

BEFORE THE MONTANA TAX APPEAL BOARD

FILED

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Montana Tax Appeal Board

KORNOFF FAMILY INVESTMENTS,
LLC,

Appellant,

v.

STATE OF MONTANA,
DEPARTMENT OF REVENUE,

Respondent.

CASE №: PT-2024-87

**FINDINGS OF FACT,
CONCLUSIONS OF LAW, ORDER,
AND OPPORTUNITY FOR
JUDICIAL REVIEW**

STATEMENT OF THE CASE

This is an appeal of a final decision by the Ravalli County Tax Appeal Board (CTAB) denying Kornoff Family Investments, LLC (Taxpayer) a reduction in value on the subject property located at 420 Ambrose Creek Road, Stevensville, Montana (Subject Property). The Taxpayer appealed that outcome to the Montana Tax Appeal Board (MTAB) on December 30, 2024. We affirm the CTAB's determination.

ISSUE TO BE DECIDED

Whether CTAB erred in denying the Taxpayer's request for a reduction in value to the Subject Property.

EXHIBIT LIST

The following evidence was submitted at the hearing:

Taxpayer Exhibits:

1. Outline of Appellant's Argument;
2. DOR Photos of Subject Property;
3. Form AB-26 Determination Letter, dated June 27, 2024;
4. Excerpt of Montana Residential, Commercial, and Industrial Property Classification and Valuation Manual;

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5. DOR Matrix Determinations for Unloaded and Loaded 2023 Capitalization Rates;
6. DOR Summary of Potential Gross Income;
7. Excerpt of Montana Code Annotated § 15-8-111(4);
8. Taxpayer did not introduce Exhibit 8 into evidence at hearing;
9. DOR Calculation of Gross Income and Expenses;
10. Stabilized Pro Forma Based on DOR Rates;
11. Taxpayer and DOR Income and Expense Comparison;
12. Taxpayer's Notes; and
13. Income and Expense Statements for Ambrose Self Storage.

DOR Exhibits:

- A. DOR did not introduce Exhibit A into evidence at hearing;
- B. Photos of Subject Property;
- C. Capitalization Rate Model;
- D. Capitalization Rate Model Output;
- E. Mini warehouse Income Model;
- F. 2023 State A Mini warehouse Model Output;
- G. Revised Property Record Card; and
- H. Rebuttal Exhibit - USPAP Advisory Opinion 33.

PROCEDURAL HISTORY

The Department of Revenue (DOR) valued the Subject Property at \$1,240,300 for the 2023/2024 appraisal cycle, with the land valued at \$370,100 and the improvements valued at \$870,200. *Ex. A.* The Taxpayer filed an AB-26, Request for Informal Classification and Appraisal Review, with the DOR on June 10, 2024, requesting a land value of \$425,000 and an improvements value of \$440,000, for a total property value of \$865,000. *MTAB Dkt. 3.* The DOR sent a Form AB-26 Determination Letter to the Taxpayer dated June 27, 2024, increasing the Subject Property's value to \$1,299,400 due to an adjustment to the Subject Property's square footage. *Id.* The Taxpayer appealed the DOR's valuation to the CTAB on July 19, 2024, requesting a land value of \$425,000 and an improvements value of \$200,000. *Id.* The CTAB hearing

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was held on December 12, 2024, and the CTAB's decision denying the Taxpayer's application for reduction was sent to the parties on December 13, 2024. *Id.* The Taxpayer appealed to MTAB on December 30, 2024, per Mont. Code Ann. § 15-2-301, requesting a total value of \$756,251 for tax year 2024. *MTAB Dkt. 1.* The MTAB hearing was conducted in Helena on April 30, 2025, at which the following were present:

- a. John Jay Kornoff, Taxpayer; and
- b. Dave Burleigh, DOR Counsel; Cindy McGinnis, Paralegal; Leslie Snyder, Area Manager; Christina Walton, Commercial Appraiser; and Jason Stevens, Modeler.

The record includes all materials submitted to CTAB, a recording of the CTAB hearing, all materials submitted to MTAB with the appeal, additional exhibits submitted by the parties prior to and at the MTAB hearing, and a transcript of the MTAB hearing.

