

Date: November 19, 2020

To: Revenue Interim Committee

From: Eric Dale
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Subject: Update on Taxable Value Neutral Rates of TY 2021 Reappraisal Cycle

Based on preliminary modeling of the 2021 reappraisal cycle, the table below shows the estimated changes in property values.

Estimated Change in Market Value as a Result of Reappraisal			
-----Billions-----			
<u>Tax Class</u>	<u>TY 2020</u>	<u>TY 2021</u>	<u>% Change</u>
Residential	\$116.620	\$130.682	12.06%
Commercial	\$22.890	\$25.371	10.84%
Agricultural	\$6.944	\$6.998	0.79%
Forest	\$1.316	\$2.392	81.72%

For the table above, the growth of class three agricultural land property represents what the growth in value would have been if only reappraisal effects were considered. In addition to reappraisal increasing agricultural land, the changes in water costs associated with HB 24 for the 2019 session will also affect the value of agricultural property in TY 2021. The combined effect of reappraisal and HB 24, and therefore the estimated total change in agricultural land property market value, is estimated to be -3.66%.

For class 10 forest land property, the table above shows the total change in value because of reappraisal. During the 2015 session, SB 157 changed the reappraisal cycle for class three agricultural land and class four residential and commercial property from six years to two years. However, SB 157 excluded forest land property and so this property is still on a six-year reappraisal cycle. The increase in property values for forest land property is 'phased-in' over the six-year cycle, while any decrease in value is 'phased-in' immediately. Therefore, the percent change in forest land market value from TY 2020 to TY 2021 is estimated to be 7.85%, which represents 1/6th of the increase in value combined with 100% of the decreases in value.

Under the Montana Code Annotated, the department is required to provide a taxable value neutral tax rate for residential, commercial, agricultural, and forest property on a

state-wide basis. The table below shows the current law tax rate for these properties and the estimated taxable value neutral rates using the estimated growth rates for each class of property. Because, class 10 forest land is still on a six-year phase-in reappraisal cycle, a new tax rate is required for each year of the cycle to maintain taxable value neutrality.

Current and Taxable Value Neutral Rates by Property Class		
<u>Property Class</u>	<u>Current Rates</u>	<u>TV Neutral</u>
Residential	1.35%	1.20%
Commercial	1.89%	1.70%
Agricultural	2.16%	2.14%
Forest _{TY2021}	0.37%	0.34%
Forest _{TY2022}	0.37%	0.31%
Forest _{TY2023}	0.37%	0.28%
Forest _{TY2024}	0.37%	0.25%
Forest _{TY2025}	0.37%	0.23%
Forest _{TY2026}	0.37%	0.20%