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DATE: January 11, 2003

TO: Property Tax Reappraisal Advisory Council

FROM: Brad Simshaw, Principal Tax Policy Analyst

SUBJECT: **Further Analysis of Preliminary Reappraisal Valuations**

This paper presents analysis that supplements analysis presented to this Advisory Council on December 20, 2002. A reading of the first analysis is suggested.

In the previous analysis, it was presented that the estimated results of fully implementing the new 2003 reappraisal values would be an increase in the total valuation of 20.2% for class 4 residential property, 18.5% for class 4 commercial property, and 15.3% for class 4 agricultural land. This report continues an examination of the preliminary reappraisal valuations, concentrating on the impact to class 4 residential property.

Page 1 of the appendix reviews the earlier findings of the estimated impact of reappraisal on residential property. In this case the properties examined are residential properties that include an improvement value of $7,500 or greater. The purpose of this is to focus on residential properties that are dwellings, eliminating residential vacant lots or residential lots with a non-dwelling improvement.

Of the 306,852 residential properties examined, 260,894 (85.03%) properties increased in valuation, 45,508 (14.83%) properties decreased in valuation, and 450 (0.14%) did not change in valuation. For residential properties with an increase, the average change in appraised value is $20,567. This is an increase from $91,867 to $112,567, an increase of 22.39%. This calculates to an average change of $491 in taxable value. This increase in value would be phased-in over a six-year period. The average decrease in appraised value is $5,932 for those residential properties that have a decrease in value. This is a 7.16% decrease in value. This decrease would be fully implemented in tax year 2003. Overall, the average statewide total change was 18.35%. This percentage change does not match the total change of 20.2% for all residential property because this group of property does not contain vacant lots and lots with improvements worth less than $7,500.

Page 2 of the appendix is a county breakdown of the information on page 1. The overall statewide average change was 18.35%. The overall average changes range from a high of 38.28% in Blaine County to a low of –2.12% in Big Horn County.

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Counties with a relatively high average change tend to more of their total properties with an increase in valuation. In Beaverhead County (overall change of 4.72%) there are 1,094 properties with a decrease and 1,964 properties with an increase. In Wheatland County (overall change of 26.13%) there are 40 properties with a decrease and 889 properties with an increase.

The table on page 3 of the appendix examines the improvement value only. The land value is not included. Overall, the average change in the valuation of residential improvements is 12.76%. When land is included, the overall change was 18.35%. This would suggest that the impact of reappraisal on the value of improvements is different than the impact on land. This notion is confirmed by the information on page 4 of the appendix. The overall change for residential land parcels (all residential land parcels are included) is 45.26%.

The table on page 5 of the appendix summarizes the information on pages 3 and 4. Also included in the table is the average change in property tax liability of the improvements and property tax liability of the land. While the overall average change in valuation of improvements was 12.76%, the overall average change in property tax liability on the improvement is 1.15%. The overall average change in the property tax liability of parcels of land is 29.45%. When the improvement and land are considered as one parcel the overall average change in property tax liability is 6.17%. (This overall average is slightly lower than the average change of 7.9% for all residential property reported in the previous report on reappraisal. The earlier analysis included all residential property. This analysis excludes vacant lots and lots with an improvement valued less than $7,500).

In the prior meeting of the council it was it was observed that examining change as a percentage may be somewhat misleading. A 25% increase may be measuring an increase of $50 (a change from $200 to $250) or an increase of $1,000 (a change from $4,000 to $5,000). The table on page 5 lists the absolute dollar change in property tax liability. The average percent change in liability in Carter County is 14.88% compared to the average percent change of 12.71% in Madison County. However, the average dollar change in Carter County is $50.13 where the average dollar change in Madison County is $126.18.

Overall, the average dollar change is $66.23. The difference in the impact of reappraisal on improvements and land is shown in the average dollar change in liability for improvements and land. The average dollar change in liability for improvements is $10.16. The average dollar change in the liability for land is $56.07.

