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

**SPONSOR** Boitano **ORIGINAL DATE** 03/07/11 **LAST UPDATED** **HB**

**SHORT TITLE** Valuation of New Residential Construction **SB** 316

**ANALYST** Golebiewski

## REVENUE (dollars in thousands)

| Estimated Revenue | | | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|
| FY11 | FY12 | FY13 | | |
| | | ($3,000.0) | Recurring | GO Bond Capacity |

(Parenthesis ( ) Indicate Revenue Decreases)

## ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

| | FY11 | FY12 | FY13 | 3 Year Total Cost | Recurring or Non-Rec | Fund Affected |
|---|---|---|---|---|---|---|
| **Total** | | * | * | | Recurring | TRD and County Assessors |

(Parenthesis ( ) Indicate Expenditure Decreases)

*See Administrative Implications section below.

**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 316 would require county assessors to 1) value new construction of residential property by multiplying the sales price of the property by the “prior values median ratio” generated for the tax year in which the property is being valued by the department for the county in which the new construction is located; and 2) revalue residential property that was first valued for tax purposes as residential property between tax years 2002 and 2011 by adjusting the current assessed value of the property to be consistent with the “prior values median ratio” for the county in which the property being valued is located. “Prior value median ratio” is defined as a ratio generated by the department for a county to use to determine values of new construction set forth in the Sales Ratio Statistical Summary published annually by the department.

## FISCAL IMPLICATIONS

TRD:

> Impacts of rolling back the assessed value of properties first valued between 2001 and 2011 would vary with local housing market conditions but would reduce statewide residential value by approximately 1 percent. Because state general obligation bond capacity is determined by multiplying net taxable value by 1 percent, bonding capacity is reduced by the amount shown in the table…Applying the average sales ratio to the value of newly-constructed property would reduce the growth rate of total residential property by about 0.5 percent to 1.0 percent per year in the future on the assumption that newly-constructed property would otherwise be valued at closer to its current and correct value rather than at the average sales ratio. This impact will vary with local housing market conditions.
>
> Reduced residential taxable values would result in increased operating tax rates on residential property, creating a shift of liability from owners of new property to owners of older existing property. In addition, debt service rates would rise on both residential and non-residential property, again shifting liabilities from owners of newly constructed properties.

## SIGNIFICANT ISSUES

TRD:

> The proposal helps to address one component of the inequities in valuation of residential property commonly called the “property tax lightning” problem. The component covered by the proposal concerns that treatment of newly constructed property, which is typically valued at its current and correct value while existing properties that have not changed ownership have the growth of their assessment limited to no more than 3 percent per year. This results in higher assessed values, and higher tax liabilities, for owners of newly constructed property. The proposal would attempt to reduce this disparity by assessing new properties at the average ratio of assessed value to market value of all property in the county.

Senate Bill 316, however, does not address the disparities that currently exist between residential property (that was not newly constructed) that has remained with the same owner and that which has been transferred in the period from 2001 to 2011. Current statute applies an annual 3 percent limit to valuation increases of residential property that remains with the same owner and revalues residential property to current and correct when a change in ownership occurs. This differential treatment would not change as a result of SB 316.

## ADMINISTRATIVE IMPLICATIONS

TRD:

> The Department's Property Tax Division – working with county assessors -- would be required to devote additional priority to the sales ratio study so that it would serve as an appropriate basis for valuing new construction. Although this would impose an administrative burden, it might serve other purposes as well in providing information on how closely counties are valuing their properties to current and correct.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

SB 316 is related to SB 108, SB 189, SB 319, and SB 322.

## TECHNICAL ISSUES

TRD:

> The proposal gives the Department's Property Tax Division authority to determine the "prior value median ratio" but does not provide guidance for how the calculation is to be done.

JAG/bym