FINDINGS OF FACT

1. To whatever extent the following findings of fact may be construed as conclusions of law, they are incorporated accordingly.
2. The Subject Property is a mini warehouse facility owned by Kornoff Family Investments, LLC. *Ex. G.* The Subject Property is located at 420 Ambrose Creek Road in Stevensville, Montana, and is also identified by its geocode 13-1764-01-4-01-05-0000. *Id.* The Subject Property is 10 acres in total size and contains three mini warehouse buildings which amount to 100 storage units. *Ex. G; MTAB Hr'g Tr. 43:10-16.*
3. The DOR initially valued the Subject Property at \$1,240,300 for the 2023/2024 appraisal cycle, assigning \$370,100 to the land value and \$870,200 to the improvements value. *Ex. A.* The Taxpayer filed an AB-26, Request for Informal Classification and Appraisal Review, with the DOR on June 10, 2024, requesting a land value of \$425,000 and an improvements value of \$440,000, for a total property value of \$865,000. *MTAB Dkt. 3.* The DOR sent a Form

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AB-26 Determination Letter to the Taxpayer dated June 27, 2024, increasing the Subject Property's value to \$1,299,400. *Id.* The DOR made this adjustment to the total value after the Taxpayer informed the DOR that the Subject Property's correct square footage is 22,000 square feet, not 21,000. *Id.* The Taxpayer appealed the DOR's valuation to the CTAB on July 19, 2024, requesting a land value of \$425,000 and an improvements value of \$200,000. *Id.* The CTAB hearing was held on December 12, 2024, and the CTAB's decision denying the Taxpayer's application for reduction was sent to the parties on December 13, 2024. *Id.*

4. The Taxpayer appealed to MTAB on December 30, 2024, requesting a total value of \$756,251. *MTAB Dkt. 1.* Taxpayer makes no distinction between what portion of the requested value should be assigned to the land versus the improvements. *Id.* As the Subject Property had only finished construction in December of 2023 and was open for business as of January 1, 2024, this appeal only applies to tax year 2024. *MTAB Dkt. 1; MTAB Hr'g Tr. 3:4-8.* The Taxpayer testified that his complaint revolves around two main arguments. *MTAB Hr'g Tr. 5:1-7:5.* The first is that the income model used by the DOR to value the Subject Property does not take into account the existing conditions of the Subject Property as of January 1, 2024, and that the Taxpayer's actual income and expenses should be used instead of the values determined through the DOR's mass appraisal process. *Id.* The Taxpayer's second argument is that the DOR should use a discounted cash flow method to value the Subject Property, which reflects his future cash flow potential and the present existing conditions of the Subject Property. *Id.* Taxpayer stated that when he refers to "discounted cash flow," he is referring to what the DOR calls present value of future income. *Id.*
5. Taxpayer presented DOR aerial photographs, which delineated the Subject Property as being 5.3 miles outside of Stevensville. *Ex. 2.* Taxpayer agreed that the DOR's estimated distance is accurate. *Ex. 2; MTAB Hr'g Tr. 7:23-8:19.*

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Taxpayer testified that the assigned distance combined with other characteristics and demographic conditions of the Subject Property's surrounding area meant that the DOR improperly placed the Subject Property in the State A capitalization rate category¹. *Id.*

6. The DOR uses three rural categories to group building types together to determine a capitalization rate for use in their income method valuation. *Ex. 4; MTAB Hr'g Tr. 8:8-19, 10:14-11:8.* The State A category, which the Subject Property was assigned to by the DOR, is the highest density rural category and is distinguished by a defined local government, police and fire department service, established regional medical facilities, and a Class A school system. *Id.* Taxpayer argues that this description is more fitting for a town such as Hamilton. *Id.* Taxpayer stated that State B is defined as a town or city which is smaller than those contained in State A, is typically an incorporated town, has established police protection, volunteer fire service, a small hospital, and typically has a Class B school system. *Id.* Taxpayer argues that this description better suits the town of Stevensville. *Id.* The State C category is described as very small towns and all areas not defined in another model, those that have limited or no police presence, volunteer fire protection services, no medical services, and typically a Class C school system. *Id.* Taxpayer contends that the Subject Property is located outside of Stevensville, is an unincorporated area that lacks access to a hospital, and does not have a nearby school. *Id.* Therefore, the Taxpayer argues that the Subject Property should be assigned to the State C rural model capitalization rate instead. *Id.*
7. The capitalization rate for a mini warehouse in the State C rural category is 9.36% compared to the State A rural capitalization rate of 6.82%. *Ex. 5; MTAB*

¹ The Taxpayer referred to the three rural models as Rural I, II, and III, whereas the DOR refers to them as State A, B, and C. Taxpayer stated that he was unsure of which terminology to use but acknowledged that he was referring to the same models. For purposes of this Opinion, this Board has elected to use the standard DOR terminology of State A, B, and C. The choice of terminology was made purely for clarity and had no bearing on the outcome.

