

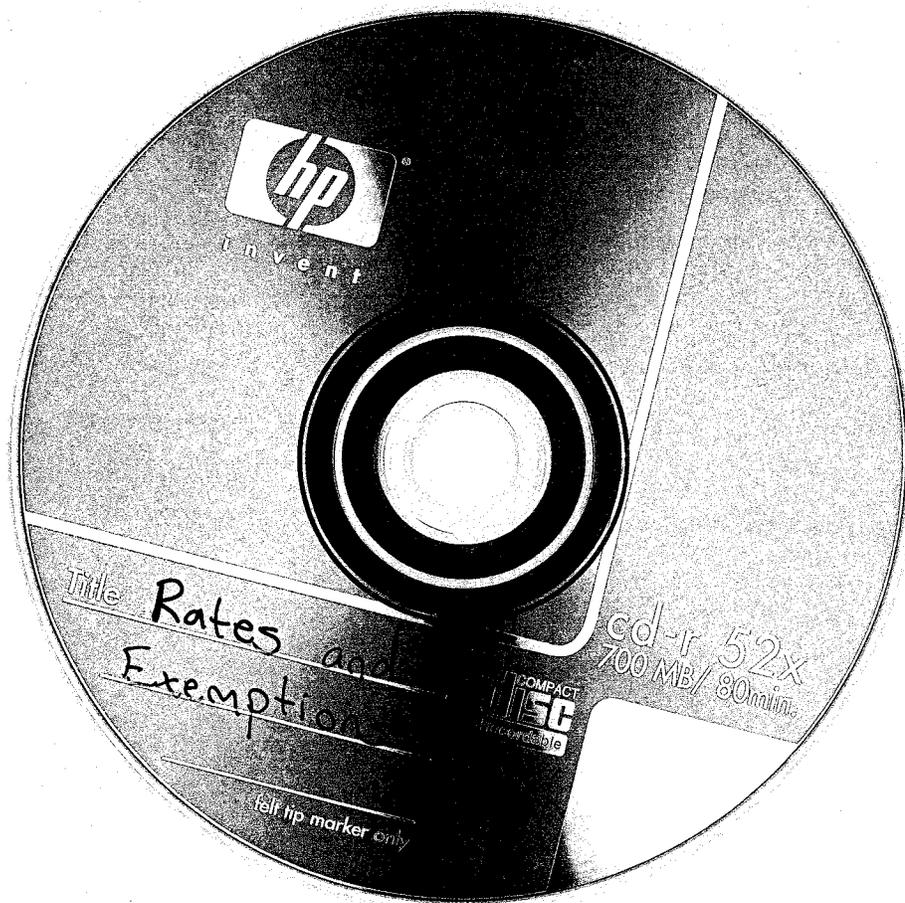
# Montana State Legislature

## **Exhibit 2**

**This exhibit has two  
3-Dimensional items.  
DVD's**

**Therefore they cannot be  
scanned; a photocopy of these  
exhibits has been created to aid  
you in your research. The  
original exhibits are on file at  
the Montana Historical Society  
and may be viewed there.**

**Montana Historical Society  
Archives  
225 N. Roberts  
Helena MT 59620-1201  
Phone (406) 444-4774  
2009 Legislative Scanner Susie Hamilton**



 Montana Department of  
**REVENUE** Larson Silbaugh  
Tax Policy Analyst

Tax Policy and Research  
PO Box 5805  
Helena, MT 59604-5805  
Telephone: (406) 444-7925  
Fax: (406) 444-3696  
Email: lsilbaugh@mt.gov  
Internet: <http://www.mt.gov/revenue>





# **Property Reappraisal Mitigation Illustration Program**

## **Circuit Breaker**

February 25, 2009

# Mitigation Illustration Program Circuit Breaker

by the Montana Department of Revenue

## About This Program

This is a Microsoft Excel based program that allows the user to explore the impacts of various residential property tax mitigation strategies involving a circuit breaker. The program is designed to allow the user to manipulate certain circuit breaker variables in order to analyze the total dollar amount of credits, the number of households that would be eligible for the credit as well as the percentage of households that would be eligible.

