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Revenue and Transportation Interim Committee

60th Montana Legislature

SENATE MEMBERS

JIM PETERSON--Chair
KIM GILLAN--Vice Chair
JIM ELLIOTT
JEFF ESSMANN
CHRISTINE KAUFMANN
ROBERT STORY JR

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TIMOTHY FUREY
GALEN HOLLENBAUGH
MIKE JOPEK
BOB LAKE
PENNY MORGAN
JON SONJU

COMMITTEE STAFF

JEFF MARTIN, Lead Staff
LEE HEIMAN, Staff Attorney
FONG HOM, Secretary

MINUTES

HB 488 SUBCOMMITTEE

February 7, 2008

Room 102, State Capitol
Helena, Montana

Please note: These are summary minutes. Testimony and discussion are paraphrased and condensed. Committee tapes are on file in the offices of the Legislative Services Division. **Exhibits for this meeting are available upon request. Legislative Council policy requires a charge of 15 cents a page for copies of the document.**

Please note: These minutes provide abbreviated information about committee discussion, public testimony, action taken, and other activities. The minutes are accompanied by an audio recording. For each action listed, the minutes indicate the approximate amount of time in hours, minutes, and seconds that has elapsed since the start of the meeting. This time may be used to locate the activity on the audio recording.

An electronic copy of these minutes and the audio recording may be accessed from the Legislative Branch home page at <http://leg.mt.gov>. On the left-side column of the home page, select *Committees*, then *Interim*, and then the appropriate committee.

To view the minutes, locate the meeting date and click on minutes. To hear the audio recording, click on the Real Player icon. Note: You must have Real Player to listen to the audio recording.

COMMITTEE MEMBERS PRESENT

SEN. KIM GILLAN, Vice Chair
SEN. JIM ELLIOTT
SEN. JIM PETERSON
REP. MIKE JOPEK
REP. PENNY MORGAN

COMMITTEE MEMBERS EXCUSED

REP. JON SONJU

STAFF PRESENT

JEFF MARTIN, Lead Staff
LEE HEIMAN, Staff Attorney
DAWN FIELD, Secretary

AGENDA & VISITORS' LIST

Agenda, Attachment #1.
Visitors' list, Attachment #2.

CALL TO ORDER AND ROLL CALL

- 00:00:01 SEN. GILLAN called the meeting to order at 10:06 a.m. The secretary noted the roll, REP. SONJU was excused, all other subcommittee members were present.
- 00:01:19 SEN. PETERSON distributed copies of a PowerPoint document, *POPULATION, INCOME, AND EXPENDITURES*, prepared by George Haynes, Doug Young, and Myles Watts, Montana State University (EXHIBIT #1). Copies of the latest school funding lawsuit, filed Feb. 5, 2008, were also distributed (EXHIBIT #2).

PROPERTY REAPPRAISAL

- 00:05:50 **Jeff Martin, Research Analyst, Legislative Services Division (LSD)**, discussed the report, *A Brief History of Cyclical Reappraisal of Property in Montana* (EXHIBIT #3).
- 00:14:23 REP. MORGAN asked if the Department of Revenue (DOR) adjusted property values in response to the recession that occurred in 1980 (pages 3 and 4, EXHIBIT #3). Mr. Martin said adjustments would have depended on the base year in which the value was determined. **Dan Bucks, Director, Department of Revenue (DOR)**, agreed that the salient point is when the Legislature fixed the appraisal dates. Director Bucks surmised that in the 1980s, the DOR did not have the high level of sophisticated equipment it has today and would not have had the capacity to make adequate property value adjustments. He said that DOR will be closely monitoring various sources of data on property values and that if significant changes are observed, adjustments will be made in the current reappraisal cycle.

Results of 1997 and 2003 Property Reappraisals -- Department of Revenue

- 00:35:50 Director Bucks said that reappraisal doesn't increase taxes if wise policies are adopted. He said the Legislature has adopted mitigation measures in the past and that Governor Schweitzer is committed to no property tax increases as a result of reappraisal. Director Bucks discussed his report, *"Does Reappraisal Raise Property Taxes"* (EXHIBIT #4), and emphasized that the report would support his statement that reappraisal does not increase total property taxes. He said Mr. Martin's report is a succinct guide to property reappraisal in Montana.
- 00:50:40 SEN. ELLIOTT referred to the 50.25% change in Class 4 property between the 1997 and 2003 reappraisal cycles and asked if the change was net of losses, due to decreases in value in some parts of the state. Director Bucks said yes. SEN. ELLIOTT asked for an idea of what the amount of decreases were. Director Bucks said county averages ranged from negative 1% to 3%, so it was not significant.
- 00:51:39 REP. JOPEK asked if new construction percentages are available for 2002/2003 and if Director Bucks is aware of trends past that time period. Director Bucks said he would guess that the increase will be similar to prior cycles of about 6%.

