

Fiscal Note

BILL # SB 1093

TITLE: property tax; class one; equalization assistance

SPONSOR: Mesnard

STATUS: As Introduced

PREPARED BY: Hans Olofsson

Description

The bill, as introduced, would reduce the Class 1 (commercial) property assessment ratio from 16.0% in Tax Year (TY) 2025 to 15.5% in TY 2026 and 15.0%, beginning in TY 2027. In addition, the State Equalization Tax Property Tax Rate (SETR) in TY 2026 and TY 2027 would be reduced to fully offset the primary property tax shift that owners of Class 3 (residential) property and other non-Class 1 property otherwise would incur owing to the Class 1 assessment ratio reduction.

Estimated Impact

The bill is estimated to increase the General Fund cost for the K-12 school funding formula by \$48.2 million in FY 2027 and \$88.2 million in FY 2028. This includes the impact of both the increased cost of the Homeowner's Rebate program as well as the K-12 Basic State Aid cost resulting from the SETR reduction.

Analysis

Homeowner's Rebate

Under current law, the assessment ratio for Class 1 (commercial) property is gradually phased down from 18% in TY 2021 to 16% in TY 2025. The bill would further reduce the Class 1 assessment ratio to 15.5% in TY 2026 and 15% in TY 2027 and future years. Based on current Baseline projections, this change is estimated to result in a statewide net assessed valuation (NAV) reduction of \$(606) million in TY 2026 and \$(1.12) billion in TY 2027.

Under the state's K-12 Basic State Aid (BSA) funding formula, a NAV loss of such magnitude would increase the BSA formula cost by \$19.9 million in FY 2027 and \$36.0 million in FY 2028. However, under the state's Truth in Taxation (TNT) provision for equalization assistance to schools, the Qualifying Tax Rate (QTR) and State Equalization Tax Rate (SETR) are automatically increased to ensure the same amount of property tax levies. Therefore, due to the automatic TNT adjustments of the QTR and SETR, there would be no impact on Basic State Aid.

The higher QTR resulting from the NAV reduction would increase the General Fund cost of the Homeowner's Rebate program by an estimated \$3.8 million in FY 2027 and \$6.9 million in FY 2028. Under the Homeowner's Rebate program, owners of Class 3 property receive a credit or rebate from the state, which is the lesser of 50% of their primary school district property tax or \$600. To hold school districts harmless, the state appropriates an amount equal to the Homeowner's Rebate to the same districts in the form of Additional State Aid.

State Equalization Tax Rate (SETR)

The Class 1 assessment ratio reduction under the bill would result in a property tax shift from commercial (Class 1) property to owner-occupied residential (Class 3) property as well as other classes of property. To hold Class 3 and other non-Class 1 property harmless, the bill reduces the SETR to fully offset the primary property tax shift.

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Under the Baseline, SETR is projected to gradually decrease from \$0.4263 in FY 2022 to \$0.3731 in FY 2027 and \$0.3657 in FY 2028. (Property tax rates are levied per \$100 of NAV.) These rate reductions reflect the automatic TNT adjustments discussed above. To fully offset the primary property tax shift to Class 3 and other non-Class 1 property under the bill, the SETR would have to be reduced by an estimated \$(0.0452) in FY 2027 and \$(0.0801) in FY 2028. (For this reason, SETR would have to be set at \$0.3279 in FY 2027 and \$0.2856 in FY 2028.)

As noted above, the SETR under the bill would be \$(0.0452) and \$(0.0801) lower in FY 2027 and FY 2028, respectively, than under current law. At these rates, the SETR levy is estimated to be \$(44.4) million less in FY 2027 than under current law. The corresponding SETR levy reduction in FY 2028 is estimated to be \$(81.3) million. To provide the same funding for schools, such a loss of "local share" funding is made up by a commensurate increase of "state share" funding under the K-12 Basic State Aid formula. Therefore, this provision is estimated to result in a General Fund cost increase of \$44.4 million in FY 2027 and \$81.3 million in FY 2028.

Local Government Impact

The impact on local governments depends on the extent to which they raise their property tax rates in response to the NAV reduction under the bill, which cannot be determined in advance.

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