

House Bill 389

2015 Session – Final Report

December 31, 2021



The 2015 Legislature passed House Bill 389. This act required owners of real property to reapply to the department for many of the property exemptions in statute.

These exemptions include:

- Property owned by a church and used for actual religious worship (15-16-201(1)(b), MCA.).
- Property used exclusively for educational purposes, not to exceed 80 acres (15-16-201(1)(e), MCA).
- Property owned by a tribal corporation created for the sole purpose of establishing schools, colleges, and universities (15-6-201(1)(f), MCA).
- Property used exclusively for nonprofit health care facilities (15-6-201(1)(g), MCA)
- Property owned or leased from the federal, state, or local governmental entity by institutions of purely public charity and used for charitable purposes (15-6-201(1)(i), MCA).
- Property owned by public museums, art galleries, zoos, or observatories that are non-profit (15-201-6(1)(k), MCA).
- Property owned by a cooperative association or nonprofit corporation organized to furnish potable water to its members or customers for uses other than the irrigation of agricultural land (15-6-201(1)(l), MCA).
- Property owned and used by a corporation or association organized and operated exclusively for the care of persons with developmental disabilities (15-6-201(1)(n), MCA).
- Property owned by a nonprofit corporation that is organized to provide facilities primarily for training and practice for or competition in international sports and athletic events (15-6-201(1)(o), MCA).
- Property associated with a veteran's clubhouse (15-6-203, MCA)
- Buildings used for community services (15-6-209, MCA)
- Property rented to provide affordable housing for lower-income tenants (15-6-221, MCA)
- Property on railroad land and leased by nonprofit organizations (15-6-227, MCA)

Property Tax Exemption Background/Timeline

Pre-1976: A county employed appraiser conducted the review of properties for property tax exemptions for the county commissioners. The county commissioners made the determination as to which properties would receive the exemption.

1977-1980: A state employed appraiser conducted the review of properties for property tax exemptions for the county and the state. The appraiser, in consultation with department administration, determined which properties would receive the exemption.

1981-2002: The department's Property Assessment Division (PAD) maintained handwritten exemption lists in several hard cover books and computer assisted mass appraisal (CAMA) systems. The books and CAMA systems contained the following information for each exemption application received: application number, entity name, county name, tax year, and determination.

2003-2007: PAD exclusively maintained exemption lists in its CAMA system and would pull data into computer spreadsheets. The spreadsheets contained the following information for each exemption application received: application number, entity name, county name, tax year, determination, exemption amount, property value (at the time of exemption), date of decision, and property type.

2008-Present: PAD maintains exemptions granted and denied in its Orion CAMA system. Property records in CAMA system are assigned a property identifier called a Geocode. During this update to the Orion system, not all available exemption information was accurately transferred to the new system; our property review process, as required by 15-7-111, MCA, annually reviews and updates exemption information. The property record contains the following information:

- exemption type
- exemption status
- application date and termination date (if applicable)
- total land size of the property
- size of land exemption
- total building size (square feet)
- number of square feet of building that is exempt
- estimated exempt value
- information on the appraiser who conducted the site visit

It is important to note that certain governmental exempt property may not be reviewed with same accuracy as taxable property. This is because PAD resources are generally believed to be better spent on taxable property. If there are physical changes to an exempt property or the use of the property changes, the department mails the property owner an application and requests additional documentation pertaining to their current exemption, if required.

Related to the history of property tax exemptions, several law changes and court decisions resulted in more stringent filing requirements for exempt properties. Consequently, new applications had to be built to meet these new requirements. Previously, exempt property generally remained in exempt status. For example, in 2005, legislation was passed that established acreage limits for multiple types of exemptions (HB 38, HB 115, SB 68).

As part of the HB 389 process, the department mailed letters and applications to 4,022 entities on December 4, 2015, representing 7,841 parcels in CAMA. These entities

represented parcels that the department initially estimated needed to apply for exemption under HB 389. A separate application is not required for each parcel; multiple parcels can be listed on the same application, resulting in fewer applications than the number of parcels due to many entities owning more than one parcel.

The department developed a sliding fee scale to cover some of the cost of administering the HB 389 renewal program. The following application processing fees were charged:

- No fees were charged to nonprofit entities with gross receipts of less than \$5,000
- \$15 for vacant land parcels
- \$25 for parcels with improvements.

The department collected \$133,290 in fees from 3,290 entities, with most of those fees (86%) being collected in FY 2016. The following table shows the fees processed by calendar year.

| HB 389 Fees Paid by Calendar Year | | |
|--------------------------------------|--------------|----------------|
| CY | Count | Fee |
| 2015 | 101 | \$3,080 |
| 2016 | 2,986 | \$124,035 |
| 2017 | 199 | \$6,085 |
| 2018 | 4 | \$90 |
| 2019 | 0 | \$0 |
| Total | 3,290 | 133,290 |

Exemption Review

Deadlines

Initial applications were sent out December 4, 2015. These first applications were due March 1, 2016. On April 26, 2016, the first reminder postcards were mailed out to properties that had not yet responded. A second mailing was sent in January of 2017. On March 7, 2017, the department mailed a form notifying the owners that their properties were going to be removed from tax exempt status if an application was not filed within 30 days (form AB-34). On May 25, 2017, denial letters were mailed out to the remaining properties informing them of the department's decision to remove the property from exempt status. Taxpayers had 30 days to appeal the denial. As a result, 338 parcels were placed back on the tax rolls because of not reapplying under HB 389.

Documentation

The first step to review exemption applications is determining who the property owner is, i.e. a non-profit, the government (city/county/state/tribe/federal), a hospital, etc. The second step reviews the exemption statutory eligibility requirements for which the entity is applying. The documentation for each exemption varies, but proof of the entity's use of the real property is required along with various types of supporting documentation. The documentation review and application decisions are handled by PAD's central office in Helena.

Site Visit

PAD field office appraisers conduct a site visit of the property to verify the property use and the application information provided by the property owner.

