

HEA 1001

More than Property Tax Relief

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HEA 1001

- *More Than “Property Tax Relief”*
 - Expansion of Circuit Breaker Tax Credits
 - Creates a financial interdependency of all local schools and local governments
 - Creates uncertainty in predicting revenues available to fund local budgets
 - Changes the role of County Councils
 - Direct oversight of budgets of certain appointed boards
 - Non-binding review of all other local governmental budgets
 - Wide range of interpretations of what role should be
 - Influences the financial well-being of all local governments and local public schools

HEA 1001

- *More Than “Property Tax Relief”*
 - Increases the Importance of Economic Development
 - Growing tax base is needed to stabilize property tax revenues
 - Declining property values result in declining property tax revenues
 - Local incentives, such as TIF and tax abatement, must be balanced to encourage both private investment and to expand tax base
 - Must grow local taxable incomes to stabilize *both* income tax revenues and property tax revenues

What are circuit breaker tax credits?

- Prior to HEA 1001, circuit breaker tax credits generally limited a taxpayer's total property tax liability to a fixed percentage of the assessed value of the taxable property, before any deductions.
 - For taxes payable in 2008, these credits are limited to residential homesteads with a cap of 2.0%.
 - Credits are expanded to 3.0% for all other property taxpayers in 2010.
 - Credits are funded through reductions in property tax revenues of all taxing units in proportion to levy.

How does HEA 1001 change these tax credits?

- Expands the tax caps to all other property taxpayers to:
 - 3.5% limit in 2009
 - 3.0% limit in 2010
- Creates additional limits for certain taxpayers over age 65
- Provides that debt service levies established before July 1, 2008 are excluded from the tax caps for Lake and St. Joseph Counties.

How does HEA 1001 change these tax credits?

- Changes total effective property tax rates:
 - Reduces assessed values used to compute property tax rates by creating new supplemental homestead exemption for homeowners
 - 35% exemption for first \$600,000 remaining assessed value
 - 25% exemption for over \$600,000 remaining assessed value
 - Reductions in assessed value
 - Increase property tax rates and circuit breaker tax credits
 - Shifts tax burden and related credits to non-homestead taxpayers
 - Reduces revenue from rate-capped funds

How does HEA 1001 change these tax credits?

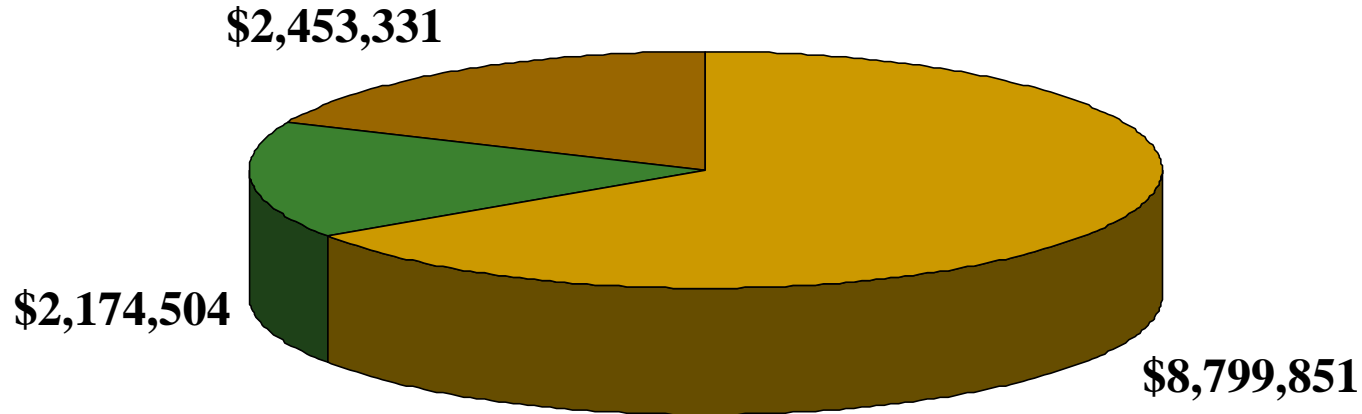
- Eliminates certain levies from property tax levies:
 - Pre-School and School General Fund
 - County Welfare Funds
 - Pre-1977 Police and Fire Pensions
 - State Fair Board and Forestry
- Reductions in levies reduce property tax rates and reduce circuit breaker tax credits

How does HEA 1001 change these tax credits?

