

DECEMBER 8, 2008

OPTIONS FOR REAPPRAISAL MITIGATION 2009

OUTLINE

OBJECTIVE OF REAPPRAISAL MITIGATION

DEFINE OPTIONS AVAILABLE TO THE COMMITTEE

COMPARE IMPACTS TO RESIDENTIAL, COMMERCIAL, AGRICULTURE FOR EACH OPTION

DISCUSS PROS AND CONS FOR EACH PROPOSAL

CONCLUSION AND RECOMMENDATION

OBJECTIVES

OWNER'S DESIRES – AFFORDABLE, PREDICTABLE, EQUAL TREATMENT AND PROTECTION FOR ALL

GOVERNMENT DESIRES – STEADY REVENUE, NO OVERBURDEN OF TAX, PERMANENT SOLUTION, PROTECTION FROM LOSS OF REVENUE IN RECESSION, STABILITY OF NEIGHBORHOODS (DEMOGRAPHICS AND CULTURE)

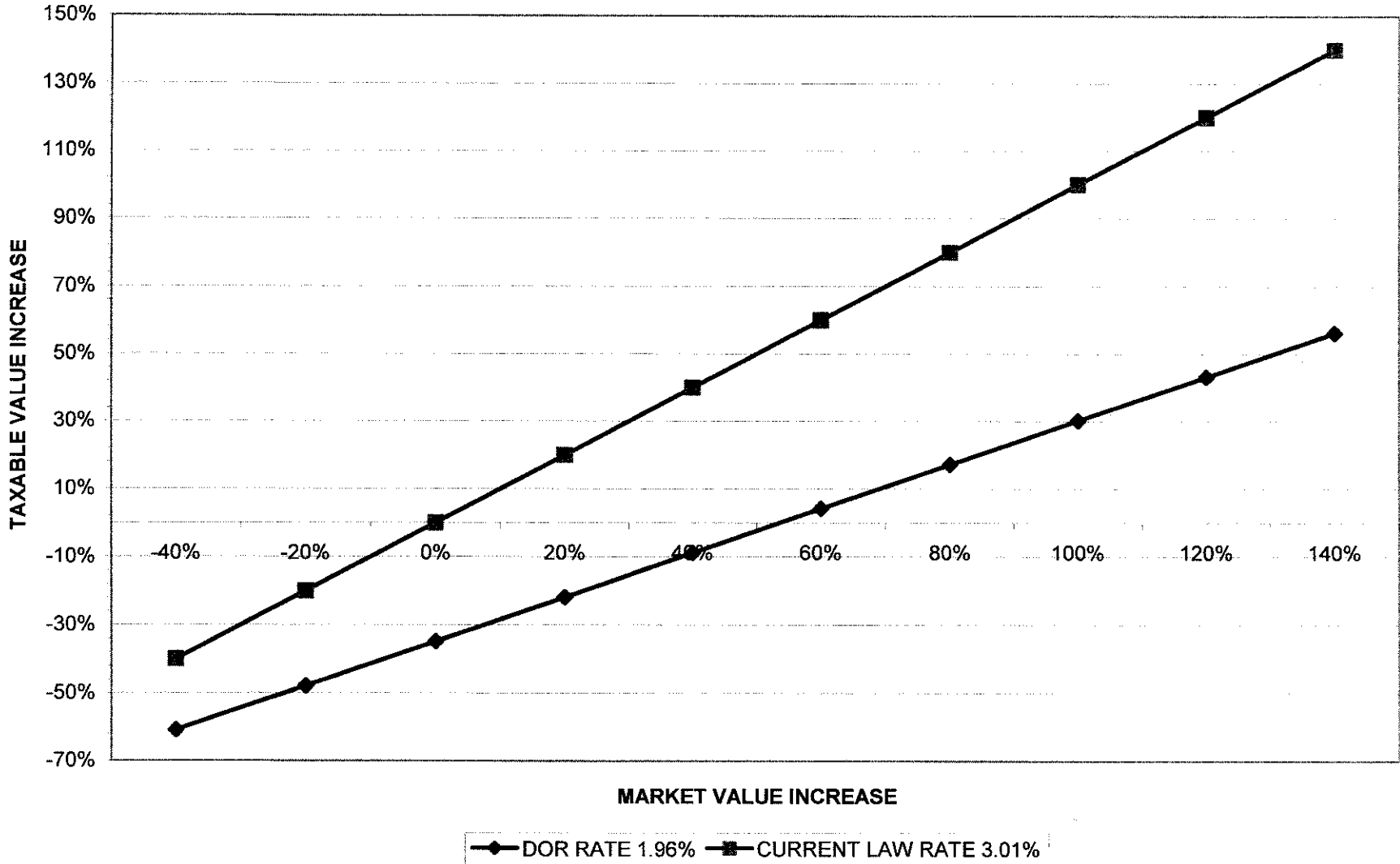
OPTIONS FOR REAPPRAISAL MITIGATION

FIVE OPTIONS AVAILABLE FOR CONSIDERATION

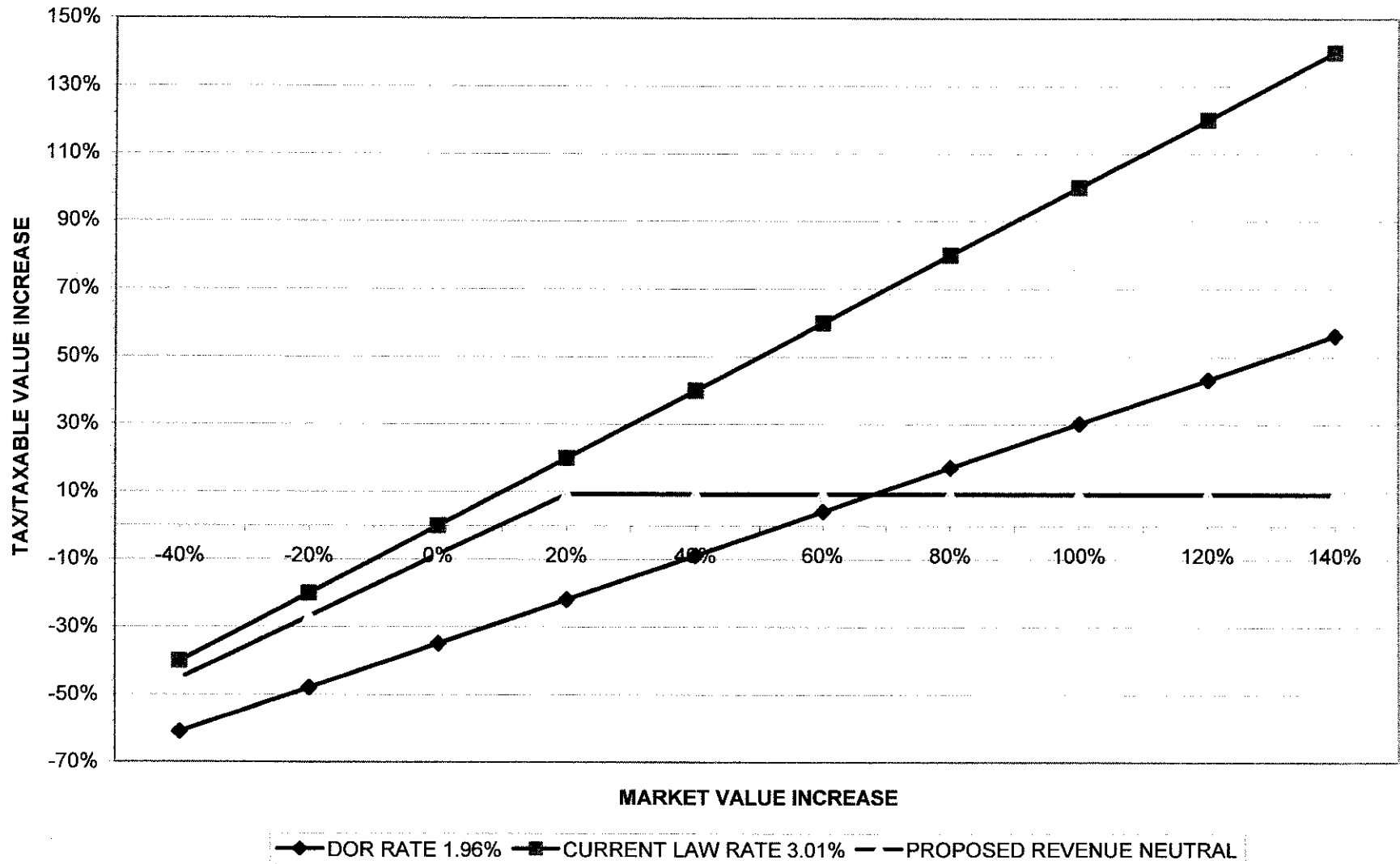
1. CURRENT LAW (MODIFIED) – **REDUCE TAX RATE** TO RETAIN STATE TAXABLE VALUE SAME AS YE 2008, REVENUE NEUTRAL AT STATE LEVEL
