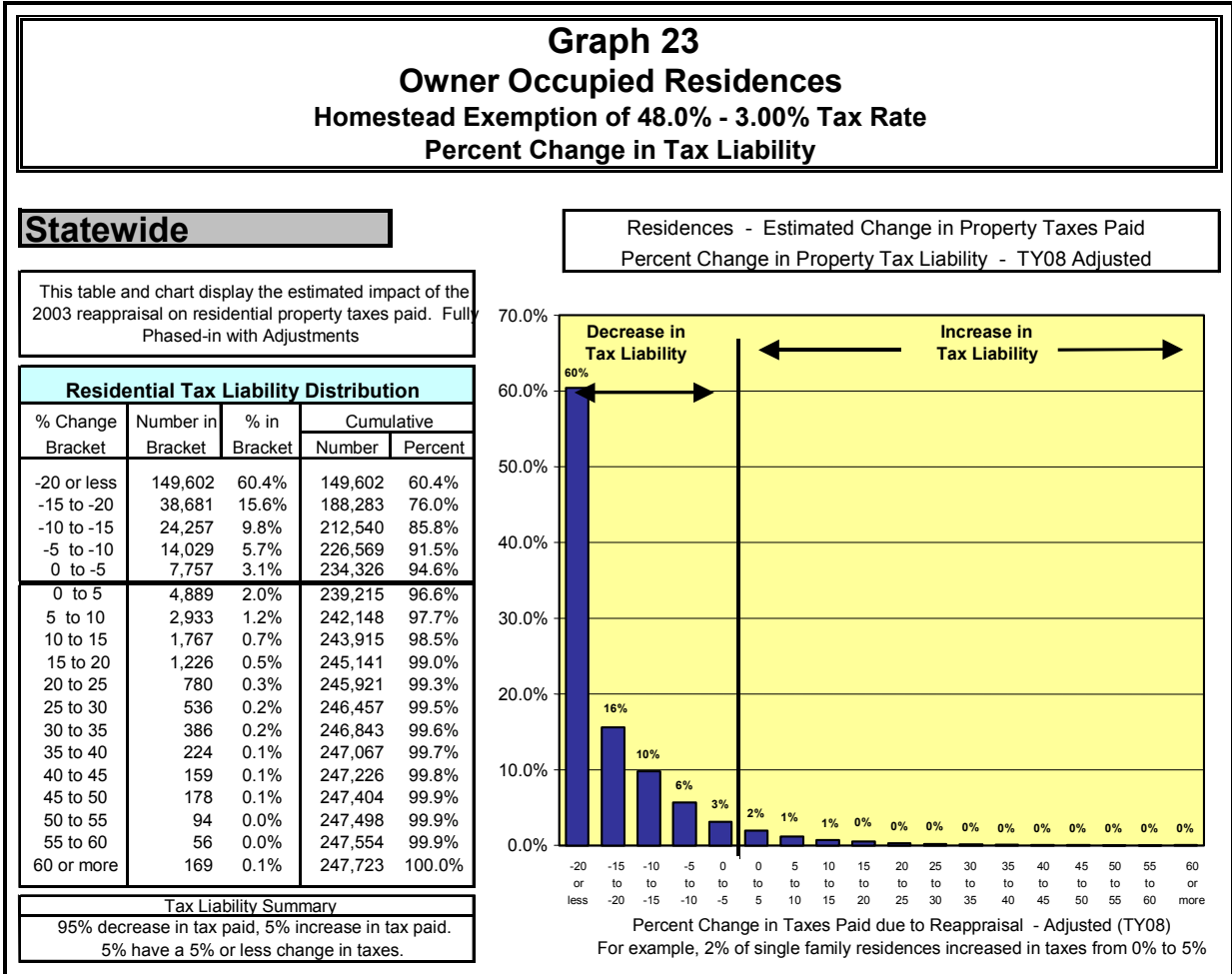
Table 26 Governor's Advisory Council	
	Exemption Level
All Residential	34%
Multi-Family Housing	34%
Commercial	15%
<ul style="list-style-type: none"> - Tax Rate : 3.46% down to 3.00% - Concern for Large Increases - Consider Acquisition Value 	

The council also expressed concern that, even though the changes in the exemption levels and the tax rate resulted in mitigating the impact of reappraisal for a large majority of property taxpayers, there remained a small group of taxpayers that would still see a large property tax increase. Running short of time, the council expressed a desire that the upcoming legislative session address the issue of this taxpayer group. The council stated that an acquisition value property system should be examined as a method of providing predictability and stability to all residential and commercial property taxpayers.

The concept of mitigating the impact of reappraisal via changes to the exemption levels and reducing the tax rate was incorporated in SB461. When introduced, SB461 added the concept of providing preferential treatment to residential property that was owner occupied. The preferential treatment was in the form of a homestead exemption of 48%. To maintain taxable value neutrality, the exemption level for residential property that was not owner occupied (vacant lots, second homes, vacation homes, residential rental property) was eliminated. SB461 contained a program of property tax assistance to address those property owners who would have extremely large increases in property tax. The assistance is income based and capped the increase in taxable value for those with annual income less than \$75,000.

Table 27 SB461 as Introduced	
	Exemption Level
Res. Owner Occupied	48%
All Other Residential	0%
Multi-Family Housing	18.5%
Commercial	18.5%
<ul style="list-style-type: none"> - Tax Rate : 3.46% down to 3.00% - Extended Property Tax Assistance 	

Under the proposed 48% homestead exemption, 94.8% of the owner occupied residences would have a decrease in tax liability as shown in Graph 23.



However, 99.6% of all non-owner occupied residences would have an increase in tax liability as shown in Graph 24.

Graph 24

Non-Owner Occupied Residences Homestead Exemption of 48.0% - 3.00% Tax Rate Percent Change in Tax Liability

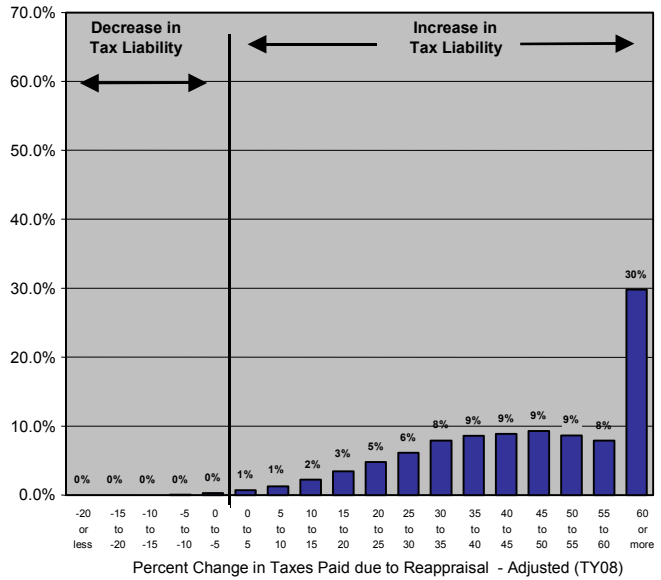
Statewide

This table and chart display the estimated impact of the 2003 reappraisal on residential property taxes paid. Fully Phased-in with Adjustments

Residential Tax Liability Distribution				
% Change Bracket	Number in Bracket	% in Bracket	Cumulative	
			Number	Percent
-20 or less	-	0.0%	-	0.0%
-15 to -20	-	0.0%	-	0.0%
-10 to -15	1	0.0%	1	0.0%
-5 to -10	43	0.1%	44	0.1%
0 to -5	184	0.3%	228	0.4%
0 to 5	410	0.7%	638	1.1%
5 to 10	758	1.3%	1,396	2.4%
10 to 15	1,326	2.2%	2,722	4.6%
15 to 20	2,039	3.4%	4,761	8.1%
20 to 25	2,825	4.8%	7,586	12.8%
25 to 30	3,613	6.1%	11,199	18.9%
30 to 35	4,684	7.9%	15,883	26.9%
35 to 40	5,101	8.6%	20,984	35.5%
40 to 45	5,261	8.9%	26,245	44.4%
45 to 50	5,502	9.3%	31,747	53.7%
50 to 55	5,121	8.7%	36,868	62.4%
55 to 60	4,655	7.9%	41,523	70.2%
60 or more	17,606	29.8%	59,129	100.0%

Tax Liability Summary	
0% decrease in tax paid, 100% increase in tax paid.	
1% have a 5% or less change in taxes.	

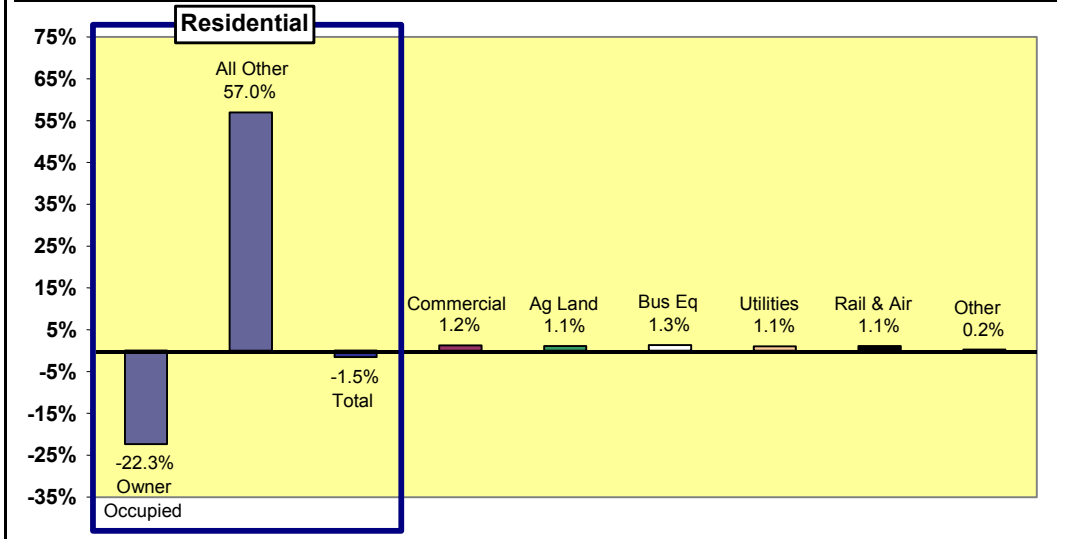
Residences - Estimated Change in Property Taxes Paid
Percent Change in Property Tax Liability - TY08 Adjusted



With a 48% homestead exemption for owner occupied residences and no homestead exemption for non-owner occupied residential property, it was estimated that residential property, as a whole, would have had a 1.5% decrease in tax liability and all other classes of property were estimated to increase approximately 1% in tax liability.