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Hr'g Tr. 12:14-13:2. If the Subject Property were to be valued using the Taxpayer's preferred State C capitalization rate, the new market value according to the Taxpayer would be approximately \$954,314. *Id.*

8. Taxpayer next presented the Subject Property's AB-26 Determination Letter, dated June 27, 2024, which states that the DOR must value a property at a stabilized income-producing capacity, even if it was not stabilized at the time of valuation. *Ex. 3; MTAB Hr'g Tr. 9:7-14.* Taxpayer disagreed and argued that the Subject Property should have been valued as it existed at the time of valuation. *Id.* Furthermore, Taxpayer stated that the income model used by the DOR to value the Subject Property utilized income and expense information reported by other commercial property owners, and that this implies the income model is based entirely on stabilized properties. *Ex. 4; MTAB Hr'g Tr. 10:6-13.* Because the Subject Property's income and expenses were not stabilized at the time of valuation, the Taxpayer argues that using the income model to value the Subject Property is inequitable. *Id.*
9. Taxpayer estimated that, as of the date of the MTAB hearing, the Subject Property was at roughly 80% occupancy. *MTAB Hr'g Tr. 20:1-18.* Taxpayer believes that the Subject Property will be between 90-95% occupancy by the end of summer 2025, but argues that the Subject Property should still not be considered stabilized at that point because stabilization requires a history of consistent income production. *Id.*
10. Taxpayer stated that the Subject Property does not attract business from Stevensville as it is too far away and there are closer storage unit options available to Stevensville residents. *MTAB Hr'g Tr. 10:24-11:2, 21:19-22:4.* Taxpayer speculated that the Subject Property only services a two-to-three-mile radius surrounding the property. *Id.*

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11. Taxpayer pointed to the DOR definition of the income approach to value, which states that present worth, or market value, is “the amount a prudent investor would be willing to pay now for the right to receive the future income stream.” *Ex. 4; MTAB Hr’g Tr. 11:9-12:4*. Taxpayer projects that it will take two years to fill the storage units to capacity and contends that a prudent investor would look at the lack of income and would likely not pay the DOR’s assigned value for the Subject Property. *Id.*
12. Taxpayer testified that the DOR assigned the Subject Property a rent rating of \$0.56 per square foot². *Ex. 5; MTAB Hr’g Tr. 13:3-7*. Taxpayer contends that his actual rent rating is \$0.47 per square foot and that the DOR should use his actual number over the number assigned by the DOR’s mass appraisal process. *Id.*
13. Taxpayer performed his own income approach calculation in which he substituted the DOR’s assigned rent rating of \$0.56 per square foot for his preferred rent rating of \$0.47 per square foot. *Ex. 10; MTAB Hr’g Tr. 15:14-16:19*. Taxpayer confirmed that he attempted to keep all other aspects of the calculation the same as those used by the DOR. *Id.* Taxpayer’s calculation resulted in a total value of \$945,314 for the Subject Property, which the Taxpayer stated would be a fair value in his opinion. *Id.* However, Taxpayer believes that the calculation should go one step further to account for the lack of income that a potential buyer might experience. *Id.* Because the Subject Property was under construction on the lien date, the Taxpayer estimates that it will take two years for the Subject Property’s vacancies to be filled and deducted 20%, or 10% per year, to account for this uncertainty in cash flow resulting in a total value of \$756,251. *Id.* Due to the lack of income, the

² The Taxpayer appears to have converted his annualized rent rating of \$6.75 per square foot into a monthly rent rating of \$0.56 per square foot. To preserve the Taxpayer’s testimony, this Board has elected not to change the Taxpayer’s monthly rates into annualized rates. Therefore, when discussing rent ratings, any reference to a rent rating of \$0.56 or \$0.47 per square foot refers to the monthly rent rating, not the annualized rent rating. This decision had no bearing on the outcome.