2. PROPOSAL A – CHANGE FROM MARKET VALUE TO TAXABLE MARKET VALUE AS ASSESSED VALUE BASIS, LIMIT INCREASE OF TAXABLE MARKET VALUE TO 3% PER YEAR TO NEXT REAPPRAISAL; CHANGE RATE TO BE REVENUE NEUTRAL AT STATE LEVEL (COULD USE MILS)
3. PROPOSAL B – CHANGE FROM MARKET VALUE TO TAXABLE VALUE AS ASSESSED VALUE BASIS, INCREASE TAXABLE VALUE AT 3%/YEAR, NO RATE CHANGE. COULD BE REVENUE NEUTRAL BY REDUCING MILS.
4. PROPOSAL C – SAME AS PROPOSAL B EXCEPT CHANGE MILS AT COUNTY AND LOCAL DISTRICTS TO BE REVENUE NEUTRAL (ALLOWS FOR STATE TO HAVE INCREASE FOR INFLATION WITHOUT INCREASING MILLS AND REDUCES MILS REQUIRED FOR INFLATION AT COUNTY, LOCAL DISTRICTS)
5. PROPOSAL D – SAME AS PROPOSAL B EXCEPT ALLOW TAXABLE VALUE TO INCREASE AT 4% AND REDUCE MILS TO BE REVENUE NEUTRAL AT ALL LEVELS; THEN INCREASE MILS AT THE DISCRETION OF THE DISTRICT TO ACHIEVE THE REVENUE REQUIRED FOR INFLATION (ALLOWS FOR MIL REDUCTION AND REVENUE INCREASE WHEN GROWTH IS GREATER THAN INFLATION) CANNOT INCREASE STATE MILS GREATER THAN 101 MILLS