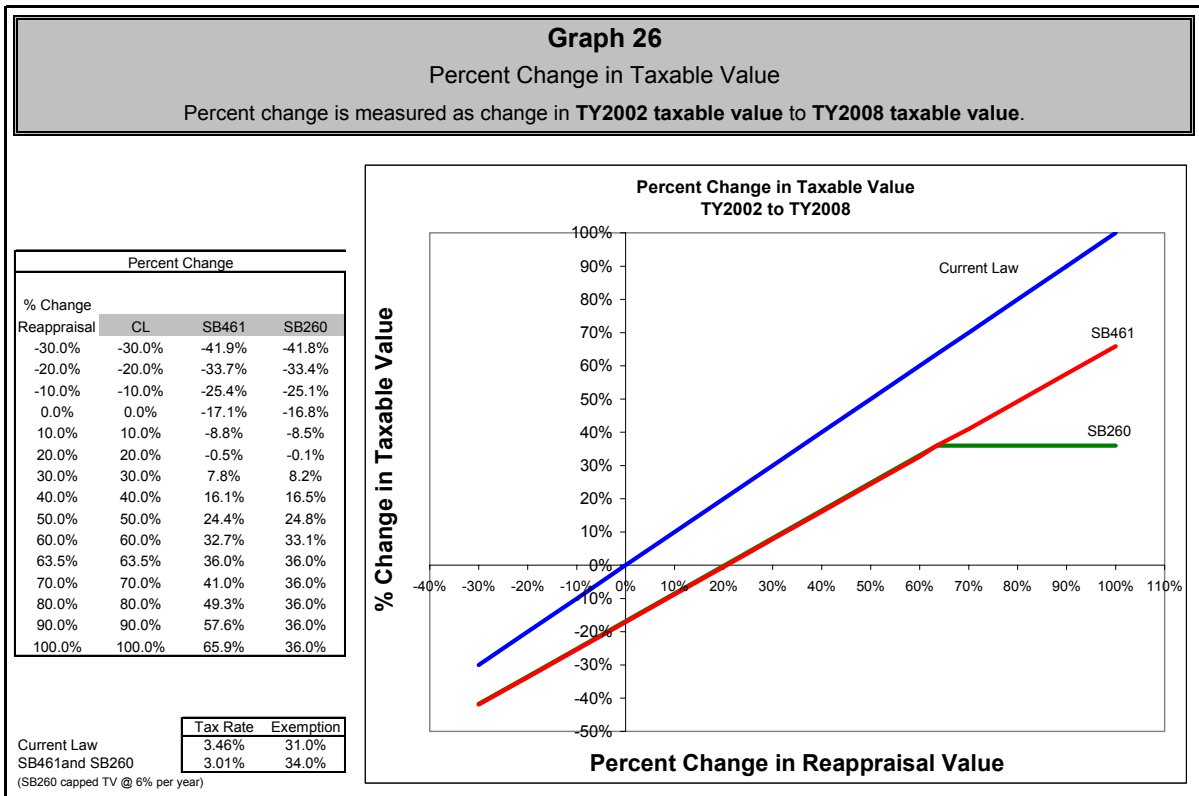
Graph 25

Implementation of Reappraisal - Estimated Impact to Property Tax Liability Owner Occupied Residential Exemption @ 48.0%; Commercial 18.5%; Tax Rate 3% 2008 Fully Phased-In



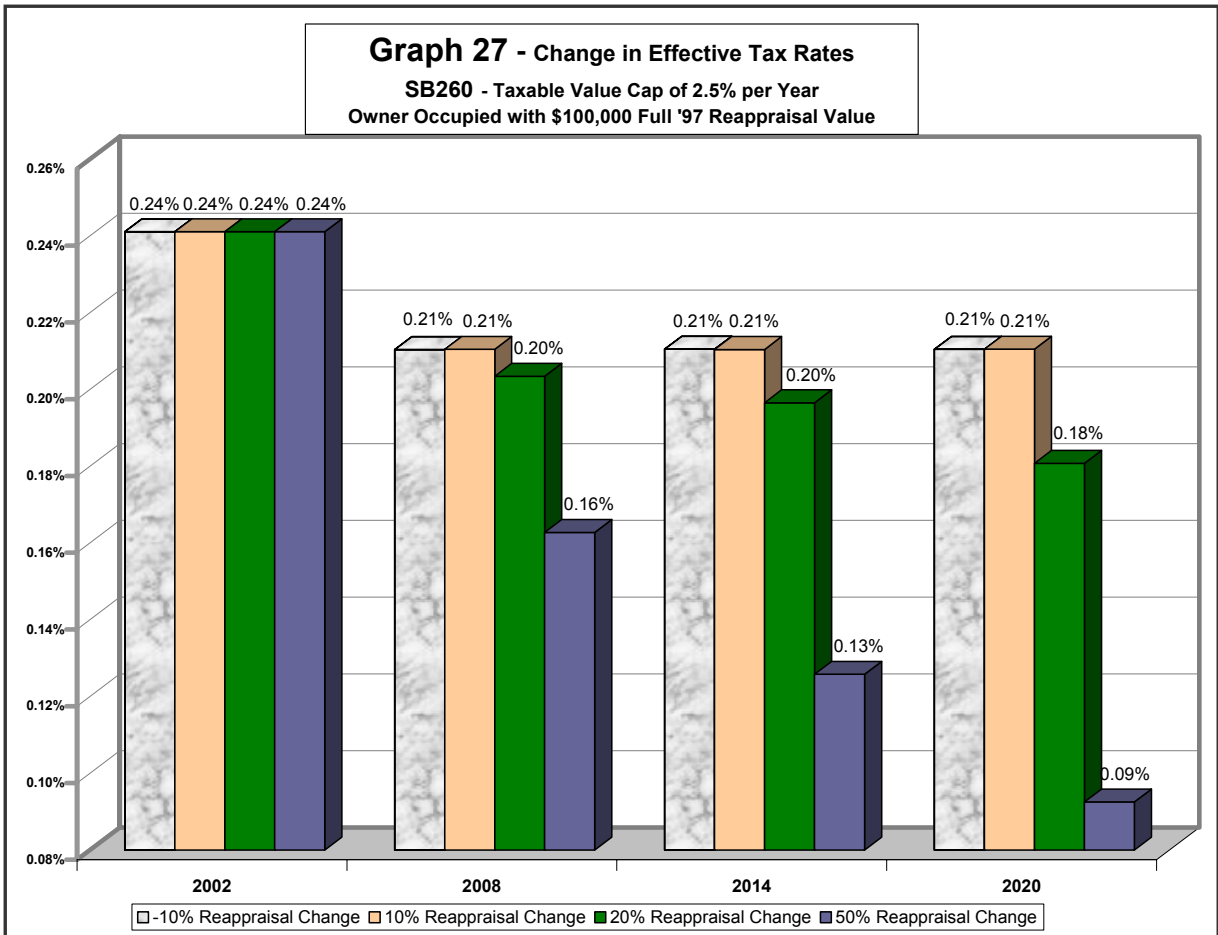
After introduction, SB461 was assigned to the Senate Taxation Committee. The Senate Taxation Committee was also considering a bill that would move Montana to an acquisition value property tax system (SB260). The committee expressed concern that implementing an acquisition value system, or providing preferential treatment to owner-occupied property as featured in SB461 as introduced, would result in large property tax increases for owners of second homes and for owners of residential rental property. The committee was also concerned that creating another class of property (owner occupied) would further complicate an already complicated property tax system.

The committee was also concerned about rapidly rising property values on primary homes or on second homes. The committee did not want taxpayers forced to sell their property due to rapidly increasing property taxes. To address this concern, the committee considered capping the increase in taxable value. Graph 26 shows the impact on the change in the taxable value of property if taxable value is capped at 6% each year, for a maximum increase of 36% over the six-year period from tax year 2002 to tax year 2008.



The long-term impact of capping increases in value due to reappraisal can be measured by comparing the effective tax rates of similar property. Graph 27 illustrates the effects over time of a 2.5% taxable value cap on four hypothetical properties. The effective tax rate for four homes, all with an equal value of \$100,000 in 2002, is measured over time. In the example, each home is impacted differently

by upcoming reappraisals. The first home depreciates 10% in value each reappraisal cycle, the value of the second home increases 10% each reappraisal cycle, the values of the third and fourth home increase 20% and 50% respectively each reappraisal cycle. The 20% and 50% increases in value for the third and fourth homes are enough to make these homes subject to the 2.5% taxable value cap. As illustrated, a property with a capped taxable value has a declining effective tax rate in comparison to properties that are not capped. With a 2.5% cap on taxable value, properties that appreciate rapidly will pay at a lower effective tax rate than those that appreciate more slowly or depreciate.



After considerable debate, the Senate Taxation Committee rejected the concept of capping property tax increases, but retained the extended property tax assistance provision. SB461 was amended to:

- remove the preferential treatment for owner occupied property; and
- change the exemption levels to those recommended by the advisory council.

Table 28 SB461 Amended in Senate Tax Comm.	
Residential	34%
Multi-Family Housing	34%
Commercial	15%
- Tax Rate : 3.46% down to 3.01% - Extended Property Tax Assistance	

The bill passed the committee on a vote of 10 to 1. The committee also passed the acquisition value bill (SB260).

The next stop for SB461 was the Senate floor. The Senate amended SB461 to once again provide preferential treatment to owner occupied property owners. This time the exemption level for owner occupied property was set at 40%. This allowed for all other residential property to have an exemption level of 18.5%. The exemption level for multi-family housing and commercial property was also set at 18.5%.