Granted Exemptions

The department informed the property owner by posted mail if their application(s) was/were granted. The letter(s) detailed whether the exemption was full or partial. Information pertaining to the granted exemptions was provided to the public on the department's web page (<https://svc.mt.gov/dor/property/exemptions>). Per HB 389, the information is searchable by county, including:

- the name of the county where the exempt property is located
- name of the owner or entity receiving the exemption
- mailing address of the owner or entity receiving the exemption and the property address of the exempt property
- real property's legal description and total exempt area which includes the square footage or acreage
- exemption type, i.e. purely public charity, education, religious, etc.

Denied Exemptions

The department informed the property owner by posted mail if their application(s) was/were denied. The letter(s) detailed whether the denial was for all property or a portion of the property. The department's denial determination could be appealed to the Montana Tax Appeal Board if the property owner disagreed with the determination. Property owners were also encouraged to reapply if their circumstances changed making them eligible for tax exempt status in a later tax year.

Results

Properties Initially Identified

The department initially identified 7,841 potential parcels that would need to reapply for exemption status under HB 389. The number of parcels truly needing to reapply for exemption status because of HB 389 was very fluid.

As the department endeavored to fulfill its obligation under the provisions of the legislation, new information came to light about the parcels that may have affected the applications requirements.

In addition, new parcels were identified after the initial examination. While cleaning up the data and attempting to standardize the process, the department later estimated that as many as 10,435 parcels needed to reapply for exempt status.

Reasons for the variation in the number of property parcels included:

- Parcels from 2014 & 2015 applications. The law stated anything granted within two years of 2016 did not need to reapply
- Homeowner association related properties that did not provide potable water. These records may have had an exemption, though they would not have had to re-apply under HB 389.
- Properties sold over the years and were no longer exempt.
- Properties discovered to be governmental organizations and thus did not need to apply.
- Some property duplication and other data related cleanup.

The 7,841 properties initially identified for HB 389 were examined, and their TY 2021 information used to estimate their status in relation to HB 389 project.

| Estimated Versus Actual TY 2021 Reapplications For HB 389 | | |
|--|--------------|----------------|
| TY 2021 Status | Count | Percent |
| Granted* | 4,198 | 53.54% |
| Did Not Need to Reapply-Government | 1,327 | 16.92% |
| Did Not Need to Reapply-Other | 446 | 5.69% |
| Ownership Change | 396 | 5.05% |
| Denied | 272 | 3.47% |
| No Response/Denied | 338 | 4.31% |
| Applied Recently | 115 | 1.47% |
| Other/Incomplete Data | 749 | 9.55% |
| Total | 7,841 | 100% |
| Properties Not Initially Estimated | 1,224 | NA |

*Includes 7 properties with multiple applications

When examining these records, properties that were re-granted their exemption status, properties that recently applied for exemption status, and properties that did not need to reapply for exemption accounted for 77.62% of the initially estimated properties.

Properties that did not respond and were denied exempt status or were denied after they reapplied accounted for 7.78% of the initially estimated properties. The category of 'Ownership Changes' (5.05%) represents properties that had ownership changes during this period and were no longer exempt because of factors outside of the HB 389 application process.

The remaining properties (9.55%) were generally a mix of factors that were often unique in nature and difficult to categorize. For example, a property may be deactivated if it is divided into multiple properties or combined with other properties, resulting in the deactivation of the original geocode. There were also several properties in this group with insufficient data in the CAMA system to accurately determine their status as it related to HB 389; local staff generally have more insight into these properties.

Applications Approved and Denied

As of 2021, there were 6,032 properties that were identified as having reapplied under the provisions of HB 389. Of these identified properties, 5,066 (84%) were granted exemption status. Conversely, 966 (16%) were denied exemption status.

The following table details information on the properties that were granted exempt status and the properties whose exemption applications were denied or did not reapply. In addition, several of the properties either did not respond or did not provide sufficient information to determine the appropriate type of exemption

| HB 389 Applications Processes by Type of Exemption | | | |
|---|--------------|------------|--------------|
| | Granted | Denied | Total |
| Religious Exemptions | 2,419 | 238 | 2,657 |
| Charitable Exemptions | 848 | 154 | 1,002 |
| Non-Profit Health Care | 404 | 105 | 509 |
| Developmentally Disabled Org/Mentally Impaired | 330 | 24 | 354 |
| Community Service Building/Fratalernal | 242 | 43 | 285 |
| Educational Exemptions | 190 | 62 | 252 |
| Low Income Housing | 146 | 6 | 152 |
| Retired/Aged/Chronically Ill | 97 | 1 | 98 |
| Art Galleries/Observatories/Zoos/Museums | 97 | 22 | 119 |
| Veteran's Clubhouse | 81 | 13 | 94 |
| Cemetery, Mausoleums, Crematories | 125 | 19 | 144 |
| Non-Profit Water Association | 83 | 17 | 100 |
| Horticulture/Agricultural Societies | 3 | 2 | 5 |
| Non-Profit International Athletic Facility | 1 | 1 | 2 |
| Missing Information/Did Not Reapply | 0 | 259 | 259 |
| Total | 5,066 | 966 | 6,032 |

As the prior table demonstrates, most of the applications were for religious exemptions; the second largest category was charitable organizations.

The following table shows the proportion of applications processed by calendar year.

| Applications Processed by Year | | | |
|---------------------------------------|----------------|----------------|----------------|
| | <u>Granted</u> | <u>Denied</u> | <u>Total</u> |
| CY 2016 | 1.64% | 0.57% | 1.48% |
| CY 2017 | 47.42% | 46.02% | 47.21% |
| CY 2018 | 29.26% | 38.30% | 30.62% |
| CY 2019 | 7.07% | 5.34% | 6.81% |
| CY 2020 | 10.20% | 3.64% | 9.21% |
| CY 2021 | 4.41% | 6.14% | 4.67% |
| Total | <u>100.00%</u> | <u>100.00%</u> | <u>100.00%</u> |

As the previous tables show, most of the applications were processed in calendar year (CY) 2017 and CY 2018. Properties that did not respond, and were subsequently denied exemption status, were considered processed in CY 2017, as this was when their exemption status was removed. Applications were also processed in CY 2019-CY 2021, and although fewer applications were processed during this time, these applications were generally more complicated and time-consuming than the applications processed in the initial years.