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Taxpayer believes that a deduction of 10% per year is a fair and conservative estimate of the Subject Property's value at the time of valuation, but stated that he did not base the deduction amount on any criteria other than what he felt was reasonable. *Id.*

14. Taxpayer presented the Subject Property's actual income and expense information from January 1, 2024, to December 31, 2024, which he claims shows that the Subject Property's income was not stabilized. *Ex. 13; MTAB Hr'g Tr. 17:20-18:5.* Taxpayer argues that since the Subject Property's income was speculative at the time the DOR valued the Subject Property, using an income model which is based entirely on stabilized properties to value the Subject Property is inappropriate. *Id.*
15. The Subject Property is primarily surrounded by residential lots of various sizes interspersed with some agricultural properties. *MTAB Hr'g Tr. 19:1-21.* Taxpayer testified that the majority of his renters come from new subdivisions being built to the east of the Subject Property, not from the town of Stevensville. *Id.* Taxpayer stated that he was unsure of whether the Subject Property receives the benefits of Stevensville's city services such as medical, police, and fire response. *MTAB Hr'g Tr. 20:19-23.*
16. Taxpayer disagrees that Stevensville belongs in the DOR's State A rural model, but did not dispute that Stevensville is an incorporated town, has a police department, medical services, and contains a Class A school system. *MTAB Hr'g Tr. 24:1-25:7.*
17. Taxpayer agreed that the DOR's process of building rent rates, expense rates, and capitalization rates based on information provided by property owners in the same industry is statistical in nature, and not arbitrary. *MTAB Hr'g Tr. 26:10-17.* Taxpayer further agreed that the amount a business charges for rent is a business decision based on market conditions. *Id.*

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18. DOR Commercial Appraiser, Christina Walton, stated that the Subject Property was valued using the income approach, which is the DOR's preferred valuation approach for commercial properties, because it is the most accurate representation of market value. *MTAB Hr'g Tr. 39:4-40:1*. Ms. Walton also performed a cost approach appraisal on the Subject Property, which output a higher total value of \$1,411,630 compared to the income approach valuation of \$1,299,400. *Id.*
19. Ms. Walton testified that her impression of the Taxpayer's AB-26 Request for Informal Review was that he wanted the DOR to assess the Subject Property's business value rather than the property value. *MTAB Hr'g Tr. 38:1-23*. Ms. Walton stated that she could not base her opinion of value on whether the Subject Property was generating income at the time of valuation, because whether or not it was generating income amounts to a business decision. *Id.* Furthermore, Ms. Walton testified that when performing mass appraisal for property tax purposes, the DOR only values a property's land and improvements. *Id.* Valuing a business typically requires a more comprehensive analysis of both the tangible and intangible assets as well as any business decisions. *Id.* Ms. Walton stated that the DOR's mass appraisal process only focuses on the value of real estate. *Id.*
20. Ms. Walton testified that the Subject Property's land value, calculated using the income approach, came from neighborhood land models created using vacant land sales. *MTAB Hr'g Tr. 41:24-42:6*.
21. Ms. Walton testified that she believed the Subject Property's location is well situated for business. *Ex. B; MTAB Hr'g Tr. 43:17-22*. The Subject Property is located near the East Side Highway, a heavily trafficked route, and several new residential neighborhoods are being developed nearby or directly adjacent to the Subject Property. *Id.*

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22. Ms. Walton testified that the DOR operates on a two-year reappraisal cycle with all properties valued as of the lien date of January 1, 2022, for tax years 2023 and 2024. *Ex. D; MTAB Hr'g Tr. 44:7-12*. The capitalization rate output model used to value the Subject Property utilized sales data from 2020 and 2021 to determine a capitalization rate as of the lien date. *Id.* Montana law requires the DOR to assess the market value of newly constructed property. *MTAB Hr'g Tr. 84:9-22*. Since the Subject Property was complete as of January 1, 2024, the DOR used the state of construction as of that date and then backdated the value to the lien date of January 1, 2022. *Id.*
23. Ms. Walton testified that she assigned the Subject Property to the State A rural mini warehouse capitalization rate category because it is a low-risk investment, is located in an attractive and highly travelled area, requires little overhead to run, and has many potential tenants nearby. *Ex. D, G; MTAB Hr'g Tr. 45:4-46:18*. The unloaded rural State A capitalization rate for mini warehouses is 5.78% and the loaded capitalization rate is 6.82%. *Id.* Ms. Walton stated that the difference between the loaded and unloaded capitalization rates is that the loaded capitalization rate includes the effective tax rate, whereas the unloaded rate does not. *Id.* The DOR used the loaded capitalization rate in the calculation of the Subject Property's value. *Id.* The DOR's loaded capitalization rate was used for all similarly situated mini warehouses across the state. *Id.*
24. Ms. Walton testified that the allowable expense ratios for properties are set through analysis of income models. *Ex. F, G; MTAB Hr'g Tr. 46:19-47:24*. After reviewing mini warehouse sales in Ravalli County, Ms. Walton assigned the Subject Property to rent rate Model 6 because it was supported by the local market data. *Id.* The rent rating for State A Mini Warehouse Model 6, is \$6.75 per square foot. *Id.*
25. Ms. Walton testified that the DOR bases the income approach on statewide income and expense data reported by owners of similar types of property.