Table 29 SB461 Amended on the Senate Floor	
	Exemption Level
Res. Owner Occupied	40%
All Other Residential	18.5%
Multi-Family Housing	18.5%
Commercial	18.5%
<ul style="list-style-type: none"> - Tax Rate : 3.46% down to 3.00% - Extended Property Tax Assistance - Interim Property Reappraisal Study 	

Another addition to SB461 was the creation of an interim study committee to examine solutions to problems caused by cyclical reappraisal. The hope is that the study committee, not being bound by the burdens that are part of a legislative session, will be able to focus on resolving the problems that arise each time a reappraisal is implemented. The full Senate passed the amendments to SB461 on a 28 to 20 vote, and then passed the amended bill to the House on a 42 to 8 vote. SB260, the acquisition value bill, did not pass the Senate.

Next, the House Taxation Committee amended SB461 to once again remove the preferential treatment for owner occupied property and set the exemption levels to be the same as recommended by the advisory council (Table 30).

Table 30 SB461 Amended in House Tax Comm.	
	Exemption Level
Residential	34%
Multi-Family Housing	15%
Commercial	15%
<ul style="list-style-type: none"> - Tax Rate : 3.46% down to 3.01% - Interim Property Reappraisal Study - Interim Tax Reform Study 	

The extended property tax assistance program (with an income test) for those properties with a large increase in property tax was also removed from the bill. An attempt to amend the bill to limit the increase in taxable value for all residential houses was defeated in committee.

Before SB461 was sent out of the House Taxation Committee however, members of the committee considered a land cap. With the exception of a higher cap limit, the land cap the committee considered mirrored the land cap in effect from 1999 to 2001 (see Appendix E, Land Cap – SB184 (1999 Session)). The committee examined a cap on the value of land that equaled 150% of the improvement value located on the land. A land cap will lower the taxable value of properties with high land values.

However, as Graph 28 makes evident, a land cap would not help the majority of residential property owners seeing large increases in value due to reappraisal. As the graph shows, most properties with a land value worth at least 150% of the improvement value located on the land did not meet the requirements for the extended property tax assistance program, where taxable value increased at least 24% and constant tax liability increased in excess of \$250 due to reappraisal.

Nearly 7,000 properties saw an increase in taxable value of at least 24% and a constant tax liability change in excess of \$250 due to reappraisal, but only 146 or 2% of the 7,000 would have seen a benefit from a 150% land cap.

The graph also shows that 466 (25%) of those benefiting from the land cap were out of state while only 15% of the residential properties experiencing the largest property tax increases had their property tax bill sent out of state.

Graph 28 - County Distribution			
Extended Property Tax Assistance and Proposed Land Cap			
County	Eligible for EPTA	Eligible for Land Cap @ 150%	Not Helped by Land Cap
Gallatin	1,707	49	1,700
Missoula	1,088	224	1,068
Yellowstone	880	3	878
Flathead	644	443	572
Lewis & Clark	437	3	435
Madison	405	9	405
Ravalli	342	12	339
Park	231	7	230
Lake	213	1,030	177
Cascade	181	8	179
Powell	80	2	80
Blaine	67	0	67
Deer Lodge	67	4	66
Daniels	63	0	63
Carbon	53	3	53
Musselshell	50	0	50
Sweet Grass	50	1	50
Mineral	46	1	46
Sheridan	43	0	43
Fergus	39	0	39
Stillwater	33	0	33
Beaverhead	31	0	31
Custer	31	1	31
Granite	25	3	25
Silver Bow	20	2	20
Meagher	18	0	18
Lincoln	16	23	16
Phillips	15	0	15
Hill	13	0	13
Sanders	12	0	12
Richland	11	0	11
Roosevelt	8	0	8
Powder River	7	0	7
Dawson	6	0	6
Jefferson	6	0	6
Teton	6	0	6
Valley	6	0	6
McCone	5	0	5
Prairie	5	0	5
Carter	3	0	3
Chouteau	3	0	3
Pondera	3	0	3
Toole	3	0	3
Wheatland	3	0	3
Golden Valley	2	0	2
Judith Basin	2	0	2
Wibaux	2	0	2
Broadwater	1	0	1
Garfield	1	0	1
Glacier	1	0	1
Total	<u>6,984</u>	<u>1,828</u>	<u>6,838</u>
Montana Billing Address or Out-of-State Billing Address			
In-State	5,932	1,362	5,786
Out-of-State	<u>1,052</u>	<u>466</u>	<u>1,052</u>
Total	<u>6,984</u>	<u>1,828</u>	<u>6,838</u>

The House Taxation Committee amended SB461 to include an interim study committee to study general tax reform. The interim study committee had been part of a general sales tax bill (SB470). However, SB470 did not pass. The committee found the concept of an interim committee to study general tax reform worthy enough to be included in SB461. SB461, as amended, passed the House Taxation Committee by a vote of 18 to 0 and was sent to the full House.

During debate by the full House, only one amendment was offered to change SB461. The amendment was another attempt to cap the increase in taxable value for all residential houses. This amendment did not pass. The full House then passed the bill in the form that it came out of the House Taxation Committee.

Since differing versions of SB461 passed out of the Senate and out of the House, a conference committee was assigned. The conference committee amended the bill to include the extended property tax assistance program for those property owners who would see a large increase in property taxes. The assistance includes an income test and would be available to those with income less than \$75,000. The exemption levels were left as passed by the House.

Table 31	
SB461 Amended in Conference Comm. (Final Bill Signed by the Governor)	
	Exemption Level
Residential	34%
Multi-Family Housing	15%
Commercial	15%
<ul style="list-style-type: none"> - Tax Rate : 3.46% down to 3.01% - Extended Property Tax Assistance - Interim Property Reappraisal Study - Interim Tax Reform Study 	

The House and Senate passed SB461 as amended by the conference committee and the Governor signed the bill into law.

TAX YEAR 2009 REAPPRAISAL

Questions during implementation of the Tax Year 2009 reappraisal are:

- Without a law change, the only protection against property tax increases due to the next reappraisal is that the increased values will be phased-in over six years. There are no guaranteed tax rate or homestead/comstead adjustments in law.
- What happens to properties under the Extended Property Tax Assistance Program in implementation of the tax year 2009 cyclical reappraisal? Should these properties retain their capped taxable value or should these properties be subject to the values of the next reappraisal without the benefit of a cap? Do these properties retain their current property tax cap and also, if the property is still rising rapidly in value, have another cap on the taxable value increase?

- How will tax inequities among similar property be addressed?
- What is fair tax policy when discussing the effective tax rate between classes of property?
- Is there an appropriate portion of the property tax burden that should be paid by class 4 residential and commercial property?

EFFECTIVE PROPERTY TAX RATE FOR ALL PROPERTY CLASSES

The effective property tax rates for 1996 and 2002 are shown in Table 32.

Tax Class	Description	Tax Year 1996			Tax Year 2002		
		Market Value	Est. Tax Liability ¹	Effective Tax Rate	Market Value	Est. Tax Liability ¹	Effective Tax Rate
1	Mine Net Proceeds	4,558,295	1,823,318	40.00%	8,691,402	3,476,561	40.00%
2	Gross Proceeds Metal Mines	406,479,575	4,877,755	1.20%	355,644,076	4,267,729	1.20%
3	Agricultural Land	3,620,132,022	55,894,838	1.54%	3,845,087,046	53,216,005	1.38%
4	Residential ¹	17,141,708,241	264,667,975	1.54%	30,906,164,239	295,141,506	0.95%
4	Commercial ¹	6,008,487,890	92,771,053	1.54%	9,110,810,891	109,701,452	1.20%
Subtotal Class 4		23,150,196,131	357,439,028	1.54%	40,016,975,130	404,842,958	1.01%
5	Pollution Control Equipment	1,080,500,187	12,966,002	1.20%	1,180,181,662	14,162,180	1.20%
6	Livestock	612,827,809	9,805,245	1.60%	616,075,480	2,464,302	0.40%
7	Non-Centrally Assessed Public Util.	21,885,241	700,328	3.20%	2,705,175	86,566	3.20%
8	Business Personal Property	3,157,874,527	101,051,985	3.20%	4,012,212,828	48,146,554	1.20%
9	Non-Elec. Gen. Prop. of Electric Util.	3,720,837,580	178,600,204	4.80%	1,719,851,111	82,552,853	4.80%
10	Forest Land	922,876,362	2,916,289	0.32%	2,048,625,084	2,868,075	0.14%
12	Railroad and Airline Property	1,022,487,417	27,648,060	2.70%	1,161,404,952	18,675,392	1.61%
13	Telecomm. & Electric Property	-	-	0.00%	2,286,414,106	54,873,939	2.40%
Totals		37,720,655,146	753,723,052	2.00%	57,253,868,052	689,633,112	1.20%

¹Tax liability is estimated using a constant mill levy of 400.

The effective tax rate is measured by dividing the total property taxes paid by the total market value for each class of property. In tax year 2002 the statewide average effective tax rate is 1.20%. The effective tax rates in tax year 2002 vary across property classes, ranging from a high of 40% to a low of 0.14%.

Portion of Property Tax Allocated to Class

From Table 32, it can be seen that the market value of class 4 property increased from \$23,150,196,131 in 1996 to \$40,016,975,130 in 2002. This is an increase of 73%. In the same time frame, the estimated taxes paid by class 4 property increased from \$357,439,028 to \$404,842,958. This is an increase of 13%. While the market value of class 4 property has increased significantly, the actions by past

legislatures in addressing reappraisal have resulted in mitigating the increase in property taxes paid by class 4 property.

SB461 AND HB429 STUDY COMMITTEES

The 2003 Legislature, in SB461 and HB429, authorized three interim committees to study specific tax issues facing Montana.

Interim Property Tax Reappraisal Study Committee

The committee is to study the effects of cyclical reappraisal and methods for mitigating the changes in taxable value caused by cyclical reappraisal.

The committee is composed of:

- Four Senators, two from each political party appointed by the Committee on Committees, and
- Four Representatives, two appointed by the Speaker of the House and two appointed by the House Minority Leader.