This program allows the user to manipulate five key variables of the circuit breaker:

1. the maximum percentage of a taxpayer's income required to pay property taxes;
2. the maximum income tax credit allowable to offset property taxes;
3. the income at which the phase-out of the credit begins;
4. the income at which the credit is fully phased-out, and;
5. one of two definitions of "income."

## Assumptions

Property taxes in this spreadsheet are calculated assuming full reappraisal values are in effect immediately, that there is a homestead exemption of 34%, and that the Class 4 tax rate is 3.01%. It is assumed that the cost of a circuit breaker would need to be paid for as part of a revenue neutral property tax mitigation plan. Thus, the costs calculated by this program are only illustrative at this point.

## Using the Program

- To change any of the parameters, click on the corresponding green cell below. An arrow for a pull-down menu will appear.
- Click on the arrow, and a list of possible values will appear.
- Click on the value you want, and the spreadsheet will recalculate the amount and number of credits.

Depending on your computer's speed, this may take up to two minutes. If the program has not calculated the adjustments entered by the user within a few minutes, please check to make sure the Excel program installed on the user's computer has been set to automatically calculate changes. To do this, click on

"Tools" on the tool bar. On the drop-down menu click "Options." Doing so will display a tabbed menu box. Click on the tab entitled "Calculation." Make sure the box entitled "Recalculate before save" has been checked. Click the "Okay" button in the lower right hand corner of the menu box. If this does not work, click on the "Help" icon on the toolbar.

Please note: The income at which the credit is completely phased-out must be at least as high as the income where the phase-out starts. If you set the income where the phase-out starts higher than the income where the credit is completely phased-out, you will see a message reminding you to change the income where the credit is completely phased out.

### **Need Assistance?**

If there are calculations or mitigation strategies you would like to see that cannot be calculated using this model or if you are having problems running the program, please call Dan Dodds, Montana Department of Revenue at (406) 444-2668.



# **Property Reappraisal Mitigation Illustration Program**

**Tax Rates, Exemptions  
and Phase In Periods**

February 25, 2009

■ **Important Note**

*Each time a user enters data into one of the adjustable data fields, the program will immediately begin to calculate the effect of the entered information. The time it takes your computer to calculate each change will depend on two things: the resources available on your computer (available RAM, CPU speed, etc.) and the module in which you are operating.*

*On average you can expect calculations in Module One to take about a minute to process. Calculations in Module Two will take about two minutes, while calculations in Module Three may take up to three minutes to process.*

*Please be assured that the Montana Department of Revenue has done everything it can to ensure that these calculations occur as quickly as possible; however, these modules contain large amounts of data that must be processed in each calculation.*

# **Mitigation Illustration Program Tax Rates, Exemptions and Phase in Periods**

by the Montana Department of Revenue

## **About This Program**

This is a Microsoft Excel based program that allows the user to manipulate property tax rates, exemptions and phase-ins and to analyze the impacts of various mitigation strategies involving tax rates, exemptions and phase in periods on the 2009 property reappraisal of class 3 (agricultural), class 4 (residential and commercial) and class 10 (forest) property.

Property classes 3, 4 and 10 were last appraised in 2003. The 2003 reappraisal reflected a January 1, 2002 valuation date. New market values—reflecting a July 1, 2008 valuation date—will be applied starting January 1, 2009.

This program allows the user to manipulate three variables of existing law:

1. the tax rate for classes 3, 4 and 10;
2. the homestead exemption percentage for class 4 residential and/or the comstead exemption percentage for class 4 commercial property and;
3. the phase-in of increases in new market values due to reappraisal.