Page 6 of the appendix contains two tables. The top table shows the statewide distribution of the estimated dollar change in property tax liability for residential property (improvements and land) due to reappraisal under current law. Under current law, it is estimated that 35% of the properties would see a decrease in liability and 65% would see an increase in liability. Approximately 68% of the properties would see a decrease in liability or an increase in liability less than $100. 32% of the property would see an increase in liability greater than $100.

The bottom table on page 6 of the appendix shows the statewide distribution of the estimated dollar change in property tax liability for residential property (improvements and land) due to reappraisal if the homestead exemption is increased and class four tax rate is decreased from those in current law. The table below compares the current law exemption values for residential properties and class 4 tax rate with exemption levels and a class 4 tax rate that would achieve taxable value neutrality given the new 2003 reappraisal values.

Adjustments to Achieve Taxable Value Neutrality in Tax Year 2008		
	Current Law Tax Year 2002	Adjusted Tax Year 2008
Class 4 Tax Rate	3.46%	3.00%
Homestead Exemption	31%	34%
Comstead Exemption	13%	15%

Using the adjusted exemption values and class 4 tax rate, it is estimated that 60% of the properties would see a decrease in liability and 40% would see an increase in liability. 85% of the properties would see a decrease in liability or an increase in liability less than $100. The remaining 15% of properties would see an increase in liability greater than $100.

Page 7 of the appendix shows the estimated average dollar change for residential property by county. The third column measures the impact of full reappraisal under current law. The first and second columns show the estimated average dollar change in liability for the first year and second year of the current law phase-in of reappraisal. The fourth column shows the estimated average dollar change given the adjusted exemption levels and lower tax rate of 3.00%. Generally, the proposed exemption values and lower tax rate result in a lower average dollar change between $50 and $90.

Page 8 of the appendix shows the distribution of the estimated percent change in liability under current law (the top table) and under the proposed adjustments to the exemption levels and tax rate (the bottom table). As expected the bars showing the distribution of the percent change in liability shift to the left when the adjusted exemption values and tax rate are implemented. This shifting is the desired result of the higher exemption levels and lower tax rate. Even so, there remain properties in the higher percentage increase brackets. Under current law, 13% (40,324) of the properties see an increase in liability of 25% or greater. Using the adjusted parameters the number of properties with an increase of 25% or more is reduced to 5% (20,177).

The properties with an increase of 25% or more are examined in the tables on page 9 of the appendix. The left side of page 9 shows the distribution of the dollar change in liability of the 40,324 properties that increased 25% or more under current law. Of these properties, 10.2% have a dollar change less than $50 and 13.6% have an increase from $50 to $100. The number of properties with a $250 or more increase is 16,551 (41%).

The right side of page 9 shows the distribution of the dollar change in liability of the 20,177 properties that increased 25% or more when the proposed adjustments are used. Of these properties, 15.7% have a dollar change less than $50 and 15.6% have an increase from $50 to $100. The number of properties with a $250 or more increase is 6,508 (32%). The 6,508 properties represent 2.1% of the 306,852 residential properties being examined. To be included in this group of 6,508, a property must have increased in liability 25% or more and the increase had to be more than $250. These 6,508 properties are examined in more detail in the table on page 10 of the appendix.

The information in the table on page 10 shows; the average improvement value and land value before reappraisal (2002) and the full reappraisal value (2008), the percent change in the value of the improvement and land, the average dollar liability before reappraisal and after reappraisal, and the average percent change in liability. All the values reflect the full impact of reappraisal and the implementation of the proposed higher exemption levels and lower tax rate.

Almost 20% of the properties are in Gallatin County. While representing 56% of the total 306,852 residential properties, 80% of the properties listed in the table on page 10 are located in the first nine counties listed (Gallatin, Missoula, Yellowstone, Flathead, Lewis and Clark, Ravalli, Madison, Lake, and Park). The average value before reappraisal for this group is $129,279. This is 42% greater than the average value before reappraisal of $90,507 for the population of 306,852 residential properties.