Interim Tax Reform Study Committee

The committee is to study tax reform that may include revising the existing tax structure and considering alternative forms of taxation. The purpose of the committee is to conduct a comprehensive examination of taxation in Montana. The committee shall develop an inventory of taxes imposed at the state and local level, provide analysis that evaluates existing taxes, examine tax expenditures to assess the ongoing merit of each expenditure, and examine alternative methods of taxation from existing sources as well as from new sources of revenue.

The committee is composed of:

- Four Senators, two from each political party appointed by the Committee on Committees;
- Four Representatives, two appointed by the Speaker of the House and two appointed by the House Minority Leader;
- One representative of small business appointed by the Governor;
- One representative of large industry appointed by the Governor;
- One representative of agriculture appointed by the Governor; and
- One representative of labor appointed by the Governor.

Both committees are required to submit written reports to the Montana Legislature not later than December 1, 2004. The report will include recommendations and

proposed legislation, if any is necessary, to mitigate the effects of cyclical reappraisal and to provide tax reform in Montana.

Interim Property Tax Exemption Study Committee

The purpose of the committee is to conduct a study of property tax exemptions. The committee shall determine whether property tax exemptions contribute to or impede the goal of an equitable property tax system and determine whether existing property tax exemption laws should be modified or repealed in order to achieve the goal of an equitable property tax system.

The committee is composed of:

- Two Senators, one from each political party, appointed by the Committee on Committees;
- Two Representatives, one from each political party appointed by the Speaker of the House;
- One representative of local government, appointed by the Governor;
- One representative of K-12 public schools, appointed by the Governor;
- Two representatives of property tax-exempt organizations, appointed by the Governor;
- One representative of business, appointed by the Governor; and
- One representative of the executive branch, appointed by the Governor.

Appendices

- A. Reappraisal Timeline
- B. 1999 Solution Selected County Distribution of Estimated Change in Tax Liability for Residential Property
- C. Current Law (Pre-SB461) - 2008 County Distribution of Estimated Change in Tax Liability for Residential Property (3.46% Tax Rate; 31% Homestead Exemption; 13% Comstead Exemption)
- D. 2003 Solution - 2008 County Distribution of Estimated Change in Tax Liability for Residential Property (3.01% Tax Rate; 34% Homestead Exemption; 15% Comstead Exemption)
- E. Land Cap – SB184 (1999 Session)
- F. Property Tax Assistance Programs (excluding the Extended Property Tax Extended Program established in 2003)

Appendix A

Reappraisal Timeline

Important Note

At this time, Appendix A is not available for downloading from the website. Please e-mail a request to cpiearson@state.mt.us or call (406) 444-6700 if you would like a hard copy of the document mailed to you.

Appendix B

1999 Solution for 1997 Reappraisal Selected County Distribution of Estimated Change in Tax Liability for Residential Property

Tax Year 2002 Fully Phased-In Residential Property By County

Important Note

At this time, Appendix B is not available for downloading from the website.
Please e-mail a request to cpiearson@state.mt.us or call (406) 444-6700
if you would like a hard copy of the document mailed to you.

Appendix C

Current Law (Pre-SB461) - County Distribution of Estimated Change in Tax Liability for Residential Property

(3.46% Tax Rate; 31% Homestead Exemption; 13% Comstead Exemption)

Tax Year 2008 Fully Phased-In Residential Property By County

Important Note

At this time, Appendix C is not available for downloading from the website.
Please e-mail a request to cpiearson@state.mt.us or call (406) 444-6700
if you would like a hard copy of the document mailed to you.

Appendix D

2003 Solution - 2008 County Distribution of Estimated Change in Tax Liability for Residential Property

(3.01% Tax Rate; 34% Homestead Exemption; 15% Comstead Exemption)

Tax Year 2008 Fully Phased-In Residential Property By County

Important Note

At this time, Appendix D is not available for downloading from the website. Please e-mail a request to cpiearson@state.mt.us or call (406) 444-6700 if you would like a hard copy of the document mailed to you.

Appendix E

Land Cap – SB184 (1999 Session)

Land Cap – SB184 (1999 session)

This report is to explain the “land cap” that was in effect for tax years 1999 to 2001. There are six sections: explanation of the land cap; financial saving to the taxpayers who received the land cap; cost to the other taxpayers to fund the land cap; the impact of eliminating the land cap; state cost of the land cap; ownership of residential land in Montana and the land cap.

Explanation of the “Land Cap”

There was concern in the 1999 Legislative Session about the impact of rapidly rising property tax values in recreation locations. It was expressed that many property owner’s land values were increasing significantly due to purchases of the surrounding land by people primarily from out of state who paid much higher prices for the land than Montana residents had paid, or were financially capable of paying. SB184 passed by the 1999 Legislature created what is referred to as the ‘land cap’; which was set to allow taxpayers who bought the land at much lower than the current selling prices to continue to be able to afford the property taxes, and thus continue to live in their home, or be able to maintain a family cabin.

SB184 limited, or capped, the value of residential land at the greater of 75% of the improvement value situated on the land, or 75% of the statewide average improvement value of \$69,100. Residential land qualified for the land cap if the land value of up to five acres exceeded 75% of the value of the improvements located on the land. Additionally, the five acres had to be contiguous parcels with single ownership, and the improvements on the property had to include a dwelling or mobile/manufactured home.

If the value of the improvement situated on qualified land was less than the statewide average improvement value of \$69,100, then the capped value of the land was calculated on \$69,100. For instance, if a property had a land value of \$100,000 and an improvement value of \$50,000, then the capped value of the land would be calculated using the statewide average improvement value of \$69,100. In the aforementioned example, the capped value of the land would be 75% of the \$69,100: which is \$51,825.

Under a scenario where the improvement value on qualifying land is greater than the statewide average improvement value, then the capped value of the land is simply 75% of the improvement value. For example, if a property had a land value of \$100,000 and an improvement value of \$100,000, then the land cap value would be \$75,000 ($\$100,000 \times 75\%$).

Table 1 shows three examples to illustrate the ‘land cap’ calculation:

1. Land value is less than the improvement value.

2. Land value is more than 75% of the improvement value, and the improvement value is *greater* than \$69,100.
3. Land value is more than 75% of the improvement value, and the improvement value is *less* than \$69,100.

Table 1			
Simplified Example of Land Cap - Change in Value			
	Example 1	Example 2	Example 3
Assessed Value	<u>Less than Imp</u>	<u>75% of Imp.</u>	<u>75% of State Ave.</u>
Improvement Value	\$200,000	\$200,000	\$50,000
Land Value	<u>\$100,000</u>	<u>\$200,000</u>	<u>\$200,000</u>
Total Property Value	<u>\$300,000</u>	<u>\$400,000</u>	<u>\$250,000</u>
Land Adjustment Tests			
- Land / Improvement > 75%	No	Yes	Yes
- Improvement < \$69,100	No	No	Yes
Land Adjustments			
Improvement Value	NA	\$200,000	\$69,100
Land Cap Percentage	NA	x 75%	x 75%
Adjusted Land Value		<u>\$150,000</u>	<u>\$51,825</u>
Value to be Taxed			
Improvement Value	\$200,000	\$200,000	\$50,000
Land Value	<u>\$100,000</u>	<u>\$150,000</u>	<u>\$51,825</u>
<i>Adjusted Property Value</i>	<u>\$300,000</u>	<u>\$350,000</u>	<u>\$101,825</u>

The top portion of Table 1 lists the assessed values of the three hypothetical properties without any adjustments. Before adjustments are made, it first must be determined if a property qualifies for the land cap. To qualify for the cap, the land must be valued at 75% or higher of the improvement value.

Under the heading 'Land Adjustment Tests' in Table 1, we see that the first example's land is only 50% ($\$100,000 \div \$200,000$) of the improvement value, so it is not eligible for the land cap. The second and third examples with land to improvement value ratios of 100% ($\$200,000 \div \$200,000$), and 400% ($\$200,000 \div \$50,000$) respectively are eligible for the land cap.

Before the land cap adjustment is made on qualified land, it must be determined whether the improvement value is greater than the statewide average improvement value of \$69,100. If the improvement value is greater than the \$69,100, as it is for example 2, then the adjusted land value is 75% of the improvement value situated

on the land. As shown in Table 1, since the improvement value in example 2 is greater than the statewide average, the adjusted land value is 75% of the improvement value of \$200,000, which is \$150,000. Because the improvement value in example 3 is less than the statewide average of \$69,100, the adjusted land value is 75% of \$69,100, or \$51,825.

Table 2 shows the tax liability implications with and without a land cap on the same three hypothetical properties. The assessed value to be taxed for example 1 is unaffected by a land cap; while example 2's is decreased by \$50,000 (\$400,000 - \$350,000); and example 3's is decreased by \$148,175 (\$250,000 - \$101,825).

Table 2 Simplified Example of Land Cap - Tax Liability¹						
Description	Example 1		Example 2		Example 3	
	Without Cap	With Cap	Without Cap	With Cap	Without Cap	With Cap
Assessed Value	\$300,000	\$300,000	\$400,000	\$350,000	\$250,000	\$101,825
Homestead Exemption ²	x 69%	x 69%	x 69%	x 69%	x 69%	x 69%
Taxable Market Value	\$207,000	\$207,000	\$276,000	\$241,500	\$172,500	\$70,259
Tax Rate	x 3.46%	x 3.46%	x 3.46%	x 3.46%	x 3.46%	x 3.46%
Taxable Value	\$7,162	\$7,162	\$9,550	\$8,356	\$5,969	\$2,431
Average Mill Levy	x 500 mills	x 500 mills	x 500 mills	x 500 mills	x 500 mills	x 500 mills
Estimated Tax Liability	\$3,581	\$3,581	\$4,775	\$4,178	\$2,984	\$1,215
Tax Liability Difference		\$0		(\$597)		(\$1,769)

¹Examples use tax year 2002 tax rate and exemption.
²Homestead Exemption is 31% (100% - 31% = 69%).