In each analysis, all statewide (state - 95 mills, university - 6 mills, and vo-tech - 1.5 mills where levied), local and school mills “float”—meaning that the program automatically adjusts all mills upward or downward to comply with 15-10-420, MCA. Additionally, each analysis is based upon the assumption that all property classes will grow over time. The growth rate assumptions used in this program were established by the Governor’s Office of Budget and Program Planning.

This program does not allow the user to analyze the impact of mitigation strategies that do not include homestead or comstead exemptions. It is unable to analyze mitigation strategies that include staggered exemption rates or flat-rate/dollar-based exemptions. It does not calculate the effect of the guaranteed tax base (GTB) statutes. This program does not calculate the effects of the property tax assistance program (PTAP) codified at 15-6-134, MCA or the extended property tax assistance program (EPTAP) codified at 15-16-193, MCA.

## **Modules**

The Mitigation Illustration Program is made up of three distinct modules. Module One allows the user to estimate the effect of potential mitigation strategies based upon the assumption that, as of year one of a reappraisal cycle, the increases in market values due to reappraisal are fully and immediately phased in. Module Two allows the user to estimate the effect of potential mitigation strategies based

upon the assumption that the increases in market values due to reappraisal are phased in over a three year period. Module Three allows the user to estimate the effect of potential mitigation strategies based upon the assumption that the increases in market values due to reappraisal are phased in over a six year period.

Each module is presented as a Microsoft Excel workbook with various tabs displayed across the bottom of the page. The number of tabs displayed in each module workbook will vary depending upon the number of years over which increases in value are phased in.

Each module features four standard tabs. The tabs are displayed in the following order:

■ **Directions Tab**

The Directions tab contains a complete copy of this instruction manual.

■ **Mitigation Tab**

The Mitigation tab contains the only portion of the program that can be adjusted by the user. This tab allows the user to see how the taxable value is calculated at the statewide level. The tax rate and exemptions adjustments input by the user in this tab are used by the program to estimate the effect the proposed mitigation strategy would have on taxable values for class 3, 4, and 10 properties. The results of the adjustments made on the Mitigation tab are displayed on the Mitigation tab and on subsequent tabs. As a default, the program assumes current law homestead and comstead exemption rates. Please refer to the "Using the Mitigation Tab," section of this document, to learn how to use this tab.

■ **Statewide Summary Tab**

The Statewide Summary tab will allow the user to view a light purple colored header that indicates the proposed mitigation strategy the user entered into the Mitigation tab. It will also allow the user to see a table comparing (1) the TY 2008 taxable values and the taxes paid for each class of property, with (2) the taxable values and taxes paid for each year of the phase-in period. This table also calculates the percent of change in taxes paid each year as compared to TY 2008. The tab graphically illustrates the changes represented in the table through both pie charts and bar charts. The pie charts illustrate taxes paid by class in TY 2008 as compared to each year of the phase-in period. The bar chart illustrates percentage differences in property taxes paid by class for each year of the phase-in period represented in the module the user is utilizing.

■ **Examples of Individual Homes Tab**

As with the Statewide Summary tab, the Example of Individual Homes tab contains a light purple colored header that shows the user the proposed mitigation strategy that was input into the Mitigation tab. This tab also shows the

user the effect the proposed mitigation strategy will have on various “mythical” homeowners. This tab will allow the user to understand how the proposed mitigation strategy will effect a range of homeowners.

### **Assumptions**

Module One assumes that, as of year one of a reappraisal cycle, the increases in market values due to reappraisal are immediately and fully phased-in. This module also assumes that the proposed tax rates and/or proposed exemptions are applied immediately.

Module Two assumes that the increases in market values due to reappraisal are phased in over a period of three years. For each year of the phase-in period, the program adds 1/3 of the increase in market value due to reappraisal to the TY 2008 market value. This module assumes that all increases or decreases in tax rates and homestead/comstead exemption percentages will be phased-in at the same rate of 1/3 per year.