- Phases out state funded property tax relief, including property tax replacement credits, state homestead credits and temporary homestead credits through 2010.
- Note: reductions in property tax credits increase effective tax rates and circuit breaker tax credits

State Property Tax Relief

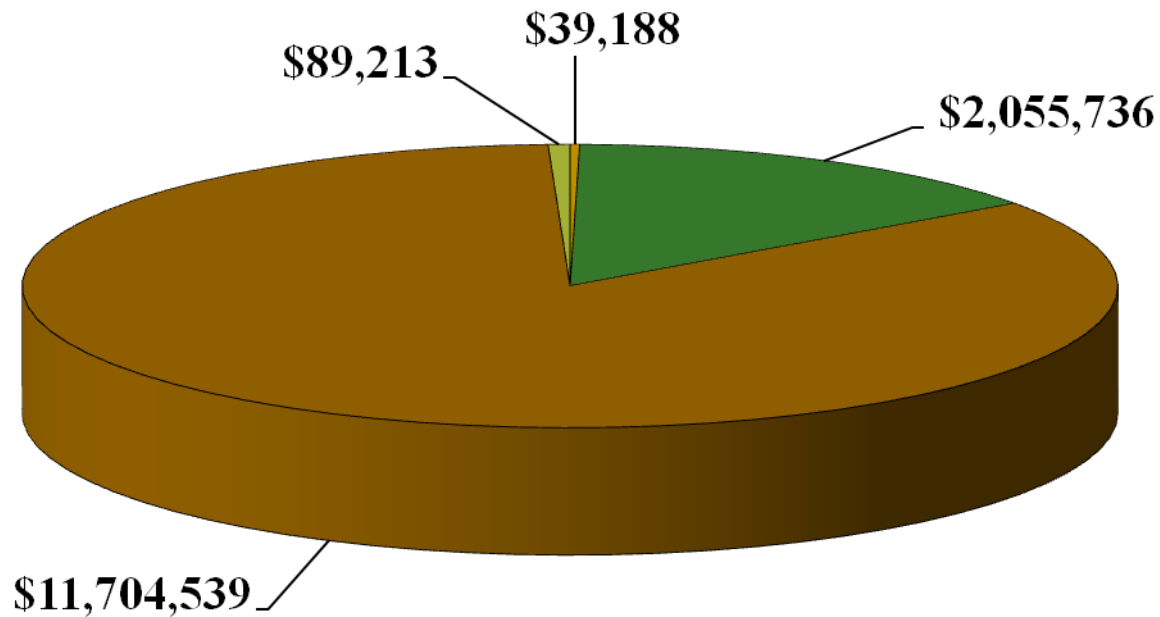
\$13,427,686



■ State PTRC ■ State Homestead Credits ■ Temporary Homestead Credits

State Assumed Levies

\$13,888,676



■ State Funds

■ County Welfare

■ School General Funds

■ Police & Fire Pensions

How do circuit breaker tax credits make financial budgets interdependent?

- **Circuit breaker tax credits are hard caps on total effective tax rates**
 - Increases in total tax rates increase total circuit breaker tax credits.
 - Most circuit breaker tax credits are generated from taxpayers in incorporated areas where the need for and cost of services are the greatest.
 - Circuit breaker tax credits tend to increase rapidly once taxpayers begin to reach and exceed these limits.

How do circuit breaker tax credits make financial budgets interdependent?

