MINUTES

MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON PROPERTY TAX

Call to Order: By **CHAIRMAN COHEN**, on February 14, 1991, at 8:04 AM.

<u>ROLL CALL</u>

Members Present:

Rep. Dan Harrington, Chairman (D)
Rep. Ben Cohen, Vice-Chairman (D)
Rep. Ed Dolezal (D)
Rep. Orval Ellison (R)
Rep. Russell Fagg (R)
Rep. David Hoffman (R)
Rep. Ed McCaffree (D)
Rep. Mark O'Keefe (D)
Rep. Fred Thomas (R)
Rep. Dave Wanzenried (D)

Members Excused:

Rep. Ted Schye (D)

Staff Present: Lee Heiman, Legislative Council
Julia Tonkovich, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

<u>DISCUSSION ON HB 402</u>

REP. DIANA WYATT said HB 402 is an attempt to deal with property reappraisal problems within the state, specifically within Cascade County. The bill shrinks the appraisal cycle to three years, breaks down the property assessment and evaluation process into thirds, and implements the tax increase in increments.

<u>Questions:</u>

REP. HOFFMAN said although the bill seems like a good idea, it will be a complicated change in process for the appraising offices.

Judy Rippingale, Department of Revenue (DOR) said HB 402 will get 9 increments going, and sets up a process that will require substantial and potentially costly changes in the DOR's computer system as well as their accounting methods.

REP. ELLISON said compressing the appraisal process from seven years to three years seems a large enough step. Separating those three years into three increments will be too complex because there is no base to work from. How will the property be divided into thirds?

REP. WYATT said **Dennis Burr, Montana Taxpayers Association,** suggested the property be divided into classifications and one or two classes of property be appraised per year; for example, agricultural and forestry property will be appraised the first year, commercial property the second year, and residential property the third year. This way discrepancies between neighbors, etc., could be avoided.

Ms. Rippingale explained since **Mr. Burr** was last in the DOR, it has undergone many changes; many of the department's staff have specialized training in only one area of the appraisal process and it will be difficult to retrain these employees and expect them to do quality work immediately. Dividing the workload into thirds will also be difficult.

REP. WANZENRIED asked if the three-year cycle proposed by HB 402 were workable from an administrative standpoint. **Ms. Rippingale** replied that at this point, she doesn't believe it's workable administratively. The DOR staff's confidence level may not be high enough to support a compression of the cycle from seven years to three, let alone any further changes. DOR is still trying to attain workability of their new appraisal system. To achieve consistent, quality appraisals, they must gather accurate information for their databases and make sure their inventory content sheets are correct. These sheets record information on property features (number of bedrooms, type of foundation, basements, etc.). Under this new system, the information from these inventory content sheets is entered into the database, as are the records of all valid property sales. Each piece of property to be appraised is matched with three to five physically and geographically comparable pieces of property, and is given a value based upon comparable sales. The quality of these appraisals will depend on the accuracy of the data concerning both the property being evaluated and the comparable sold properties used to determine its value. Gathering the necessary data on each parcel of property will take considerable staff time. If this time is instead spent trying to compress the cycle so it can be split into thirds, the quality of the appraisals will suffer.

REP. O'KEEFE asked where this proposal came from. **REP. WYATT** said it is based on a Maryland model, which **John Lawton, City Manager of Great Falls,** introduced. He thought this program would address the appraisal problems of Great Falls and Billings. If the public perceives they are being taxed on property that is incorrectly appraised or not appraised at all, there is a "perception problem" as well as a "reality problem." People are more concerned about unequal or wrongly applied property taxes than about rising property tax rates. When many people think the taxes are wrong, the system begins to break down. Although this process may be costly and difficult to implement, it does deal with the perception problem and the existing inequities in the system. Government cannot function without public trust; this is a bill that addresses trust.

REP. O'KEEFE asked what kinds of problems the bill will create for local governments working with the revenue from this property tax (since countywide evaluations change yearly), and what kind of fiscal impact it would have. **Ms. Rippingale** explained the evaluations do not change in the same way everywhere. Setting budgets according to these values will not be a problem, because counties will know the values before they set the mill levies. Some counties take advantage of the taxable value change to increase budgets without mill levy increases. Some counties do increase mill levies when taxable value increases.

REP. WYATT said in some ways, HB 402 is a tax increase bill, and she had to consider that before agreeing to sponsor it.

Ms. Rippingale said in the past, when new values had come up after a reappraisal cycle, the taxable rate had been reduced, so there was no increase in real tax value. Local governments did not have the problem of not being able to deal with sudden budgeting problems caused by tax value increases. Constant year-to-year readjusting would be very hard for the legislature to keep up with. If the tax rate is continually adjusted so the tax value remains constant, there can be no fixed inflation allowance in the tax base, and this could create a financial bind. On the other hand, for the taxpayers who don't trust government, it provides a protection to keep their expenditures limited. This protection may be too stringent as it limits the government's ability to keep up with inflation.