Module Three assumes that the increases in market values due to reappraisal are phased in over a period of six years. For each year of the phase-in period, the program adds 1/6 of the increase in market value due to reappraisal to the TY 2008 market value. This module assumes that all increases or decreases in tax rates and homestead/comstead exemption percentages will be phased-in at the same rate of 1/6 per year.

### **Mills**

Montana law allows local governments to levy mills “sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half of the average rate of inflation for the prior three years” (15-10-420, MCA). The maximum number of mills that a local government may levy “is established by calculating the number of mills required to generate the amount of property tax actually assessed in the governmental unit in the prior year based on the current year taxable value, less the current year’s value of newly taxable property, plus one-half of the average rate of inflation for the prior three years” (15-10-420, MCA).

In each module, all statewide (state, university, and vo-tech), local and school mills “float.” This means that the program automatically adjusts all mills upward or downward so that the results the user sees comply with 15-10-420, MCA.

### **Growth Rates**

The Governor’s Office of Budget and Program Planning (OBPP) estimates growth rates for each class of property. These growth rates are used to grow the TY 2008 figures for each year of the phase-in period. In Module One, growth is

assumed for one year, from TY 2008 to TY 2009. In Module Two, growth is assumed for each year from TY 2008 to TY 2011. In Module Three, growth is assumed for each year from TY 2008 to TY 2014.

## Using the Mitigation Tab

The second tab in each module, labeled Mitigation, is the only tab designed to allow the user to make adjustments to the existing tax rates for class 3, 4 and 10 property. In the case of class 4 residential and commercial property, the tab is designed to allow the user to also make adjustments to existing homestead and comstead exemption percentages. The user can adjust the data in any of the yellow-highlighted data fields on this tab by “clicking” on the field and typing in a number. The effects calculated by the program are displayed in the other workbook tabs in the module.

## Need Assistance?

If the program has not calculated the adjustments entered by the user within the times described in the **Important Note** at the beginning of this document, please check to make sure the Microsoft Excel program installed on the user’s computer has been set to automatically calculate changes. To do this, click on “Tools” on the tool bar. On the drop-down menu click “Options.” Doing so will display a tabbed menu box. Click on the tab entitled “Calculation.” Make sure the box entitled “Recalculate before save” has been checked. Click the “Okay” button in the lower right hand corner of the menu box. If this does not work, click on the “Help” icon on the toolbar.

If there are calculations or mitigation strategies you would like to see that cannot be calculated using this model or if you are having problems running the program, please call Larson Silbaugh, Montana Department of Revenue at (406) 444-7925.

