Fiscal Note 2015 Biennium

Bill #	SB0004	**Title:**	Generally revise property reappraisal laws
Primary Sponsor:	Peterson, Jim	**Status:**	As Introduced

- ☐ Significant Local Gov Impact
- ☑ Needs to be included in HB 2
- ☑ Technical Concerns
- ☐ Included in the Executive Budget
- ☐ Significant Long-Term Impacts
- ☐ Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Expenditures:				
General Fund	$7,419,521	$2,227,606	$7,776,360	$2,273,183
Revenue:				
General Fund	$0	$0	$0	$0
Net Impact-General Fund Balance:	($7,419,521)	($2,227,606)	($7,776,360)	($2,273,183)

Description of fiscal impact: This bill shortens the revaluation schedule for class three (agricultural), four (residential and commercial), and ten (forest) property from a six-year cycle to a single two-year cycle in TY 2015 and annual revaluation beginning in TY 2017. Additionally, this bill requires the department to conduct individual property inspections, building permit reviews, sales data verification, and electronic data reviews, including but not limited to: aerial imagery and change detection software for approximately 16% of class four property, in each county, each year, so that by the end of the 6-year period, 100% of this property will have been "appraised". The costs of implementing this bill are approximately $10 million per biennium.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. With a single biennial appraisal cycle and subsequent annual appraisals commencing at the end of the current six-year reappraisal cycle, this bill keeps the tax rate on class three (ag land), class four (residential and commercial) and class 10 (forest land) properties at the level set at in the current law. This bill also keeps the exemption percentage of residential and commercial property at the level set in current law. As such, the bill is assumed to have no significant property tax revenue impact relative to current law.

2. The bill, as part of the shorter appraisal cycle, requires the department to conduct a full inspection and reappraisal of property, upon the request of the taxpayer, if the property has not been inspected and fully appraised in the prior calendar year. Currently, there is no such requirement in law. There is no additional cost of this requirement as the department will use existing resources.

Class 4 Commercial and Residential Property

3. Section four of this bill requires the department to determine and use the same appraisal year on all class four property.
4. Section five of this bill eliminates the six-year phase-in of market value change due to reappraisal. Under current law, the TY 2015 valuation for taxation purposes is the TY 2008 market value plus 16.66% of the difference between the TY 2014 and TY 2008 market values. This bill changes the valuation for taxation purposes in years TY 2015 and TY 2016 to be the TY 2014 current market value and changes the TY 2017 valuation for taxation purposes to be the TY 2016 current market valuation. The base year would then increment each year thereafter.
5. Section five of this bill also requires the department to conduct individual property inspections, reviews of building permit, electronic data, and sales data verification. These reviews include, but are not limited to, aerial imagery and change detection software for approximately 16% of class four property in each county, each year. This means that by the end of the 6-year period 100% of this property will have been "appraised". In other words, currently the department revalues this property once every 6 years. The department assumes this bill requires the use of mass appraisal modeling techniques to revalue property on an annual basis.
6. Section ten specifies that class four property is assessed at 100% of market value minus any portion of market value that is exempt from taxation. Current law included the language, "the applicable percentage". This change is assumed to be clean-up language and has no meaningful impact relative to current law.
7. The bill repeals the Extended Property Tax Assistance – Phase-in, 15-6-193, MCA, as a consequence of annual appraisals.

Class 10 Forest Land

8. Section sixteen specifies forest productivity value takes effect on January 1, 2015 for TY 2015 and TY 2016, and on January first of each tax year thereafter.
9. Section sixteen also removes the requirement that the forest land capitalization rate may not be less than 8.0%. While this change may increase forest land valuation and change taxation, this is effectively current law starting in the current, next six-year reappraisal cycle.
10. Section eight changes the time period of a qualifying appraisal from one year from the base reappraisal year, to one year from the annual reappraisal.

Class 3 Agricultural Land

11. The method by which the value of agriculture property is determined is changed by the bill. Current law requires the department to adopt a capitalization rate of 6.4% for the six-year cycle unless the agriculture advisory committee recommends and the department adopts, by rule, a different rate. This bill requires the department to consult with the agriculture advisory committee before determining the capitalization rate for TY 2015 and TY 2016 and adopting it, by rule. After 2016, the capitalization rate will be determined annually.
12. Section seventeen changes the timing of fee changes for cabin site licenses and leases to coincide with the biannual revaluation in 2015 and annual revaluation for years after 2016.

