



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	SB0157
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<b>Title:</b>	Generally revise tax reappraisal laws
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<b>Primary Sponsor:</b>	Tutvedt, Bruce
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<b>Status:</b>	As Amended in Senate Committee
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- 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 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>				
General Fund	(\$84,505)	(\$16,414)	\$969,047	\$1,000,299
<b>Revenue:</b>				
General Fund	\$11,118,000	\$9,266,000	\$7,253,000	\$5,071,000
State Special Revenue	\$697,000	\$581,000	\$455,000	\$318,000
<b>Net Impact-General Fund Balance:</b>	<u>\$11,202,505</u>	<u>\$9,282,414</u>	<u>\$6,283,953</u>	<u>\$4,070,701</u>

**Description of fiscal impact:** SB 157, as amended, revises property tax laws by changing the reappraisal cycle from a six-year cycle to a two-year cycle; adjusts the rates at which the market value of property is taxed to maintain taxable value neutrality between residential, agricultural, commercial, and timber properties on a statewide basis; modifies the method for valuing forest land; and revises property tax assistance programs to allow for more incremental assistance based on income. The changes in taxable value under this bill create a guaranteed tax base aid (GTB) savings beginning in FY 2016. This bill is effective on passage and approval and applies retroactively to TY 2015.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

- Under current law, the increase in reappraisal value for class 3 agricultural land, class 4 residential and commercial real property, and class 10 forestland is phased-in over six years. However, if a property decreased in value, the new (lower) value is applied in the first year. For each year over the six years, the

homestead exemption for class 4 residential real properties would remain at 47% and the comstead exemption for class 4 commercial properties would remain at 21.5%. The tax rate for classes 3 and 4 would be 2.47% and the tax rate for class 10 would be 0.29%.

2. SB 157 proposes two principle things: 1) move reappraisal from a six-year cycle to a two-year cycle, and 2) implement a policy of taxable value neutrality on a statewide basis for agricultural, residential, commercial, and timber properties. That is, SB 157 sets the tax rates so that the overall taxable value for these types of properties stays the same on a statewide basis.

Calculation of taxable value neutrality by class

3. The change in value for agricultural land is predominantly determined by the changes in commodity price used to determine productivity value for the land.
4. Forest land values are determined by the University of Montana, College of Forestry and Conservation productivity estimates with input from the timber industry.
5. Under current law, timber values are determined using a five-year price average, and a capitalization rate of 8%.
6. Under the provisions of the amended version of SB 157, forest land is valued using a ten-year average price and a capitalization rate of 6.4%.
7. The market value for residential and commercial properties is determined by using the sales, cost, or income approach to valuation.
8. The following table shows relevant information about the changes in value on a statewide basis for the different types of property over the six-year cycle.

<b>Type of Property</b>	<b>Estimated Change in Value</b>	
	<b>Current Law</b>	<b>SB 157 as amended</b>
Residential	-2.85%	-2.85%
Commercial	2.45%	2.45%
Agricultural	16.72%	16.72%
Forestland	-50.22%	-21.29%

9. Although current law sets the tax rate at 2.47% for agricultural, residential, and commercial property, because of the homestead and comstead exemptions, the actual rate is for these classes of property is equal to 2.47% multiplied by the exemption rates.
10. For the majority of residential properties, the rate used to determine taxable value is equal to the statutory rate times one minus the homestead exemption percentage, or 1.31% (2.47% X (100% - 47%)). The exemption does not apply to a single-family dwelling value over \$1.5 million. The rate is equal to 2.47% for the value above \$1.5 million.
11. Under current law, the rate used to calculate taxable value for commercial property was equal to the statutory rate multiplied by one minus the comstead exemption or 1.94% (2.47% X (100% - 21.5%))
12. The following table displays these rates for agricultural, residential, and commercial property:

<b>Agricultural, Residential, and Commercial Property Tax Rates</b>			
<b>Property Type</b>	<b>Rate</b>	<b>Exemption Rate</b>	<b>Actual Rate</b>
Agricultural	2.47%	0.00%	2.47%
Residential	2.47%	47.00%	1.31%
Commercial	2.47%	21.50%	1.94%

Setting taxable value neutral tax rates by class

13. Section 5 of the bill changes the rate from 2.47% to 2.16% for agricultural land.
14. SB 157 eliminates the homestead exemption and changes the rate from 2.47% to 1.35% for all residential property value except the value of single-family dwellings over \$1.5 million, which has a rate of 1.40 times

the regular residential rate, or 1.90% (i.e. the equivalent to having a statutory rate equal to the new class four commercial rate).