**Reappraisal Mitigation Analysis**

AG AND FOREST PROPERTY					
Tax Year 2008					
Property Type	Actual Ag/Forest Land Full Reappraisal Value (TY08)	Current Law Tax Rate	Actual Ag/Forest Land Taxable Value (TY08)		
Agland	\$4,383,310,771	3.01%	\$142,098,658		
Forestland	\$1,975,410,723	0.35%	\$6,815,620		
<b>Total Value</b>	<b>\$6,358,721,494</b>		<b>\$148,914,278</b>		
Tax Year 2009 - After Reappraisal					
Property Type	Ag/Forest Land Full Reappraisal Value	Proposed Tax Rate	Simulated Statewide Taxable Value of Ag/ Forest Land		
Agland	\$6,323,955,850	3.01%	\$190,351,071		
Forest Land	\$2,999,858,721	0.35%	\$10,499,506		
<b>Total Value</b>	<b>\$9,323,814,571</b>		<b>\$200,850,577</b>		
<b>Change in Market Value</b>			<b>Change in Taxable Value</b>	<b>% Change</b>	
<b>\$2,965,093,077</b>			<b>\$51,936,299</b>	<b>34.9%</b>	
RESIDENTIAL PROPERTY					
Tax Year 2008					
Property Type	Actual Residential Full Reappraisal Value (TY08)	Current Law Homestead	Actual Taxable Market Value After Homestead and Other Exemptions	Current Law Tax Rate	Actual Residential Taxable Value (TY08)
Improvements	\$37,571,421,008		\$24,797,137,865		\$710,801,070
Land	\$13,314,687,515	34.00%	\$8,787,700,360	3.01%	\$251,780,690
<b>Total Value</b>	<b>\$50,886,108,523</b>		<b>\$33,584,838,225</b>		<b>\$962,581,760</b>
Tax Year 2009 - After Reappraisal					
Property Type	Projected 09 Full Reappraisal Value	Proposed Homestead	Simulated Value After Homestead Exemption	Proposed Tax Rate	Simulated Statewide Taxable Value of Class 4 Property
Improvements	\$55,701,234,329		\$36,762,814,657		\$1,106,693,385
Land	\$19,739,592,206		\$13,028,130,856		\$392,014,075
<b>Total Value</b>	<b>\$75,440,826,534</b>	<b>34.00%</b>	<b>\$49,790,945,513</b>	<b>3.01%</b>	<b>\$1,498,707,460</b>
<b>Change in Market Value</b>			<b>Change in Taxable MV</b>	<b>% Change</b>	<b>Change in Taxable Value</b>
<b>\$24,554,718,011</b>			<b>\$16,206,107,288</b>	<b>48%</b>	<b>\$536,125,700</b>
					<b>55.7%</b>
COMMERCIAL PROPERTY					
Tax Year 2008					
Property Type	Actual Commercial Full Reappraisal Value (TY08)	Current Law Comstead	Actual Taxable Market Value After Comstead and Other Exemptions	Current Law Tax Rate	Actual Commercial Taxable Value (TY08) After Abatements
Improvements	\$8,515,025,476		\$7,237,771,655		\$223,323,570
Land	\$2,948,882,141	15.00%	\$2,506,649,820	3.01%	\$110,689,290
<b>Total Value</b>	<b>\$11,463,907,617</b>		<b>\$9,744,421,475</b>		<b>\$289,796,019</b>
Tax Year 2009 - After Reappraisal					
Property Type	Projected 09 Full Reappraisal Value	Proposed Comstead	Simulated Value After Comstead Exemption	Proposed Tax Rate	Simulated Statewide Taxable Value (no abatement adjustment)
Improvements	\$13,673,407,487		\$11,622,396,364		\$362,953,551
Land	\$4,735,307,869		\$4,025,172,269		\$179,896,241
<b>Total Value</b>	<b>\$18,408,715,357</b>	<b>15.00%</b>	<b>\$15,647,408,053</b>	<b>3.01%</b>	<b>\$470,986,982</b>
<b>Change in Market Value</b>			<b>Change in Taxable MV</b>	<b>% Change</b>	<b>Change in Taxable Value</b>
<b>\$6,944,807,740</b>			<b>\$5,903,086,578</b>	<b>61%</b>	<b>\$181,190,963</b>
					<b>62.5%</b>

