

Fiscal Note

BILL # SB 1276

TITLE: assessed valuation; class one property

SPONSOR: Mesnard

STATUS: Senate Engrossed

PREPARED BY: Hans Olofsson

Description

SB 1276 accelerates the reduction of the assessment ratio of Class 1 (commercial) real and personal property by 2 years and modifies the depreciation schedule for certain categories of Class 1, Class 2 (agricultural) and Class 6 (foreign trade zones) personal property initially classified before Tax Year (TY) 2022. The bill would become effective beginning in Tax Year (TY) 2024.

Estimated Impact

We estimate that the bill would have a General Fund cost of \$38.2 million in FY 2025 and \$62.7 million in FY 2026 prior to applying the state's Truth-in-Taxation (TNT) adjustments. The proposal would reduce Net Assessed Valuation (NAV), which would increase the state's Basic State Aid (BSA) cost for K-12 schools. This estimate is partially based on information from the Maricopa County Assessor.

The \$38.2 million and \$62.7 million cost increase in FY 2025 and FY 2026, respectively would be offset by savings attributable to the automatic school tax rate adjustments provided under the state's TNT provisions. Once TNT savings are incorporated, the General Fund cost would be reduced to \$7.7 million in FY 2025 and \$12.4 million in FY 2026. This estimate includes the bill's impact on both BSA and the Homeowner's Rebate (HOR) program.

Analysis

Acceleration of Business Property Assessment Ratio Reduction – NAV Impact

Under current law, the assessment ratio for Class 1 (commercial) real and personal property is phased down over 4 years; from 17% in TY 2023 to 15% in TY 2027. The bill would accelerate the phasedown of the assessment ratio over 2 years; from 17% in TY 2023 to 15% in TY 2025. Based on current Baseline projections, this change is estimated to result in a statewide NAV reduction of \$(753) million in TY 2024 and \$(1.57) billion in TY 2025.

Additional Depreciation for Business and Agricultural Personal Property – NAV Impact

Under current law, locally assessed business and agricultural personal property receives additional depreciation over and above the amount allowed under the regular depreciation schedule. The additional depreciation provision has the effect of further reducing the full cash value of such property over the first 5 years of the property's economic life. SB 1276 would increase the additional depreciation (relative to current law) of business and agricultural personal property initially classified before TY 2022.

According to an analysis prepared by the Maricopa County Assessor's Office (MCAO), this provision of the bill would reduce NAV in Maricopa County by \$(361) million. According to the *State and County Abstract of the Assessment Roll*, the total NAV of business and agricultural personal property qualifying for the additional depreciation in Maricopa makes up approximately 70% of the statewide total for comparable property. Based on this figure, we estimate that the additional depreciation provision would result in a statewide NAV loss of \$(519) million, beginning in FY 2025.

(Continued)



General Fund Impact

Under the state's K-12 BSA funding formula, the bill's total combined NAV loss of \$(1.27) billion [= \$(753) million + \$(519) million] in TY 2024 and \$(2.09) billion [\$(1.57) billion + \$(519) million] in TY 2025 would increase the BSA formula cost by \$38.2 million in FY 2025 and \$62.7 million in FY 2026. However, under the state's TNT provision for equalization assistance to schools, the Qualifying Tax Rate (QTR) is automatically increased to ensure the same amount of property tax levies. Therefore, due to the automatic TNT adjustment of the QTR, there would be no impact on the BSA.

The higher QTR resulting from the NAV reduction would increase the General Fund cost of the HOR program by an estimated \$7.7 million in FY 2025 and \$12.4 million in FY 2026. Under the HOR program, owners of Class 3 (primary residential) 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 HOR to the same districts in the form of Additional State Aid.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

2/20/23