- 15. SB 157 eliminates the comestead exemption and changes the rate to 1.40 times the residential rate of 1.35%, or 1.90%.
- 16. SB 157 changes the rate used to determine taxable value for forestland from 0.29% to 0.37%.

Accounting for a two-year reappraisal cycle

- 17. Under current law, the market value for property that increased in value between 2002 and 2014 will be phased in by one-sixth increments over the reappraisal cycle ending in 2020. However, if property values decrease, then the decreased market value is not phased in. SB 157 proposes to remove phase-in so that all changes in value will occur in the first year, both positive and negative, and move to a two-year cycle.
- 18. The table below shows the estimated proportion of properties in each tax class that have increased, decreased, and stayed the same:

Property	Increased in value	Decreased in Value	No Change	Total
Residential	51.2%	48.4%	0.3%	100%
Commercial	51.3%	48.0%	0.7%	100%
Agricultural	27.6%	72.4%	0.0%	100%
Forestland	0.0%	100.0%	0.0%	100%

- 19. Estimated changes from HJR 2 for FY 15, FY 16 and FY 17, and the Office of Budget and Program Planning for FY 18 and FY 19, for the different types of property were applied. The following table shows the estimated current law taxable value, estimated SB 157 taxable value, and the change in taxable value as a result of SB 157 in millions of dollars.

Fiscal Year	Agricultural	Residential	Commercial	Timber	Total
<b>Current Law Taxable Value (\$ million)</b>					
FY 2015	\$143.9	\$1,168.4	\$350.6	\$6.3	\$1,669.1
FY 2016	\$136.0	\$1,077.1	\$331.5	\$3.1	\$1,547.7
FY 2017	\$147.2	\$1,129.5	\$350.0	\$3.1	\$1,629.8
FY 2018	\$159.1	\$1,184.7	\$369.4	\$3.1	\$1,716.3
FY 2019	\$171.8	\$1,242.7	\$389.8	\$3.0	\$1,807.3
<b>Taxable Value under SB 157 as Amended in Senate Finance and Claims</b>					
FY 2015	\$143.9	\$1,168.4	\$350.6	\$6.3	\$1,669.1
FY 2016	\$143.7	\$1,163.8	\$350.1	\$6.3	\$1,663.9
FY 2017	\$149.3	\$1,207.5	\$363.6	\$6.2	\$1,726.6
FY 2018	\$155.2	\$1,253.1	\$377.5	\$6.2	\$1,792.1
FY 2019	\$161.3	\$1,300.7	\$392.1	\$6.1	\$1,860.2
<b>Change in Taxable Value (\$ million)</b>					
FY 2015	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
FY 2016	\$7.7	\$86.7	\$18.6	\$3.2	\$116.2
FY 2017	\$2.1	\$78.0	\$13.6	\$3.1	\$96.8
FY 2018	(\$3.9)	\$68.5	\$8.1	\$3.1	\$75.8
FY 2019	(\$10.4)	\$58.0	\$2.2	\$3.1	\$52.9

- 20. The state mills were then applied to the change in taxable value to determine the estimated fiscal impact to the state. All property is levied the university mills (6) and the school equalization mills (95). Property in Silver-Bow, Cascade, Yellowstone, Missoula, and Lewis & Clark are levied additional Vo-Tech mills (1.5). The following table shows the estimated fiscal impact to the state of SB 157.

Estimated Change in State Property Tax Revenue			
Fiscal Year	General Fund	University Mills	Total
FY 2016	\$11.118	\$0.697	\$11.816
FY 2017	\$9.266	\$0.581	\$9.847
FY 2018	\$7.253	\$0.455	\$7.708
FY 2019	\$5.071	\$0.318	\$5.388