**Mitigate Ag/Forest (Tax rate only)**

**Mitigate Residential Impacts**

**Mitigate Commercial Impacts**

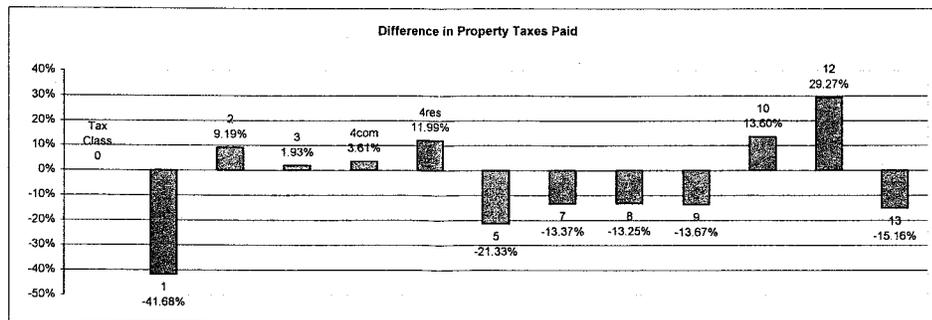
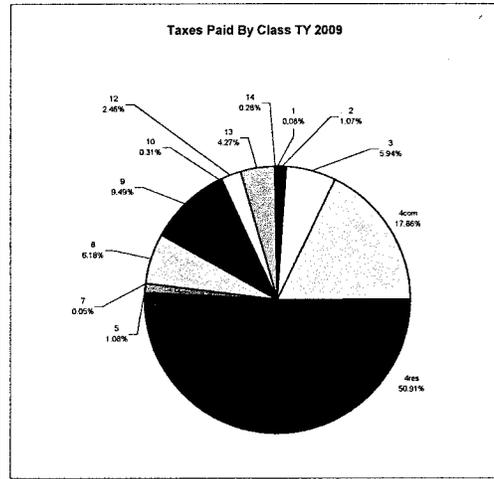
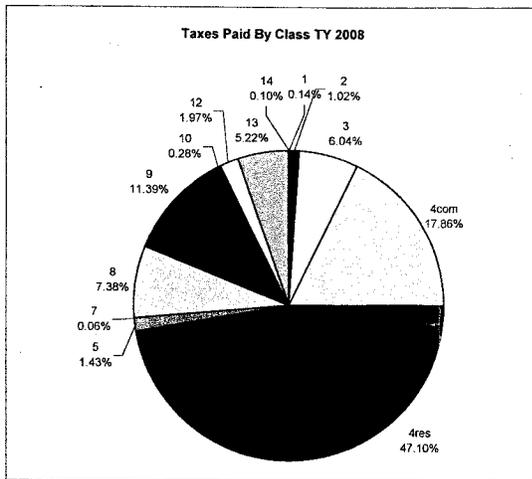
**Combined Impact of Reappraisal Mitigation Scenario**

Difference in Full Reappraisal Value	Difference in Value After Exemptions	% Change	Difference in Statewide Taxable Value of Classes 3, 4 and 10 Property	% Change
<b>\$34,464,618,828</b>	<b>\$25,074,286,943</b>	<b>50%</b>	<b>\$769,252,962</b>	<b>55%</b>

(NOTE: Because of abatements and reduced tax rates, the actual values after the home/comstead exemption and after the tax rates are applied are less than the applying the percentages directly. No adjustment was made for these reductions in the simulated calculation.)

Current Law					
Class 3 Agricultural Tax Rate	Class 4 Residential Tax Rate	Class 4 Commercial Tax Rate	Class 10 Forestland Tax Rate	Class 4 Homestead	Class 4 Comstead
3.01%	3.01%	3.01%	0.35%	34.00%	15.00%
Proposed Mitigation					
Class 3 Agricultural Tax Rate	Class 4 Residential Tax Rate	Class 4 Commercial Tax Rate	Class 10 Forestland Tax Rate	Class 4 Homestead	Class 4 Comstead
3.01%	3.01%	3.01%	0.35%	34.00%	15.00%