Table 2 displays the tax liability calculation for the three examples with and without the land cap. After assessed value is reduced by the homestead exemption, and the tax rate of 3.46% is applied to arrive at a taxable value, we see that the taxable value of example 1 remains unchanged, while the land cap would decrease examples 2 and 3's taxable value by \$1,194 (\$9,550 - \$8,356), and \$3,538 correspondingly. If these three properties were located in a taxing jurisdiction with a consolidated mill levy of 500, this would decrease example 2's tax liability by \$597, or 10.5%; and decrease example 3's tax liability by \$1,769, or 59.3%.

At this point, it is important to point out that the examples above show a savings to the taxpayer. When the land cap sunsets, the inverse is true. When eliminated, taxpayers who had a land cap would see an increase in tax liability from the prior year. For instance, instead of example 3's tax liability decreasing by 59.3%, that taxpayer would see a tax increase over the *prior year* of 59.3% when the land cap sunsets.

Financial Savings to the Taxpayers Who Received the Land Cap

The land cap was in effect from tax year 1999 to 2001; HB 4 of the 2000 Special Session eliminated it. Approximately 5,850 properties in 23 counties were capped under the provisions of SB 184. Table 3 shows the reduction in taxable value by county.

Table 3				
Land Cap Estimated Change in Taxable Value				
County	--- Land Cap Taxable Value Change ---			Tax Year 2001
	Tax Year	Tax Year	Tax Year	% of Total
	1999	2000	2001	Taxable Value
Lake	(1,513,350)	(2,518,661)	(3,385,718)	8.1%
Flathead	(476,235)	(792,596)	(1,065,450)	0.8%
Missoula	(198,955)	(331,120)	(445,109)	0.3%
Lincoln	(45,914)	(76,415)	(102,721)	0.4%
Gallatin	(37,753)	(62,832)	(84,461)	0.1%
Ravalli	(24,096)	(40,102)	(53,908)	0.1%
Madison	(15,221)	(25,333)	(34,054)	0.1%
Yellowstone	(14,612)	(24,319)	(32,690)	0.0%
Lewis & Clark	(10,041)	(16,711)	(22,463)	0.0%
Carbon	(9,503)	(15,817)	(21,261)	0.1%
Sanders	(6,408)	(10,665)	(14,337)	0.1%
Cascade	(5,773)	(9,608)	(12,915)	0.0%
Park	(4,337)	(7,217)	(9,702)	0.0%
Granite	(1,550)	(2,580)	(3,468)	0.0%
Mineral	(823)	(1,370)	(1,842)	0.0%
Deer Lodge	(802)	(1,335)	(1,795)	0.0%
Custer	(344)	(573)	(770)	0.0%
Powell	(311)	(517)	(695)	0.0%
Beaverhead	(272)	(453)	(609)	0.0%
Silver Bow	(272)	(441)	(588)	0.0%
Stillwater	(200)	(334)	(448)	0.0%
Fergus	(126)	(209)	(281)	0.0%
Sweet Grass	(61)	(102)	(136)	0.0%
Grand Total	<u>(2,366,960)</u>	<u>(3,939,309)</u>	<u>(5,295,424)</u>	<u>0.3%</u>

Statewide reductions in taxable value were approximately \$2.4 million in tax year 1999, \$3.9 million in 2000, and \$5.3 million in 2001. The far right hand column of Table 3 shows the percent of total taxable value that was capped in tax year 2001. In 2001 0.3% of total taxable value statewide was reduced due to the land cap. Lake County had the highest concentration of capped residential land with more than 23% of taxable value (of residential land) in the county being capped. As shown in Table 3, this amounted to 8.1% of all taxable value in the county being capped.

Table 4 shows the estimated tax liability savings in tax year 2001 due to the land cap. An estimated \$535,608 in state, and \$1.67 million in local property tax savings was received by owners of capped property for tax year 2001. Overall, from 1999 to 2001 owners who received the land cap had savings estimated at \$1.2 million for state and \$3.45 million for local tax purposes.

Table 4					
Tax Year 2001 Estimated Land Cap Change in Tax Liability					
County	2001 TV Change	State Mill Levy	2001 Local Mill Levy*	STATE Land Cap Impact	LOCAL Land Cap Impact
Lake	\$ (3,385,718)	101.0	296.97	\$ (341,958)	\$ (1,005,457)
Flathead	(1,065,450)	101.0	343.78	(107,610)	(366,281)
Missoula	(445,109)	102.5	405.68	(45,624)	(180,572)
Lincoln	(102,721)	101.0	278.59	(10,375)	(28,617)
Gallatin	(84,461)	101.0	290.19	(8,531)	(24,510)
Ravalli	(53,908)	101.0	285.76	(5,445)	(15,405)
Yellowstone	(32,690)	102.5	311.32	(3,351)	(10,177)
Madison	(34,054)	101.0	280.7	(3,439)	(9,559)
Lewis & Clark	(22,463)	102.5	423.17	(2,302)	(9,506)
Carbon	(21,261)	101.0	267.93	(2,147)	(5,697)
Cascade	(12,915)	102.5	350.61	(1,324)	(4,528)
Sanders	(14,337)	101.0	234.53	(1,448)	(3,362)
Park	(9,702)	101.0	271.4	(980)	(2,633)
Granite	(3,468)	101.0	300.17	(350)	(1,041)
Deer Lodge	(1,795)	101.0	522.11	(181)	(937)
Mineral	(1,842)	101.0	362.22	(186)	(667)
Custer	(770)	101.0	406.36	(78)	(313)
Silver Bow	(588)	102.5	419.37	(60)	(246)
Powell	(695)	101.0	306.63	(70)	(213)
Beaverhead	(609)	101.0	327.68	(62)	(200)
Fergus	(281)	101.0	333.85	(28)	(94)
Stillwater	(448)	101.0	207.78	(45)	(93)
Sweet Grass	(136)	101.0	268.22	(14)	(37)
Grand Total	<u>\$ (5,295,424)</u>			<u>\$ (535,608)</u>	<u>\$ (1,670,144)</u>

* Adjusted for Non-City Mills (Road Fund, etc.) and includes a County Average School Levy.

Cost to Other Taxpayers to Fund the Land Cap

15-10-420, MCA, allows local governments to float their mill levies to remain at the prior years revenue level (plus one-half of inflation). Under 15-10-420, MCA, if one class, or group of property owner's local property tax is reduced, then other owners of property will see an increase in local property taxes.

If a local taxing entity's taxable value is reduced in one year, that entity may increase its mill levy as allowed under 15-10-420, MCA. When local mill levies are increased due to the lost revenue under the land cap, this keeps local property tax revenues on a whole constant, but the burden is shifted to other property taxpayers via the increase in mills. In other words, the \$3.47 million in local property tax savings received by owners of capped property from 1999 to 2001 is at the cost to other property taxpayers.

Table 5 illustrates how taxes can shift in a taxing jurisdiction. For simplification, assume that a local taxing jurisdiction is made of two property owners. One who owns a property that is eligible for a land cap, one that is not. The jurisdiction collected \$10,000 in revenue last year, and will collect the same amount this year. Without a land cap, each property has a taxable value of \$10,000, for a total taxable value in the jurisdiction of \$20,000. With a taxable value of \$20,000, the jurisdiction will set its mill levy at 500 to collect revenues of \$10,000. Each property owner's tax liability is \$5,000.

Table 5						
Two Property Tax Payers in Same Taxing Jurisdiction						
	Cap Eligible-Taxpayer		Non Eligible-Taxpayer		Local Government	
	Without Cap	With Cap	Without Cap	With Cap	Without Cap	With Cap
Taxable Value	\$10,000	\$5,000	\$10,000	\$10,000	\$20,000	\$15,000
Mill Levy	500	667	500	667	500	667
Tax Liability	\$5,000	\$3,333	\$5,000	\$6,667	\$10,000	\$10,000
Change in Tax Liability		(\$1,667)		\$1,667		\$0

If a land cap reduces the taxable value of the cap eligible taxpayer from \$10,000 to \$5,000, then the total taxable value in the jurisdiction is reduced from \$20,000 to \$15,000. The taxing jurisdiction will now have to increase its mill levies from 500 to 667 to generate the same \$10,000 in revenue. As shown in Table 5, the revenue collected is still \$10,000, but now the burden is shifted from an even split of \$5,000 each, to \$3,333 for the capped property and \$6,667 to the non-capped property. This shift in burden equates to an effective increase in the non-capped owner's tax liability of \$1,667.

As shown in Table 5, under a land cap local mill levies increase proportionately with a decrease in taxable value. In Lake County for instance, where taxable value decreased by 8.1%, local mill levies had to increase by 7.5% (276.18 to 296.97) to generate the same amount of local property tax revenue in 2001. Again, the inverse is true when a land cap is eliminated, local mill levies decrease by the same amount (7.5% in Lake County in 2001).

Impact of Eliminating the Land Cap

When the land cap was eliminated for tax year 2002, those property owners who received the cap, or savings, saw their taxable values and tax liabilities increase by the amount that they had saved (on both state and local mill levies) the prior year due to the cap. Overall statewide, those who received the cap would have seen an increase in their tax liabilities of \$2.2 million (\$1.670 million + \$535,000, see Table 4). This is an average increase of \$375 to those taxpayers who received a tax savings because of the land cap. Taxpayers who paid additional tax because of the land cap saw a decrease in what they would have paid in 2002 local property taxes had the land cap not been eliminated, by \$1.67 million.

State Cost of The Land Cap

Unlike local governments, state mill levies cannot increase to recoup lost revenue under 15-10-420, MCA. Due to the land cap, the state general fund lost an estimated \$1.129 million in revenue from 1999 to 2001. During the same period, the special revenue account for the university 6 mill lost an additional \$71,000 due to the land cap. These tax reductions are paid for by other state general fund revenues, or reduced programs.

Residential Land Ownership and the Land Cap

As mentioned in the introduction, a key element in having a land cap was to allow Montana's to keep their home or cabin. As more and more of the recreation area property is bought by people from out of state, the effectiveness of a land cap to help Montana resident property taxpayers diminishes.