Property Tax Assistance (PTAP) and Montana Disable Veterans (MDV) Programs

21. SB 157 also adjusts the Property Tax Assistance Program (PTAP) and the Montana Disabled Veterans (MDV) program. Under current law, income brackets are used to determine the amount of property tax assistance for both the PTAP and MDV programs. Current law sets a \$100,000 taxable market value limit to the PTAP program. Finally, current law requires the PTAP and MDV programs to update their income thresholds each year based on a Personal Consumption Expenditure (PCE) price index. Under the provisions in SB 157, the income brackets used to determine the amount of PTAP or MDV assistance are eliminated and replaced with a formula based on income to avoid large changes in assistance caused by moving between brackets from one year to the next, due to small changes in income. The formula to be used will be administered by the department through rulemaking authority and updated on an annual basis to account for inflation. SB 157 replaces the \$100,000 taxable market value limit in the PTAP program with a \$170,000 appraised value limit. The PCE index is replaced with a Consumer Price Index (CPI) inflation adjustment factor in SB 157.
22. By comparing the impacts SB 157 would have had on a sample of PTAP and MDV applicants in TY 2014 relative to current law, it is estimated the elimination of the stepped income brackets, \$100,000 limit in taxable market value, change in price indexes, and modified tax rates to the PTAP and MDV programs will reduce general fund property tax revenue by approximately \$90,500 per year and University property tax revenue by \$5,665 per year.
23. SB 157 eliminates Extended Property Tax Assistance Program (EPTAP). To qualify under current law, a property owner must have had an increase in value of more than 25% as a result of 2008 reappraisal and have an increase in tax liability of more than \$250 in 2008. However, because of the statutory language in 15-6-193 MCA, taxpayers would have a lower taxable value if they chose not to participate in EPTAP, assuming they qualified. Therefore, the estimated impact of eliminating EPTAP is expected to be negligible.

Department Costs

24. Implementation of SB 157 is expected to require an additional 11.00 FTE in the Property Assessment Division (PAD) and an additional 1.00 FTE in the Business and Income Tax (BIT) division. Expenses are estimated to be approximately \$0.689 million per fiscal year for personal services, approximately \$0.301 per fiscal year for operating expenses, and approximately \$0.039 million in one-time operating costs. It is assumed that these costs will be funded from the general fund.

**Office of Public Instruction**

25. Local school district mills would shift among tax types to provide the necessary revenue for school district budgets. The amount each taxpayer pays will change based on the change in value of property with respect to the district average but total local school taxes paid would essentially match present law.
26. The changes SB 157 proposed for property tax creates a net GTB savings for the state. The general fund savings are outlined below:

FY 2016	FY 2017	FY 2018	FY 2019
(\$1,095,137)	(\$1,005,718)	(\$30,264)	(\$327)

- 27. Changes to property tax values may have an impact on the Natural Resource Development (NRD) K-12 Payment. However, the changes in this bill are not expected to cause a significant fiscal effect to the NRD payments.
- 28. Revenue received from county school levies for all district funds will not change due to this bill as tax shifting occurs.
- 29. The shift of tax liability occurs between tax classes, but results in negligible change to retirement GTB.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>FY 2018</u></b>	<b><u>FY 2019</u></b>
<b>Department of Revenue</b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b>FTE</b>	12.00	12.00	12.00	12.00
<b><u>Expenditures:</u></b>				
<b>Department of Revenue</b>				
Personal Services	\$681,036	\$681,056	\$692,151	\$703,442
Operating Expenses	\$329,596	\$308,248	\$307,160	\$297,184
<b>Office of Public Instruction</b>				
Local Assistance (GTB)	(\$1,095,137)	(\$1,005,718)	(\$30,264)	(\$327)
<b>TOTAL Expenditures</b>	<b><u>(\$84,505)</u></b>	<b><u>(\$16,414)</u></b>	<b><u>\$969,047</u></b>	<b><u>\$1,000,299</u></b>

<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	(\$84,505)	(\$16,414)	\$969,047	\$1,000,299
<b>TOTAL Funding of Exp.</b>	<b><u>(\$84,505)</u></b>	<b><u>(\$16,414)</u></b>	<b><u>\$969,047</u></b>	<b><u>\$1,000,299</u></b>

<b>Department of Revenue</b>				
<b><u>Revenues:</u></b>				
General Fund (01)	\$11,118,000	\$9,266,000	\$7,253,000	\$5,071,000
State Special Revenue (02)	\$697,000	\$581,000	\$455,000	\$318,000
<b>TOTAL Revenues</b>	<b><u>\$11,815,000</u></b>	<b><u>\$9,847,000</u></b>	<b><u>\$7,708,000</u></b>	<b><u>\$5,389,000</u></b>

<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	\$11,202,505	\$9,282,414	\$6,283,953	\$4,070,701
State Special Revenue (02)	\$697,000	\$581,000	\$455,000	\$318,000

**Effect on County or Other Local Revenues or Expenditures:**

**Department of Revenue**

- 1. Local governments will see the same decreases from current law taxable value. However, since local government mill levies are set on current year taxable values, and revenue governed by 15-10-420, MCA, local mill levies will adjust to generate the required property tax revenue.

**Office of Public Instruction**

- 2. Local property taxes to support the school district BASE budgets may increase by approximately \$1,294,621 in FY 2016, \$843,799 in FY 2017, \$20,135 in FY 2018, and \$37,133 in FY 2019.

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Sponsor's Initials

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Budget Director's Initials

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