CURRENT LAW (MODIFIED)

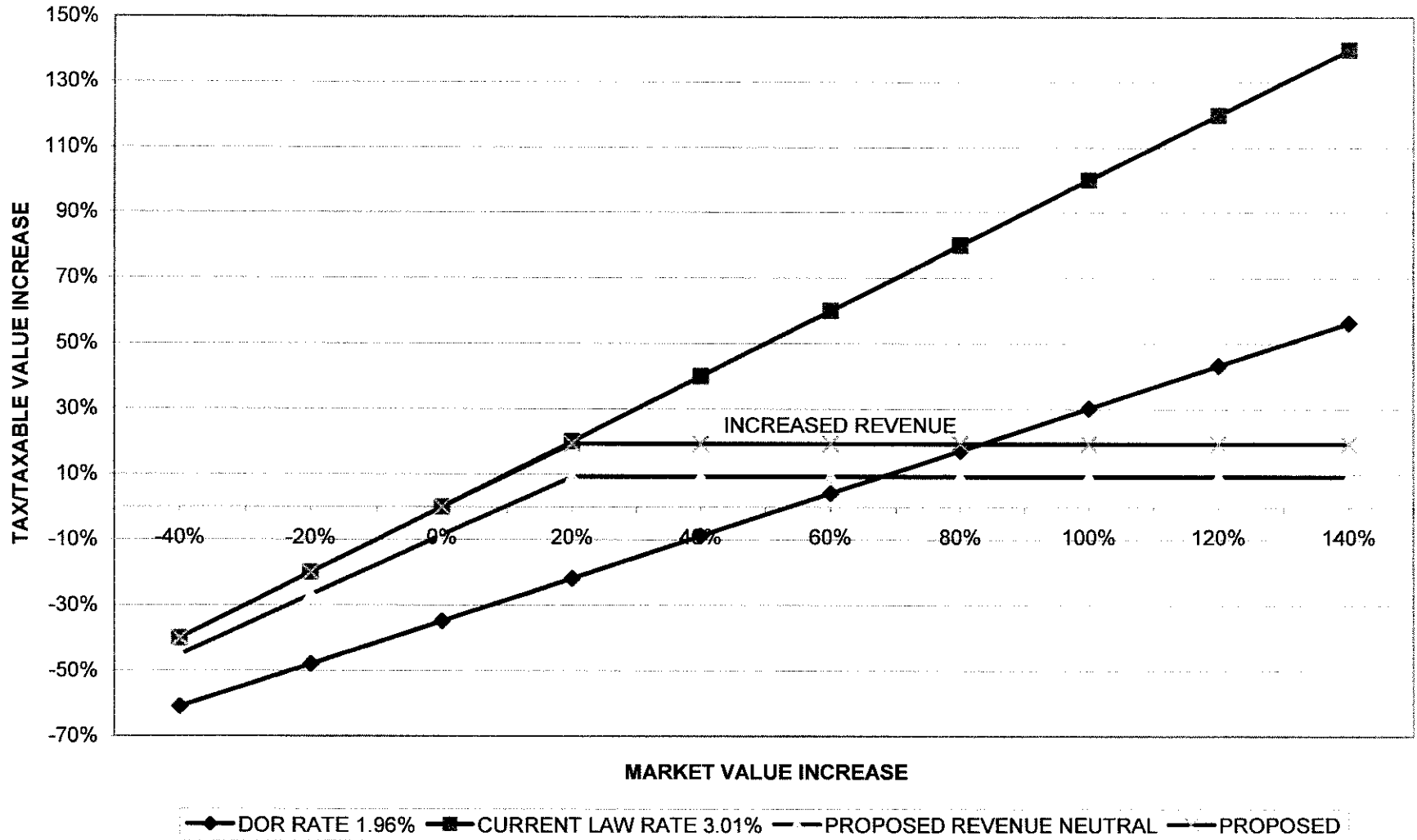
COMPARE CURRENT LAW, DOR RATE STATE LEVEL