The department does not have statistics on in state versus out-of-state ownership. However, the department does have a mailing, or billing address in its property database. The mailing, or billing address does not necessarily denote whether an individual is an in state or out-of-state resident, just where their tax bill is sent. Although this variable is not a perfect indication of in state versus out-of-state ownership, it does give insight into the relationship between in state and out-of-state ownership of those who received the land cap.

The Land Cap benefits out-of-state owners more than in-state owners in two ways.

- ✓ In tax year 2001, the department's property records show that 10% of all residential landowners in Montana list an out-of-state address, and their share of total residential land taxable value represents 14% of the total state Class 4 residential land value. Thus, the out-of-state parcels have a higher market value on average than in-state parcels. This results in a higher percentage of

the 'land cap' per parcel being utilized by out-of-state Class 4 residential property owners.

- ✓ In tax year 2001, although only 10% of the parcels have an out-of-state mailing address, 21% (double the percentage of their total parcel ownership) of the parcels receiving a 'land cap' savings had an out-of-state mailing address. Thus, in proportion to the number of parcels owned by in-state and out-of-state people, the 'land cap' disproportionately reduces the taxes for parcels with an out-of-state mailing address. Owners with an out-of-state mailing address in 2001 received nearly 26% of the property tax savings due to the 'land cap' while having 14% of the taxable value.

In summary, parcels with an out-of-state mailing address comprise 10% of the total Class 4 residential parcels, but received nearly 26% of the tax break related to the 'land cap'.

Appendix F

Property Tax Assistance Programs

**(Excluding the Extended Property Tax Assistance
Program Established in 2003)**

Residential Property Tax Relief Programs

There are four programs to help property owners with residential property taxes. They are elderly homeowner/renter credit, property tax assistance program, disabled American veterans (DAV) exemption, and reverse annuity mortgage loan program. This report will discuss each of these programs and the current expenditure levels.

MONTANA'S ELDERLY HOMEOWNER/RENTER CREDIT

In Montana, qualifying persons are eligible to receive relief from property taxes through the elderly homeowner/renter credit program (Sections 15-30-171 through 179, MCA). Individuals may qualify if they are homeowners who have paid property taxes on their dwelling, or if they are a renters, in which case the credit is calculated based on a "rent equivalency" amount of property tax paid.

The form of the relief is a *refundable* credit against individual income tax liability. The refundable nature of the credit means that if the amount of the credit exceeds the taxpayers income tax liability, then the amount of any excess is to be refunded to the claimant. Indeed, receiving a refund of the credit claimed does not even require the filing of an income tax return. Claimants may file a separate form 2EC claiming the credit even though no income tax return is filed.

History

Table 1 provides a history of the number and type of forms used to claim the credit, and the total credit claimed, over tax years 1990 to 2001.

Table 1 Homeowner/Renter Credit History										
CY	Filed With Tax Returns			Filed 2EC Only			All Returns			Growth Rate
	Number	Total	Average	Number	Total	Average	Number	Total	Average	
1990	8,258	1,992,956	241.34	7,231	1,539,634	212.92	15,489	3,532,590	228.07	
1991	9,768	2,436,829	249.47	7,526	1,654,836	219.88	17,294	4,091,665	236.59	15.83%
1992	10,316	2,692,694	261.02	7,788	1,830,120	234.99	18,104	4,522,814	249.82	10.54%
1993	10,860	2,990,307	275.35	8,173	2,077,872	254.24	19,033	5,068,179	266.28	12.06%
1994	12,784	3,616,785	282.91	8,487	2,202,628	259.53	21,271	5,819,413	273.58	14.82%
1995	13,589	5,277,519	388.37	8,139	2,693,878	330.98	21,728	7,971,397	366.87	36.98%
1996	13,715	5,444,804	397.00	8,272	2,755,602	333.12	21,987	8,200,406	372.97	2.87%
1997	11,849	5,247,856	442.89	8,298	3,370,720	406.21	20,147	8,618,576	427.78	5.10%
1998	11,849	5,408,152	456.42	8,332	3,408,190	409.05	20,181	8,816,342	436.86	2.29%
1999	12,305	5,192,588	421.99	9,151	3,683,172	402.49	21,456	8,875,760	413.67	0.67%
2000	11,903	5,060,344	425.13	8,981	3,677,127	409.43	20,884	8,737,471	418.38	-1.56%
2001	12,850	5,835,561	454.13	8,778	3,708,791	422.51	21,628	9,544,352	441.30	9.23%

Over this time period about 40% of the number and total amount of credits claimed was from claimants who filed just a form 2EC; taxpayers who also filed an income tax form claimed the other 60%.

The total amount of the credit claimed increased 36.98% in 1995 when the Montana Legislature increased the maximum credit that could be claimed from \$400 to \$1,000. The total amount of credit claimed was very stable at around \$8.8 million per year over 1997 to 2000, and then increased by more than 9% to \$9.5 million in tax year 2001.

Eligibility

As its name implies, the credit currently is available only to elderly taxpayers. This and other specific eligibility requirements of the program are:

- Claimant must have reached age 62 or older during the claim period for which relief is sought;
- Claimant must have resided in Montana for at least 9 months of the claim period;
- Claimant must have occupied one (or more) dwelling in Montana as an owner, renter, or lessee for at least 6 months of the claim period; and
- Claimant must have less than \$45,000 of gross household income during the claim period.

In addition, only claimants with gross household incomes of \$35,000 or less are entitled to the full credit amount. Claimants with incomes between \$35,000 and \$45,000 are eligible to receive a reduced credit, with the percentage of the credit allowed phased out under the following schedule:

<u>Gross Household Income</u>	<u>Percent of Credit Allowed</u>
\$35,000 - \$37,500	40%
\$37,501 - \$40,000	30%
\$40,001 - \$42,500	20%
\$42,501 - \$44,999	10%
\$45,000 or more	0%

Further stipulations provide that a claim for relief is not allowed for any portion of property taxes billed or rent-equivalent taxes paid that is derived from a public rent or tax subsidy program. Also, except for a dwelling rented from a county or municipal housing authority, a claim is not allowed on rented lands or dwellings that are not subject to Montana property taxes during the claim period.

Program Definitions

The elderly homeowner/renter credit program is based on tax laws that provide a number of specific definitions under which the program operates. Developing a complete understanding of the program requires an understanding of the following definitional provisions:

- 1) *Income*. Income is defined as the taxpayer's total federal adjusted gross income (FAGI) without regard to any capital, net operating or other losses; and includes all forms of nontaxable income including nontaxable social security and other pension income, alimony, cash public assistance and other support money, all forms of nontaxable interest income, and nontaxable strike benefits.
- 2) *Gross Household Income*. Gross household income means all income received by all individuals of a household while they are members of the household. Eligibility for the credit is based on household income, not on the income of any single taxpayer within the household.
- 3) *Household Income*. Household income is equal to gross household income less a standard exclusion of \$6,300. The standard exclusion acts similarly to the standard deduction used for income tax purposes, sheltering a minimum amount of income from making participants otherwise ineligible for the program.
- 4) *Property Tax Billed*. Property tax billed includes not only taxes levied against the claimant's property through mill levies, but also any special assessments and fees (excluding penalties and interest) levied during the claim period.
- 5) *Gross Rent*. Gross rent means the total rent actually paid in cash or its equivalent during the claim period under an arm's length rental agreement.
- 6) *Rent-Equivalent Tax Paid*. Rent-equivalent tax paid means 15% of gross rent paid. Under this definition, renters are assumed to have paid property taxes equivalent to 15% of any gross rent paid during the claim period.

Calculation of Credit

The elderly homeowner/renter credit is equal to property taxes billed (or rent-equivalent tax paid) less a deduction determined by household income and a reduction multiplier as provided for in law. The deduction is equal to household income multiplied by the reduction multiplier as provided for in law under the following schedule:

Household Income

Deduction Amount

\$ 0 - \$ 999	\$0
\$ 1,000 - \$ 1,999	\$0
\$ 2,000 - \$ 2,999	Household Income X 0.006
\$ 3,000 - \$ 3,999	Household Income X 0.016
\$ 4,000 - \$ 4,999	Household Income X 0.024
\$ 5,000 - \$ 5,999	Household Income X 0.028
\$ 6,000 - \$ 6,999	Household Income X 0.032
\$ 7,000 - \$ 7,999	Household Income X 0.035
\$ 8,000 - \$ 8,999	Household Income X 0.039
\$ 9,000 - \$ 9,999	Household Income X 0.042
\$10,000 - \$10,999	Household Income X 0.045
\$11,000 - \$11,999	Household Income X 0.048
\$12,000 and over	Household Income X 0.050

Once the claimant's total property tax, or rent-equivalent tax, is known, there are essentially 6 steps to determining the homeowner/renter credit:

1. Determine *gross household income*.
2. Subtract \$6,300 from gross household income to determine *household income*.
3. Based on household income, determine the *deduction multiplier* and multiply it by household income to determine the *deduction amount*.
4. Subtract the deduction amount from total property taxes paid to determine *net credit before phase out*.
5. Apply the percentage allowable under the phaseout provisions of law (if necessary) to determine *net credit after phaseout*.
6. Limit the maximum credit not to exceed \$1,000.

Tables 2 and 3 provide examples of how the credit is calculated for specific taxpayer circumstances. In Table 2, property taxes are held constant as income increase.

