



Dan Bucks
Director

Montana Department of Revenue



Brian Schweitzer
Governor

MEMORANDUM

To: Revenue and Transportation Interim Committee Members

From: Dan Bucks, Director

Date: September 9, 2008

Subject: Responses to Questions Raised at July 9, 2008 RATIC Meeting

1. Senator Story asked the Department when the first valuation information for the last reappraisal cycle was available for review – that's the cycle that was completed on December 31, 2002.

Response:

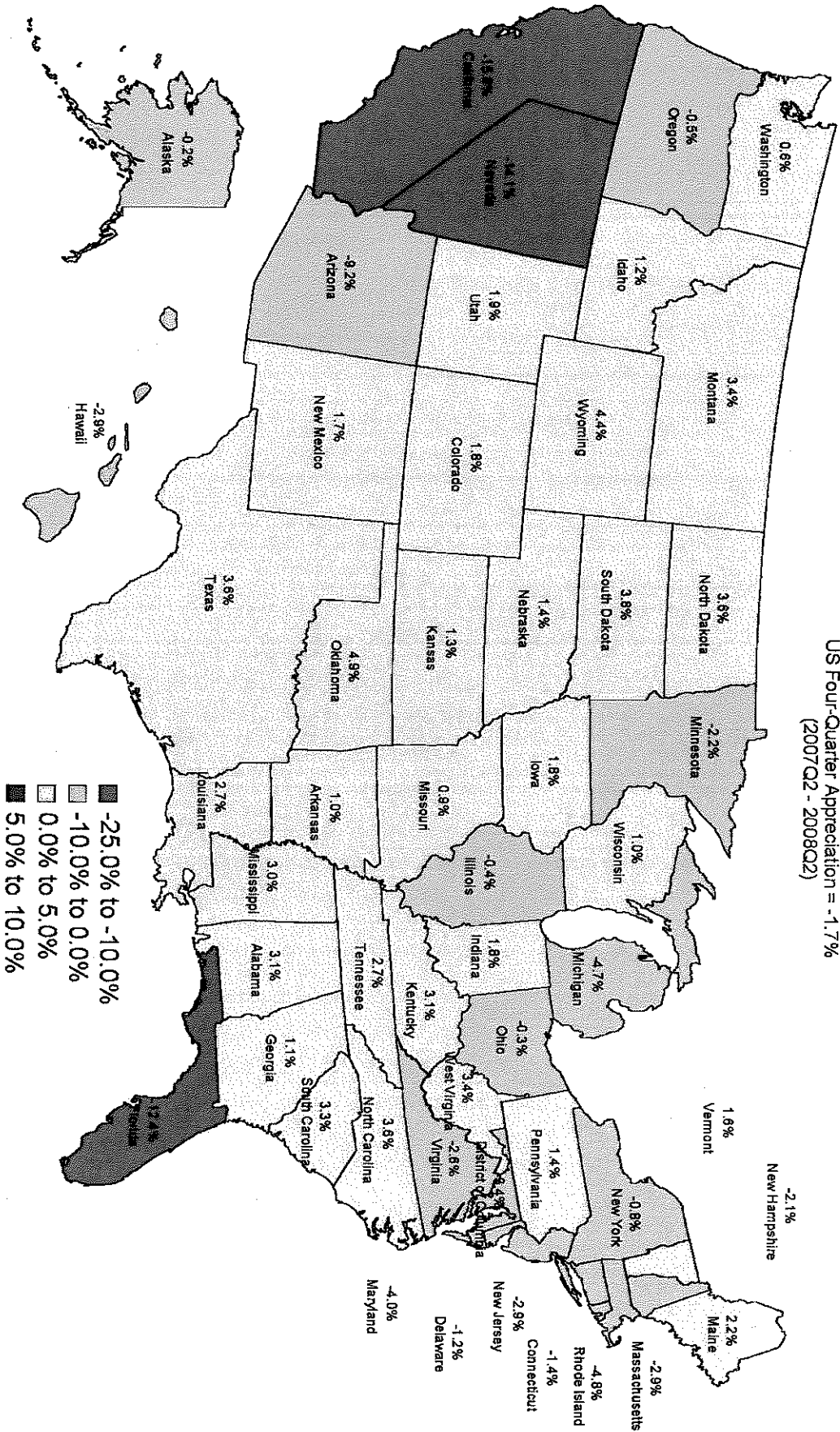
While there is no indication that information was ever delivered specifically to the Revenue and Transportation Interim Committee, there was a Property Tax Reappraisal Advisory Council formed by Executive Order No. 18-02 that reviewed reappraisal cycle information. The Order provided that the council would consist of four members of the Montana Legislature, the Director of the Department of Revenue, one member from the agricultural community, one member who is a residential appraiser and one member from the business community. The members were Senator Bob Story (Chairman), Department of Revenue Director, Kurt Alme (Vice-Chairman), Senator Emily Stonington, Representative John Brueggeman, Representative Gary Branae, Susan Humble, Ward Ernst, and Nick Hogan.

