GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill #	HB0148		**Title:**	Revise property reappraisal cycle for class three and four property
Primary Sponsor:	Reksten, Linda		**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 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
Expenditures:				
General Fund	($5,802,040)	($12,238,300)	($25,464,000)	($40,920,300)
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	($21,533,000)	($21,022,000)	($39,707,000)	($39,671,000)
State Special Revenue	($1,360,000)	($1,328,000)	($2,508,000)	($2,506,000)
Net Impact-General Fund Balance:	($15,730,960)	($8,783,700)	($14,243,000)	$1,249,300

Description of fiscal impact: HB 148 changes the reappraisal cycle for class 3 agricultural land, class 4 residential, and class 4 commercial property from a two-year cycle to a six-year cycle. HB 148 also reinstitutes a process whereby any property that experiences an increase in value will have the increase phased-in at 16.66% (an accumulating 1/6th the incremental value) per year over the six-year cycle. Properties that face a decrease in value will have 100% of the decrease phased-in immediately in the first year of the cycle.

FISCAL ANALYSIS

Assumptions:

Department of Revenue (DOR)

1. Under current law the market value of class 4 property is updated (appraised) every two years. The same applies to agricultural class 3 property, however agricultural property is valued by the estimated productivity value of the land.
2. Under HB 148, the market value of class 4 property would be reset every six years and the changes in value would be incrementally added in accumulating 1/6^{ths} of the market value reappraisal increment that occurred by the assessment date of the new cycle, from the prior assessment. The productivity value for agricultural land would have the same timing effects with valuations.

3. The department currently estimates that class 4 residential property value has grown by approximately 12% between tax year (TY) 2020 and TY 2021. Similarly, class 4 commercial and class 3 agricultural land are estimated to grow by 11% and -4% respectively.
4. Official forecasts contained in the HJ 2 estimate the following growth rates for TY 2022 through TY 2024:

	Class 3	Class 4
TY 2022	-0.10%	1.80%
TY 2023	3.10%	10.50%
TY 2024	-0.10%	1.80%

5. These growth rates are used for class 3 and class 4 property values in TY 2022 to TY 2024.
6. Under the provisions of HB 148, the estimated change in taxable value for class 3 agricultural, class 4 residential and class 4 commercial are presented below:

	Class 3 - Ag	Class 4-Residential	Class 4-Commercial
TY 2021	-5.20%	0.96%	-0.61%
TY 2022	0.36%	2.22%	2.31%
TY 2023	0.36%	2.17%	2.26%
TY 2024	0.36%	2.12%	2.21%

7. These growth rates were then applied to taxable values for TY 2021 through TY 2024 to estimate property value under the provisions of HB 148.
8. The annual difference in taxable value between current law and HB 148 was then multiplied by the state mills to estimate the total revenue impact of HB 148. These reductions are presented in the following table:

HB 148 as Introduced - Tax Year Change in Revenue by Class (Million $)				
	Class 3	**Class 4 - Residential**	**Class 4 - Commercial.**	**Total**
TY 2021	($0.328)	($17.593)	($4.973)	($22.893)
TY 2022	($0.258)	($17.250)	($4.842)	($22.350)
TY 2023	($0.646)	($32.588)	($8.981)	($42.215)
TY 2024	($0.576)	($32.642)	($8.959)	($42.176)

9. The above revenue amounts are then multiplied by the relative ratio in mill values to estimate the impacts to the 95 equalization mills and the six university mills. These values are then adjusted to account for the fiscal year receipt of revenue. Tax year property values result in the subsequent fiscal year's receipts. These values are presented in the following table in millions of dollars:

Fiscal Year Property Tax Revenue Effects of HB 148 as Introduced (Million $)			
	General Fund	**University SSR**	**Total**
FY 2022	($21.533)	($1.360)	($22.893)
FY 2023	($21.022)	($1.328)	($22.350)
FY 2024	($39.707)	($2.508)	($42.215)
FY 2025	($39.671)	($2.506)	($42.176)

DOR Administrative Expenses

10. Additional one-time costs in FY 2022 for the required software changes and testing the changes are estimated to be $18,960.
11. Cost savings associated with HB 148 are anticipated to be $270,300 in FY 2023 and FY 2025 related to reduced staff training and a reduction in the number of assessment notices that would need to be mailed.

The Office of Public Instruction (OPI)

12. The changes in the timing of taxable value were applied to the current law school funding model. The reductions in taxable value, relative to current law, leads to mill increases for school districts as the revenue requirements remain the same. Reductions in average value per mill in local districts statewide, reduces state Guaranteed Tax Base aid (GTB) local assistance payments in the school funding formula. GTB is driven by changes relative to the average value per mill per ANB. Districts with lower than average values receive GTB support. The changes in the distribution of property, by school district, due to HB 148 are anticipated to reduce state GTB payments to local districts by $5.821 million in FY 2022, $11.978 million in FY 2023, $25.464 million in FY 2024, and $40.650 million in FY 2025.

