

HOUSE BILL NO. 894

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A BILL FOR AN ACT ENTITLED: "AN ACT REVISING THE APPRAISAL OF PROPERTY FOR TAX PURPOSES TO USE AN AVERAGE VALUE; AMENDING SECTIONS 15-8-111 AND 15-23-205, MCA; AND PROVIDING AN APPLICABILITY DATE."

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

Section 1. Section 15-8-111, MCA, is amended to read:

"15-8-111. Appraisal -- market value standard -- exceptions. (1) All Except as otherwise provided, all taxable property must be appraised at 100% of its market value except as otherwise provided. The market value is the average of the market value for the year containing the general assessment day provided for in 15-8-201 and the prior 9 years, but the average must exclude the lowest and highest yearly data in the period.

(2) (a) Market value is the value at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts.

(b) If the department uses the cost approach as one approximation of market value, the department shall fully consider reduction in value caused by depreciation, whether through physical depreciation, functional obsolescence, or economic obsolescence.

(c) If the department uses the income approach as one approximation of market value and sufficient, relevant information on comparable sales and construction cost exists, the department shall rely upon the two methods that provide a similar market value as the better indicators of market value.

(d) Except as provided in subsection (4), the market value of special mobile equipment and agricultural tools, implements, and machinery is the average wholesale value shown in national appraisal guides and manuals or the value before reconditioning and profit margin. The department shall prepare valuation schedules showing the average wholesale value when a national appraisal guide does not exist.

1 (3) (a) In valuing class four residential and commercial property described in 15-6-134, the
2 department shall conduct the appraisal following the appropriate uniform standards of professional appraisal
3 practice for mass appraisal promulgated by the appraisal standards board of the appraisal foundation. In
4 valuing the property, the department shall use information available from any source considered reliable.
5 Comparable properties used for valuation must represent similar properties within an acceptable proximity of
6 the property being valued. The department shall use the same valuation method to value residential properties
7 in the same neighborhood or subdivision unless there is a compelling reason to use a different approach.

8 (b) When valuing residential property under the cost approach, the department shall document
9 why the comparable sales model does not support usage of the comparable sales approach, including an
10 analysis of whether the cost approach is used for other class four residential property in the market area.

11 (4) The department may not adopt a lower or different standard of value from market value in
12 making the official assessment and appraisal of the value of property, except:

13 (a) the market value for agricultural implements and machinery is the average wholesale value
14 category as provided in published national agricultural and implement valuation guides. The valuation guide
15 must provide average wholesale values specific to the state of Montana or a region that includes the state of
16 Montana. The department shall adopt by rule the valuation guides used as provided in this subsection (4)(a). If
17 the average wholesale value category is unavailable, the department shall use a comparable wholesale value
18 category.

19 (b) for agricultural implements and machinery not listed in an official guide, the department shall
20 prepare a supplemental manual in which the values reflect the same depreciation as those found in the official
21 guide;

22 (c) (i) for condominium property, the department shall establish the value as provided in
23 subsection (5); and

24 (ii) for a townhome or townhouse, as defined in 70-23-102, the department shall determine the
25 value in a manner established by the department by rule; and

26 (d) as otherwise authorized in Titles 15 and 61.

27 (5) (a) Subject to subsection (5)(c), if sufficient, relevant information on comparable sales is
28 available, the department shall use the sales comparison approach to appraise residential condominium units.

1 Because the undivided interest in common elements is included in the sales price of the condominium units, the
2 department is not required to separately allocate the value of the common elements to the individual units being
3 valued.

4 (b) Subject to subsection (5)(c), if sufficient, relevant information on income is made available to
5 the department, the department shall use the income approach to appraise commercial condominium units.
6 Because the undivided interest in common elements contributes directly to the income-producing capability of
7 the individual units, the department is not required to separately allocate the value of the common elements to
8 the individual units being valued.

9 (c) If sufficient, relevant information on comparable sales is not available for residential
10 condominium units or if sufficient, relevant information on income is not made available for commercial
11 condominium units, the department shall value condominiums using the cost approach. When using the cost
12 approach, the department shall value the units individually and allocate only the common area elements to the
13 units based on the percentage of undivided interest in the condominium declaration.

14 (6) For purposes of taxation, assessed value is the same as appraised value.

15 (7) The taxable value for all property is the market value multiplied by the tax rate for each class of
16 property.

17 (8) The market value of properties in 15-6-131 through 15-6-134, 15-6-143, and 15-6-145 is as
18 follows:

19 (a) Properties in 15-6-131, under class one, are assessed at 100% of the annual-average net
20 proceeds after deducting the expenses specified and allowed by 15-23-503 or, if applicable, as provided in 15-
21 23-515, 15-23-516, 15-23-517, or 15-23-518 for the year containing the general assessment day provided for in
22 15-8-201 and the prior 9 years, but the average must exclude the lowest and highest yearly data in the period.