COMPARE STATE LEVEL REVENUE NEUTRAL OPTIONS, VARY MILS OR RATE



**COMPARE PROPOSED 3% PER YEARTAXABLE VALUE INCREASE WITH REVENUE
NEUTRAL OPTIONS**



COMPARE TAX IMPACT, RESIDENTIAL COMMERCIAL AND AGRICULTURE

INCREASE MARKET VALUE FROM \$200,000 TO \$400,000 (100%) AND COMPARE TAX INCREASE, DOLLARS AND PERCENT FOR THE PRIMARY OPTIONS

RESULTS

	TOTAL TAX PAID	TAXABLE VALUE PERCENT INCREASE
DOR PROPOSAL		
RESIDENTIAL	\$2897	30.2%
COMMERCIAL	\$3731	30.2%
AGRICULTURE	\$4389	30.2%
TAXABLE MARKET VALUE 3%		
RESIDENTIAL	\$2,526	9.24%
COMMERCIAL	\$3,253	9.24%
AGRICULTURE	\$3827	9.24%
TAXABLE VALUE 3%		
RESIDENTIAL	\$2,674	19.4%
COMMERCIAL	\$3443	19.4%
AGRICULTURE	\$4051	19.4%

MITIGATE BY REDUCING TAX RATE										
DOR RATE CHANGE	REVENUE NEUTRAL		PHASE-IN							
RESIDENTIAL	2008	2009	2010	2011	2012	\$2,013	2014			
Case 8 100% Increase	\$200,000	\$33,333.33								
Exemption	0.34	0.34	0.34	0.34	0.34	0.34	0.34			
Market Value	\$200,000	\$233,333	\$266,667	\$300,000	\$333,333	\$366,667	\$400,000			
Taxable Market Value	\$132,000	\$154,000	\$176,000	\$198,000	\$220,000	\$242,000	\$264,000			
Tax Rate	3.01%	2.80%	2.57%	2.39%	2.23%	2.08%	1.96%			
Taxable Value	\$3,973	\$4,312	\$4,523	\$4,732	\$4,906	\$5,034	\$5,174		Revenue	
Mils .101	0.101	0.101	0.101	0.101	0.101	0.101	0.101	Total Tax Pd	% Increase	W/O Phase in
Revenue (Tax)	\$401	\$436	\$457	\$478	\$496	\$508	\$523	\$2,897	30.2%	\$3,136
								Tax Pd w/o Phase-in		-\$239
COMMERCIAL	2008	2009	2010	2011	2012	\$2,013	2014			
Case 8 100% Increase	\$200,000	\$33,333.33								
Exemption	0.15	0.15	0.15	0.15	0.15	0.15	0.15			
Market Value	\$200,000	\$233,333	\$266,667	\$300,000	\$333,333	\$366,667	\$400,000			
Taxable Market Value	\$170,000	\$198,333	\$226,667	\$255,000	\$283,333	\$311,667	\$340,000			
Tax Rate	3.01%	2.80%	2.57%	2.39%	2.23%	2.08%	1.96%			
Taxable Value	\$5,117	\$5,553	\$5,825	\$6,095	\$6,318	\$6,483	\$6,664		Revenue	
Mils .101	0.101	0.101	0.101	0.101	0.101	0.101	0.101	Total Tax Pd	% Increase	W/O Phase in
Revenue (Tax)	\$517	\$561	\$588	\$616	\$638	\$655	\$673	\$3,731	30.2%	\$4,038
								Tax Pd w/o Phase-in		-\$308
AGRICULTURE	2008	2009	2010	2011	2012	\$2,013	2014			
Case 8 100% Increase	\$200,000	\$33,333.33								
Exemption										
Market Value	\$200,000	\$233,333	\$266,667	\$300,000	\$333,333	\$366,667	\$400,000			
Taxable Market Value	\$200,000	\$233,333	\$266,667	\$300,000	\$333,333	\$366,667	\$400,000			
Tax Rate	3.01%	2.80%	2.57%	2.39%	2.23%	2.08%	1.96%			
Taxable Value	\$6,020	\$6,533	\$6,853	\$7,170	\$7,433	\$7,627	\$7,840		Revenue	
Mils .101	0.101	0.101	0.101	0.101	0.101	0.101	0.101	Total Tax Pd	% Increase	W/O Phase in
Revenue (Tax)	\$608	\$660	\$692	\$724	\$751	\$770	\$792	\$4,389	30.2%	\$4,751
								Tax Pd w/o Phase-in		-\$362