The following table shows the rate at which the applications were approved by exemption type and by year. Overall, 84% of all applications were approved, and 16% of applications were denied.

| HB 389 Approval Rates by Year and by Type of Exemption | | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
| Total Applications | CY 2016 | CY 2017 | CY 2018 | CY 2019 | CY 2020 | CY 2021 | Total |
| Religious Exemptions | 100% | 95% | 84% | 93% | 93% | 81% | 91% |
| Charitable Exemptions | 87% | 90% | 76% | 94% | 90% | 79% | 85% |
| Non-Profit Health Care | 100% | 90% | 75% | 66% | 94% | 56% | 79% |
| Developmentally Disabled Org/Mentally Impaired | 100% | 95% | 92% | 87% | 98% | 71% | 93% |
| Community Service Building/Frternal | 100% | 94% | 84% | 80% | 93% | 100% | 85% |
| Educational Exemptions | 100% | 79% | 63% | 89% | 100% | 55% | 75% |
| Low Income Housing | 100% | 100% | 91% | 100% | 100% | 100% | 96% |
| Retired/Aged/Chronically Ill | | 100% | 98% | 100% | 100% | 100% | 99% |
| Art Galleries/Observatories/Zoos/Museums | | | 91% | 80% | 100% | 78% | 71% |
| Veteran's Clubhouse | 100% | 98% | 62% | 67% | 100% | | 86% |
| Cemetery, Mausoleums, Crematories | | | 100% | 75% | 70% | 100% | 88% |
| Non-Profit Water Association | 100% | 100% | 97% | 100% | 100% | 100% | 83% |
| Horticulture/Agricultural Societies | | | 100% | 33% | 100% | | 60% |
| Non-Profit International Athletic Facility | 0% | 100% | | | | | 50% |
| <u>Missing Information/Did Not Reapply</u> | | | 0% | | | | 0% |
| Total | 94% | 85% | 81% | 88% | 94% | 80% | 84% |

As the previous table shows, the approval rates for each type of exemption and the year in which they were processed seem to be relatively consistent. However, there was some variation in groupings with smaller number of applications, as a single application had a larger effect on the aggregate approval rates. The one exception to this would be the properties that did not reapply; predictably, the approval rate for these properties was 0%.

This table shows the counties where potentially exempt properties are located, as well as the approval rate of the exemption applications for all 56 counties. The number of applications is highly connected to the statewide population. For example, Yellowstone County had the most applications of all the counties and the highest population. Similarly, Petroleum County had the fewest applications, and contains the fewest people. Interestingly, Silver Bow County had the greatest number of denied applications (72) because of HB 389. Of the 72 denials, 19 were charitable organizations, 18 were non-profit health care centers, 13 did not respond and contained insufficient information to determine the type of exemption, and 22 were of various other types of exemptions. The reasons for these denials were primarily use related (39) or non-response and insufficient information (23).

Like the approval rates by exemption type, the rates of approval seem to be relatively consistent between counties, with some variation in smaller counties where a single application can have a larger effect. Petroleum County had the highest approval rate at 100%, while Roosevelt County had the lowest approval rate at 53%. In Roosevelt County, the most common reason for denial (71%) was non-response and insufficient information.

| HB 389 Applications and Approval Rates by County | | | | |
|--|--------------|------------|--------------|---------------|
| County | Granted | Denied | Total | Approval Rate |
| Beaverhead | 60 | 6 | 66 | 90.9% |
| Big Horn | 62 | 11 | 73 | 84.9% |
| Blaine | 40 | 9 | 49 | 81.6% |
| Broadwater | 25 | 9 | 34 | 73.5% |
| Carbon | 76 | 5 | 81 | 93.8% |
| Carter | 21 | 4 | 25 | 84.0% |
| Cascade | 341 | 47 | 388 | 87.9% |
| Chouteau | 54 | 18 | 72 | 75.0% |
| Custer | 65 | 11 | 76 | 85.5% |
| Daniels | 28 | 12 | 40 | 70.0% |
| Dawson | 75 | 19 | 94 | 79.8% |
| Deer Lodge | 60 | 8 | 68 | 88.2% |
| Fallon | 31 | 8 | 39 | 79.5% |
| Fergus | 93 | 19 | 112 | 83.0% |
| Flathead | 324 | 68 | 392 | 82.7% |
| Gallatin | 299 | 28 | 327 | 91.4% |
| Garfield | 14 | 1 | 15 | 93.3% |
| Glacier | 55 | 41 | 96 | 57.3% |
| Golden Valley | 14 | 2 | 16 | 87.5% |
| Granite | 27 | 4 | 31 | 87.1% |
| Hill | 101 | 10 | 111 | 91.0% |
| Jefferson | 54 | 19 | 73 | 74.0% |
| Judith Basin | 18 | 5 | 23 | 78.3% |
| Lake | 201 | 25 | 226 | 88.9% |
| Lewis And Clark | 271 | 63 | 334 | 81.1% |
| Liberty | 30 | 1 | 31 | 96.8% |
| Lincoln | 143 | 21 | 164 | 87.2% |
| Madison | 78 | 11 | 89 | 87.6% |
| McCone | 19 | 2 | 21 | 90.5% |
| Meagher | 19 | 9 | 28 | 67.9% |
| Mineral | 37 | 4 | 41 | 90.2% |
| Missoula | 369 | 30 | 399 | 92.5% |
| Musselshell | 36 | 10 | 46 | 78.3% |
| Park | 112 | 20 | 132 | 84.8% |
| Petroleum | 7 | 0 | 7 | 100.0% |
| Phillips | 43 | 6 | 49 | 87.8% |
| Pondera | 47 | 9 | 56 | 83.9% |
| Powder River | 20 | 5 | 25 | 80.0% |
| Powell | 47 | 13 | 60 | 78.3% |
| Prairie | 22 | 8 | 30 | 73.3% |
| Ravalli | 162 | 25 | 187 | 86.6% |
| Richland | 95 | 31 | 126 | 75.4% |
| Roosevelt | 71 | 64 | 135 | 52.6% |
| Rosebud | 95 | 26 | 121 | 78.5% |
| Sanders | 88 | 16 | 104 | 84.6% |
| Sheridan | 69 | 23 | 92 | 75.0% |
| Silver Bow | 200 | 72 | 272 | 73.5% |
| Stillwater | 61 | 9 | 70 | 87.1% |
| Sweet Grass | 21 | 3 | 24 | 87.5% |
| Teton | 69 | 4 | 73 | 94.5% |
| Toole | 32 | 8 | 40 | 80.0% |
| Treasure | 10 | 2 | 12 | 83.3% |
| Valley | 106 | 30 | 136 | 77.9% |
| Wheatland | 24 | 1 | 25 | 96.0% |
| Wibaux | 12 | 1 | 13 | 92.3% |
| Yellowstone | 513 | 50 | 563 | 91.1% |
| Total | 5,066 | 966 | 6,032 | 84.0% |

