Fiscal Note 2025 Biennium

GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Bill information:	
HB0189 - Revise property tax assistance program (Nikolakakos, George)	
Status:	As Amended in House Committee

☒Significant Local Gov Impact ☒Needs to be included in HB 2 ☐Technical Concerns

☒Included in the Executive Budget ☐Significant Long-Term Impacts ☐Dedicated Revenue Form Attached

FISCAL SUMMARY

	FY 2024 Difference	FY 2025 Difference	FY 2026 Difference	FY 2027 Difference
Expenditures:				
General Fund	$76,502	$49,718	$50,254	$50,800
State Special Revenue	$0	$0	$0	$0
Revenue:				
General Fund	$0	($2,150,000)	($2,360,000)	($2,417,000)
State Special Revenue	$0	($136,000)	($149,000)	($153,000)
Net Impact-General Fund Balance:	($76,502)	($2,199,718)	($2,410,254)	($2,467,800)

Description of fiscal impact: HB 189 as amended in the House Appropriations Committee, increases the market value cap for homes enrolled in the Property Tax Assistance Program (PTAP) from $200,000 to $300,000. The bill then indexes that cap to change in the median home value within the PTAP program. The bill also changes the income limits for each tier of exemption percentage within PTAP and indexes the income thresholds to the change in the personal consumption expenditure (PCE) index(rebasing the formula to 2023 has no fiscal impact). The department will need an additional 1.00 FTE in the first year for additional application volume and 0.50 FTE ongoing for program maintenance.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

1. Under current law, PTAP applies a percentage to the normal class 4 residential property tax rate of 1.35%. There are three tiers of adjustments: 20%, 50%, and 70%. These factors are only applied against the tax rate up to a $200,00 market value (MV) limit.
2. A property owner in the 20% percentage bracket with a $200,000 market value home receives a reduced taxable value (TV) of $540 ($200,000 x 1.35% x 20%), instead of a value of $2,700 ($200,000 x 1.35%).
3. A property owner in the 20% bracket whose home is worth $300,000 would see a taxable value of $1,890 ($200,000 x 1.35% x 20% + $100,000 x 1.35%), instead of the standard value of $4,050 ($300,000 x 1.35%).

4. HB 189 as amended, raises the market value eligible for the reduction from $200,000 to $300,000. In the cases of the $300,000 home, the exemption applies to its full market value resulting in a taxable value of $810.
5. There were 21,542 properties enrolled in the PTAP program in TY 2022. The market value of PTAP property was adjusted by the expected reappraisal growth of class 4 residential property, by county, as presented by DOR at the November 2022 Revenue Interim Committee meeting. It is assumed all these properties will continue to meet PTAP income eligibility.
6. The fiscal cost is estimated by comparing the TY 2023 estimated (abated) taxable value, with the $200,000 cap, which is $43.534 million with the unabated taxable value for these same properties which is estimated to be $75.097 million. This is a taxable value reduction of $31.563 million, statewide.
7. PTAP properties paid 625.05 mills in TY 2022. Multiplying the reduction in taxable value by the average mill levies yields PTAP participant tax savings of $19.729 million in TY 2023 under the current program rules.
8. Expanding the income brackets of eligibility will have an interaction effect on the market value cap, since new taxpayers will eligible and apply for program benefits as benefits increase. This interaction effect is modeled by applying a percentage increase to the abated market value, simulating the increase in benefits.
9. The number of individual income tax returns that fall into the current income ranges for the PTAP program were compared with the number of tax returns that fit into those ranges in HB 189. Those ratios are displayed in the table below.