Tax Class	Statewide	TY 2008		TY 2009		% Change in Taxes Paid From TY 2008
		Taxable Value	Taxes Paid	Taxable Value	Taxes Paid	
1	Mine Net Proceeds	4,013,187	1,651,993	2,726,110	963,505	-41.68%
2	Gross Proceeds	24,540,432	11,635,440	32,598,087	12,704,398	9.19%
3	Agricultural Land	142,098,658	68,999,892	190,351,071	70,334,845	1.93%
4com	Commercial Property	334,012,859	203,995,898	470,986,982	211,350,516	3.61%
4res	Residential Property	962,581,760	537,931,155	1,498,707,460	602,422,809	11.99%
5	Pollution Control Equipment	35,154,576	16,319,730	35,981,531	12,838,431	-21.33%
7	Non-Centrally Assessed Utilities	1,214,360	734,870	1,268,374	636,607	-13.37%
8	Business Personal Property	163,140,404	84,319,187	183,774,106	73,147,320	-13.25%
9	Non-Electrical Generating Property of Electrical Utilities	263,086,175	130,113,785	290,241,361	112,330,656	-13.67%
10	Forest Land	6,815,620	3,242,141	10,512,105	3,682,973	13.60%
12	Railroad and Airline Property	43,567,384	22,501,200	75,483,016	29,087,009	29.27%
13	Telecommunications & Electric Property	154,611,156	59,594,056	164,628,686	50,562,270	-15.16%
14	Commercial Wind Generation Facilities	2,943,785	1,175,095	16,768,712	3,318,919	182.44%



**Current Law**

Class 3 Agricultural Tax Rate	Class 4 Residential Tax Rate	Class 4 Commercial Tax Rate	Class 10 Forestland Tax Rate	Homestead	Comstead
3.01%	3.01%	3.01%	0.35%	34.00%	15.00%

<b>Proposed Mitigation</b>					
Class 3 Agricultural Tax Rate	Class 4 Residential Tax Rate	Class 4 Commercial Tax Rate	Class 10 Forestland Tax Rate	Homestead	Comstead
3.01%	3.01%	3.01%	0.35%	34.00%	15.00%

**Calculation of Tax Liability**

1. Market Value = 2008 Market Value + Phase In Amount
2. Market Value x (1 - Homestead) = Taxable Market Value
3. Taxable Market Value x Tax Rate = Taxable Value
4. Taxable Value x Mills / 1000 = Tax Liability

<b>Example of a \$125,000 Home</b>			
MV Before Reappraisal	\$75,000		
MV After Reappraisal	\$125,000		
<b>Tax Year</b>	<b>2008</b>	<b>2009</b>	
Market Value	\$75,000	\$125,000	
Homestead	34.00%	34.00%	
Taxable Market Value	\$49,500	\$82,500	
Tax Rate	3.01%	3.01%	
Taxable Value	\$1,490	\$2,483	
Average Mills	539.55	115.38	
Tax Liability	\$804	\$287	

<b>Example of a \$250,000 Home</b>			
MV Before Reappraisal	\$175,000		
MV After Reappraisal	\$250,000		
<b>Tax Year</b>	<b>2008</b>	<b>2009</b>	
Market Value	\$175,000	\$250,000	
Homestead	34.00%	34.00%	
Taxable Market Value	\$115,500	\$165,000	
Tax Rate	3.01%	3.01%	
Taxable Value	\$3,477	\$4,967	
Average Mills	539.55	115.38	
Tax Liability	\$1,876	\$573	

<b>Example of a \$500,000 Home</b>			
MV Before Reappraisal	\$300,000		
MV After Reappraisal	\$500,000		
<b>Tax Year</b>	<b>2008</b>	<b>2009</b>	
Market Value	\$300,000	\$500,000	
Homestead	34.00%	34.00%	
Taxable Market Value	\$198,000	\$330,000	
Tax Rate	3.01%	3.01%	
Taxable Value	\$5,960	\$9,933	
Average Mills	539.55	115.38	
Tax Liability	\$3,216	\$1,146	

<b>Example of a \$50,000 Home That Lost Value</b>			
MV Before Reappraisal	\$75,000		
MV After Reappraisal	\$50,000		
<b>Tax Year</b>	<b>2008</b>	<b>2009</b>	
Market Value	\$75,000	\$50,000	
Homestead	34.00%	34.00%	
Taxable Market Value	\$49,500	\$33,000	
Tax Rate	3.01%	3.01%	
Taxable Value	\$1,490	\$993	
Average Mills	539.55	115.38	
Tax Liability	\$804	\$115	