MITIGATE BY LIMITING TAXABLE MARKET VALUE TO 3% PER YEAR, REVENUE NEUTRAL BY CHANGING RATE

PROPOSED REVENUE NEUTRAL		REVENUE NEUTRAL BY RATE								
RATE RESIDENTIAL										
Case 8, 100% INCREASE	2008	2009	2010	2011	2012	\$2,013	2014			
Exemption	0.34	0.34								
Market Value	200,000	\$400,000						TMV INC		
Taxable Market Value 3%/Year	132,000	135,960	140,039	144,240	148,567	153,024	157,615	19.41%		
Tax Rate REV NEUTRAL	3.01%	2.97%	2.91%	2.86%	2.81%	2.78%	2.75%			
Taxable Value	\$3,973	\$4,037	\$4,075	\$4,120	\$4,181	\$4,255	\$4,340			
TMV MAXIMUM		\$264,000								
Mils .101	0.101	0.101	0.101	0.101	0.101	0.101	0.101	Total Tax Pd	% Increase	
Revenue (Tax)	\$401.29	\$408	\$412	\$416	\$422	\$430	\$438	\$2,526	9.24%	
RESERVE TMV							\$106,385			
PROPOSED REVENUE NEUTRAL		REVENUE NEUTRAL BY RATE								
RATE COMMERCIAL										
Case 8, 100% INCREASE	2008	2009	2010	2011	2012	\$2,013	2014			
Exemption	0.15	0.15								
Market Value	200,000	\$400,000								
Taxable Market Value 3%/Year	170,000	175,100	180,353	185,764	191,336	197,077	202,989			
Tax Rate REV NEUTRAL	3.01%	2.97%	2.91%	2.86%	2.81%	2.78%	2.75%			
Taxable Value	\$5,117	\$5,200	\$5,248	\$5,306	\$5,385	\$5,480	\$5,590	9.24%		
TMV MAXIMUM		\$340,000								
Mils .101	0.101	0.101	0.101	0.101	0.101	0.101	0.101	Total Tax Pd	% Increase	
Revenue (Tax)	\$516.82	\$525	\$530	\$536	\$544	\$553	\$565	\$3,253	9.24%	
RESERVE TMV							\$137,011			
PROPOSED REVENUE NEUTRAL		REVENUE NEUTRAL BY RATE								
RATE AGRICULTURE										
Case 8, 100% INCREASE	2008	2009	2010	2011	2012	\$2,013	2014			
Exemption										
Market Value	200,000	\$400,000								
Taxable Market Value 3%/Year	200,000	206,000	212,180	218,545	225,102	231,855	238,810			
Tax Rate REV NEUTRAL	3.01%	2.97%	2.91%	2.86%	2.81%	2.78%	2.75%			
Taxable Value	\$6,020	\$6,117	\$6,174	\$6,243	\$6,336	\$6,446	\$6,576	9.24%		
TMV MAXIMUM		\$400,000								
Mils .101	0.101	0.101	0.101	0.101	0.101	0.101	0.101	Total Tax Pd	% Increase	
Revenue (Tax)	\$608.02	\$618	\$624	\$630	\$640	\$651	\$664	\$3,827	9.24%	
RESERVE TMV							\$161,190			