Table 2
Taxpayer Examples of Total Property Taxes Paid and Elderly Homeowner/Renter Credit
Constant Property Tax, Increasing Incomes; Tax Year 2002

Calculation Of Property Tax Paid

Assessed Value of Home	100,000	100,000	100,000	100,000	100,000	100,000
Homestead Exemption (31%)	31,000	31,000	31,000	31,000	31,000	31,000
Net Assessed Value	69,000	69,000	69,000	69,000	69,000	69,000
Taxable Valuation Rate	3.46%	3.46%	3.46%	3.46%	3.46%	3.46%
Taxable Value	2,387	2,387	2,387	2,387	2,387	2,387
Mill Levy (475 mills)	0.475	0.475	0.475	0.475	0.475	0.475
Property Tax	1,134	1,134	1,134	1,134	1,134	1,134
Special Assessments/Fees	200	200	200	200	200	200
Total Property Tax	1,334	1,334	1,334	1,334	1,334	1,334

Calculation of Homeowner/Renter Credit

Gross Household Income	10,000	15,000	20,000	25,000	30,000	35,000
Standard Exclusion	(6,300)	(6,300)	(6,300)	(6,300)	(6,300)	(6,300)
Household Income	3,700	8,700	13,700	18,700	23,700	28,700
Deduction Multiplier	0.016	0.039	0.050	0.050	0.050	0.050
Deduction Amount	59	339	685	935	1,185	1,435
Property Tax Paid	1,334	1,334	1,334	1,334	1,334	1,334
Deduction Amount	59	339	685	935	1,185	1,435
Net Credit Allowed	1,000	995	649	399	149	0
Net Property Tax Paid	334	339	685	935	1,185	1,334
Percent Reduction in Tax	75%	75%	49%	30%	11%	0%

As Table 2 shows, the net credit allowed decreases from \$1,000 to \$0 as income increases from \$10,000 to \$35,000. This is because as incomes increase the deduction multiplier also increases, increasing the deduction amount until the credit reaches zero.

The credit acts to reduce the net property tax paid by the household with just \$10,000 of gross household income from \$1,334 to \$334, which represents a 75% reduction in the homeowner's property tax bill. Property taxes are cut in half for the homeowner with gross household income of \$20,000 and the percentage reduction is zero at the gross household income level of \$35,000.

Table 3 repeats Table 2 except that property taxes are increasing while incomes are held constant at \$25,000.

Table 3
Taxpayer Examples of Total Property Taxes Paid and Elderly Homeowner/Renter Credit
Constant Income, Increasing Property Tax; Tax Year 2002

Calculation Of Property Tax Paid

Assessed Value of Home	35,000	50,000	75,000	100,000	150,000	200,000
Homestead Exemption (31%)	10,850	15,500	23,250	31,000	46,500	62,000
Net Assessed Value	24,150	34,500	51,750	69,000	103,500	138,000
Taxable Valuation Rate	3.46%	3.46%	3.46%	3.46%	3.46%	3.46%
Taxable Value	836	1,194	1,791	2,387	3,581	4,775
Mill Levy (475 mills)	0.475	0.475	0.475	0.475	0.475	0.475
Property Tax	397	567	851	1,134	1,701	2,268
Special Assessments/Fees	200	200	200	200	200	200
Total Property Tax	597	767	1,051	1,334	1,901	2,468

Calculation of Homeowner/Renter Credit

Gross Household Income	25,000	25,000	25,000	25,000	25,000	25,000
Standard Exclusion	(6,300)	(6,300)	(6,300)	(6,300)	(6,300)	(6,300)
Household Income	18,700	18,700	18,700	18,700	18,700	18,700
Deduction Multiplier	0.05	0.05	0.05	0.05	0.05	0.05
Deduction Amount	935	935	935	935	935	935
Property Tax Paid	597	767	1,051	1,334	1,901	2,468
Deduction Amount	935	935	935	935	935	935
Net Credit Allowed	0	0	116	399	966	1,000
Net Property Tax Paid	597	767	935	935	935	1,468
Percent Reduction in Tax	0%	0%	11%	30%	51%	41%

As Table 3 shows, the net credit allowed increases from \$0 to \$1,000 as property taxes increase from \$597 to \$2,468. This is because the deduction amount of \$935 exceeds the property taxes paid on homes with assessed values of \$35,000 and \$50,000; resulting in net credit of \$0 for these homeowners. Property taxes begin to exceed the deduction amount by \$116 when the assessed value of the home reaches \$75,000. The allowable credit continues to grow as assessed values increase above this level until the maximum credit of \$1,000 is reached.

For the homeowner with assessed value of \$35,000 there is no reduction in property tax. Once the assessed value reaches \$75,000 property taxes are reduced from \$1,051 to \$935, a reduction of 11%. At assessed value of \$150,000 property taxes are reduced from \$1,901 to \$935, a reduction of 51%. For the homeowner with assessed value of \$200,000 property taxes are reduced from \$2,468 to \$1,468, which represents a reduction of 41%. This percentage reduction is less than the percentage reduction for the homeowner with assessed value of \$150,000 because in the example where assessed value is \$200,000 the homeowner has reached the maximum credit allowed by law of \$1,000.

In general, the amount of homeowner/renter credit allowed depends on the relationship between household income and property taxes paid. If income is held

constant, the amount of the homeowner/renter credit increases as property taxes increase; if property taxes are held constant, the credit decreases as incomes rise.

PROPERTY TAX ASSISTANCE PROGRAM

The property tax assistance program (PTAP) is established in 15-6-134, MCA, to provide property tax relief to low income homeowners. The PTAP applies to a residential real property and to mobile home owners. The taxpayers must reside in the residential dwelling for at least seven months of a year.

The program works by reducing the normal tax rate applied to the property. The reduction applies to the first \$100,000 of market value after applying the 31% homestead exemption. Included in this value are the eligible improvements and up to five acres of appurtenant land. Improvements can include mobile homes and manufactured housing.

Income Eligibility and Tax Rate Reduction

The reduction in tax rate is based on the income of the individual. Depending on the marital status and income of the homeowner, the tax rate is reduced to 20%, 50% or 70% of the normal rate. The base year (1995) income ranges are established in 15-6-134-2(b), MCA and are updated each year for inflation. Table 4 shows the 2002 inflation adjusted income ranges and property tax rate reduction.

Table 4						
2002 Income Schedules for the Property Tax Assistance Program						
Single Person	Married Couple	% Multiplier		Tax Rate		
				Class 4	=	PTAP
\$0 - \$6,730	\$0 - \$8,973	20%	x	3.46%	=	0.69%
\$ 6,731 - \$10,319	\$ 8,974 - \$15,702	50%	x	3.46%	=	1.73%
\$10,320 - \$16,824	\$15,703 - \$22,432	70%	x	3.46%	=	2.42%

To be eligible to receive property tax assistance, the income used in the calculation includes most normal sources of income. Those sources include wages, bonuses, capital gains, ordinary income, interest and dividends, business and partnership income, rents, royalties, pensions and annuities, alimony and public assistance, unemployment, and tax refunds.

Effect on Property Taxes

Property taxes are calculated in a multiple step process. The assessed value of a property is reduced by a "homestead" exemption established in 15-6-201, MCA. The homestead exemption on residential property is equal to 31% of its assessed value in 2002. After deducting the homestead amount, the net assessed value of the property is multiplied by a tax rate yielding the taxable value of the property. The tax rate in 2002 is 3.46%. The taxable value is then multiplied by the mill levy of the taxing jurisdiction where the property is located, yielding the property tax liability.

Under the PTAP, applying a reduced tax rate to the net assessed value of the property reduces the property tax liability. The example in Table 5 demonstrates the effect of the program on tax liability. For this example, market value includes the combined value of the land and improvements. The mill levy used in the example is an estimated 2001 statewide average mill levy. The PTAP tax rate is calculated by multiplying the Class 4 tax rate of 3.46% by the percent multiplier (PTAP factor) as displayed in Table 4.

Table 5				
Example of the Effect of the PTAP on Tax Liability (Tax Year 2002)				
	<u>Without PTAP</u>	----- Property Tax Assistance Program ----- Married Couple		
		<u>\$8,000 income</u>	<u>\$15,000 income</u>	<u>\$20,000 income</u>
Assessed Value	\$100,000	\$100,000	\$100,000	\$100,000
Less Homestead Exemption	<u>31,000</u>	<u>31,000</u>	<u>31,000</u>	<u>31,000</u>
Net Assessed Value	\$69,000	\$69,000	\$69,000	\$69,000
Multiply by the Tax Rate	<u>x 3.46%</u>	<u>x 0.69%</u>	<u>x 1.73%</u>	<u>x 2.42%</u>
Taxable Value	2,387	476	1,194	1,670
Multiply by the Mill Levy	<u>x 475</u>	<u>x 475</u>	<u>x 475</u>	<u>x 475</u>
Tax Liability	<u>\$1,134.02</u>	<u>\$226.15</u>	<u>\$567.01</u>	<u>\$793.16</u>
Tax Savings from PTAP	\$0.00	\$907.87	\$567.01	\$340.86
% Reduction in Tax	0%	80%	50%	30%

As is evident by this example, the tax liability increases as the income of the applicant approaches the threshold of \$22,431. It should be noted that even though the property tax portion of a tax bill is reduced through use of the PTAP, the homeowner is still responsible for full payment of any fees or special levies that are due on the property.

Types of Property Affected

The department identifies the individual components of the property ownership. Typically those components include land and improvements. For purposes of the PTAP, the land component includes all land in the applicants' name, up to the five-acre limit. Any land in excess of the five acres is assessed and taxed at full value. Improvements include the residence and one attached or detached garage. Any additional improvements such as an additional garage or other buildings located on the property are assessed and taxed at full value. Mobile homes can be classified and assessed as either real or personal property. For purposes of the PTAP, they do not have to be classified as real property, that is, permanently affixed to the land with the land and the mobile home having the same owner. Personal property mobile homes also receive the 31% residential homestead exemption.

Because of the variable tax rates based on the income of the applicant, it is also necessary to create three separate categories for each component of the ownership. By creating these separate components and categories, the department can more readily apply the tax reduction in compliance with the law. It also allows the department to track and review the effects of the PTAP. The following table provides a brief description of each component of a property affected by the PTAP and its associated tax rate.

Table 6	
Property Tax Assistance Descriptions	
<u>Description</u>	<u>Tax Rate</u>
Property Tax Assistance, Land, 20% Bracket	0.692%
Property Tax Assistance, Land 50% Bracket	1.730%
Property Tax Assistance, Land 70% Bracket	2.422%
Property Tax Assistance, Improvements, 20% Bracket	0.692%
Property Tax Assistance, Improvements, 50% Bracket	1.730%
Property Tax Assistance, Improvements, 70% Bracket	2.422%
Property Tax Assistance, Mobile Home, 20% Bracket	0.692%
Property Tax Assistance, Mobile Home, 50% Bracket	1.730%
Property Tax Assistance, Mobile Home, 70% Bracket	2.422%

Statewide Effect on Taxable Value

Table 7 presents information on the statewide effect of the PTAP in tax year 2002. As can be expected, the change in taxable value for each component receiving the reduced tax rate corresponds to the allowable reduction in tax rate afforded by the PTAP.