Denied Applications

As a result of HB 389, some properties were determined to be ineligible for exemption. These properties were then placed back on the tax rolls and reintegrated into the tax base. The assessed values for these properties were then multiplied by a statutory tax rate to determine the properties' taxable value. The authorized taxing jurisdiction mills were then applied to the taxable value.

Reasons for application denial were varied, but the following table attempts to categorize some of the more common reasons for denial.

| Reasons for the Denial of Exempt Property Applications Related to HB 389 | | | | | |
|--|---|--|--------------------------------------|---------------|------------|
| Type of Exemption | Property Does Not Meet Use Requirements | Insufficient Information From Taxpayer | Does not Meet Ownership Requirements | Other Reasons | Total |
| Religious Exemptions | 139 | 36 | 6 | 57 | 238 |
| Charitable Exemptions | 88 | 33 | 2 | 31 | 154 |
| Non-Profit Health Care | 73 | 22 | 3 | 7 | 105 |
| Developmentally Disabled Org/Mentally Impaired | 9 | 6 | 2 | 7 | 24 |
| Community Service Building/Fratalernal | 11 | 11 | 1 | 20 | 43 |
| Educational Exemptions | 49 | 6 | 2 | 5 | 62 |
| Low Income Housing | 1 | 2 | 0 | 3 | 6 |
| Retired/Aged/Chronically Ill | 0 | 0 | 0 | 1 | 1 |
| Art Galleries/Observatories/Zoos/Museums | 10 | 2 | 1 | 9 | 22 |
| Veteran's Clubhouse | 1 | 11 | 0 | 1 | 13 |
| Cemetery, Mausoleums, Crematories | 6 | 4 | 0 | 9 | 19 |
| Non-Profit Water Association | 0 | 1 | 0 | 16 | 17 |
| Horticulture/Agricultural Societies | 0 | 2 | 0 | 0 | 2 |
| Non-Profit International Athletic Facility | 0 | 1 | 0 | 0 | 1 |
| Missing Information/Did Not Reapply | 0 | 259 | 0 | 0 | 259 |
| Total | 387 | 396 | 17 | 166 | 966 |

Properties denied exemption status were added back to the tax base and subjected to the associated taxing jurisdictions mill. Statewide, these properties

- Had a total assessed value of \$237.291 million
- Had a taxable value of \$2.894 million (implying an average tax rate of 1.22%)
- Paid an estimated total of \$2.051 million (implying a weighted average of 708.720 mills)

The one caveat with these estimates, is that they represent the value and taxes the entire property was assessed; in many of the denied applications, only a portion of the property was applying for exemption. However, it is not possible to identify the portion of the property that was denied exempt status, as the entire property is deemed to be taxable. Therefore, the entire value of the property is used in these estimates. These estimates thus represent an overestimation of value added back to the tax rolls because

of HB 389, as not all the properties would have remained exempt in the absence of HB 389. Additionally, some of the properties that were denied chose to reapply in subsequent years and were subsequently granted exemption status in TY 2021 for reasons outside of HB 389.

Taxable property in Montana is subject to multiple taxing jurisdictions such as the county, school districts, cities or municipalities, state equalization mills, university mills, and any other taxing jurisdictions that may have taxing authority over the property. These jurisdictions are ultimately responsible for setting the mills a property pays, which is a significant factor in determining the overall property taxes paid for any given property.

The following table details data for the properties that were denied exempt status by type of taxing jurisdiction. The assessed value and market value columns show how much value was added back into the taxing jurisdictions, the average mills these jurisdictions levied, and the estimated taxes paid for each type for taxing jurisdiction. Assessed values and taxable value columns were not totaled as a property will be contained in multiple taxing jurisdictions; totaling these columns would result in over counting the value.

| TY 2021 HB 389 Denied Values by Taxing Jurisdiction Type (\$ millions) | | | | |
|---|----------------|---------------|------------|------------|
| Type of Taxing Jurisdiction | Assessed Value | Taxable Value | Est. Mills | Est. Taxes |
| State of Montana | \$237.291 | \$2.894 | 101.609 | \$0.294 |
| County-wide | \$237.291 | \$2.894 | 157.412 | \$0.456 |
| Roads | \$83.824 | \$0.989 | 26.729 | \$0.026 |
| City/Municipality | \$150.539 | \$1.877 | 172.546 | \$0.324 |
| Fire Districts | \$60.602 | \$0.701 | 60.225 | \$0.042 |
| Cemetery Districts | \$33.162 | \$0.360 | 4.631 | \$0.002 |
| Other Districts | \$183.345 | \$2.380 | 24.558 | \$0.058 |
| County-Wide Education | \$225.465 | \$2.817 | 44.936 | \$0.127 |
| Local High School | \$214.589 | \$2.633 | 77.892 | \$0.205 |
| Local Elementary | \$214.517 | \$2.632 | 169.070 | \$0.445 |
| Local K-12 | \$22.464 | \$0.260 | 222.632 | \$0.058 |
| Junior College | \$69.182 | \$1.077 | 13.038 | \$0.014 |
| Total | | | | \$2.051 |