MITIGATE BY LIMITING TAXABLE VALUE TO 3% PER YEAR										
PROPOSED RESIDENTIAL	Base Values		NOT REVENUE NEUTRAL							
Case 8, 100% Increase	2008	2009	2010	2011	2012	\$2,013	2014			
Exemption	0.34	0.34								
Market Value	\$200,000	\$400,000								
Taxable Market Value	\$132,000	\$264,000								
Tax Rate	3.01%	3.01%								
Taxable Value MAXIMUM	\$3,973	\$7,946								
TAXABLE VALUE 3%\YEAR		\$4,092	\$4,215	\$4,342	\$4,472	\$4,606	\$4,744			
Mils .101	0.101	0.101	0.101	0.101	0.101	0.101	0.101	Total Tax Pd	% Increase	
Revenue (Tax)	\$401.29	\$413	\$426	\$439	\$452	\$465	\$479	\$2,674	19.41%	
RESERVE TAXABLE VALUE							\$3,202			
PROPOSED COMMERCIAL	Base Values									
Case 8, 100% INCREASE	2008	2009	2010	2011	2012	\$2,013	2014			
Exemption	0.15	0.15								
Market Value	\$200,000	\$400,000								
Taxable Market Value	\$170,000	\$340,000								
Tax Rate	3.01%	3.01%								
Taxable Value MAXIMUM	\$5,117	\$10,234								
TAXABLE VALUE 3%\YEAR		\$5,271	\$5,429	\$5,591	\$5,759	\$5,932	\$6,110			
Mils .101	0.101	0.101	0.101	0.101	0.101	0.101	0.101	Total Tax Pd	% Increase	
Revenue (Tax)	\$516.82	\$532	\$548	\$565	\$582	\$599	\$617	\$3,443	19.41%	
RESERVE TAXABLE VALUE							\$4,124			
PROPOSED AGRICULTURE										
Case 8, 100% INCREASE	2008	2009	2010	2011	2012	\$2,013	2014			
Market Value	\$200,000	\$400,000								
Taxable Market Value	\$200,000	\$400,000								
Tax Rate	3.01%	3.01%								
Taxable Value MAXIMUM	\$6,020	\$12,040								
TAXABLE VALUE 3%\YEAR		\$6,201	\$6,387	\$6,578	\$6,776	\$6,979	\$7,188			

VALUATION OF PROS AND CONS OF EACH OPTION

CURRENT LAW (MODIFIED)

PROS

- REDUCES STATEWIDE TAXABLE VALUE AS A PERCENT OF MARKET VALUE
- MITIGATES THE STATE AVERAGE INCREASE IN MARKET VALUE TO CAUSE PROPERTIES WITH BELOW AVERAGE INCREASES TO HAVE **DECREASES** IN TAXABLE VALUE
- ALL BUT APPROXIMATELY 10% OF PROPERTIES WITH INCREASES IN TAXABLE VALUE EXPERIENCE INCREASES AT OR LESS THAN AN AFFORDABLE 25% (2003).
- SHIFTS BURDEN OF STATE TAXES FROM RURAL TO URBAN AREAS
- ALLOWS FOR SOME “WINDFALL REVENUE” IN DISTRICTS WHERE THE TOTAL TAXABLE VALUE IS GREATER THAN PRIOR YEAR (ADVANTAGE FOR DISTRICTS WITH VERY LARGE INCREASE IN MARKET VALUE)
- PHASE-IN LIMITS INCREASE IN **MARKET VALUE** TO 16.67% PER YEAR TO REDUCE THE ANNUAL PERCENTAGE OF TAXABLE VALUE INCREASE FOR HOME OWNERS

CONS

- REDUCES THE EFFECTIVE RATE TO 1.29%: EXEMPTS ~ \$400M IN TAXABLE VALUE FROM TAXATION IN ORDER TO MAINTAIN THE TAX BASE OF 2008; THAT LOW RATE WILL REDUCE POTENTIAL REVENUE BY \$40 M AND MAKE THE FUNCTIONALITY OF THE PROPERTY TAX SYSTEM QUESTIONABLE FOR SMALL COUNTIES AND DISTRICTS WHERE TAX BASE IS ALREADY LOW AND REQUIRE VERY HIGH MILS TO COLLECT THE AMOUNT OF REVENUE REQUIRED TO FUNCTION
- REDUCTION IN TAXABLE VALUE IN SOME DISTRICTS IS BELOW PRIOR YEAR, FORCING AN INCREASE IN MILS TO REVENUE NEUTRAL AND TO OFFSET INFLATION (INCREASED TAX FOR ~ 75% OF TOTAL TAX BILL FOR DISTRICTS WITH NO GROWTH)

LOSS IN GTB FUNDING DUE TO LOSS OF TAX BASE MUST BE REPLACED (REDUCTION IN REVENUE AVAILABLE FOR OTHER SCHOOLS (STATE REVENUE NEUTRAL))

CURRENT LAW CONS Continued

- APPROXIMATELY 10% OF OWNERS EXPERIENCE ABNORMAL INCREASES IN TAXABLE VALUE, VERY LARGE TAX INCREASES AT STATE LEVEL

FORCES SOME OWNERS TO SELL THEIR PROPERTY OR CHANGE LIFESTYLE TO PAY INCREASED TAX TO OFFSET TAX DECREASES OF OTHERS. THIS CIRCUMSTANCE WILL INCREASE DURING RECESSION BECAUSE RETIREES HAVE ALREADY HAD THEIR INCOME FROM INVESTMENTS AND IRAS REDUCED ~ 30% IN 2008.