Impact on Operations

13. Under current law, the department does not have a statutory requirement to "appraise" (i.e. collect data) on a set amount of property in any given year. Although the current practice of the department includes "appraising" (i.e. collecting data on) property as appropriate, currently the department's comprehensive reappraisal plan provides that all property is appraised during the current law six-year cycle.
14. Section six of this bill removes the requirement for the department to use the "same" method of appraisal and assessment in each county. Current law requires, the "same" method of appraisal and assessment to

be used in each county of the state to the end that comparable properties with similar true market values have substantially equal taxable values. This bill removes the requirement for the department to use the “same” method while retaining the requirement for comparable properties to have substantially equal taxable values in each tax year.

15. The implementation of this bill will require the use of aerial imagery and change detection software.

Administrative Costs

Data collection and review

16. The use of aerial imagery and change detection software, as a contracted service, with imagery flights are anticipated to begin in FY 2014 and occur every other year. These flights will provide digital pictures of the state at 9” and 3” per pixel resolutions and do not include national parks or large tracks of federal government owned lands. The estimated annual cost of this imagery is approximately $5.2 million every other year.
17. With the second aerial imagery pass (CY 2016), the CY 2014 and CY 2016 images can be compared and changes can be detected. The estimated cost of image change detection is $0.3 million every other year starting with FY 2016.
18. Total cost of getting imagery and using change detection is approximately $5.5 million per biennium or an average annual cost of $2.75 million per year.
19. The department estimates an additional 6.00 FTE will be required to comply with the data collection and review portion of this bill. Beginning in 2014, four residential appraisers will assist with capturing sales for modeling, appraising new construction, reviewing imagery, and change detection. Beginning in 2015, two industrial appraisers will assist with appraising each industrial property for revaluation each year. The estimated annual cost of these six employees and their operating expenses is approximately $0.5 million per year.
20. The estimated additional cost of collecting this data includes hiring six new appraisers and the use of imagery flights and change detection services and is approximately: $5.5 million in FY 2014, $0.35 million in FY 2015, $5.9 million in FY 2016, and $0.36 million in FY 2017.

Annual revaluation component

21. The department estimates an additional 13.00 FTE will be required to provide annual revaluations starting in FY 2017. These employees are composed of thirteen management analysts who will conduct statistical modeling to provide estimated values for the 84% of properties that are not appraised each year. The estimated annual cost of these 13 employees and their operating expenses is approximately $1.0 million per year.
22. The department estimates it will require approximately $0.9 million annually in contracted services: at $0.45 million for annual assessment notice mailings, approximately $0.2 million for annual updates for construction cost manuals, and approximately $0.1 million for collecting income method information.
23. The estimated additional cost of moving to annual revaluation from a 6-year revaluation cycle to a two-year cycle beginning in TY 2015 followed by annual revaluation beginning in TY 2017 is approximately $2.0 million per year.

	FY 2014 Difference	FY 2015 Difference	FY 2016 Difference	FY 2017 Difference
Fiscal Impact:				
FTE	17.00	19.00	19.00	19.00
Expenditures:				
Personal Services	$1,095,968	$1,217,164	$1,240,666	$1,264,639
Operating Expenses	$6,267,980	$1,003,904	$6,535,694	$1,008,544
Equipment	$55,573	$6,538	$0	$0
TOTAL Expenditures	$7,419,521	$2,227,606	$7,776,360	$2,273,183
Funding of Expenditures:				
General Fund (01)	$7,419,521	$2,227,606	$7,776,360	$2,273,183
TOTAL Funding of Exp.	$7,419,521	$2,227,606	$7,776,360	$2,273,183
Revenues:				
General Fund (01)	$0	$0	$0	$0
TOTAL Revenues	$0	$0	$0	$0
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($7,419,521)	($2,227,606)	($7,776,360)	($2,273,183)

Technical Notes:

1. The use of the term “appraise” or “adjust” in the language provided in the bill is assumed to mean, “conduct individual property inspections, building permit reviews, sales data verification reviews, and electronic data reviews, including but not limited to aerial imagery and change detection software” and is assumed not to mean a requirement to provide individual opinions of value for these properties.

Sponsor’s Initials	*Date*	*Budget Director’s Initials*	*Date*