- **Many factors that increase circuit breaker tax credits are beyond the control of the affected taxing unit.**
 - Increases in the property tax rate of one taxing unit reduces property tax revenues collected by another
 - Trending adjustments and assessments reflected in total tax rates are developed by county assessor
 - Adoption of new Local Option Income Taxes to reduce property tax rates and tax credits may likely require legislative action by other elected bodies
 - Economic development activities that increase tax base may be within the jurisdiction of others

Analysis of HEA 1001

ILLUSTRATIVE PROPERTY TAX BILLS

(Residential Homesteads)

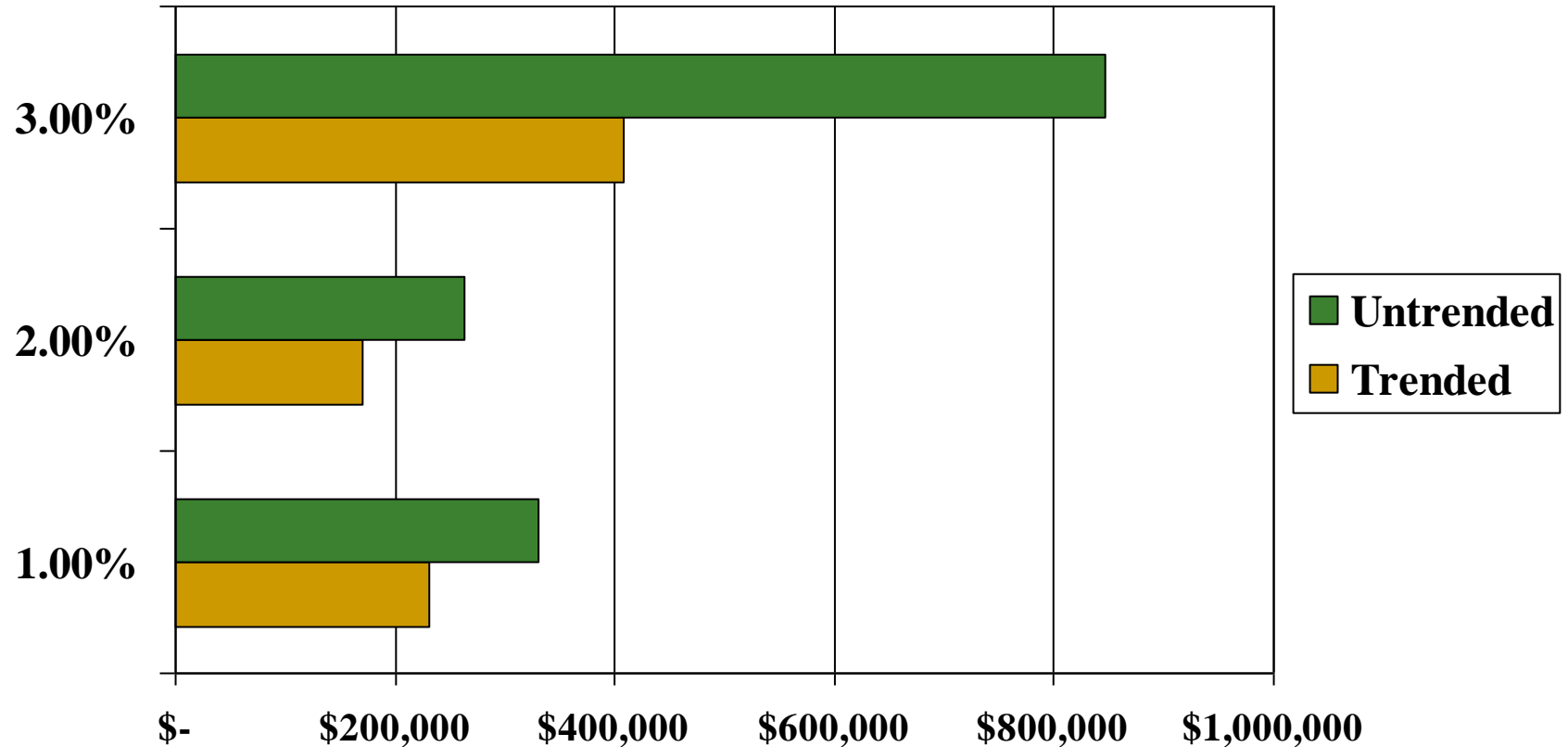
	<u>\$100,000 Home Value</u>		<u>\$250,000 Home Value</u>	
	<u>2008</u>	<u>2010</u>	<u>2008</u>	<u>2010</u>
	<u>Tax Rates</u>	<u>Tax Rates</u>	<u>Tax Rates</u>	<u>Tax Rates</u>