LOSS OF LONG TIME RESIDENTS CAUSES A CHANGE OF CHARACTER IN SMALLER MONTANA CITIES

- DOES NOT ALLOW FOR ANY INCREASE IN STATE REVENUE TO OFFSET INFLATION (EXCEPT GROWTH)
- SIX YEARS BETWEEN REAPPRAISALS WITH PHASE -IN OF NEW VALUES CAUSES TOO MUCH LAG IN REAL MARKET VALUE ACCURACY ESPECIALLY WHERE VALUES ARE CHANGING RAPIDLY.
- NO RESERVE TO PROTECT REVENUE IN TIME OF RECESSION. POTENTIAL FOR MANDATORY TAX INCREASES IF REVENUE IS LOST DUE TO REAPPRAISAL
- THE CURRENT LAW (MODIFIED) HAS BEEN DEEMED TEMPORARY, A "BAND AID", SINCE INCEPTION IN 1999. THE USE OF THE "BAND AID" AGAIN IN 2009-2015 IS QUESTIONABLE BECAUSE OF THE ALREADY TOO LOW EFFECTIVE RATE AND SOME OTHER SOLUTION WILL CERTAINLY BE REQUIRED IN 2016.
- CONSTITUTIONAL - CURRENT LAW IS QUESTIONABLE REGARDING EQUILIZATION DURING PHASE-IN, OWNERS WITH DECREASE IN VALUE PAY MORE TAX DUE TO PHASE IN (ROOSEVELT), DISCRIMINATES AGAINST OUTLIERS

PROPOSAL B - INCREASE TAXABLE MARKET VALUE 3%/YEAR, CHANGE RATE TO REVENUE NEUTRAL AT STATE LEVEL

PROS

- SYSTEM REFERENCED BY 2004 COMMITTEE (TAXABLE MARKET VALUE BASIS, REVENUE NEUTRAL)
- MIRRORS SB 461 EXCEPT MITIGATION IS THROUGH LIMITING TV INCREASE AND RATE IS REDUCED TO MAKE REVENUE NEUTRAL SYSTEM
- IMMULATES SB461 IN ALL ASPECTS EXCEPT RATE REDUCTION IS LESS, AND DECREASE IN TAXABLE VALUE IS LESS. IF MILS WERE USED TO BE REVENUE NEUTRAL, ALL PROBLEMS DUE TO RATE/TV REDUCTION WOULD BE ELIMINATED. THE STATE 101 MILS CANNOT FLOAT, HOWEVER SO SOME REVISIONS TO LAW WOULD BE REQUIRED.
- LIMITS THE INCREASE IN TAXABLE VALUE TO LESS THAN 3 % PER YEAR, AN AFFORDABLE AMOUNT FOR ALL (MODEL AVERAGE INCREASE FOR RESIDENTIAL PROPERTIES THAT INCREASED IN MARKET VALUE WAS 1.5% PER YEAR)
- SOLUTION VALIDATED BY OTHER STATES SUCCESS, PERMANENT SOLUTION, PREDICTABLE, STABLE, AND EQUITABLE FOR ALL

NO MORE 6 YEAR TAXPAYER PANIC, SCRAMBLE TO CHANGE LAW FOR MITIGATION

- PROTECTS ALL MONTANA RESIDENTS FROM LARGE TAX INCREASES FROM REAPPRAISAL
- CREATES A RESERVE OF TAXABLE VALUE TO DRAW ON IN RECESSION, MINIMIZES LOSS OF REVENUE DUE TO REAPPRAISAL
- SEAMLESS TRANSITION FROM LARGE REAPPRAISAL INCREASES THROUGH RESSION, BACK TO NORMAL

CONS

- REQUIRES CHANGE TO MONTANA CONSTITUTION, EQUILIZATION
- UNABLE TO CONTROL DISPARITY RATIO IF REAPPRAISAL INCREASES ARE GREATER THAN NORMAL