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MTAB Hr'g Tr. 48:1-9. Ms. Walton stated that the DOR performs mass appraisal, not fee appraisal, and commercial properties are valued based on typical operating income and expenses for similar types of properties, not the property's actual expenses. *Id.*

26. Ms. Walton testified that the income approach involves first estimating the potential gross income (PGI) of a property, deducting vacancy and collection losses, and then adding any miscellaneous income to obtain the property's effective gross income (EGI). *MTAB Hr'g Tr. 48:15-22.* After determining the EGI, the DOR then deducts the operating expenses to get the net operating income (NOI). *Id.* The NOI is then divided by the capitalization rate to arrive at the market value. *Id.* When calculating the Subject Property's value using the income approach, no miscellaneous or secondary income was included in the calculation as the Subject Property did not produce any. *MTAB Hr'g Tr. 50:9-14.*
27. Ms. Walton testified that the rent, income, and expense rates are the same for every similarly situated property in Montana. *MTAB Hr'g Tr. 51:22-24.*
28. Ms. Walton testified that she assigned the Subject Property to the State A rural capitalization rate category because using the State B and C capitalization rates would severely undervalue the Subject Property. *Ex. D; MTAB Hr'g Tr. 52:1-24.* While no sales comparison analysis was conducted on the Subject Property, Ms. Walton examined other property sales that occurred in Ravalli County which indicated that the State A rural capitalization rate was proper. *Id.* Furthermore, all other properties in the Subject Property's vicinity are also in the State A rural category. *Id.* Ms. Walton testified that she also considered the various factors Taxpayer listed from the DOR's Property Classification and Valuation Manual and found that the Subject Property fits within the State A category because Stevensville has a police station, a health facility with ambulance service, surrounding residents attend Stevensville High School, and

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the Subject Property has a Stevensville address. *Ex. 4; MTAB Hr'g Tr. 56:13-20.*

29. Ms. Walton stated that she did not believe the Taxpayer's discounted cash flow methodology was the proper valuation approach to use because it would essentially determine the investment value of the Subject Property, not the property value. *MTAB Hr'g Tr. 53:14-54:25.* The DOR presented a section from the Uniform Standards of Professional Appraisal Practice (USPAP) Manual which states that appraisals requiring the appraiser to employ assumptions that are not based on market data or use assumptions provided by the client, such as with a discounted cash flow analysis, do not reflect market value but rather investment value. *Id.*
30. The DOR is tasked with determining the full market value of properties. *MTAB Hr'g Tr. 55:8-14.* Ms. Walton noted that the Taxpayer's 20% deduction applied to the Subject Property in his own analysis, or 10% per year until the Subject Property is estimated to be at full capacity, does not equate to full market value. *Id.*
31. DOR Modeler, Jason Stevens, stated that actual market data reported by other similarly situated property owners is used to develop the DOR's nine rent ratings. *MTAB Hr'g Tr. 67:8-68:2, 68:22-69:5.* To determine rent ratings, the income and expense information provided to the DOR is sorted according to area and use type, normalized, and then run through regression analysis. *Id.* The DOR performs quality assurance checks to ensure that the income and expense data voluntarily provided by property owners is accurate. *Id.*
32. Mr. Stevens testified that the capitalization rate model created by the DOR used data from sixty-five mini warehouse sales that occurred across the state from 2020 and 2021. *MTAB Hr'g Tr. 70:1-11, 72:15-73:6.* Mr. Stevens stated

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that this was more than enough sales to ensure that the model was statistically reliable and that the high number of sales indicates that mini warehouses are one of the most in demand property types. *Id.*