It is also important to note most mills are set to generate sufficient tax revenue to meet the budgetary requirements of the taxing jurisdictions. Therefore, the TY 2021 estimated tax revenue does not represent additional tax dollars to the taxing jurisdictions, but rather a shift from existing property tax payers to these newly non-exempt properties. The one exception to this would be the State of Montana which levies a fixed number of mills (101 or 102.5 depending on location); therefore tax revenue to this taxing jurisdiction does represent additional tax dollars for TY 2021.

For properties denied exemption status, the following table shows the classification, the assessed value, the taxable value, the associated average mills, and the estimated taxes that were paid for these properties for TY 2021.

| TY 2021 HB 389 Denied Values by Tax Class (\$ millions) | | | | |
|--|------------------|----------------|----------------|----------------|
| Tax Class | Assessed Value | Taxable Value | Mills | Est. Taxes |
| Class 3 Agricultural Land | \$0.993 | \$0.026 | 600.470 | \$0.015 |
| Class 4 Residential | \$47.997 | \$0.569 | 630.877 | \$0.359 |
| Class 4 Commercial | \$188.148 | \$2.298 | 729.230 | \$1.676 |
| <u>Class 10 Forest Land</u> | <u>\$0.153</u> | <u>\$0.001</u> | <u>607.700</u> | <u>\$0.000</u> |
| <u>Total</u> | <u>\$237.291</u> | <u>\$2.894</u> | <u>708.720</u> | <u>\$2.051</u> |

Most of the value associated with this non-exempt property was classified as class 4, primarily class 4 commercial property.

The following table shows values for the non-exempt property based on the type of exemption the properties applied for (and were then denied).

| TY 2021 HB 389 Denied Values by Exemption Type (\$ millions) | | | | |
|---|-------------------------|-----------------------|----------------------|-----------------------|
| <u>Exemption Type</u> | <u>Assessed Value</u> | <u>Taxable Value</u> | <u>Mills</u> | <u>Est. Taxes</u> |
| Religious Exemptions | \$34.866 | \$0.366 | 677.21 | \$0.248 |
| Charitable Exemptions | \$29.778 | \$0.371 | 631.64 | \$0.234 |
| Non-Profit Health Care | \$33.576 | \$0.503 | 745.28 | \$0.375 |
| Developmentally Disabled Org/Mentally Impaire | \$2.881 | \$0.029 | 719.73 | \$0.021 |
| Community Service Building/Fraterna | \$9.530 | \$0.079 | 626.07 | \$0.050 |
| Educational Exemptions | \$24.785 | \$0.373 | 754.94 | \$0.281 |
| Low Income Housing | \$2.003 | \$0.003 | 855.26 | \$0.002 |
| Retired/Aged/Chronically Ill | \$0.041 | \$0.001 | 843.94 | \$0.000 |
| Art Galleries/Observatories/Zoos/Museums | \$2.496 | \$0.037 | 581.26 | \$0.022 |
| Veteran's Clubhouse | \$0.997 | \$0.007 | 678.30 | \$0.005 |
| Cemetery, Mausoleums, Crematories | \$1.236 | \$0.013 | 684.45 | \$0.009 |
| Non-Profit Water Association | \$1.287 | \$0.005 | 714.37 | \$0.004 |
| Horticulture/Agricultural Societies | \$0.571 | \$0.009 | 749.91 | \$0.007 |
| Non-Profit International Athletic Facility | \$0.016 | \$0.000 | 841.94 | \$0.000 |
| <u>Missing Information/Did Not Reapply</u> | <u>\$93.228</u> | <u>\$1.098</u> | <u>722.50</u> | <u>\$0.793</u> |
| Total | <u>\$237.291</u> | <u>\$2.894</u> | <u>708.72</u> | <u>\$2.051</u> |

Excluding properties that could not be categorized because they did not reapply, properties applying for religious exemptions accounted for the most additional assessed value being added back on to the tax rolls. Because of the tax rates and mill levies applied to these properties, in aggregate, properties that applied for non-profit health care exemptions accounted for the most taxable value and taxes paid in TY 2021 due to losing their exempt status.

The following table shows the total assessed value, taxable value, average mills, and estimated taxes paid for these denied properties by county. As with the number of applications, these values are also highly interconnected to the county's relative share of the state population. Because of the denial of a few particularly large non-profit health care applications, Flathead and Silver Bow Counties saw particularly large increase of additional taxes paid by previously exempted properties relative to their populations.