<u>Residential Homesteads</u>				
Effective Tax Rate	<u>\$1.8256</u>	<u>\$3.0791</u>	<u>\$1.8256</u>	<u>\$3.0791</u>
<u>Illustrative Residential Homesteads Bills</u>				
Gross Assessed Value	\$100,000	\$100,000	\$250,000	\$250,000
Less Homestead Deduction	(45,000)	(45,000)	(45,000)	(45,000)
Less Supplemental Homestead Deduction	<u>0</u>	<u>(19,250)</u>	<u>0</u>	<u>(71,750)</u>
Net Assessed Value	<u>\$55,000</u>	<u>\$35,750</u>	<u>\$205,000</u>	<u>\$133,250</u>
Property Tax Due Before Circuit Breaker	\$1,004.08	\$1,100.78	\$3,742.48	\$4,102.90
Less Circuit Breaker Tax Credit (1)	<u>0.00</u>	<u>(100.78)</u>	<u>0.00</u>	<u>(1,602.90)</u>
Property Tax Due With Circuit Breaker	<u>\$1,004.08</u>	<u>\$1,000.00</u>	<u>\$3,742.48</u>	<u>\$2,500.00</u>
Dollar Increase/(Decrease)		(\$4.08)		(\$1,242.48)
Percent Change		-0.41%		-33.20%