33. DOR Area Manager, Leslie Snyder, stated that the Taxpayer's choice to charge \$0.47 per square foot should not impact the appraisal value for tax purposes because it amounts to a business decision. *MTAB Hr'g Tr. 79:9-14*. Ms. Snyder stated that the DOR's rent rating of \$0.56 for the Subject Property is based on market data from similar properties and represents typical management practices for properties of this type. *Id.*
34. Ms. Snyder testified that a property does not need to meet every single metric listed in the DOR's valuation manual to be classified as either State A, B, or C. *MTAB Hr'g Tr. 79:15-80:2*. The metrics are considered guidelines which can help inform an appraiser of which model to choose. *Id.* Ms. Snyder agreed that the Subject Property best fits within the State A rural model as the sales data supports this categorization. *Id.*
35. Ms. Snyder stated that the DOR is required to follow USPAP standards when appraising property and that USPAP rejects the use of discounted cash flow methodology in mass appraisal. *MTAB Hr'g Tr. 80:12-81:4*. Ms. Snyder explained that discounted cash flow analysis is typically utilized to identify the potential for profit or return on investment. *Id.*

JURISDICTION AND STANDARD OF REVIEW

36. The Montana Tax Appeal Board is an independent agency not affiliated with the Montana Department of Revenue. *Mont. Const., Art. VIII § 7; Mont. Code Ann. § 15-2-101*. The Taxpayer filed a timely appeal of the DOR's decision to the MTAB. Therefore, this Board maintains jurisdiction to hear and decide this matter. *Mont. Code Ann. § 301*.

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37. This Board may hear appeals de novo. *Dept. of Revenue v. Burlington N.*, 169 Mont. 202, 213-14, 545 P.2d 1083 (1976). “A trial de novo means trying the matter anew, the same as if it had not been heard before and as if no decision had been previously rendered.” *McDunn v. Arnold*, 2013 MT 138, ¶ 22, 370 Mont. 270, 275, 303 P.3d 1279, 1282.
38. The Board’s order is final and binding upon all parties unless changed by judicial review. *Mont. Code Ann. § 15-2-301(6)*.

CONCLUSIONS OF LAW

39. To whatever extent the following conclusions of law may be construed as findings of fact, they are incorporated accordingly.
40. “All taxable property must be appraised at 100% of its market value...” *Mont. Code Ann. § 15-8-111*.
41. “[I]n connection with any appeal under [Mont. Code Ann. § 15-2-301], the Montana board is not bound by common law and statutory rules of evidence or rules of discovery and may affirm, reverse, or modify any decision. To the extent that this section is in conflict with the Montana Administrative Procedure Act, this section supersedes that act.” *Mont. Code Ann. § 15-2-301(5)*.
42. DOR is entitled to a “presumption of correctness if its decisions are pursuant to an administrative rule or regulation, and the rule or regulation is not arbitrary, capricious or otherwise unlawful.” *Burlington N.*, 169 Mont. at 214, 545 P.2d at 1090. However, DOR cannot rely entirely on the presumption in its favor and must present a modicum of evidence showing the propriety of their action. *Western Air Lines v. Michunovich*, 149 Mont. 347, 353, 428 P.2d 3, 7 (1967).

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43. The Taxpayer bears the burden of proving the error of DOR's decision.
Farmers Union Cent. Exch. v. Dep't of Revenue, 272 Mont. 471, 476, 901 P.2d 561, 564 (1995); *Western Air Lines*, 149 Mont. at 353, 428 P.2d at 7.
44. "'Assessment formulations' by [the Montana Tax Appeal Board] should be upheld unless there is a clear showing of an abuse of discretion." *Peretti v. Dep't of Revenue*, 2016 MT 105, ¶ 15, 383 Mont. 340, 344, 372 P.3d 447, 450 (citing *O'Neill v. Dep't of Revenue*, 2002 MT 130, ¶ 23, 310 Mont. 148, 155, 49 P.3d 43, 47); see *Northwest Land & Dev. v. State Tax Appeal Bd.*, 203 Mont. 313, 317, 661 P.2d 44, 47 (1983) (overruled on other grounds by *DeVoe v. Dep't of Revenue*, 263 Mont. 100, 866 P.2d 228 (1993)).
45. The term "improvements" includes all buildings, structures, fences, and improvements situated upon, erected upon, or affixed to land. *Mont. Code Ann. § 15-1-101(1)(i)*.
46. The Legislature intended the Department to utilize a number of different approaches or combination of approaches, including the income approach, sales comparison approach, and cost less depreciation approach, depending on the market where the appraisals take place, when it assesses property and estimates market value. *Albright v. State*, 281 Mont. 196, 208-09, 933 P.2d 815, 823 (1997).
47. "In valuing class four residential and commercial property described in 15-6-134, the department shall conduct the appraisal following the appropriate uniform standards of professional appraisal practice for mass appraisal promulgated by the appraisal standards board of the appraisal foundation..."
Mont. Code Ann. § 15-8-111(3)(a).