| TY 2021 HB 389 Denied Values by County (\$ millions) | | | | | | | | | |
|---|----------------|---------------|-----------|------------|--------------|------------------|----------------|----------------|----------------|
| County | Assessed Value | Taxable Value | Mills | Est. Taxes | County | Assessed Value | Taxable Value | Mills | Est. Taxes |
| Beaverhead | \$0.241 | \$0.004 | 721.171 | \$0.003 | Meagher | \$1.324 | \$0.006 | 580.701 | \$0.004 |
| Big Horn | \$2.059 | \$0.024 | 744.751 | \$0.018 | Mineral | \$0.081 | \$0.001 | 811.075 | \$0.001 |
| Blaine | \$0.388 | \$0.005 | 1,022.177 | \$0.005 | Missoula | \$26.606 | \$0.366 | 799.333 | \$0.293 |
| Broadwater | \$0.692 | \$0.008 | 600.189 | \$0.005 | Musselshell | \$0.403 | \$0.003 | 523.979 | \$0.001 |
| Carbon | \$0.441 | \$0.005 | 532.330 | \$0.003 | Park | \$3.833 | \$0.052 | 408.558 | \$0.021 |
| Carter | \$0.051 | \$0.001 | 505.696 | \$0.000 | Petroleum | \$0.000 | \$0.000 | | \$0.000 |
| Cascade | \$19.803 | \$0.129 | 716.473 | \$0.092 | Phillips | \$1.252 | \$0.019 | 644.308 | \$0.012 |
| Chouteau | \$2.148 | \$0.025 | 616.606 | \$0.015 | Pondera | \$0.442 | \$0.005 | 698.376 | \$0.003 |
| Custer | \$0.953 | \$0.004 | 881.822 | \$0.003 | Powder River | \$0.148 | \$0.002 | 479.345 | \$0.001 |
| Daniels | \$0.113 | \$0.000 | 751.760 | \$0.000 | Powell | \$2.071 | \$0.011 | 620.335 | \$0.007 |
| Dawson | \$1.119 | \$0.016 | 873.930 | \$0.014 | Prairie | \$0.292 | \$0.005 | 743.099 | \$0.004 |
| Deer Lodge | \$0.571 | \$0.006 | 765.833 | \$0.005 | Ravalli | \$3.988 | \$0.064 | 576.025 | \$0.037 |
| Fallon | \$0.117 | \$0.001 | 324.088 | \$0.000 | Richland | \$10.443 | \$0.058 | 528.488 | \$0.030 |
| Fergus | \$0.915 | \$0.011 | 765.962 | \$0.008 | Roosevelt | \$1.998 | \$0.010 | 792.579 | \$0.008 |
| Flathead | \$52.304 | \$0.921 | 752.629 | \$0.693 | Rosebud | \$0.867 | \$0.011 | 442.254 | \$0.005 |
| Gallatin | \$11.663 | \$0.119 | 539.413 | \$0.064 | Sanders | \$1.725 | \$0.011 | 677.195 | \$0.007 |
| Garfield | \$0.067 | \$0.001 | 767.010 | \$0.001 | Sheridan | \$0.912 | \$0.009 | 926.964 | \$0.008 |
| Glacier | \$1.980 | \$0.029 | 741.963 | \$0.022 | Silver Bow | \$17.429 | \$0.241 | 795.391 | \$0.191 |
| Golden Valley | \$0.047 | \$0.000 | 560.840 | \$0.000 | Stillwater | \$0.606 | \$0.004 | 544.805 | \$0.002 |
| Granite | \$0.815 | \$0.007 | 491.280 | \$0.003 | Sweet Grass | \$1.203 | \$0.012 | 447.772 | \$0.005 |
| Hill | \$6.540 | \$0.076 | 494.059 | \$0.037 | Teton | \$0.205 | \$0.004 | 545.486 | \$0.002 |
| Jefferson | \$0.960 | \$0.010 | 638.973 | \$0.006 | Toole | \$0.730 | \$0.006 | 796.317 | \$0.005 |
| Judith Basin | \$0.645 | \$0.004 | 514.675 | \$0.002 | Treasure | \$0.012 | \$0.000 | 479.776 | \$0.000 |
| Lake | \$6.044 | \$0.094 | 612.850 | \$0.057 | Valley | \$1.063 | \$0.016 | 613.567 | \$0.010 |
| Lewis And Clark | \$14.083 | \$0.178 | 769.955 | \$0.137 | Wheatland | \$0.089 | \$0.001 | 609.289 | \$0.001 |
| Liberty | \$0.093 | \$0.001 | 531.310 | \$0.001 | Wibaux | \$0.015 | \$0.000 | 456.355 | \$0.000 |
| Lincoln | \$3.188 | \$0.017 | 490.249 | \$0.008 | Yellowstone | \$28.194 | \$0.261 | 690.531 | \$0.180 |
| Madison | \$3.320 | \$0.019 | 273.258 | \$0.005 | | | | | |
| McCone | \$0.002 | \$0.000 | 645.710 | \$0.000 | Total | \$237.291 | \$2.894 | 708.720 | \$2.051 |

Granted Applications

For applications that were granted, these properties maintained their exempt status. Had these properties been denied exempt status, this would have resulted in a significant increase in the overall tax base. Because HB 389 added to the available information to the department, we can then estimate the tax revenue this exempted property would have generated if it was not in exempt status.

The following section attempts to analyze this property tax revenue potential, but it is important to note that while these estimates are as accurate as possible, they likely represent underestimation of the true value of all the exempt property for multiple reasons. Because exempt properties do not pay taxes, the department does not prioritize the appraisals of this type of property to the same extent it does with taxable property. Similarly, non-exempt property receives an assessment notice whenever the value of the property changes, while exempt property does not, nor is the property owner likely to notice large variations from the true market value. Additionally, the department attempts to value property based on what a willing buyer and a willing seller would pay for the property. Given the nature of some of the exempt property, markets for this type of property can be extremely uncommon, and it would be very difficult for example, to estimate the value of a historic church, or large private university.

With those caveats in mind, these exempt properties have an estimated total value of \$5.012 billion, a taxable value of \$85.031 million (representing an average tax rate of 1.70%), and would have paid an estimated \$59.461 million total taxes (implying a weighted average of 699.295 mills) if they had not been exempt.

Property in Montana is subject to multiple taxing jurisdictions, such as the county, school districts, cities or municipalities, state equalization mills, university mills, and any other taxing jurisdictions that may have taxing authority over the property. These jurisdictions are ultimately responsible for setting the mills a property pays, which is a significant factor in determining the overall property taxes paid for any given property.