- 00:54:00 SEN. GILLAN asked if just a handful of counties are experiencing a high level of new construction. Director Bucks said yes, and that data shows that sales are also very localized. He said the DOR has the ability to take that factor into consideration in the reappraisal process, even within neighborhoods.
- 00:57:35 SEN. ELLIOTT asked for data on existing home sales and new home sales. Director Bucks said he did not have that information at hand but could provide reasonable good data to SEN. ELLIOTT. SEN. ELLIOTT said he would like to have it. SEN. GILLAN asked Director Bucks to provide the data to all members of the subcommittee.
- 00:58:59 Director Bucks reviewed the results of the 1997 and 2003 reappraisals (EXHIBIT #5).
- 01:04:13 SEN. PETERSON asked why the growth rate for some counties in eastern Montana in the 1997 reappraisal was so huge. He noted that some property values increased by 300%. Director Bucks said the increase in Prairie County was an anomaly and considered an outlier statistic.
- 01:05:53 SEN. ELLIOTT asked, when looking at the statewide average, if that is the statewide average change in those particular counties. Director Bucks said it is the average change in appraised values for that county. **Vern Fogle, Tax Policy and Research, DOR**, said the number listed for each county is the valuated mean of the change for property in that county. For the state, it is the valuated mean for the entire state.
- 01:10:38 **Randy Wilke, Property Assessment Division, DOR**, discussed "*Measuring the Quality of the 2003 Residential Reappraisal*", (EXHIBIT #6).
- 01:15:47 SEN. GILLAN asked if adjustments are tracked and calculated into the figures. Mr. Wilke said yes.
- 01:17:12 SEN. ELLIOTT asked for clarification on the terms "mean" and "weighted mean", saying that it is his understanding that the "mean" is an average of ratios and the "weighted mean" is a ratio of two sets of ratios to one another. Mr. Wilke said that is correct.
- 01:17:36 SEN. PETERSON asked if reappraisals are based on a baseline date. Mr. Wilke said the law requires that a base year be selected on which to base the reappraisal and that all appraisals are done as of that point in time.
- 01:18:23 SEN. PETERSON asked if the DOR has ever discussed the possibility of conducting appraisals using an Olympic average, for example. He asked if the DOR has the electronic capability of doing that type of appraisal. Director Bucks said he has not considered taking an Olympic average. He said property tax assessment has always been tied to particular assessment dates. He said his reaction is that taking an Olympic average would be possible but very difficult and costly to do. He said he would find out if other states use an Olympic average in property tax assessment.

- 01:22:12 SEN. ELLIOTT said that ideally, appraisals should be done annually and asked if any states conduct annual reappraisals. Mr. Wilke said there are some states who do take an annual ratio study and make interim adjustments, but that he is not aware of any state that conducts complete property reappraisals on an annual basis.
- 01:23:33 SEN. PETERSON said a snapshot taken every 6 years doesn't take into account where the state is in an economic cycle. He asked if there some way to break the process down into smaller chunks of time, in order to make it more equitable and accurate. He also asked how the playing field is leveled over the six-year cycle. Director Bucks said DOR is going to be current as of 2008. He said Montana's housing market is very different than that of the rest of the nation and Montana's economy remains strong. He said he will monitor the situation very closely and will make adjustments if the unexpected happens.

PUBLIC COMMENT

No public comment was given.

UPDATE ON CURRENT APPRAISAL CYCLE

- 01:27:37 Director Bucks discussed the Department's goals and objectives for the reappraisal process, as presented to the Legislative Finance Committee (EXHIBIT #7). Director Bucks also updated the Subcommittee on current reappraisal cycle (EXHIBIT #8). He said this cycle is the most extensive reappraisal ever done and will be a challenge for DOR staff.
- 01:33:26 **Randy Wilke, Property Assessment Division, DOR**, explained the activities required and time table for completion of the 2009 reappraisal process (EXHIBIT #9). He noted that a document provided from the September 19, 2007, meeting, *Property Reappraisal* (EXHIBIT #10) was designed to be a primer for reappraisal and has proven to be a good tool for use in explaining the process to legislators and citizens.
- 01:38:30 Mr. Wilke explained how DOR defines "market areas" in order to create a market model for reappraisal purposes (EXHIBIT #10). He also showed market areas in the state using a color map (EXHIBIT #11). He said this approach worked well in last reappraisal cycle but that changes will be made to adjust for the current cycle. Mr. Wilke said that neighborhoods are "drilled down" to small chunks of information for valuation purposes using the common thread of sales information in a given neighborhood.
- 01:44:27 Director Bucks, referring to the question of averaging, said that the valuation of property is not typically based on averaging. He said that in effect, averaging has already been done due to the Legislature making the policy choice of phasing in of values, so property owners will never have to pay taxes at the peak of their property's value.
- 01:47:11 SEN. GILLAN recessed the HB 488 Subcommittee until 1 p.m.