Table 7 Statewide Affect on Taxable Value of the PTAP (Tax Year 2002)					
Description	2002 Assessed Value*	2002 PTAP Taxable Value	2002 Taxable Value w/o PTAP	Taxable Value Difference	Percent Change
PTAP, Land, 20% Bracket	\$8,859,419	\$61,279	\$306,536	\$245,257	-80%
PTAP, Land 50% Bracket	22,302,760	385,843	771,675	\$385,832	-50%
PTAP, Land 70% Bracket	38,076,703	922,214	1,317,454	\$395,240	-30%
PTAP, Improvements, 20% Bracket	24,392,222	168,780	843,971	\$675,191	-80%
PTAP, Improvements, 50% Bracket	65,981,070	1,141,452	2,282,945	\$1,141,493	-50%
PTAP, Improvements, 70% Bracket	118,700,948	2,874,961	4,107,053	\$1,232,092	-30%
PTAP, Mobile Home, 20% Bracket	2,156,276	14,917	74,607	\$59,690	-80%
PTAP, Mobile Home, 50% Bracket	6,179,355	106,908	213,806	\$106,898	-50%
PTAP, Mobile Home, 70% Bracket	<u>8,542,448</u>	<u>206,904</u>	<u>295,569</u>	\$88,665	-30%
Statewide Total	<u>\$295,191,201</u>	<u>\$5,883,258</u>	<u>\$10,213,616</u>	<u>\$4,330,358</u>	<u>-42%</u>

* The value of the homestead exemption is deducted from the assessed value

On a statewide basis, properties that receive a PTAP reduction have had their taxable value reduced by \$4.3 million in fiscal 2003 (tax year 2002). This is a 42% decrease in taxable value. Of the total \$4.3 million taxable value reduction, the property owners eligible for the 80% tax rate reduction received 22.63% of the taxable value reduction; 37.74% of the homeowners received the 50% reduction and 39.63% received 30% of the taxable value reduction.

Participation

Table 8 shows participation in the PTAP since 1999. The figures include all properties that received the PTAP reductions each year. Participation in the program has been in decline for the past four years.

Table 8 Number of Owners Receiving the PTAP		
Year	Participants	% change
1999	10,642	
2000	10,023	-6.18%
2001	9,405	-6.57%
2002	8,900	-5.67%

Application for the Program

To receive a reduction to the real property taxes, a person must apply to the department by March 15th of each year.

In January of each year, the department mails a new application form to all homeowners who received the benefit in the prior year. In addition, notices are posted in newspapers and public service announcements are broadcast on local radio stations informing the public of the availability of the program and the need to apply for the benefit.

DISABLED AMERICAN VETERANS (DAV) EXEMPTION

An additional property tax exemption is granted for the residence of a disabled or deceased veteran as defined in 15-6-211, MCA. A property owner who qualifies under the statute is entitled to a 100% property tax exemption.

Eligibility Requirements

Eligibility requirements as outlined in statute include:

If the veteran is living, the veteran

- Was honorably discharged for active service,
- Has been rated 100% disabled because of a service-connected disability by the United States Department of Veterans Affairs (VA),
- Is currently paid at the 100% disabled rate, starting January 2004,
- Has, for years prior to 2004, an annual adjusted gross income of not more than \$30,000 if single or more than \$36,000 if married,
- Has a partial property tax exemption for calendar year 2004 if the income is above that stated in the prior bullet; an annual adjusted gross income that is not more than \$39,000 if single or more than \$45,000 if married; for years following these numbers will be adjusted for inflation,
- Owns and occupies the dwelling as a primary residence.

In addition to the veteran being eligible for the exemption, a veteran's surviving spouse can receive the exemption if the veteran was killed while on active duty or died as a result of a service-connected disability. To receive the exemption, the surviving spouse must meet eligibility requirements as outlined below.

- Is the owner/occupant of the home,
- Has an annual adjusted gross income of not more than \$25,000,
- Is unmarried,

- Has obtained a letter from the VA indicating the veteran was 100% disabled at the time of death, died on active duty or as the result of a service-connected disability.

Application Requirements

For veterans who are not rated at “permanent” 100% disabled by the VA, an annual application and letter must be submitted to the department. If a veteran is rated at “permanent” 100% disability, an annual application is still necessary. However, for those veterans that have been rated at permanently 100% disabled by the VA, a copy of the VA letter is kept on file by the department and the application is accepted and approved. In those cases, only the annual application is submitted to the department.

Each January, the department sends a new application to all taxpayers who received the DAV exemption the previous year. The application must be returned to the department by March 15th of each year.

Statewide Effect on Taxable Value

The property owners eligible and approved for the DAV are 100% exempt from property tax. They must continue to pay any fees or special levies that are due on the property.

Table 9 displays the statewide effect on the taxable value of the properties receiving the DAV exemption.

Table 9 Statewide Effect on Taxable Value for DAV Exemptions (Tax Year 2002)			
<u>Description</u>	<u>2002 Assessed Value*</u>	<u>2002 DAV Taxable Value</u>	<u>2002 Taxable Value w/o DAV</u>
DAV Land	\$9,169,839	\$0.00	\$317,276
DAV Improvements	42,222,478	\$0.00	1,460,898
DAV Mobile Homes	<u>1,764,203</u>	<u>\$0.00</u>	<u>61,041</u>
Statewide Total	<u>\$53,156,520</u>	<u>\$0.00</u>	<u>\$1,839,216</u>

* The value of the homestead exemption is deducted from the assessed value

When the statewide average mill of 475 mills, used in other examples, is applied to the potential taxable value of these properties, an estimated property tax savings of approximately \$874,000 is realized.

Program Participation

Table 10 shows the number of DAV properties in the state over the past four years. In these four years, the number of participants has increased by 161 or 19%. There are two possible reasons that would contribute to an increase in the participants.

Table 10 Participants in the DAV		
<u>Year*</u>	<u>Participants</u>	<u>% change</u>
1999	841	
2000	926	9.18%
2001	960	3.54%
2002	1,002	4.19%

First, the 1995 Legislature, through SB213, changed the language related to the 100% disability criteria from “is rated 100% disabled” to “has been rated 100% disabled”. As a consequence of the new language in statute, a 2001 district court case in Glacier County (McGhie vs Department of Revenue) resulted in an easing of the 100% disability requirement. In effect, the court ruled that if a veteran was ever considered 100% disabled by the Veterans Administration, they were eligible for the property tax exemption. This ruling has expanded the number of veterans eligible for the exemption.

Second, for a short period of time in the 2000 – 2001 time period some department staff misinterpreted the official letter sent by the Veterans Administration stating that the veteran was “paid” at 100% disability even though they were “rated” at something less than 100% disabled. The Veterans Administration has clarified the letter they send informing the veteran of the disability rating, and the problem has been resolved. A small number of veterans were granted the exemption due to the confusion, but corrections were made on the following year’s tax notice.

REVERSE ANNUITY MORTGAGE LOAN PROGRAM

The Montana Board of Housing (MBOH) in the Department of Commerce was authorized by legislation in the 1989 session to establish a Reverse Annuity Mortgage Loan Program (RAM). A reverse annuity mortgage is a loan that allows lower-income elderly Montana citizens to convert the equity in their homes into an additional monthly income source.

The homeowner may receive a loan in an amount up to 80% of the Federal Housing Administration’s estimated value of the home. The loan amounts may range from a minimum of \$15,000 to a maximum of \$70,000.

In cooperation with the Office on Aging, the Montana Board of Housing has set aside funds to make reverse annuity mortgage loans. The purpose of the reverse annuity mortgage loan program is to enable senior Montana homeowners to provide more substantially for their own in-home support.

Eligible Property

Property that is eligible for the loan is an owner-occupied single family dwelling, which means a one-to-four-family living unit. Mobile homes are excluded, although some exceptions may apply. The home must be located in Montana.

Eligible Applicants

To be eligible, a homeowner must be 68 years or older, have an annual family income not exceeding the Montana Board of Housing revenue annuity mortgage loan income limits, own a home that is eligible and have completed the reverse annuity mortgage loan program counseling program. Some exceptions may be considered. The homeowner may continue to have full-time or part-time employment as long as he or she does not exceed the income limit at the time of the loan closing. If the homeowner is married, the spouse must also be 68 years old or older, must be a co-applicant on the loan application and be a joint owner of the property with a right of survivorship.

Effect of the Program

The application process requires potential borrowers to first complete a reverse annuity mortgage counseling program. The loan application may be completed during the counseling program, with the assistance of the Montana Aging Services Network counselor.

The annual family income must not exceed the following: \$17,720 for a one person household; \$23,880 for a two person household and \$30,040 for a three or more person household.

Monthly payments are made to the homeowner for a ten-year period. The payments stop when the owner no longer occupies the property or when the loan is paid off. There are no prepayment penalties. Monthly payments received by the homeowner are non-taxable income.

The homeowner may choose to receive an amount up to \$2,500 for purposes such as: paying off liens (small mortgage balances, back taxes, etc.); repairs or improvements to the home; medical expenses; and paying outstanding bills. Some exceptions to the amount may be considered.

In addition to a \$2,500 lump sum advance, the homeowner may elect an advance to cover certain loan closing costs.

Generally, the loan will be repaid from the proceeds of the sale of the home upon the death of the last surviving borrower residing in the home or upon the permanent vacating of the home by the borrower(s). The home is typically construed being permanently vacated when the owner has not lived in the home for more than 180 consecutive days.

Program Participation

The RAM program began in 1991. There were four loans approved in that first year. In 2001, nine loans were granted. In 2002, nine loans have been granted to date with three pending completion, for a total of 12. A total of 74 loans have been approved since inception of the program with 33 of the loans paid.

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