



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2015 Biennium

Bill #	SB0398	Title:	Revise property tax revaluation process and the taxation of property
Primary Sponsor:	Tutvedt, Bruce	Status:	As Amended in Senate Committee

- 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

	<u>FY 2014 Difference</u>	<u>FY 2015 Difference</u>	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>
Expenditures:				
General Fund	\$4,136,592	\$3,967,021	\$4,200,608	\$4,202,964
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$4,136,592)</u>	<u>(\$3,967,021)</u>	<u>(\$4,200,608)</u>	<u>(\$4,202,964)</u>

Description of fiscal impact: This bill, as amended, shortens the revaluation schedule for class three (agricultural), class four (residential and commercial), and class ten (forest) property from six-year cycles to two-year cycles beginning in TY 2015. The ongoing cost of implementing this bill is approximately \$8.4 million per biennium.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

1. With a biennial appraisal cycle commencing at the end of the current six-year reappraisal cycle, this bill keeps the effective tax rate on class three (ag land), class four (residential and commercial), and class ten (forest land) property at the levels set in current law. As such, the bill is assumed to have no significant property tax revenue impact relative to current law.
2. This bill 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, but is essentially the department's current practice. There is no additional cost of this requirement as the department will use existing resources.

Class Four Residential and Commercial Property

3. This bill separates the tax rate on class three (ag land) property from the tax rate on class four (residential and commercial) property and provides that the class three tax rate is the same as it is in current law (2.47%).
4. This bill replaces the current two-tier system of residential and commercial exemptions and the class four tax rate with a revised class four (commercial) tax rate of 1.94%, and revised class four (residential) tax rate

of 1.31% ($67.5\% \times 1.94\% = 1.31\%$). These revisions provide the same effective tax rates as current law (slightly less for residential homes over \$1.5 million). This change has no significant tax revenue impact.

5. This bill eliminates the six-year phase-in of market value change due to reappraisal and implements a biannual reappraisal schedule for property classes three, four, and ten. Under current law, the TY 2015 valuation for taxation purposes is the TY 2008 market value plus the annual phase-in of 16.66% of the difference between the TY 2014 and TY 2008 market values. This bill changes the valuation schedule so that valuation for taxation purposes in years TY 2015 and TY 2016 is the January 1, 2014 market value, and the TY 2017 and TY 2018 valuation for taxation purposes is the January 1, 2016 market value.
6. This bill requires the department to conduct individual property inspections, a review of building permits, electronic data, and sales data verification. These reviews include, but are not limited to, aerial imagery and change detection software.
7. This bill requires the DOR to conduct a sufficient number of field inspections to administer biannual revaluation.

Class Ten Forest Land

8. This bill specifies that forest productivity value takes effect on January 1, 2015 for TY 2015 and TY 2016, and on January first of each biennium thereafter.
9. This bill allows the forest lands taxation advisory committee to recommend, and the department to adopt, a capitalization rate for tax years TY 2015 through TY 2019. The bill sets a floor on the forest land capitalization rate of 8%.

Class Three Agricultural Land

10. The method by which the value of agriculture property is determined is changed by the bill. Current law requires DOR 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 through TY 2019, and adopting it by rule. The bill sets a floor on the ag land capitalization rate of 6.4%.
11. This bill specifies that agricultural land productivity value takes effect on January 1, 2015 for TY 2015 and TY 2016, and on January first of each biennium thereafter.
12. Section 19 changes the timing of fee changes for cabin site licenses and leases to coincide with the biannual revaluation schedule.

DOR Administrative Costs

13. The bill repeals, effective January 1, 2015, the Extended Property Tax Assistance – phase-in, 15-6-193, MCA, as a consequence of biannual appraisals. The department no longer needs to process EPTAP applications and estimates saving approximately \$110,883 per year in application processing costs, beginning in FY 2015.
14. Biennial valuations starting in FY 2015 requires the addition of 13.50 FTE in FY 2014 and an additional 2.00 FTE in FY 2015. The estimated annual cost of these 15.5 employees, including benefits and annual costs are: \$1,004,162 in FY 2014, \$1,108,974 in FY 2015, \$1,123,810 in FY 2016, and \$1,144,916 in FY 2017.
15. To conduct biennial revaluation, the department will require additional valuation information for construction costs, market modeling, agriculture and forestry, and commercial properties. The department estimates the cost of acquiring this information is: \$351,733 in FY 2014, and \$313,733 thereafter.
16. The use of aerial imagery and change detection software, as a contracted service, with imagery flights is anticipated to begin in FY 2014 and occur every other year. These flights will provide digital images of the state at 9” and 3” per pixel resolutions, respectfully, and do not include large tracks of public lands. The estimated cost of imagery is approximately \$2,600,000 per year starting in FY2014.
17. With the second aerial imagery pass in FY 2016, the FY 2014 and FY 2016 images will be compared and changes detected. The estimated cost of image change detection is \$150,000 per year starting with FY 2016.

- 18. The department estimates it will cost \$50,000 in FY 2014, \$50,000 in FY 2015, and then \$100,000 per year thereafter to digitally store and maintain access to the imagery.
- 19. The department estimates it will cost \$86,000 in FY 2014 to change the property database system.
- 20. The departments reappraisal expenses by operational/functions category are estimated to be as follows:

SB 398 as Amended -- DOR Biennial Reappraisal Expenditures by Functional Category				
Functional Category	FY 2014	FY 2015	FY 2016	FY 2017
Personal Services and Associated Expenses	\$1,004,161	\$1,108,973	\$1,123,810	\$1,144,916
Biennial Valuation Material	\$351,733	\$313,733	\$313,733	\$313,733
IT Software and Hardware	\$136,000	\$50,000	\$100,000	\$100,000
Imagery Costs (flights & change software)	\$2,644,698	\$2,605,198	\$2,773,948	\$2,755,198
EPTAP Savings	\$0	(\$110,883)	(\$110,883)	(\$110,883)
Total	\$4,136,592	\$3,967,021	\$4,200,608	\$4,202,964

	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>
<u>Fiscal Impact:</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
Department of Revenue				
FTE	13.50	15.50	15.50	15.50
<u>Expenditures:</u>				
Personal Services	\$865,337	\$986,533	\$1,123,810	\$1,144,916
Operating Expenses	\$3,225,489	\$2,973,950	\$3,076,798	\$3,058,048
Equipment	\$45,766	\$6,538		
TOTAL Expenditures	\$4,136,592	\$3,967,021	\$4,200,608	\$4,202,964
<u>Funding of Expenditures:</u>				
General Fund (01)	\$4,136,592	\$3,967,021	\$4,200,608	\$4,202,964
TOTAL Funding of Exp.	\$4,136,592	\$3,967,021	\$4,200,608	\$4,202,964
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
TOTAL Revenues	\$0	\$0	\$0	\$0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$4,136,592)	(\$3,967,021)	(\$4,200,608)	(\$4,202,964)

Technical Notes:

- 1. The Department of Revenue is currently seeking potential opportunities to share the cost of the flyover and imagery services with other departments and agencies. Given the effective dates of the bill's provisions, it is uncertain as to when these funds could be allocated to the specific task before FY 2014.

Sponsor's Initials

Date

Budget Director's Initials

Date