Taxable Percentage	Participant Ratio with Bracket Expansion
20%	140.9%
50%	102.7%
70%	100.2%

10. The population of households receiving the 70% multiplier is not expected to increase while there is an anticipated 40.9% increase in households that will claim the more favorable 20% taxable percentage.
11. The expansion of the income brackets is expected to extend eligibility to an additional 6,300 homeowners.
12. Total abated market values in TY 2023 under the HB 189 are shown in the following table:

Taxable Percentage	Abated MV 2023	Abated TV 2023	Abated MV 2023 HB 189	Abated TV 2023 HB 189	Non-Abated TV 2023 HB 189
20%	$2,987,790,000	$8,067,000	$4,211,247,000	$11,370,000	$56,852,000
50%	$740,787,000	$5,000,000	$760,423,000	$5,133,000	$10,266,000
70%	$750,444,000	$7,092,000	$751,902,000	$7,105,000	$10,151,000
Total	**$4,479,021,000**	**$20,159,000**	**$5,723,572,000**	**23,609,000**	**$77,268,000**

13. The total difference between expected TY 2023 abated TV and non-abated TV is $53.660 million. Multiplied by the average mill of 625.05 yields expected tax benefits of $33.540 million.
14. The expected cost due to HB 189 in TY 2023 is $13.811 million. ($33.540 million - $19.729 million).
15. The state general fund receives an average of 95.5 mills of the 625.05 consolidated mill (95 equalization mills and .5 mills from the weighted average (1.5 vo-tech mills in five counties with Colleges of Technology).
16. That is equal to 15.3% of the tax collected (95.5/625.05).
17. State general fund reduction in TY 2023 would be $2.099 million ($13.811 million x 15.3%).
18. The 6 university mills from share of 625.05 consolidated statewide average mills represent a $133,000 reduction in TY 2023 University state special revenue under HB 189.
19. The remaining $11.580 million in tax savings by PTAP participants represents shifts to all other property.
20. There is an assumed 2.4% growth rate in PTAP program costs in off years of the reappraisal cycle (FY 2025 and FY 2027) to account for new properties enrolling in the program as a result of population growth.
21. It is assumed that the TY 2025 (FY 2026) reappraisal will increase the median home value of properties in PTAP by the overall reappraisal growth estimate for class 4 residential property. A growth rate of 9.8% in program costs accounts for this market value cap adjustment.

22. The changes to PTAP detailed in HB 189 will take place in TY 2024. Therefore, the first fiscal year with revenue effects will be FY 2025.

DOR Administrative Costs

23. The department will require an additional 1.00 FTE in FY 2024 for application processing with the expansion of the pool of eligible PTAP applicants.
24. For FY 2025 and beyond, the department will require 0.50 FTE for program maintenance.
25. Decision letter mailings costs increase $4,158 annually ($0.66 per letter and 6,300 new applicants).

Fiscal Impact:	**FY 2024 Difference**	**FY 2025 Difference**	**FY 2026 Difference**	**FY 2027 Difference**
Department of Revenue				
FTE	1.00	0.50	0.50	0.50
Expenditures:				
Personal Services	$61,416	$37,493	$37,866	$38,244
Operating Expenses	$15,086	$12,225	$12,388	$12,556
TOTAL Expenditures	$76,502	$49,718	$50,254	$50,800
Funding of Expenditures:				
General Fund (01)	$76,502	$49,718	$50,254	$50,800
State Special Revenue (02)	$0	$0	$0	$0
TOTAL Funding of Exp.	$76,502	$49,718	$50,254	$50,800
Revenues:				
General Fund (01)	$0	($2,150,000)	($2,360,000)	($2,417,000)
State Special Revenue (02)	$0	($136,000)	($149,000)	($153,000)
TOTAL Revenues	$0	($2,286,000)	($2,509,000)	($2,570,000)
Net Impact to Fund Balance (Revenue minus Funding of Expenditures):				
General Fund (01)	($76,502)	($2,199,718)	($2,410,254)	($2,467,800)
State Special Revenue (02)	$0	($136,000)	($149,000)	($153,000)

Effect on County or Other Local Revenues or Expenditures:

1. PTAP reduces taxable value of qualifying properties. It is assumed that local governments will offset taxable value reductions. The average tax shift of $12.7 million over the fiscal years in this fiscal note represents an average increased tax liability of about 0.74% for all other properties.

[signature]	2-15-23	[signature]	2/15-23
Sponsor's Initials	*Date*	*Budget Director's Initials*	*Date*