Senate BILL NO. 237

INTRODUCED BY [illegible signature]

A BILL FOR AN ACT ENTITLED: "AN ACT INCREASING FROM 3 YEARS TO 10 YEARS THE REVALUATION PROGRAM OF ALL TAXABLE PROPERTY IN THE STATE; REQUIRING THE DEPARTMENT OF REVENUE TO USE THE VALUES ESTABLISHED IN 1996 FOR CERTAIN CLASSES OF PROPERTY SUBJECT TO PROPERTY TAXATION FOR TAX YEARS 1997 THROUGH 2003; REQUIRING THE DEPARTMENT OF REVENUE TO VALUE NEW PROPERTY OR RECLASSIFIED PROPERTY IN CERTAIN CLASSES OF PROPERTY IN A MANNER CONSISTENT WITH THE WAY PROPERTY WAS VALUED WITHIN THE SAME CLASS IN 1996; AMENDING SECTIONS 15-7-103, 15-7-111, AND 15-7-221, MCA, AND SECTIONS 5 AND 6, CHAPTER 563, LAWS OF 1995; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE AND A RETROACTIVE APPLICABILITY DATE."

STATEMENT OF INTENT

A statement of intent is required for this bill because 15-7-111 gives rulemaking authority to the department of revenue for determining the valuation of new and reclassified property in the same manner as class three, class four, and class ten property was valued within the same class in 1996.

The legislature contemplates that the rules adopted by the department should address, at a minimum, the following:

(1) the base year to be used for determining the assessed value of new or reclassified property in class three, class four, and class ten consistent with the base year of existing property in the same class; and

(2) other criteria to ensure that the assessed value of new and reclassified property in class three, class four, and class ten is determined in the same manner as other property in the same class.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-7-103, MCA, is amended to read:

"**15-7-103. Classification and appraisal -- general and uniform methods.** (1) It is the duty of the department of revenue to implement the provisions of 15-7-101 through 15-7-103 by providing for a general and uniform method of:

(a) ~~for a general and uniform method of~~ classifying lands in the state for the purpose of securing an equitable and uniform basis of assessment of ~~said~~ lands for taxation purposes;

(b) ~~for a general and uniform method of~~ appraising city and town lots;

(c) ~~for a general and uniform method of~~ appraising rural and urban improvements;

(d) ~~for a general and uniform method of~~ appraising ~~timberlands~~ forest lands.

(2) ~~All lands~~ The department shall ~~be classified~~ classify all lands according to their use or uses and ~~graded~~ shall grade land within each class according to soil and productive capacity. In ~~such classification work~~ classifying lands, the department ~~use~~ shall ~~be made of~~ use soil surveys and maps and all other pertinent available information.

(3) All lands must be classified by parcels or subdivisions not exceeding 1 section each, by the sections, fractional sections, or lots of all tracts of land that have been sectionized by the United States government, or by metes and bounds, whichever yields a true description of the land.

(4) All agricultural lands must be classified and appraised as agricultural lands without regard to the best and highest value use of adjacent or neighboring lands.

(5) (a) In any periodic revaluation of taxable property completed under the provisions of 15-7-111 ~~after January 1, 1986~~, all property classified in 15-6-134 must be appraised on its market value in the same year.

(b) For tax years beginning January 1, 1997, and ending December 31, 2003, the department shall use the assessed values established in 1996 for class three, class four, and class ten property. ~~The~~ For all other years, the department shall publish a rule specifying the year used in the appraisal.

(6) All sewage disposal systems and domestic use water supply systems of all dwellings may not be appraised, assessed, and taxed separately from the land, house, or other improvements in which they are located. ~~In no event may the~~ The sewage disposal or domestic water supply systems may not be included twice by including them in the valuation and assessing them separately."

Section 2. Section 15-7-111, MCA, is amended to read:

"**15-7-111. Periodic revaluation of taxable property -- exception -- rules.** (1) (a) ~~The~~ Except as provided in subsection (1)(b), the department of revenue shall administer and supervise a program for the revaluation of all taxable property subject to taxation under chapter 6, part 1, within the state. The department shall complete this revaluation program by December 31, ~~1996~~ 2003. A comprehensive written reappraisal plan must be promulgated by the department. The reappraisal plan adopted must provide that all property in each county be revalued by December 31, ~~1996~~ 2003. The department shall furnish a copy of the plan and all amendments to the plan to the board of county commissioners of each county.

(b) For tax years beginning January 1, 1997, and ending December 31, 2003, the department shall:

(i) use the assessed values established in tax year 1996 for class three, class four, and class ten property; and

(ii) value new property or reclassified property under class three, class four, and class ten in a manner consistent with the method of valuing property within the same class in tax year 1996. The department shall adopt rules for determining the assessed valuation of new property or reclassified property within the same class.

(2) Beginning January 1, ~~1997~~ 2004, the department of revenue shall administer and supervise a program for the revaluation of all taxable property within the state at least every ~~3~~ 10 years. A comprehensive written reappraisal plan must be promulgated by the department. The reappraisal plan adopted must provide that all property in each county be revalued at least every ~~3~~ 10 years. The department shall furnish a copy of the plan and all amendments to the plan to the board of county commissioners of each county."

