Legislative Analysis

HOUSE FISCAL AGENCY
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EXCLUDE UNCAPPED VALUE FROM HEADLEE ROLLBACK

House Bill 4442
Sponsor: Rep. Paul Condino
Committee: Tax Policy

Complete to 3-12-07

A SUMMARY OF HOUSE BILL 4442 AS INTRODUCED 3-8-07

Under the provisions of the Headlee Amendment to the State Constitution (Article 9, Section 31), a local unit must rollback its millage rate when the increase in the assessed valuation (i.e., taxable value) of existing property increases faster than the rate of inflation, so as to yield the same amount of revenue. The millage reduction fraction (MRF), as found in the General Property Tax Act is:

$$\frac{\text{Previous Year Total Taxable Value} - \text{Losses}}{\text{Current Year Total Taxable Value} - \text{Additions}} \times \quad \text{Inflation Rate Multiplier}$$

For the purposes of calculating the MRF, the term "additions" does not include the increase in taxable value that results from transfers of ownership of property (i.e. the uncapping of the taxable value to the level of state equalized value, or "pop-up").

Generally speaking, under state tax law, the increase in the assessment of a parcel of real property cannot increase from one year to the next by more than the rate of inflation or five percent, whichever is less. However, when property is sold or transferred, its valuation returns (or "pops up") to 50 percent of market value. At that point, the assessment cap once again begins to apply, this time to the readjusted assessment.

Under House Bill 4442, the increase in taxable value attributable to transfers of ownership would be treated as additions. This would have the effect of increasing the MRF and, therefore, allowing a local unit's millage rate to remain higher than it otherwise would under the current millage reduction law.[1]

The bill further provides that beginning with taxes levied in 2007, the additional revenue generated by using the new calculation would have to be used for "public safety" purposes; that is, for police officers, firefighters and other first responders, as well as school safety officers and school resource officers.

[1] The MRF is rounded to the nearest 1/10,000th (four decimal places) and is capped at 1.0000. For 2007, the inflation rate multiplier is 1.037 (a 3.7% change in the consumer price index). Since 1995, the MRF has served to permanently reduce the maximum number of mills a local unit may levy. Prior to that, local units could "roll up" their millage rates to the amount authorized by charter, statute, or voter approval when the growth on existing property was less than inflation.

FISCAL IMPACT:

The bill would increase revenue to local units of government by an indeterminate amount.

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