

MINUTES

**MONTANA HOUSE OF REPRESENTATIVES
52nd LEGISLATURE - REGULAR SESSION**

SUBCOMMITTEE ON PROPERTY TAX

Call to Order: By **CHAIRMAN COHEN**, on February 15, 1991, at 8:04 AM

ROLL CALL

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. Ted Schye (D)
Rep. Fred Thomas (R)
Rep. Dave Wanzenried (D)

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

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

HB 402, Department of Revenue Presentation

Judy Rippingale, Department of Revenue said **SEN. THAYER, REP. WYATT, REP. COBB**, and the Department of Revenue (via **SEN. CRIPPEN**) have all proposed legislation affecting the sales assessment ratio. **SEN. THAYER's** bill would have a dramatic impact on the state. **HB 703** increases will increase further, as will **HB 436** increases; this will cause a large-scale redistribution of money. The bill would increase taxable value by about \$17 million, mostly in the commercial area. Yellowstone County would see a large increase in taxable value; Cascade County would see a large decrease. **HB 436** had considerable impact on commercial areas, while **HB 703** did not.

REP. DOLEZAL asked what impact **SEN. THAYER's** bill would have on residential areas. **Ms. Rippingale** replied everything would go back to 1982 values, so some counties' residential values would increase, and some would decrease.

REP. COHEN asked for an explanation of differences between **HB 703** and **HB 436**. **Ken Morrison, Department of Revenue (DOR)** said **HB 436** was the first sales ratio study program, passed in 1987. It

provided for adjustments to property based upon ratio studies. The main problem was I-105, which prevented values from rising. HB 436 allowed DOR to lower the values, but not raise them. HB 703 allowed DOR to raise the values.

REP. COHEN asked whether HB 703 negated parts of I-105 (since HB 703 took care of the problems HB 436 created). Mr. Morrison said the bill did put in an exception to I-105. Ms. Rippingale said HB 703 also separated residential and commercial properties; there is considerable difference in their market value.

Ms. Rippingale explained SEN. THAYER's bill. Although it would have a minimal effect on residential values, there will be substantial difference among the counties. Residential taxable values will decrease \$6.3 million in Cascade County; Flathead County will see a \$3.5 million decrease, Gallatin County will see a \$3.9 million decrease, and Missoula County a \$1.1 million decrease. At the same time, Richland will see a \$1.5 million increase in taxable value and Yellowstone County will see an \$8 million increase. Although there is not much net difference, there are tremendous differences from county to county. There will also be a large commercial variation. Overall, there will be a \$17.8 million increase in taxable commercial values; \$13.1 million of that increase will be in Yellowstone County. Yellowstone County will therefore pay a lot more on the statewide mill levy. Officials may decrease the local mills, however. Generalizing, the eastern part of the state will see increases in taxable value, while central and western counties will see a decrease.

REP. COHEN asked how the problem of the unconstitutionality of HB 703 should be addressed. Ms. Rippingale said this is addressed by SEN. CRIPPEN's bill. The Supreme Court said DOR had too wide a dispersion between properties' assessments and their sales values. Not everyone was proportionately undervalued or overvalued; this brought on the lawsuit in Great Falls. DOR's basic appraisals were not in a consistent line with the market, and with SEN. CRIPPEN's bill, those discrepancies should be repaired. The bill would continue the sales assessment ratio study, and also allow for selective reappraisal of areas whose assessment values do not fall at least within 80% of the market value. If there is a wide coefficient of dispersion, people think appraisals are at fault. There are other factors, however, namely changing from a cost system to a market modeling system. The two areas of the state that did not meet the 80% market value criteria were 2.1 and 2.2 in Cascade County. DOR is currently reappraising these areas. The staff cannot wait until the 1991 Session is over to begin the work, because notices must go out this spring in order to meet the taxable value criteria for county budgets. The criteria will get tighter in 1992 and 1993. This year, because only four months were allowed for reappraisals, DOR's guidelines will be looser than 80%. Next year the department will need to meet either 80% of the assessment level, or meet a 20% coefficient of dispersion with

more than 5% change in value. This plan addresses the worst areas in the state, while keeping HB 703 in place.

REP. FAGG asked whether the Supreme Court will allow the Department of Revenue to continue the sales assessment ratio, in part, until 1994. Ms. Rippingale answered yes. Every area will still get a sales assessment ratio study done; when the results of the study indicate problems, DOR will do selective reappraisals. The Supreme Court decision said the department could have a plan that did not necessarily address all areas of the state in the same manner. The Court recognized this as an important government funding issue.