The following table details estimates of property tax revenue by the properties that were granted exempt status from this project by type of taxing jurisdiction. The assessed value and market value columns show how much value would be added back into the taxing jurisdictions if these properties were taxable, the average mills these jurisdictions levied, and the estimated taxes paid for each type of taxing jurisdiction. Assessed values and taxable value columns were not totaled as a property is contained in multiple taxing jurisdictions; totaling these columns would result in the over-counting the value.

| TY 2021 HB 389 Granted Values by Taxing Jurisdiction Type (\$ millions) | | | | |
|--|----------------|-----------------|------------|-----------------|
| Type of Taxing Jurisdiction | Assessed Value | Taxable Value** | Est. Mills | Est. Taxes |
| State of Montana | \$5,011.525 | \$85.031 | 101.818 | \$8.658 |
| County-wide | \$5,011.525 | \$85.031 | 142.335 | \$12.103 |
| Roads | \$995.825 | \$12.795 | 28.604 | \$0.366 |
| City/Municipality | \$3,986.513 | \$71.729 | 183.312 | \$13.149 |
| Fire Districts | \$675.386 | \$10.314 | 38.420 | \$0.396 |
| Cemetery Districts | \$634.959 | \$9.104 | 4.628 | \$0.042 |
| Other Districts | \$3,769.922 | \$65.690 | 18.618 | \$1.223 |
| County-Wide Education | \$4,917.740 | \$83.353 | 41.952 | \$3.497 |
| Local High School | \$4,606.117 | \$78.607 | 77.660 | \$6.105 |
| Local Elementary | \$4,604.527 | \$78.582 | 158.592 | \$12.462 |
| Local K-12 | \$404.622 | \$6.409 | 191.794 | \$1.229 |
| Junior College | \$1,175.420 | \$20.874 | 11.094 | \$0.232 |
| Total | | | | \$59.461 |

**Estimated taxable values based on current tax classification

As stated earlier, because most taxing jurisdictions' mill levies are set to meet specific budgetary requirements, taxing jurisdictions are not collecting less in revenue because of these exemptions. Instead, all other property taxpayers are paying more than they otherwise would have because of these property tax exemptions. The one exception to this would be the State of Montana mills (101 or 102.5 depending on location) that do not float up or down.

The following table shows how the exempted properties would have been taxed in TY 2021, had they lost their exemption status.

| TY 2021 HB 389 Granted Values by Tax Class (\$ millions) | | | | |
|---|--------------------|-----------------|----------------|-----------------|
| Tax Class | Assessed Value | Taxable Value** | Mills | Est. Taxes |
| Class 3 Agricultural Land | \$9.314 | \$0.084 | 450.561 | \$0.038 |
| Class 4 Residential | \$505.200 | \$2.860 | 645.074 | \$1.845 |
| Class 4 Commercial | \$4,496.135 | \$82.086 | 701.441 | \$57.578 |
| <u>Class 10 Forest Land</u> | <u>\$0.877</u> | <u>\$0.002</u> | <u>530.917</u> | <u>\$0.001</u> |
| <u>Total</u> | <u>\$5,011.525</u> | <u>\$85.031</u> | <u>699.295</u> | <u>\$59.461</u> |

**Estimated taxable values based on current tax classification

As was the case with denied applications, Class 4 commercial represented the largest source of tax revenue that would have been paid by these exempt properties (\$57.578 million in total taxes).

The next table shows what the exempted properties would have been taxed by the type of exemption the properties received.

| TY 2021 HB 389 Granted Values by Exemption Type (\$ millions) | | | | |
|--|--------------------|-----------------|---------------|-----------------|
| Exemption Type | Assessed Value | Taxable Value** | Mills | Est. Taxes |
| Religious Exemptions | \$1,659.415 | \$25.404 | 671.60 | \$17.061 |
| Charitable Exemptions | \$551.612 | \$9.782 | 680.73 | \$6.659 |
| Non-Profit Health Care | \$1,501.321 | \$27.024 | 731.71 | \$19.774 |
| Developmentally Disabled Org/Mentally Impaire | \$139.832 | \$2.414 | 731.54 | \$1.766 |
| Community Service Building/Fratalernal | \$93.488 | \$1.615 | 682.14 | \$1.101 |
| Educational Exemptions | \$565.532 | \$9.762 | 675.00 | \$6.589 |
| Low Income Housing | \$252.009 | \$4.526 | 746.76 | \$3.380 |
| Retired/Aged/Chronically Ill | \$130.310 | \$2.387 | 728.40 | \$1.739 |
| Art Galleries/Observatories/Zoos/Museums | \$66.262 | \$1.200 | 645.85 | \$0.775 |
| Veteran's Clubhouse | \$21.326 | \$0.368 | 698.08 | \$0.257 |
| Cemetery, Mausoleums, Crematories | \$16.775 | \$0.307 | 722.29 | \$0.222 |
| Non-Profit Water Association | \$9.412 | \$0.171 | 566.47 | \$0.097 |
| Horticulture/Agricultural Societies | \$3.833 | \$0.063 | 573.64 | \$0.036 |
| <u>Non-Profit International Athletic Facility</u> | <u>\$0.397</u> | <u>\$0.008</u> | <u>703.54</u> | <u>\$0.005</u> |
| <u>Total</u> | <u>\$5,011.525</u> | <u>\$85.031</u> | <u>699.30</u> | <u>\$59.461</u> |

**Estimated taxable values based on current tax classification

Religious organizations represented the largest total assessed value of any of the exemption types. However, non-profit healthcare centers represented the largest source of property tax revenue of any of the types of exemptions. This is due to the taxes rates the department estimates would apply to these properties and the total number of mills these properties would pay if they were not exempt.

