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FISCAL IMPACT STATEMENT

LS 6807 **NOTE PREPARED:** Feb 5, 2007
BILL NUMBER: HB 1696 **BILL AMENDED:**

SUBJECT: Annual adjustments of property tax assessments.

FIRST AUTHOR: Rep. Smith M **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: ___ **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill delays annual adjustment procedures (trending) for the property tax assessment of real property by one year. The bill changes the valuation procedures to be used in trending. It also permits the Department of Local Government Finance (DLGF) to adopt emergency rules to implement trending.

Effective Date: Upon passage; March 1, 2006 (retroactive).

Explanation of State Expenditures: The State pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this proposal and subject to appropriation, annual state PTRC and homestead payments would decrease by approximately $21 M in FY 2007 (partial year), $33 M in FY 2008, and $5 M in FY 2009. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund.

Explanation of State Revenues: The state levies a tax rate for State Fair and State Forestry. Under this proposal, the revenue for these two funds would be reduced by approximately $2 M in CY 2007, $305,000 in CY 2008, and $316,000 in CY 2009.

Explanation of Local Expenditures: Forty-four counties currently provide additional homestead credits that are paid with proceeds from the local option income taxes (LOIT). These credits would decline by approximately $3.3 M in CY 2007, $680,000 in CY 2008, and $690,000 in CY 2009. LOIT proceeds that are not used for county homestead credits are distributed to civil taxing units as certified shares.

According to the DLGF, eighty-five counties have now submitted assessment ratio studies to the DLGF, indicating that they have completed work on their trending adjustments for taxes payable in 2007. Sixty-three of those have been approved so far, many of which have sent assessment notices. Eleven counties have now submitted certified budget assessed values by taxing unit to the DLGF.

A delay of trending would cause all ninety-two counties to roll back to their 2005 pay 2006 assessments for taxes payable in 2007. The counties would have to reissue assessment notices and the auditors would have to recalculate unit assessed values. Some counties could incur considerable additional expense to delay trending.

Explanation of Local Revenues: Under current law, the DLGF is required to establish a system (trending) for annually adjusting the assessed value of real property to account for changes in value in those years since a general assessment of property last took effect. This is scheduled to start with the 2006 assessment. Trending does not apply to personal property.

Under this proposal, trending will be delayed one year and would start with the 2007 assessment. Land would be valued in accordance with current law. Improvements to land would be valued in accordance with current law or a nationally recognized valuation service.

As a result of this proposal, the tax base would be reduced by approximately $78.4 B in CY 2007, $12.7 B in CY 2008 and $13.2 B in CY 2009. Gross levies would not be affected.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

Trending Systems: In general, trending is accomplished by comparing sales prices for the year on which the new assessment is based with sales prices for the year on which the former assessments are based. The percentage change in sales prices become the trending factor and are applied to the previous assessment to calculate the new assessment. This bill would, instead, require an assessment system based on replacement cost less depreciation. There would be no sales component. The resulting assessments would differ, and most likely be lower than, the assessments produced under the current system.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: All taxing units.

Information Sources: Local Government Database.

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