REP. COHEN asked if the department will only do sales assessment ratios for the next three years. Ms. Rippingale answered yes; the new tax values will come up in 1994. REP. COHEN clarified that when the cycle is shortened to three years, the department won't need a sales assessment ratio; it will use inventory sheets and apply market values. Ms. Rippingale agreed.

REP. DOLEZAL asked for an explanation of the coefficient of dispersion. Ms. Rippingale said a "perfect" situation exists when the tax assessor's value equals the actual market value of a house. A "high" assessment would place the taxable value of a house selling for \$100,000 at \$135,000; a "low" assessment would place the taxable value of the same house at \$60,000. A "poor reality" exists when there is a wide range of assessments, and most fall outside 20% on either the "high" side or the "low" side of "perfect." A "good reality" exists when most assessments fall within 20% on either side of "perfect;" in other words, when most houses are assessed for tax purposes at something close to their actual sale price. The unconstitutionality of HB 703 was that the person whose \$100,000 house was valued at \$60,000 and the one whose \$100,000 house was valued at \$135,000 were both paying a 30% tax increase.

REP. MCCAFFREE asked why this dispersion occurs. Ms. Rippingale replied the staff may have thought certain older buildings had depreciated more than they actually had; some houses were also undervalued. The department is striving for 20% accuracy between assessor value and market value.

REP. COHEN asked what percentage of assessments would need to fall within that range. Mr. Morrison said the department wants to get the dispersion at less than 20%, meaning the average number of properties will fall within that range.

REP. O'KEEFE asked if the counties will be held responsible for those properties that are incorrectly appraised. Ms. Rippingale said since DOR took over the assessments in 1972, the county offices cannot take the responsibility for errors.

REP. O'KEEFE asked for clarification of the county assessor's role. Mr. Morrison said the assessor is elected, and can

appoint a deputy, but everyone who works with the assessor is a state employee. The assessor is primarily responsible for assessing personal property, but they may also extend taxes once the levies are set. Some counties have combined the appraiser and assessor positions.

REP. DOLEZAL said even under this new proposal, Great Falls' taxes will still increase in areas 2.1 and 2.2. Ms. Rippingale said this is not true for every individual. In general, Cascade County will have a 20% increase; however, because properties are unequally assessed, some owners may see a 20% or 100% increase in taxes, while others may see a 50% decrease.

REP. O'KEEFE asked if the legislature tries to fix problems created by HB 703, will new problems be created for those areas where the bill has worked? Ms. Rippingale answered no. There was an 8-year gap between the cost assessment system and the market value assessment system. The appraisals should have been adjusted on a yearly basis to accommodate this change; instead, DOR tried to do it all at once. Although the concept wasn't wrong, the timing was.

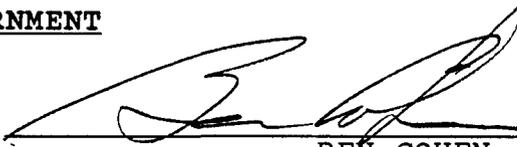
REP. WANZENRIED asked whether this deviation from the "perfect" assessment were more likely to happen in an urban area, and whether it tends to be a countywide problem. Ms. Rippingale said not necessarily; deviation is more likely to happen in rural areas. REP. WANZENRIED clarified that more disparity exists statewide in rural areas than in urban areas. Ms. Rippingale said this was theoretically true.

REP. ELLISON asked whether some of these dispersion problems could be solved if each property owner got a copy of the property appraisal/inventory content sheet. Ms. Rippingale said those with overvalued property would complain, while those with undervalued property would not. There would be too much staff cost; the education is not worth the expense.

REP. DOLEZAL asked how the reappraisal process currently works. Ms. Rippingale said if an area is not off the "perfect" mark as a whole, the department won't reappraise. If a property owner can bring DOR concrete evidence that the property is overvalued, the staff will reappraise and adjust down on a case-by-case basis.

ADJOURNMENT

Adjournment: 8:48 AM


BEN COHEN, Chair


JULIA TONKOVICH, Secretary

BC/jmt

HOUSE OF REPRESENTATIVES

PROPERTY TAX SUBCOMMITTEE

ROLL CALL

DATE 2/15/91

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		X	
REP. FRED THOMAS	X		
REP. DAVE WANZENRIED	X		
REP. DAN HARRINGTON, CHAIRMAN			