(1) Assumes 1% tax cap for 2010.

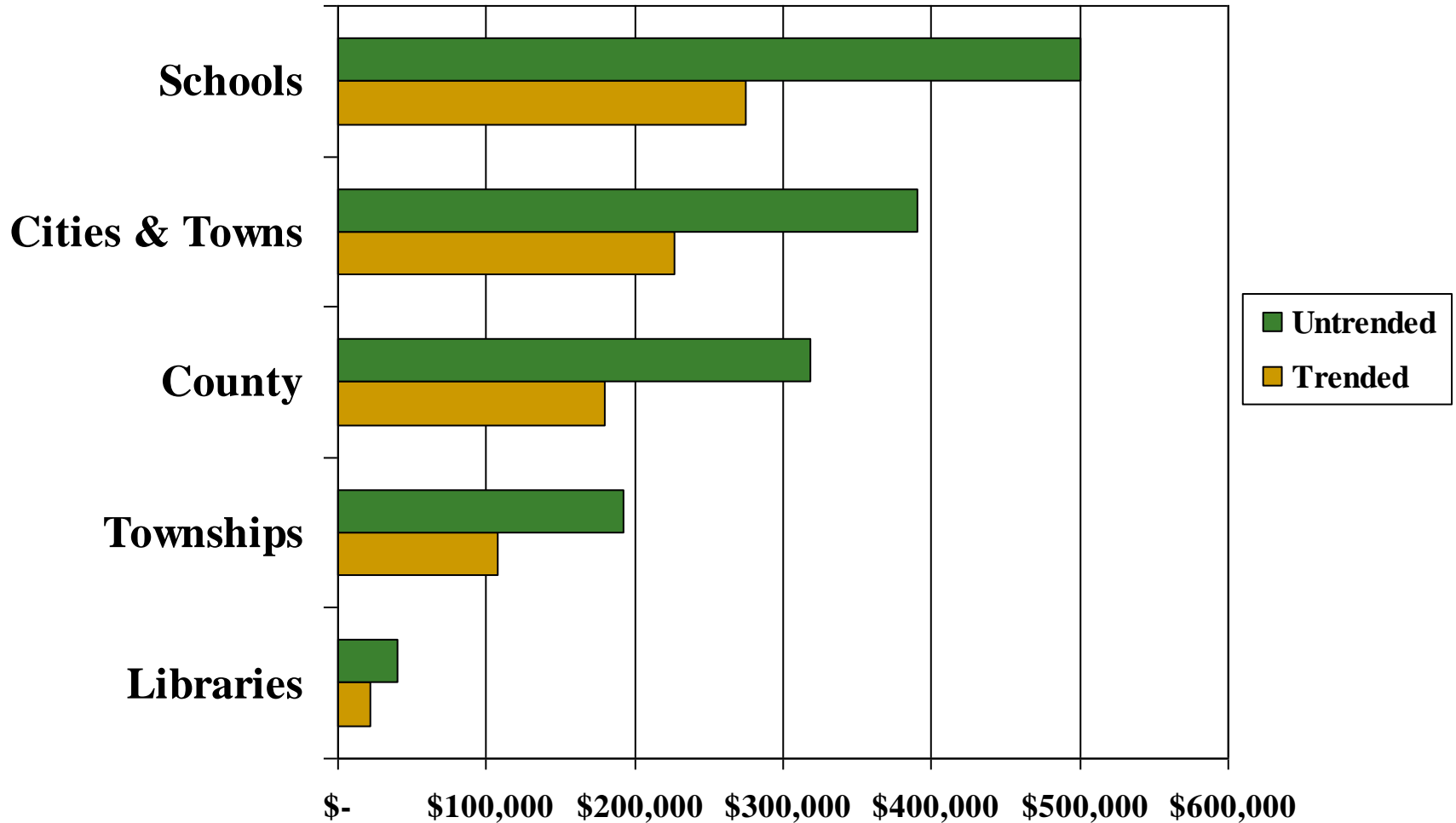
2010 Circuit Breaker Tax Credits

Estimated at \$1,440,367 (Untrended)

Estimated at \$810,298 (Trended)



2010 Circuit Breaker Tax Credits



How do we manage these credits?

- **Authorize new local option income taxes**
 - Consider adoption or changes to existing local income taxes
 - Increase rates for EDIT, COIT, or CAGIT within existing statutory limits
 - Provides new revenues or reduces property tax levies and total property tax rates to reduce credits
 - Eliminating or reducing county homestead credits funded by COIT may also increase available revenues

How do we manage these credits?