LUNCH BREAK

- 03:01:05 SEN. GILLAN called the meeting back to order and said the DOR will continue its presentation on agricultural and forest land reclassification efforts.
- 03:01:30 SEN. GILLAN said she is concerned about the magnitude of the DOR's work load and asked if the DOR anticipates pushing back completion dates. She said the Subcommittee may conduct out-of-town meetings and needs to know if that may be the case. Mr. Wikle said some areas of the reappraisal process are behind but that every effort is being made to catch up. He said the final product will be done on schedule and that data will be provided to the Revenue and Transportation Interim Committee as soon as it is available, probably in November.
- 03:03:33 REP. JOPEK asked for more discussion regarding Director Buck's comment that mitigation strategies may be easier now than in years past. Mr. Wilke said the DOR will be monitoring all sources of information, so will be able to get a better feel for the variability of changes that will occur. He said so far, the degree of change in earlier cycles does not appear to be there.
- 03:05:33 Mr. Wilke discussed the reclassification process used for agricultural and forest land (back side of EXHIBIT #7). He said the process has been made much easier due to help from outside agencies, such as the Farm Service Agency and the Natural Resource and Conservation Service, and from onsite visits.
- 03:11:32 Regarding forest reclassification, Mr. Wilke said DOR met recently with the staff of the College of Conservation and Forestry in Missoula to get update of the forest land productivity model. He said that he anticipates that information will be available to DOR in April. He said great progress is being made.
- 03:12:41 SEN. PETERSON asked if the current agricultural land classification model is being used for this cycle. Mr. Wikle said yes, the five-use type model is still being used. Mr. Wikle said the process is moving as quickly as it can, considering the work load and amount of staff available to complete the work.

PUBLIC COMMENT

No public comment was given.

- 03:15:24 SEN. GILLAN asked if DOR could post a Frequently Asked Questions (FAQ) for reappraisal page on its website. She said it would be a good resource for the public.
- 03:16:10 SEN. PETERSON asked what type of questions are being asked of the DOR in its public meetings. Mr. Wilke said he has not personally attended the meetings but has been told that most of the questions are about the impact of the reappraisal process and that the DOR is trying to explain the methodology being used to arrive at the valuation of property.

MITIGATION AND PROPERTY TAX RELIEF

- 03:18:42 Mr. Martin presented a PowerPoint presentation, *Points to Ponder in Property Taxation*, (EXHIBIT #12), which provided an overview of other states' provisions

for property tax relief or property tax limitations. Mr. Martin discussed a recap of property tax limitations by Andrew Reschovsky, other property tax relief measures, and current property tax mitigation in Montana.

Committee Questions

- 03:24:40 SEN. ELLIOTT asked, in regard to the public attitude toward specific taxes, if data exists on the satisfaction level of taxpayers who pay their property tax through their mortgage payment. Mr. Martin said he did not any information but would find out. SEN. ELLIOTT said there was an effort a number of years ago to allow taxpayers to pay their property taxes in monthly installments, rather than semiannually. He said the technology exists now that would make it more simple to do and said perhaps the concept should be reconsidered.
- 03:28:19 REP. JOPEK asked if all of the mitigation strategies discussed by Mr. Martin stay in effect unless legislatively modified. Mr. Martin said yes.
- 03:31:19 REP. MORGAN asked how many people take advantage of mitigation measures. Mr. Martin said the DOR tracks the information. **Mary Craige, DOR**, said in 2006, 9,151 homeowners applied for the Property Tax Assistance Program (PTAP); and in 2005, 24,424 elderly homeowners received assistance through the Elderly Homeowner's Credit (2EC) program.
- 03:32:59 SEN. GILLAN said she has been told that use of these programs is low and asked what the utilization rate is for circuit breaker credits. SEN. ELLIOTT said there is data.
- 03:33:36 REP. JOPEK asked Ms. Craige if she had information on the extended property tax assistance program. Ms. Craige said she would provide numbers to Mr. Martin.
- 03:34:13 REP. MORGAN asked what the aggregate number of property taxpayers is in Montana. Ms. Craige said there are approximately 430,000 parcels of residential property and about 250,000 of those parcels are owner-occupied homes.
- 03:37:39 SEN. GILLAN asked if Montana's circuit breakers are indexed to inflation. Mr. Martin said the low-income property tax assistance program is and that the elderly home owner and renter's credit are not. He said for tax year 2006, the maximum income to qualify for property tax assistance for a single person was around \$16,000 and for a couple \$23,000.
- 03:38:32 SEN. ELLIOTT asked if the elderly home owner/renter credit should to be indexed for inflation. Mr. Martin said it could be considered as an option. SEN. ELLIOTT said the credit is based on the ratio of tax to income and that the percentage may need to be indexed.
- 03:48:37 SEN. GILLAN asked if other states have reappraisal cycles similar to Montana's. Mr. Martin said he did not have that information but would investigate.