Section 3. Section 15-7-221, MCA, is amended to read:

"**15-7-221. (Temporary) Phasein of ~~the~~ taxable value of agricultural land.** The increase or decrease in taxable value of agricultural land resulting from the change in the method of determining productive capacity value under 15-7-201, as that section read on December 31, 1996, must be phased in ~~beginning January 1, 1995,~~ as follows:

(1) ~~For the year beginning January 1, 1995, and ending December 31, 1995, the taxable value of agricultural land in each land use and production category must increase or decrease from the December 31, 1994, value by one third of the difference between the product of the productive capacity value of agricultural land for 1995 determined under 15-7-201 times the class three tax rate and the taxable value of agricultural land as of December 31, 1994.~~

~~(2)~~ For the year beginning January 1, 1996, and ending December 31, 1996, the taxable value of agricultural land in each land use and production category must increase or decrease from the December 31, 1994, value by two-thirds of the difference between the product of the productive capacity value of agricultural land for 1995 determined under 15-7-201, as that section read on December 31, 1996, times the class three tax rate and the taxable value of agricultural land as of December 31, 1994.

~~(3)~~(2) (a) Beginning January 1, 1997, and ending December 31, 2003, the taxable value of agricultural land in each land use and production category is equal to ~~100% of~~ the productive capacity value of agricultural land determined under ~~15-7-201 times the class three tax rate~~ subsection (1).

(b) Beginning January 1, 2004, the taxable value of agricultural land in each land use and production category is equal to 100% of the productive capacity value of agricultural land determined under 15-7-201 times the class three tax rate.

~~(4)~~(3) This section does not apply to land described in 15-6-133(1)(c). (Repealed effective January 1, ~~1998~~ 2005~~ secs. 4, 6, Ch. 563, L. 1995~~.)"

Section 4. Section 5, Chapter 563, Laws of 1995, is amended to read:

"Section 5. **Effective dates.** (1) [Sections 1, 3, 6, and this section] are effective on passage and approval.

(2) [Section 2] is effective January 1, ~~1997~~ 2004.

(3) [Section 4] is effective January 1, ~~1998~~ 2005."

Section 5. Section 6, Chapter 563, Laws of 1995, is amended to read:

"Section 6. **Applicability.** (1) [Sections 1 and 3] apply retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1994.

(2) [Section 2] applies to tax years beginning after December 31, ~~1996~~ 2003."

NEW SECTION. **Section 6. Effective date -- retroactive applicability.** [This act] is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to tax years beginning after December 31, 1996.

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0237, as introduced

DESCRIPTION OF PROPOSED LEGISLATION:
An act increasing from 3 years to 10 years the revaluation program of all taxable property in the state; requiring the Department of Revenue to use the values established in 1996 for certain classes of property subject to property taxation for tax years 1997 through 2003; requiring the Department of Revenue to value new property or reclassified property in certain classes of property in a manner consistent with the way property was valued within the same class in 1996; and providing an immediate effective date and a retroactive applicability date.

ASSUMPTIONS:
Impact to Taxable Value:

1. Under the proposal, the taxable value of class 3 property (ag land) is estimated to be $10,100,000 *less* in FY98 and in FY99 (MDOR).
2. Under the proposal, the taxable value of class 4 property (residential and commercial real property) is estimated to be $358,700,000 *less* in FY98 and $372,900,000 *less* in FY99 (MDOR).
3. Under the proposal, the taxable value of class 10 property (forest land) is estimated to be $9,200,000 *less* in FY98 and in FY99 (MDOR).
4. The result of decreasing the total statewide taxable value is estimated to be an *increase* in the general fund requirement for Guaranteed Tax Base(GTB) payments of $10,600,000 in FY98 and of $3,400,000 in FY99 (OBPP).
5. It is assumed that the administrative cost of implementing the proposal will offset savings.
6. Emergency rules will be implemented, but the certified taxable values for tax year 1997 (15-10-202, MCA) will be delayed until late August 1997, causing a delay in the county budget process.

Summary Table - Change in Total Statewide Taxable Value

	FY98	FY99
Class 3 Ag Land	$ (10,100,000)	$ (10,100.000)
Class 4 Resid.and Comm. Real	(358,700,000)	(372,900,000)
Class 10 Forest Land	(9,200,000)	(9,200,000)
Total Change	$(378,000,000)	$(392,200,000)

FISCAL IMPACT:
General Fund Impact:
The proposal has no impact on department expenditures.

	FY98 Difference	FY99 Difference
Increased GTB Payment	$ (10,600,000)	$ (3,400,000)
Change in Tax Base		
95 Mill	(35,900,000)	(37,300,000)
1.5 Vo-Tech Mill	(200,000)	(300,000)
General Fund Impact	**$(46,700,000)**	**$(41,000,000)**

Other Fund Impacts:

	FY98	FY99
Change in Tax Base		
6 Mill University	(2,300,000)	(2,400,000)
9 Mill State Assumption	(2,000,000)	(2,100,000)
Other Fund Impact Total	**(4,300,000)**	**(4,500,000)**

(Continued - page 2)

Dave Lewis 2-3-97
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

2/4/97
GERRY DEVLIN, PRIMARY SPONSOR DATE

FISCAL IMPACT TO TAXPAYERS:

The proposal results in a shift of tax burden between classes of property. By negating the increase in taxable value of class four property, property taxes are shifted onto other classes of property. The degree of this shift is proportionally related to the expected increase in value of residential and commercial property under reappraisal. Generally, the shift would be greatest in areas where residential and commercial real property has appreciated the most. Conversely, the shift will be much smaller in areas where residential and commercial real property has appreciated little.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Generally, the proposal results in a reduced tax base for local governments in FY98 and FY99. It is assumed that local governments would adjust mill levies accordingly to compensate for the change in tax base.

TECHNICAL NOTES:

There are land and improvements in classes other than class 3, 4, and 10 that are subject to cyclical reappraisal that would be treated differently. For example, land and improvements of locally assessed coops and land and improvements of research and development companies would be subject to reappraisal.