BILL # SB 1028

TITLE: accelerate class one tax reduction

SPONSOR: Waring

STATUS: As Amended By Senate FIN

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FISCAL ANALYSIS

Description

The bill will accelerate the assessment ratio reduction of Class 1 (commercial and industrial) property that was originally enacted by Laws 2005, Chapter 302. Under current law, Class 1 net assessed valuation (NAV) will be phased down to 20% of full cash value by FY 2016. Under SB 1028, this phase-down will occur by FY 2012. (The FY 2008 assessment ratio for Class 1 property is 24%.)

Estimated Impact

Beginning in FY 2009, it is estimated that SB 1028 will result in a net General Fund cost of $3.1 million relative to current law. The cost is projected to be $6.5 million in FY 2010, $10.8 million in FY 2011, and $15.4 million in FY 2012, when the bill is fully phased in.

The estimates above are based on an updated cost estimate of Laws 2005, Chapter 302. Under the original estimate of Chapter 302, as calculated in the spring of 2005, it was projected that the act would cost the General Fund an amount of $140 million in the last year of the bill's phase-in period (FY 2016). However, because of more recent data and for other technical reasons explained below, the cost of the original legislation is now projected to be $120.7 million, or $(19.3) million less than originally projected. This cost revision is uncertain, as it is highly sensitive to the assumptions made with respect to the impact of the rebate cap in future years.

Analysis

Generally, a Class 1 assessment ratio reduction results in a lower amount of NAV but a higher qualifying tax rate (QTR) than under current law. This has a relatively small impact on Basic State Aid to Schools, since reduced NAV is mostly offset by the higher QTR, as provided by the state's truth-in-taxation (TNT) statutes. However, a Class 1 assessment ratio reduction can be expected to increase the statewide cost of the Homeowner's Rebate program since it results in a higher QTR than under current law while leaving Class 3 (owner-occupied residential) NAV unaffected.

<u>Original Cost Estimate of Laws 2005, Chapter 302</u>
Based on actual data through 2004, it was estimated on March 17, 2005 that Laws 2005, Chapter 302 would increase the General Fund cost each year, starting at $12.3 million in FY 2007 and reaching $140.0 million in FY 2016 when the phase-in of the Class 1 assessment ratio reduction would be fully implemented.

<u>Revised Cost Estimate of Laws 2005, Chapter 302</u>
For an individual parcel, the Homeowner's Rebate is equal to the lesser of a percentage (35% prior to Laws 2005, Chapter 302) of the property owner's primary school district tax or a stipulated maximum amount ($500 prior to Laws 2005, Chapter 302). When the original estimate was produced, it was assumed that a very small percentage (or for practical purposes, a negligible amount) of Class 3 parcels would be affected by the rebate cap. This assumption was based on inferences drawn from reports issued by the Department of Revenue (DOR) in prior years. However, more recent reports suggest that far more properties than expected are already at or near their rebate limit. For example, DOR's FY 2007 Additional State Aid report, which takes into account the rebate cap and other mitigating factors, shows a total cost of $322.9 million. By comparison, an aggregate approach that assumes no rebate limit (as under the original cost estimate) yields an estimate of $354.2 million. It is believed that the difference of $31.3 million or 9.7% is mostly attributable to the rebate cap.

The newly revised cost estimate of Laws 2005, Chapter 302 attempts to factor in the effect of the rebate cap on the statewide cost for the Homeowner's Rebate program. Based on more recent data, it is now believed that Chapter 302 will cost the General Fund an estimated $11.4 million in FY 2007 and $120.7 million in FY 2016. However, it should be noted that this cost revision is uncertain, as it is highly sensitive to the assumptions made with respect to the impact of the rebate cap in future years. (Accurate estimates of the impact of the rebate limit can only be computed on a parcel-by-parcel basis. However, such data is not currently available to JLBC Staff.)

Cost Estimate of SB 1028
It is estimated that SB 1028 will result in a NAV loss of $(466.6) million in FY 2009, $(987.5) million in FY 2010, $(1.6) billion in FY 2011, and $(2.2) billion in FY 2012. Relative to current law, it is projected that the QTR will be 2.4¢ higher in FY 2009. The corresponding estimates for FY 2010, FY 2011, and FY 2012 are 4.7¢, 6.9¢, and 9.0¢, respectively. As noted earlier, the associated net General Fund cost is estimated to be $3.1 million in FY 2009, $6.5 million in FY 2010, $10.8 million in FY 2011, and $15.4 million in FY 2012.

Local Government Impact

This bill may result in property tax losses for local governments and/or shifts of the tax burden to property owners not directly affected by this legislation.

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