REP. DOLEZAL asked how the inventory data sheets are entered and maintained. **Ken Morrison, Department of Revenue,** said much of the data is already there, having been transferred from DOR's other program. DOR staff is checking the old data's accuracy, as well as collecting and entering the necessary new data this system needs for the evaluations (current condition of the structure, etc.). After sufficient data has been inputted, the staff will run the evaluation program; if time permits, they will then check the value the program came up with against the actual property to make sure the program has worked adequately.

REP. DOLEZAL said in Great Falls, HB 703 pointed out a glaring problem. People weren't as concerned with rising taxes as they were with the methods used to raise taxes; there was a sense of inequity. Residents wanted appraisers to actually go out and look at their property; this seems to be the only "equal" method that will satisfy them.

REP. COHEN said his property was appraised once, and he had some questions as to the process. He asked to see the appraisal information at the courthouse and found a number of discrepancies between their appraisal notes and what actually existed on the property. The property was reappraised without argument. **Mr. Morrison** said if a taxpayer disagrees with their evaluation, the Department of Revenue may reevaluate that property, provided the property owner has filled out the proper forms. DOR reevaluated over a thousand property parcels in Cascade County last year.

REP. MCCAFFREE said the majority of people won't go in and ask for an explanation or a reappraisal.

REP. WANZENRIED asked how the Department of Revenue would estimate its accuracy rates in the reevaluation of those thousand parcels. **Mr. Morrison** said the department found quite a number of errors. Typically, the properties were overdepreciated (deemed "poor" instead of "good"), although some were overvalued.

REP. ELLISON said the ideal way to evaluate property accurately is to reappraise all property every year. This is obviously impossible, due to cost. We will have to find a system that's as near perfect as is affordable.

REP. THOMAS asked if there would be a problem with the three-year phasing. **REP. WYATT** said there is currently a five-year cycle stretched to seven years; therefore property owners have had seven years of no increases or decreases in property tax. With a three year cycle, they get one year's increase or decrease each year. Many property owners would much rather pay this increase in yearly installments instead of paying everything at the end of the third year. Additionally, this constant flow of tax revenue benefits the state.

REP. THOMAS asked when the new value goes into effect, if property is reappraised now. **Ms. Rippingale** said the current evaluations will go into effect January 1, 1994; payments will be collected in November of 1994 and May of 1995. These evaluations are based on 1992 values.

REP. THOMAS clarified that there would be a delay, but not phasing. **Ms. Rippingale** said currently, if someone builds a $100,000 house, it is valued per the 1982 cost bases. Although his cost to build may be $100,000, the value of the house is only $50,000. If the legislature changes the tax rate from 3.86% to 2%, the owner will pay the same tax on a house valued at $100,000 as he would on a house valued at $50,000. Every time there has been a reappraisal, the legislature has wiped out any increase in value by lowering the tax rate.

REP. COHEN clarified the process. The 1982 value is applied to a list of the property's physical characteristics, which gives the 1982 dollar value. Then the sales assessment ratio is applied to compute the property's current market value. The taxable value is obtained from the current market value, and the mill levy is applied to this taxable value. Theoretically, if all a community's property has substantially risen, the local government will only set a mill levy against a value that is appropriate for their needs. With the **I-105** cap, the government of any community whose taxable rates have risen realizes the only way to get a revenue increase is to keep its mill levies fixed.

Ms. Rippingale said HB 402 does not address what to do between now and when the three-year cycle goes into effect, while DOR's bill does. HB 703 is unconstitutional and is off the books; from the legal point of view, both HB 703 and HB 436 must be rolled back, which will create a large revenue problem.

ADJOURNMENT

Adjournment: 8:45 AM

BEN COHEN, Chair

JULIA TONKOVICH, Secretary

BC/jmt

HOUSE OF REPRESENTATIVES

PROPERTY TAX SUBCOMMITTEE

ROLL CALL **DATE** 2/14/91

NAME	PRESENT	ABSENT	EXCUSED
REP. BEN COHEN, VICE-CHAIR	X		
REP. ED DOLEZAL	X		
REP. ORVAL ELLISON	X		
REP. RUSSELL FAGG	X		
REP. DAVID HOFFMAN	X		
REP. ED MCCAFFREE	X		
REP. MARK O'KEEFE	X		
REP. TED SCHYE			
REP. FRED THOMAS	X		
REP. DAVE WANZENRIED	X		
REP. DAN HARRINGTON, CHAIRMAN			