F I S C A L   I M P A C T   R E P O R T

ORIGINAL DATE 03/08/11
SPONSOR Boitano **LAST UPDATED** **HB**

SHORT TITLE Residential Property Value Regulations **SB** 322

ANALYST Golebiewski

REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY11	FY12	FY13		
	*	*	Recurring	Property Tax Beneficiaries
	*	*	Recurring	GO Bond Capacity

(Parenthesis ( ) Indicate Revenue Decreases)

*Please see Fiscal Implications section below.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY11	FY12	FY13	3 Year Total Cost	Recurring or Non-Rec	Fund Affected
Total		$150.0	$150.0	$300.0	Recurring	Property Tax Division

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Taxation and Revenue Department (TRD)
Department of Finance and Administration (DFA)

SUMMARY

Synopsis of Bill

Senate Bill 322 proposes to change the cap on increases in the valuation of residential property in several ways. For the 2012 tax year, all residential property will be reassessed at its current and correct value. If the valuation of a residence in 2012 is over 103 percent of its value in 2011, the taxpayer may elect to have the excess phased in over three years. The county assessor is required to notify the property owner of this option. Beginning in property tax year 2013, the 3 percent limit on annual value increases would apply even when the property changes hands. However, prior to applying the 3 percent limit, the Department must determine that the sales ratio for the county is no less than 95 percent. In counties below the 95 percent sales ratio, the Department would be required to reassess residential property until the sales ratio is at least 95 percent.

FISCAL IMPLICATIONS

TRD:

> Impacts of the proposal would vary significantly from county to county because of regional housing market variety. Statewide, the proposal would cause a significant increase in residential net taxable value. Property tax rates would be adjusted downward through the normal rate-setting process. The yield control process would reduce operating tax rates on residential property only. The debt service rate setting process would reduce rates for both residential and non-residential property. However, local governments and school districts often react to an increase of taxable value by proposing an increase in debt issuance to voters, using the argument that "your property tax won't go up." Under this approach the proposal could lead to increased debt issuance and associated property tax liability.
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> Bringing all residential property up to current and correct would increase total residential net taxable value by approximately 20 percent. Applying the 3% limit to all property upon re-sale would reduce the growth rate of residential net taxable value by about 1.0% per year, an effect that would compound over time. These results are based on the following key assumptions:
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> - Average increase of properties when brought up to current and correct: 20%
> - Share of properties re-sold each year: 5%

SIGNIFICANT ISSUES

SB 322 proposes a retroactive remedy to the tax lightning issue by equalizing values up to current and correct. For some property owners, this will increase their property value dramatically, whereas the corresponding decrease in property tax rate will be much smaller. This may result in pricing property owners out of their homes, which is contrary to what is often the intention of imposing limits on property valuation growth.

TRD:

> By removing the provision requiring that properties be re-valued upon a change of ownership, the proposal would address a major concern that taxpayers have raised with the statute implementing the 1998 Constitutional Amendment authorizing limits on residential property value increases. The implementing statute, Section 7-36-21.2, has given rise to what is referred to as "tax lightning," the sharp increase in value of a property upon transfer. By first requiring that all properties be re-valued at their current and correct value, the proposal would eliminate most of the disparity that currently exists among existing properties. As a consequence, many property owners would see an increase in their property's assessed value. The proposal does not address that valuation of newly constructed properties, leaving in place the likelihood that these properties would be assessed and taxed at higher levels than similar existing properties.

ADMINISTRATIVE IMPLICATIONS

TRD:

The Property Tax Division would need to conduct or assist the counties with greatly expanded sales ratio studies and greater protest board responsibilities. Because taxpayers are allowed to phase in the increase of their assessed value over a three year period, it is likely they will choose the three-year phase-in. This means the Department and the counties will need to do the extensive sales ratio studies for a three or four year period. The Property Tax Division would need to hire two full time employees at a cost of $90,000 per year. We would also have additional board meetings to finance along with legal council to defend us in litigation and oversee the additional productions of Decision and Orders. PTD estimates that this would increase protest board costs and approximately 50%, or, $60,000. Total anticipated cost to accommodate this change at PTD is $150,000 per year.

CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Related bills include SB 108 and SB 189.

OTHER SUBSTANTIVE ISSUES

TRD:

The goal of 95 percent of current and correct values may be unattainable using mass appraisal methods. The International Association of Assessing Officers has established a standard of 90% to 110% range as acceptable.

JAG/bym