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DISCUSSION

48. For the reasons set forth below, this Board affirms the CTAB's determination.
49. The Taxpayer has presented two main arguments in support of his contention that the value of the Subject Property should be reduced from \$1,299,400 to \$756,251. The first is that the income model used by the DOR to value the Subject Property does not consider the property's existing conditions as of January 1, 2024, and that the Subject Property's actual income and expense information should be used instead. The Taxpayer's second argument is that the DOR should use a discounted cash flow methodology to value the Subject Property which accounts for his future cash flow using the present conditions of the Subject Property. We disagree with both arguments.
50. Taxpayer's concerns regarding the DOR's use of its income model primarily stems from the Subject Property being valued as if it were a stabilized, income-producing property when as of January 1, 2024, it was generating little to no income and still had high vacancy. Taxpayer argues that the Subject Property should have its actual vacancy and income figures used in its income valuation. The DOR is required to value all properties in the State of Montana at 100% of market value. The income approach involves converting anticipated future income into a present market value. For a commercial property's anticipated future income to be accurate, the DOR must value the property as if it is stabilized. If the DOR were to use each property's individual vacancy and collection numbers, this would result in skewed values which would not be representative of full market value. While the Board understands the Taxpayer's frustration with the Subject Property being valued as if it is stabilized when it was not, this is necessary to ensure that every commercial property across the state is valued at full market value.
51. Secondly, the Taxpayer argued that the Subject Property should be valued using an alternative discounted cash flow methodology. The Board does not

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agree with this argument. The DOR is required to follow USPAP standards for mass appraisal when valuing class four residential and commercial property in accordance with MCA 15-8-111(3)(a). USPAP guidelines instruct appraisers to use one of three valuation methods when performing mass appraisals: the income approach, the cost approach, or the sales comparison approach. In *Albright v. State*, the Montana Supreme Court expressed support of these valuation approaches stating, “[W]e conclude that the Department’s interdisciplinary method – which utilizes the market data approach, the income approach, the cost approach, or some combination of these approaches – is a reasonable attempt to equalize appraisal of real property throughout the State and that it comports with the most modern and accurate appraisal practices available.” The DOR presented evidence showing that USPAP rejects the use of discounted cash flow methodology in mass appraisal as it determines investment value, not market value. Therefore, the DOR’s use of the income approach is proper.

52. Even if the DOR were permitted to use discounted cash flow methodology when mass appraising property, this Board remains unconvinced that it would determine a more accurate market value for the Subject Property than the income approach. The DOR is tasked with determining a property’s market value, meaning the value of the land and improvements, not the value of a business that may occupy it. Ms. Snyder gave credible testimony that discounted cash flow analysis is typically utilized to identify the potential for profit or return on investment. Ms. Walton testified that valuing a business and a property differ in terms of scope and approach. Mass appraisal for property tax purposes focuses on the value of the real estate itself, whereas valuing a business involves a more comprehensive analysis of both the tangible and intangible assets. The evidence and testimony presented to the Board clearly indicate that the DOR followed USPAP procedure and properly applied the income approach when valuing the Subject Property. The DOR has a presumption of correctness that taxpayers must overcome when challenging

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appraisal values. This Board does not believe that the Taxpayer overcame this burden and, therefore, must determine that the DOR's use of the income approach is proper.

