

BILL # HB 2474

TITLE: verification of class three property

SPONSOR: Knaperek

STATUS: As Introduced

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FISCAL ANALYSIS

Description

HB 2474 assess a penalty on rental properties improperly classified as owner-occupied residential property equal to 150% of the Homeowners' Rebate for the property during the 4 most recent tax years. Under the Homeowners' Rebate program, the state pays for 37% of the school property tax bill for owner-occupied residential property. An amount equal to the Homeowners' Rebate for the current year is deposited into the state General Fund with the remaining amount deposited into the Assessor's Residential Rental Identification Fund created by the bill. In addition, the bill requires the Department of Revenue (DOR) to assist counties in identifying properties improperly classified as owner-occupied residential property and to provide oversight and management of the process used by assessors to verify owner-occupied residential property.

Estimated Impact

The estimated FY 2007 fiscal impact cannot be determined with certainty due to the amnesty provision in the bill. Beyond FY 2007, the estimated fiscal impact to the state General Fund is an ongoing savings between \$6.2 million and \$22.7 million. DOR estimates that HB 2474 would generate between \$6 million and \$12 million in savings to the General Fund.

According to DOR, the estimated cost to implement the provisions in HB 2474 is \$350,000 in FY 2006 and \$785,000 in FY 2007. DOR's fiscal impact includes \$210,000 in FY 2006 and \$506,000 in FY 2007 for postage expenses required to notify homeowners with misclassified property. However, HB 2474 requires that county assessors send notices to homeowners; therefore, DOR would not need to incur the cost for postage.

Analysis

According to A.R.S. § 15-972, owner-occupied residential property receives a rebate on the amount of primary property taxes levied by the school district in which they reside. In FY 2006, approximately 1.4 million properties will qualify for an average "Homeowners' Rebate" of \$206. Funding for the Homeowners' Rebate is provided by the General Fund. However, a property classified as owner-occupied residential must be the primary residence of the owner or a family member.

HB 2474 would assess a penalty on misclassified homes equal to 150% of the Homeowners' Rebate, with the amount of the penalty equal to the Homeowners' Rebate deposited to the state General Fund and the remainder being deposited to the county assessor. In future years, this property would be correctly classified and the state would no longer provide a Homeowners' Rebate for that property.

Previous legislation was passed in 1984 to identify rental residential properties that were misclassified as owner-occupied residential property. As a result of that legislation, about 60,000 properties were reclassified as rental residential property. This amount equaled about 7.5% of the total 796,000 owner-occupied residential properties in the state. There are currently 1.4 million owner-occupied residential properties. If the same 7.5% misclassified rate were to apply now, 110,000 properties would be misclassified. At \$206 per homeowner, the state's Homeowners' Rebate cost would decline by \$22.7 million once the properties were correctly classified. At the lower end of the range, according to DOR estimates, as few as 30,000 homes could be misclassified. This would result in a \$6.2 million decline in the state's Homeowners' Rebate cost once the properties were correctly classified.

HB 2474 also provides an amnesty period until October 1, 2006 that allows property owners to reclassify their property without penalty. This can reduce the number of properties incorrectly classified when fines are assessed. The state would not recover the Homeowners' Rebate on these properties until FY 2008. This would occur because the amnesty provision

forgives any misclassification prior to FY 2007. The state would not receive the savings from these reclassifications until FY 2008.

Homes located in areas outside of organized school districts are required to pay property taxes for schools under A.R.S. § 15-991.01. Property taxes for owner-occupied residential property in these areas are reduced by an amount equal to the Homeowners' Rebate. However, HB 2474 does not provide a method to assess fines against improperly classified homes in these areas. The loss of savings by not assessing fines in these areas is minimal.

Local Government Impact

Counties would receive between \$3.1 million and \$11.4 million in revenues in FY 2007 from the portion of fines HB 2474 allows them to retain. However, a provision in HB 2474 allows counties to charge penalties for up to 4 most recent tax years. It is possible counties would receive a higher level of revenues if all properties were misclassified for multiple years.

County expenditures would also increase under HB 2474; however, the total cost to counties is unknown. Currently, there are no requirements for counties to send certified mail to homeowners when providing notification that their property could be incorrectly classified. HB 2472 requires that all final notices be sent using certified mail. DOR estimated the requirement to send letters using certified mail would cost \$506,000 in FY 2007. In addition, counties may need extra staff to review responses from homeowners.

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