PROPOSAL B AND C – LIMIT INCREASE IN TAXABLE VALUE TO 3%/YEAR, CHANGE MILS TO REVENUE NEUTRAL

PROS

- SAME AS PROPOSAL A, EXCEPT TAXABLE VALUE BASE IS LARGER SO THAT NUMBER OF MILLS FOR A SPECIFIC INCREASE IS LESS

CONS

- PROBLEM WITH THE STATE 101 MILS NOT ALLOWED TO FLOAT
- WE COULD COMPROMISE AND ONLY GO REVENUE NEUTRAL AT THE DISTRICT LEVEL I.E., DO NOT TAKE STATE TO REVENUE NEUTRAL BUT DO KEEP DISTRICTS AND COUNTIES REVENUE NEUTRAL. STATE TV INCREASES TO PROVIDE REVENUE FOR INFLATION. WOULD VIOLATE STATE 1996 LEVELS POLICY

PROPOSAL D - SAME AS PROPOSAL B EXCEPT INCREASE TAXABLE VALUE PERCENT INCREASE TO 4% OR 5%, REDUCE MILS TO BE REVENUE NEUTRAL, ALLOW TO INCREASE MILS ONLY TO INFLATION. STATE MILS COULD NOT EXCEED 101 MILS

PROS

- THIS APPROACH WOULD ALLOW FOR SOME BENEFIT TO HOMEOWNERS FROM THE REAPPRAISAL PROCESS AND STILL BE AFFORDABLE TO ALL. IT ALSO GIVES CONTROL TO THE DISTRICTS TO REDUCE MILLS WHENEVER REAL GROWTH PLUS REAPPRAISAL IS GREATER THAN INFLATION.
- IF WE CAN CHANGE THE 101 MILS TO FLOAT, THIS APPROACH WOULD GIVE STATE AND DISTRICTS THE OPTION TO INCREASE MILS ONLY TO THE MINIMUM SPECIFIED TO OFFSET INFLATION, AND ALLOW FOR SOME MIL REDUCTION/CONTROL AT ALL LEVELS.
- ALLOWS FOR SOME TAX DECREASE DUE TO REAPPRAISAL AND CONTROLLED BURDEN SHIFT OF STATE TAX

CONS

- NO WINDFALL FOR COUNTIES AND DISTRICTS
- PROBABLY SHOULD NOT BE USED DURING RECESSION, GOAL IS TO HAVE INCREASES DUE TO REAPPRAISAL AS LOW AS PRACTICAL

CONCLUSIONS, CONSIDERATIONS AND RECOMMENDATIONS

REVISING SB 461 BY CHANGING THE EFFECTIVE RATE TO 1.29% FOR RESIDENTIAL PROPERTIES IS NOT AN ATTRACTIVE OPTION FOR 2009 - 2015 – RATE TOO LOW FOR EFFICIENT TAX SYSTEM, LOWERS TAX BASE IN SOME DISTRICTS, NO RESERVE FOR RECESSION, UNNECESSARILY LARGE TAX INCREASES FOR SOME OWNERS IN A RECESSION ENVIRONMENT

MODIFIED SB 461 WILL NOT BE A VALID ALTERNATIVE IN 2015. IF THE LEGISLATURE AUTHORIZES THE CHANGE TO LIMIT THE INCREASE IN TAXABLE MARKET OR TAXABLE VALUE, NOW, YOU CAN PROTECT THE STATE FROM A LOSS OF REVENUE BY A RESERVE CREATED IN 2009.

IF THE LEGISLATURE DESIRES TO KEEP THE REVENUE NEUTRAL POLICY, IT CAN BE ACCOMPLISHED WITH A BENEFIT OF INCREASING THE TAX BASE, AND AVOIDING LARGE INCREASES FOR ANY OWNER DURING A RECESSION, CHANGING MILLS

IF TAXABLE VALUE NEUTRAL IS NO LONGER MANADATORY, THE LEGISLATURE CAN PROVIDE REVENUE TO OFFSET INFLATION INCREASES, VERY IMPORTANT DURING RECESSION BECAUSE GROWTH WILL BE LOW

MILL INCREASES FOR INFLATION ARE ALLOWED. POSSIBLE TO BE REVENUE NEUTRAL AND ADJUST MILLS FOR INFLATION WITHOUT VIOLATING REVENUE NEUTRAL MANDATE AT THE LOCAL/DISTRICT LEVEL. STATE MILLS DO NOT FLOAT, SO THE INCREASE IN REVENUE WOULD HAVE TO BE DEFINED AS INFLATION OFFSET. NOT A BAD ASSUMPTIONG SINCE STATEWIDE GROWTH WILL BE SLOW AND THE INCREASE IN REVENUE PLUS GROWTH PROBABLY WILL BE NEAR INFLATION