In earlier analysis it was shown that reappraisal was impacting improvements and land differently. Overall, the average change in the value of improvements was 12.76% and the average change in the value of land was 44.31% (page 5 of the appendix). The average change in improvement and land value for the group of 6,508 is 64.2% and 94.9% respectively. In some cases the percent increase in the improvement value was higher than the percent increase in the land value. This is the case for Ravalli County, where the percent increase in the value of improvements is 70.0% and the percent increase in the land value is 58.5%. In the total residential population, the percent increase of the value of land is greater than the percent increase in the value of improvements (35.23% compared to 13.67%).

The potential impact of the land cap is also included in the table. It the land cap were applicable, 1,542 of the 6,508 properties would be impacted. That is to say, in the case of 1,542 properties, the land value exceeds 75% of the improvement value.

The table on page 11 of the appendix examines those properties that had an increase in liability of at least 25% and the increase was at least $500. These properties represent some of the largest impacts of reappraisal. For these properties the average value before reappraisal is $203,104. This is 124% greater than the average value before reappraisal of $90,507 of the general population.

There are four tables on page 12 of the appendix. The first table represents the valuation of residential property before reappraisal. The total taxable value is $737,631,359. The second table represents the change in valuation of residential property due to reappraisal. The total taxable value has increased to $887,593,126.

The third table shows the taxable value of residential property when using the proposed higher exemption level and lower tax rate for residential property. The result is a total taxable value of $736,129,006. This is very close to the taxable value of residential property before reappraisal, reflecting the taxable revenue neutrality of the adjusted exemption levels and tax rate. However, with respect to improvements and land, the adjustments are not taxable value neutral. The taxable value of improvements decreases from level of $567,731,502 before reappraisal to a level of $531,370,567 after reappraisal and implementation of the adjusted parameters. The taxable value of land increases from $169,899,857 to $204,758,439.

To achieve taxable revenue neutrality separately for improvements and land requires a separate exemption level for land than that used for improvements. The fourth table on page 12 shows the results of applying an exemption level of 29.5% for improvements and a level of 45.2% for land (the tax rate is 3.00% for both). The use of the exemption levels results in taxable value neutrality for both land and improvements.

The three tables on page 13 of the appendix continues the trend of lowering the exemption level for improvements and raising the level of improvements for land. In the first table the exemption levels are set such 50% of the value of land is exempt. This requires the exemption level on improvements to be set at 27.7%. The result is taxable value neutrality for residential property.

The second table shows the results of eliminating the exemption for improvements and completely exempting land. The overall result is an increase in residential taxable value. This indicates that residential land could be completely exempt from property tax and part of the value of residential improvements could be exempt. The third table shows that an exemption level of 8.4% for improvements and 100% exemption of land is taxable value neutral.

The next two pages in the appendix compare the impact of using separate exemption levels for improvements and land to that of using a single exemption level applied to both improvements and land. The separate exemption levels will be the taxable revenue neutral levels found in the third table on page 12 of the appendix. The single level of exemption used is 34%. In both cases the tax rate is 3.00%. On page 14, the average percent change in liability is compared. On page 15, the average dollar change in liability is compared.

Generally, the use of a single exemption level appears to be more beneficial to the population of property than the use of separate exemption levels. Using the single exemption level results in 60% of the population decreasing in value. Use of separate exemption levels results in 54% of the population decreasing in value.

Use of separate exemption levels did not lessen the number of properties in the high percent increase brackets. With two exemption levels, 22,907 properties have an increase in liability of 25% or more. With the one exemption level, 20,177 properties have an increase of 25% or more. When using the two exemption levels, 3,090 properties have an increase in liability of $500 or more. With the one exemption level, 2,820 properties have an increase of $500 or more.

If you would like the appendix to this document, please contact Cynthia Piearson, Department of Revenue, at (406) 444-6700 or cpiearson@state.mt.us.