Fiscal Impact:	FY 2022 Difference	FY 2023 Difference	FY 2024 Difference	FY 2025 Difference
FTE	0.00	0.00	0.00	0.00
Expenditures:				
Department of Revenue (DOR)				
Operating Expenses	$18,960	($270,300)	$0	($270,300)
Office of Public Instruction (OPI)				
Local Assistance (GTB)	($5,821,000)	($11,968,000)	($25,464,000)	($40,650,000)
TOTAL Expenditures	($5,802,040)	($12,238,300)	($25,464,000)	($40,920,300)
Funding of Expenditures:				
General Fund (01)	($5,802,040)	($12,238,300)	($25,464,000)	($40,920,300)
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	($5,802,040)	($12,238,300)	($25,464,000)	($40,920,300)
Revenues:				
General Fund (01)	($21,533,000)	($21,022,000)	($39,707,000)	($39,671,000)
State Special Revenue (02)	($1,360,000)	($1,328,000)	($2,508,000)	($2,506,000)
TOTAL Revenues	($22,893,000)	($22,350,000)	($42,215,000)	($42,177,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($15,730,960)	($8,783,700)	($14,243,000)	$1,249,300

Effect on County or Other Local Revenues or Expenditures:

1. Because HB 148 lowers the overall tax base available to local taxing jurisdictions relative to current law, local mills will float up to make up the difference and maintain local revenue authority. The estimated impact on statewide taxable value and the implied percentage change in taxable value is presented in the table below. Local mill levies would likely rise proportionally to offset the reductions. The specific local impacts would shift based on the proportion of class 3 and class 4 property in the jurisdiction.

Statewide Taxable Value under Current Law (HJ 2) and HB 148 as Introduced (million $)					
	FY 2021	**FY 2022**	**FY 2023**	**FY 2024**	**FY 25**
Current Law	$3,218.465	$3,465.993	$3,538.329	$3,818.658	$3,905.597
HB 148		$3,239.335	$3,317.046	$3,400.690	$3,488.014
Change in Taxable Value		($226.659)	($221.283)	($417.968)	($417.583)
Percent Change		-6.5%	-6.3%	-10.9%	-10.7%

2. Local school mills would also have to further adjust to account for reduced GTB payments.

<u>Long-Term Impacts:</u>

Department of Revenue

1. Under current law class 3 and class 4 property is reappraised every two years. Switching to a six-year cycle, with a phase-in of incremental value, in an appreciating market, will lead to assessed values adjusting with six years of appreciation rather than two. This will magnify the differentials relative to current law, as reappraisals will defer the application of market value. Further, the fifth and sixth years of the six-year cycle will have the greatest differentials. After the sixth year, the cycle will repeat in the first and second year of the second six-year cycle. Assessed values would shift from a two-year lag to a six-year lag.
2. Going to a six-year cycle and phasing-in increases would require each property record to have: current market value, value before reappraisal (VBR), and a phased-in taxable market value which change each tax year. These evolving variables would make the property tax system more complicated to explain. In addition, deferring valuations for six years, as opposed to two years, is likely to result larger valuation changes and tend to increase taxpayer appeals. The department anticipates that there will be additional appeals in the first four years of the second six year cycle (FY 2028 - FY 2031) under HB 148. If realized, these appeals would require an additional FTE.

Office of Public Instruction (OPI)

3. The growth in GTB savings for the state stabilizes at approximately the 4th year (FY 2025) level in the final two years of the reappraisal cycle .

<u>Technical Notes:</u>

Department of Revenue

1. This bill is effective upon passage and approval. Implementing a phase-in would require significant changes in the property valuation information system, which would require additional software testing, and implementing changes to the assessment notices. Furthermore, statute requires the department to certify taxable values for each taxing jurisdiction by the first Monday in August. Under current law the department mails mobile home assessment notices the middle of March, and real property assessment notices in late May or early June. Counties mail tax bills based on TY 2021 in November 2021 and May 2022. The timeline required to meet the changes in HB 148 would be challenging and there is a risk that the property tax cycle for TY 2021 could suffer delays.
2. The Montana Disabled Veteran's, the Property Tax Assistance, and the Intangible Land Value programs grant property tax assistance to owners of qualified property. The programs reduce the effective taxes based on the market value of the subject property. Switching to a six-year cycle and phasing-in value over the longer cycle would require changing the basis for the programs to taxable market value to be consistent with the rest of the property in the class.

NOT SIGNED BY SPONSOR

	1/21/21	KA	1/19/21
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*