23 (b) Properties in 15-6-132, under class two, are assessed at 100% of the annual-average gross
24 proceeds for the year containing the general assessment day provided for in 15-8-201 and the prior 9 years, but
25 the average must exclude the lowest and highest yearly data in the period.

26 (c) Properties in 15-6-133, under class three, are assessed at 100% of the average productive
27 capacity of the lands when valued for agricultural purposes for the year containing the general assessment day
28 provided for in 15-8-201 and the prior 9 years, but the average must exclude the lowest and highest yearly data

1 in the period. All lands that meet the qualifications of 15-7-202 are valued as agricultural lands for tax purposes.

2 (d) Properties in 15-6-134, under class four, are assessed at 100% of market value.

3 (e) Properties in 15-6-143, under class ten, are assessed at 100% of the average forest
4 productivity value of the land when valued as forest land for the year containing the general assessment day
5 provided for in 15-8-201 and the prior 9 years, but the average must exclude the lowest and highest yearly data
6 in the period.

7 (f) Railroad transportation properties in 15-6-145 are assessed based on the valuation formula
8 described in 15-23-205.

9 (9) Land and the improvements on the land are separately assessed when any of the following
10 conditions occur:

11 (a) ownership of the improvements is different from ownership of the land;

12 (b) the taxpayer makes a written request; or

13 (c) the land is outside an incorporated city or town.

14 (10) For the purpose of this section, the term "compelling reason" includes but is not limited to the
15 following:

16 (a) there are no comparable sales in the neighborhood or subdivision;

17 (b) the comparable sales model prepared by the department shows that the subject property
18 cannot be valued using the market sales approach; or

19 (c) other residential properties in the same neighborhood or subdivision are also valued using the
20 cost approach and not the market sales approach."

21

22 **Section 2.** Section 15-23-205, MCA, is amended to read:

23 **"15-23-205. Assessment -- how made.** (1) The department shall assess the railroad transportation
24 property of all railroads operated in more than one county or more than one state as provided in this section.
25 Assessment must be made to the person owning or leasing or using the property and must be made upon the
26 entire railroad within the state.

27 (2) The department shall determine the value of the railroad system for the current year by
28 multiplying the base value of the railroad by the value change factor determined under subsection (3). The

1 department shall then determine the average market value for the year containing the general assessment day
2 provided for in 15-8-201 and the prior 9 years, but the average must exclude the lowest and highest yearly data
3 in the period.

4 (3) (a) The value change factor is the sum of the income change factor, weighted by 50%, the
5 gross profit margin change factor, weighted by 25%, and the property change factor, weighted by 25%.

6 (b) The income change factor is determined by dividing the change in earnings by the change in
7 the capitalization rate.

8 (c) The gross profit margin change factor is determined by dividing the average gross profit margin
9 for the 2 years immediately preceding the current tax year by the average gross profit margin for the 2 years
10 immediately preceding the previous tax year.

11 (d) The property change factor is determined by dividing the system cost reported by the railroad
12 for the tax year immediately preceding the current tax year by the system cost reported by the railroad for the
13 tax year immediately preceding the previous tax year.

14 (4) The department shall apportion the system value of the railroad to Montana by multiplying the
15 system value of the railroad determined under subsection (2) by the average of the allocation factor for the 2
16 years immediately preceding the current tax year. The allocation factor is determined under subsection (5).

17 (5) The allocation factor used to apportion the system value of the railroad to Montana is the
18 average of the sum of:

19 (a) the ratio of track miles in the state to total system track miles;

20 (b) the ratio of revenue ton miles in the state to total system revenue ton miles;

21 (c) the ratio of gross investment in road and equipment in the state to total system gross
22 investment in road and equipment;

23 (d) the ratio of operating revenue reported in the state to total system operating revenue; and

24 (e) the ratio of railroad car and locomotive miles in the state to total system railroad car and
25 locomotive miles.

26 (6) The department shall take into account extenuating circumstances to adjust the assessed
27 value of railroad property in the state. Occurrences that may result in an adjustment to the assessed value of
28 railroad property include but are not limited to:

(a) extraordinary, unusual, or infrequent events that are material in nature and of a character different from the typical or customary business operations, that are not expected to recur frequently, and that are not normally considered in the evaluation of the operating results of a business; and

(b) material increases or decreases in income and property as a result of events such as writeoffs, writedowns, and changes in accounting methods or practices.

(7) In determining the taxable value of railroad property, the department shall determine the percentage rate "R" provided for in 15-6-145 in order to achieve compliance with the requirements of the federal Railroad Revitalization and Regulatory Reform Act of 1976, as amended."

10 NEW SECTION. **Section 3. Applicability.** [This act] applies to the reappraisal cycle beginning
11 January 1, 2027.

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