53. The Taxpayer made various arguments concerning different aspects of the DOR's income approach valuation to overcome this presumption, however, this Board did not find the arguments to have sufficient merit. The Taxpayer first argued that the DOR assigned the Subject Property to the wrong capitalization rate group and that the Subject Property belongs in the State C rural category rather than State A rural category. The Taxpayer presented credible evidence that the State A rural category is considered the highest density rural category and is distinguished by a defined local government, police and fire department services, established regional medical facilities, and a Class A school system. The State C rural category, on the other hand, is described as very small towns that have limited or no police presence, volunteer fire protection services, no medical services, and typically a Class C school system. Taxpayer contends that the DOR should have assigned the Subject Property to the State C rural category because it is located outside of Stevensville, is in an unincorporated area, lacks access to a hospital, and does not have a nearby school. We disagree. The Board received testimony that Stevensville is an incorporated town with police service, a medical clinic, and a Class A school system, which the Taxpayer did not dispute. The Subject Property is also located approximately five miles away from Stevensville and has a Stevensville address. Furthermore, the Subject Property is surrounded by residential lots which are serviced by Stevensville emergency services and have children who attend Stevensville schools. Therefore, this Board believes that the Subject Property was correctly included in the State A rural capitalization rate category.
54. Taxpayer also argued that the DOR assigned the Subject Property an inaccurate monthly rent rating of \$0.56 per square foot when the actual monthly rent

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rating is \$0.47 per square foot. Taxpayer argued that this unfairly inflates the Subject Property's value. For each commercial property type in the state, the DOR creates nine different rent ratings based on actual market data reported by similarly situated property owners. To determine rent ratings, the DOR sorts the income and expense information according to area and use type, normalizes the data, and then runs the data through regression analysis. The DOR performs quality assurance checks to ensure that the income and expense data used in the models is accurate. The Taxpayer's choice to charge a lower monthly rent when the income model suggests that he could charge more amounts to a business decision. There are many potential reasons why a business might choose to rent at a lower rate than its competitors, and it is not the DOR's duty to dictate a business's rental rates. However, when market data indicates that a property could be charging more based on rental rates from similarly situated property owners, the DOR must value the property at its full potential to properly determine the market value. The DOR cannot substitute the Taxpayer's actual income and expense figures for those determined through its income model, to do so would be inequitable to every other taxpayer who did not have the same opportunity. A natural consequence of mass appraisal is that not every figure is going to match a business's actual numbers identically. This variation is a key difference between mass appraisal and fee appraisal. The DOR does not have the time or resources to value every property across the state individually based on the property's actual income and expenses. The use of models which group similar properties together and incorporate data from similarly situated property owners allows the DOR to accurately determine market values for a larger number of properties than it would otherwise be able to. The evidence and testimony presented to the Board has convinced us that the rent rating assigned to the Subject Property is statistical in nature, not arbitrary, and that it is based on the most up to date market data available.

55. Ultimately, the Taxpayer did not overcome the burden of proving that the DOR made an error in its valuation of the Subject Property. We believe the decision

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not to use the Taxpayer's actual income and expense information was based on standard mass appraisal practice and prevents inequity with other taxpayers. Additionally, this Board felt that the DOR properly followed USPAP guidelines when appraising the Subject Property and correctly chose the income approach to valuation, rather than the Taxpayer's requested discounted cash flow methodology. The capitalization and rent ratings assigned to the Subject Property are based on actual market data from similarly situated taxpayers. The Taxpayer did not convince the Board that the capitalization and rent ratings were arbitrary or inaccurate. Therefore, this Board affirms the CTAB's determination.

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ORDER

56. The Board denies the Taxpayer's appeal and affirms the Ravalli County Tax Appeal Board determination.

Dated this 28th day of July 2025.



A handwritten signature in blue ink, appearing to read "Travis Brown", written over a horizontal line.

Travis Brown, Chairman

A handwritten signature in blue ink, appearing to read "Adam Millinoff", written over a horizontal line.

Adam Millinoff, Member

A handwritten signature in blue ink, appearing to read "Christopher Murphy", written over a horizontal line.

Christopher Murphy, Member

Notice: You are entitled to judicial review of this Order by filing a petition in district court within 60 days of the service of this Order. The Department of Revenue shall promptly notify this Board of any judicial review to facilitate the timely transmission of the record to the reviewing court. *Mont. Code Ann. §15-2-303(2)*.

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Certificate of Service

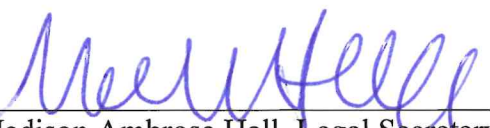
I certify that I caused a true and correct copy of the foregoing Findings of Facts and Conclusions of Law to be sent by email and United States Mail via Print & Mail Services Bureau of the State of Montana on July 28, 2025, to:

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