The following table shows the total market value, estimated taxable values, average mills, and estimated taxes these properties would have paid by county.

| TY 2021 HB 389 Granted Values by County (\$ millions) | | | | | | | | | |
|--|----------------|---------------|---------|---------|--------------|--------------------|-----------------|----------------|-----------------|
| County | Assessed Value | Taxable Value | Est. | | County | Assessed Value | Taxable Value | Est. | |
| | | | Mills | Taxes | | | | Mills | Taxes |
| Beaverhead | \$10.495 | \$0.175 | 666.661 | \$0.117 | Meagher | \$14.033 | \$0.241 | 591.256 | \$0.142 |
| Big Horn | \$27.501 | \$0.496 | 793.382 | \$0.394 | Mineral | \$13.542 | \$0.234 | 755.404 | \$0.177 |
| Blaine | \$23.147 | \$0.205 | 961.835 | \$0.197 | Missoula | \$467.231 | \$7.987 | 855.722 | \$6.835 |
| Broadwater | \$12.799 | \$0.232 | 601.205 | \$0.139 | Musselshell | \$7.155 | \$0.134 | 602.718 | \$0.081 |
| Carbon | \$38.455 | \$0.713 | 508.272 | \$0.362 | Park | \$84.571 | \$1.382 | 512.652 | \$0.709 |
| Carter | \$4.346 | \$0.078 | 407.706 | \$0.032 | Petroleum | \$0.431 | \$0.008 | 773.241 | \$0.006 |
| Cascade | \$627.117 | \$10.586 | 745.498 | \$7.892 | Phillips | \$15.178 | \$0.246 | 762.307 | \$0.188 |
| Chouteau | \$19.451 | \$0.320 | 731.351 | \$0.234 | Pondera | \$65.128 | \$0.349 | 714.462 | \$0.249 |
| Custer | \$47.525 | \$0.873 | 872.182 | \$0.761 | Powder River | \$1.721 | \$0.028 | 447.875 | \$0.012 |
| Daniels | \$3.797 | \$0.067 | 819.422 | \$0.055 | Powell | \$26.900 | \$0.485 | 641.235 | \$0.311 |
| Dawson | \$33.978 | \$0.586 | 855.770 | \$0.501 | Prairie | \$1.720 | \$0.031 | 665.369 | \$0.021 |
| Deer Lodge | \$9.806 | \$0.170 | 754.645 | \$0.128 | Ravalli | \$96.179 | \$1.753 | 599.491 | \$1.051 |
| Fallon | \$13.713 | \$0.251 | 497.611 | \$0.125 | Richland | \$44.373 | \$0.813 | 527.989 | \$0.429 |
| Fergus | \$34.542 | \$0.509 | 806.163 | \$0.411 | Roosevelt | \$14.054 | \$0.252 | 803.914 | \$0.203 |
| Flathead | \$453.494 | \$8.223 | 709.691 | \$5.836 | Rosebud | \$26.407 | \$0.492 | 549.561 | \$0.270 |
| Gallatin | \$585.154 | \$10.189 | 557.541 | \$5.681 | Sanders | \$23.183 | \$0.422 | 636.903 | \$0.269 |
| Garfield | \$1.800 | \$0.033 | 754.205 | \$0.025 | Sheridan | \$19.884 | \$0.364 | 885.763 | \$0.323 |
| Glacier | \$46.032 | \$0.310 | 778.538 | \$0.242 | Silver Bow | \$78.930 | \$1.362 | 793.788 | \$1.081 |
| Golden Valley | \$9.592 | \$0.020 | 489.148 | \$0.010 | Stillwater | \$26.841 | \$0.485 | 515.602 | \$0.250 |
| Granite | \$2.388 | \$0.036 | 581.621 | \$0.021 | Sweet Grass | \$11.333 | \$0.203 | 474.310 | \$0.096 |
| Hill | \$115.443 | \$1.651 | 716.987 | \$1.184 | Teton | \$52.445 | \$0.581 | 580.862 | \$0.337 |
| Jefferson | \$19.080 | \$0.341 | 619.631 | \$0.211 | Toole | \$27.895 | \$0.238 | 836.149 | \$0.199 |
| Judith Basin | \$4.148 | \$0.030 | 486.223 | \$0.015 | Treasure | \$1.129 | \$0.019 | 843.478 | \$0.016 |
| Lake | \$107.238 | \$1.950 | 630.223 | \$1.229 | Valley | \$39.825 | \$0.734 | 771.708 | \$0.566 |
| Lewis And Clark | \$472.545 | \$8.599 | 781.971 | \$6.724 | Wheatland | \$28.338 | \$0.162 | 586.335 | \$0.095 |
| Liberty | \$23.745 | \$0.160 | 614.067 | \$0.098 | Wibaux | \$1.418 | \$0.026 | 436.884 | \$0.011 |
| Lincoln | \$56.805 | \$1.031 | 552.553 | \$0.570 | Yellowstone | \$998.429 | \$17.820 | 683.452 | \$12.179 |
| Madison | \$16.552 | \$0.299 | 406.097 | \$0.121 | | | | | |
| McCone | \$2.563 | \$0.045 | 878.787 | \$0.040 | Total | \$5,011.525 | \$85.031 | 699.295 | \$59.461 |

Sources of Difficulty and Lessons Learned in Hindsight

In processing applications related to HB 389, several problems arose that were not initially anticipated.

In reviewing and processing the applications for HB 389, one area of difficulty was staffing. The fiscal note for HB 389 estimated the need for one additional full-time equivalent (FTE). The fees that were charged to the applicants were intended to cover the costs of the additionally FTE. However, with the benefit of hindsight, this was likely too conservative of an estimate. The underestimate, and additional staffing cuts by subsequent Legislatures, proved to be problematic given the workload of staff. On top of the HB 389 project, staff also had to process current year's applications for real and personal property exemptions, process temporary tribal applications, and other duties related to exempt property.

Another unexpectedly problematic area that arose during the process was related to communication with taxpayers. Because of the time that had passed since many of the property tax exemptions were granted, contact information was often outdated or incomplete. This could be the result of changes to the contact information, or simply lost data because of the system updates over the last few decades.

In addition to the lack of complete data on the department side, some of the smaller organizations had difficulty locating requested information. This was often due to the organization being older or having only volunteers working who may have been unable to get requested documents to the department in a timely manner.

Ultimately, HB 389 project contained several good conceptual ideas and resulted in increased insight into exempt properties. Conversely, it is likely sufficient resources were not provided to give all the project's different aspects the ideal amount of attention or to complete the overall project in a timelier fashion.