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BILL ANALYSIS

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Senate Joint Resolution H (Substitute S-1 as reported) *(as passed by the Senate)*
Sponsor: Senator John Pappageorge
Committee: Finance

CONTENT

The joint resolution would amend the State Constitution to require the Legislature to provide that if a property's assessed value had decreased, adjusted for additions and losses, the property's taxable value in the following year would be the property's taxable value in the preceding year or the property's assessed value, whichever was less. The joint resolution would apply for taxes levied after 2009.

(Under the State Constitution, the taxable value of a parcel of property, adjusted for additions and losses, may not increase from one year to the next by more than 5% or the increase in the consumer price index, whichever is lower, until there is a transfer of ownership. At that time, the assessment is "uncapped" and the parcel is taxed upon its State equalized valuation (SEV), which is 50% of its true cash value.)

If two-thirds of the members elected to and serving in each house of the Legislature approved the joint resolution, it would have to be submitted to voters at the next general election.

Legislative Analyst: Craig Laurie

FISCAL IMPACT

The proposed constitutional amendment would reduce both State and local revenue by an unknown and, in some years, likely significant amount. At the same time, it would increase School Aid Fund expenditures by an unknown and, in some years, likely significant amount. The actual amount of any change would depend on a wide variety of factors—most relating to the economy and housing markets. During most years during the 1990s and early 2000s, the proposed provisions would have had little impact beyond heavily depressed or blighted areas, and even then the impact would have been minimal. However, in years such as 2008, or given current economic forecasts, in 2009 and 2010, the proposed amendment could have a substantial impact. During 2008 to 2010, housing values are expected to face substantial downward pressures, and for homes where there is a large gap between taxable value and State equalized valuation, the proposed amendment would have an impact.

The amendment would affect taxable values only for years after 2009, when the downward pressure in the housing market will likely be less, although property values are expected to continue to decline. The effect of the amendment on individual properties would depend upon their characteristics. Approximately 40% to 50% of properties in the market exhibit taxable values very close to the SEV and thus would largely be unaffected by the proposal—any declines in property values would cause taxable value to fall the same amount under both current law and the proposed amendment. For the remaining 50% to 60% of properties, the amendment would lower revenue, depending on the inflation rate applicable under current law.

Assuming an average inflation rate of 3.5% and an average statewide millage rate of 40 mills, in a declining property market, the proposed amendment would reduce State and local property taxes by approximately $253.0 million in the first year that the amendment was in effect. Approximately $38.0 million of that reduction would be lower State Education Tax revenue to the School Aid Fund. Furthermore, because the provisions also would lower locally raised revenue to local school districts, School Aid Fund expenditures would need to increase by approximately $38.5 million in order to maintain per-pupil funding guarantees. As a result, the net negative impact on the School Aid Fund would exceed $75.0 million. The effect on local units of government would vary based on local millage rates and the particular characteristics of the property within the unit, but on average, the proposed amendment would lower local unit revenue by approximately $176.5 million—given these assumptions.

Because of the cap on taxable values in a rising property market, any reduction in values during a year the proposed amendment's provisions were in effect also would affect tax revenue in later years. However, the impact in subsequent years would reflect the lower taxable values, and any growth would be against a lower base and would likely increase the negative impact in later years.

Date Completed: 3-13-09 Fiscal Analyst: David Zin