- 03:51:24 REP. MORGAN asked how taxpayers obtain property tax relief. She said she did not think this information has been made known to taxpayers. Mr. Martin said it is obtained through an annual application process with DOR and that some information is provided with tax returns.
- 03:52:51 Ms. Craigle said forms are sent out to all previous applicants and forms are also mailed out by the DOR to taxpayers who look like they may qualify and that every form that is returned is evaluated and verified and the taxpayer is mailed an additional form for completing the process.

PUBLIC COMMENT

- 03:56:21 No public comment was given.
- 03:56:48 Ms. Craigle provided the information requested by REP. JOPEK earlier in the meeting. She said that in 2006, there were 1,397 in the extended property tax assistance program. In response to a question from REP. MORGAN, she said that annually, there are approximately 35,000 people who receive property tax relief assistance, which is about 15% of property taxpayers.
- 03:57:23 SEN. GILLAN asked for information on the final participation rate for \$400 homeowners' tax rebate. Ms. Craigle said as of December 31, 2007, about 95% (253,000) of eligible homeowners had filed for the rebate. SEN. GILLAN said she would like to know how many of the people who applied for the rebate did so on their own volition and how many used the form sent to them in the mail. Ms. Craigle said she would find out.

COMMITTEE BUSINESS / INSTRUCTIONS TO STAFF

- 03:58:39 SEN. GILLAN asked for suggestions for the next meeting agenda. REP. MORGAN said the Subcommittee's task is to determine if current property valuation and mitigation methods are working. She said the Subcommittee has heard repeatedly from DOR that the information will not be available until fall. She said it will be difficult for the Subcommittee to reach any conclusions regarding the ramifications of the reappraisal cycle if the information is unavailable.
- SEN. ELLIOTT said possible tax abatement measures need to be discussed, including utilization rates. He discussed his work on this issue on a previous Revenue and Transportation Interim Committee. He said it is important to get the word out to the public that there is something available to them. He said he would like to see the elderly home-owner/renter credit extended to the broader population and base it on a percentage. SEN. GILLAN said time would be spent addressing this option at the next meeting. SEN. ELLIOTT said he would work with DOR on gathering necessary data.
- 04:04:32 SEN. PETERSON said he would like to discuss expanding targeted property tax relief, discussion of the pros and cons of narrowing /shortening the reappraisal cycle; and information from other states in the western region of the United States regarding appraisal methods used to value property.

- 04:07:35 REP. JOPEK referred to the table in EXHIBIT #12 about property tax revenue caps in other states and said the language differs from state to state and the programs are implemented differently. He suggested plugging 2003 Montana data in to other states' models, such as Michigan's, and making a comparison to see how each state modeled out. He said it is his understanding from DOR that mitigation will not be as complicated as in the past, so he is hesitant to make big changes at this point in time.
- 04:09:37 SEN. ELLIOTT said both the size of government and rate of growth, and the affordability of the tax to the homeowner and renter must be considered. He said it is very important that the taxpayer be able to afford the taxes and that the tax be fair to the taxpayer.
- 04:11:01 SEN. GILLAN proposed that at the April 17 and 18 meeting, the Subcommittee will consider targeted property tax relief, drawing from the past work of SEN. ELLIOTT and Senator Story, revising the reappraisal cycle using input from DOR and other states as compiled by Mr. Martin, alternative methods of valuation, and modeling 2003 Montana data using other states' models, as suggested by REP. JOPEK. SEN. GILLAN suggested the Subcommittee members study the information further and then make suggesting to Mr. Martin on what states' models to use. REP. JOPEK said he is confident that common ground will be found when the DOR does have its information, but that implementation could be delayed if needed.
- 04:19:59 SEN. GILLAN said the HB 488 Subcommittee of the Revenue and Transportation Interim Committee will meet in Helena on April 17, in advance of the full committee meeting

ADJOURNMENT

With no further business before the committee, SEN. GILLAN adjourned the Subcommittee at 2:28 p.m. The next meeting of the HB 488 Subcommittee is scheduled for April 17, 2008, in Helena.

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