The first preliminary analysis was provided for council review on December 20, 2002. That was eleven days prior to the statutorily required conclusion of the reappraisal cycle. (That memorandum to the council from Brad Simshaw, Principal Tax Policy Analyst titled, "Analysis of Preliminary Reappraisal Valuations," is available upon request.)

c. HB 488 Subcommittee

Four-Quarter Price Change by State: OFHEO HPI (Uses Purchase Prices and Appraisal Valuations)

US Four-Quarter Appreciation = -1.7%
(2007Q2 - 2008Q2)

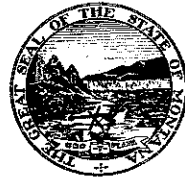


- -25.0% to -10.0%
- -10.0% to 0.0%
- 0.0% to 5.0%
- 5.0% to 10.0%
- 10.0% to 15.0%



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In response to the committee request in July, attached are some of the pros and cons that relate to the three option alternatives that the committee asked about related to the reappraisal cycle.

The Department has worked to provide a comprehensive and balanced approach to each of these alternatives and these comments are not intended to be a Department recommendation but rather a review of what we see at this time to be the issues that would stack up both in support and opposed to each alternative.

I hope that this document is helpful to the committee in your discussion and consideration, and Department staff will be on hand to respond to questions from committee members.

REVENUE AND TRANSPORTATION HB 488 SUBCOMMITTEE
September 9, 2008

Reappraisal Cycle Alternatives

I. Reduce length of current reappraisal cycle from 6 years to 3 years

Pros –

- More current values.
- Eliminate taxpayer confusion, if the phase-in is eliminated, regarding the actual value that's the basis for their property tax bill
- Simplify mitigation strategies.

Cons –

- Significantly higher additional administrative costs if a 3-year cycle is adopted.
- Some greater volatility in values with shorter reappraisal cycles – they tend to even out over longer reappraisal cycles.
- Increased taxpayer contact could be potentially viewed by taxpayers as an inconvenience, or as source of concern that their taxes may increase.

II. Effect of extending reappraisal by 2 years because of housing market issues – extending reappraisal here is interpreted to mean updating the 2008 reappraisal values using nationally accepted statistical methods to 2010. (Extending reappraisal 2 years by completing redoing the appraisal process is not practically realistic, hence the assumption of the use of statistical methods.)

Pros –

- Allay concerns that reappraisal values will not reflect uncertainty in the housing market.
- Allow the Department additional time to verify the data being used to develop (Class 4) market and (Classes 3 & 10) productivity values.

Cons –

- Maybe as much uncertainty – no guarantee that housing market uncertainties will change in 2 years.
- Taxpayers may not have confidence in statistical methods to update values over the next 2 years.
- Prior Supreme Court decision expressed concern with lengthy reappraisal cycles from an equalization perspective – in essence this would extend the current reappraisal cycle to 8 years.

III. Effect of postponing implementation of new values by one year – appeals process

Pros –

- Allows taxpayers time to review reappraisal values one year prior to posting those values to the tax roll.
- Allows some of the appeals to be concluded before values are certified to each taxing jurisdiction – possibly creating some greater certainty in values for taxing jurisdictions.

Cons –

- Creates unnecessary taxpayer concerns because taxpayers would have market value information without knowing the mitigation strategy, thus resulting in greater numbers of appeals as compared to past cycles.
- Creates taxpayer confusion and higher administrative costs due to many cases of “dual tax notices” in 2009 – All taxpayers would receive an assessment notice in 2009 for the reappraisal values that would be used for property tax purposes in 2010. Those same taxpayers would also receive an assessment notice for the current year that showed different values, if they experienced an ownership or value change due to new construction or a land use change. There would be significant property tax computer vendor costs required to generate the dual bills in 2009 for these cases, with an emergency appropriation required early in the 2009 session.
- Would likely require a Special Session of the Legislature to adopt mitigation measures for values to be effective on January 1, 2009.