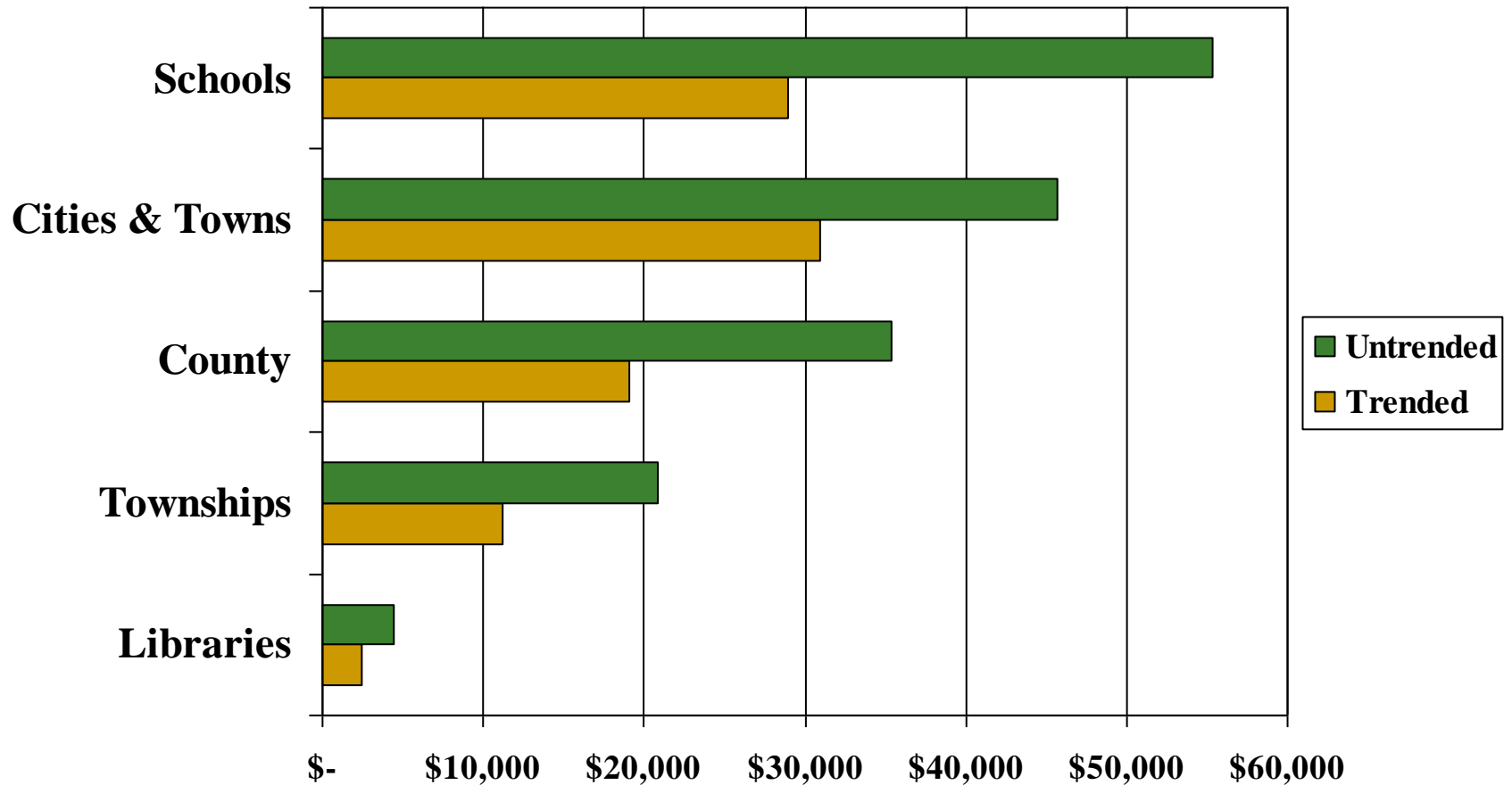
- **Authorize new local option income taxes**
 - Consider adoption of one of the three new LOITs designed for property tax relief
 - Option A: Levy Growth Replacement Tax
 - Option B: Property Tax Replacement Tax
 - Uniform Credits
 - Residential Homestead Credits
 - Qualified Residential Credits
 - Option C: Public Safety Tax

How do we manage these credits?

■ **Challenges of adopting new LOITs**

- New LOITs provide property tax relief for all taxpayers within the class, regardless of whether they benefit from the circuit breaker tax credits. Consequently the income tax revenue needed to replace lost property tax revenue is significantly higher than the revenues lost.
- Adoption of new local option income taxes may require action of other taxing units

2010 Circuit Breaker Credits with 1.0% LOIT Rate



Final Thoughts

- It will become increasingly important to move debt service outside of the circuit breaker limits.
 - Consider permitting local units to request a referendum at any level of project size or have debt below the threshold automatically outside the circuit breaker limits.
- New local option income taxes will be needed by several taxing units.
 - May need a mechanism to permit cities & towns to adopt these taxes. Most circuit breaker credits originate in incorporated areas.
 - Lower income tax rates would be needed if new LOIT revenues could fund circuit breaker tax credits.

Final Thoughts

- Now all major local revenue sources, both income taxes and property taxes, are tied to local economic conditions. In recessionary periods, both income tax revenues and property tax revenues will fall.
 - Revenue forecasting is now a required part of the budgeting process.
 - Creates a need to establish and fund adequate cash reserves to offset downturns in the economy.

Final Thoughts

- The long term solution is to “make the pie bigger”.
 - All local governmental units must encourage growth in the local economy. This includes both increased investment to enhance the property tax base and job creation to bolster local income tax revenues.
 - Those communities that do not grow will continue to struggle financially.