Personal Property Tax Reform Reimbursements

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SENATE FISCAL AGENCY

Topics

- Types of exempt personal property.
- Local Community Stabilization Authority (LCSA) use tax levy.
- Reimbursements to local governments for property tax reductions.
- Characteristics of the current reimbursement formula.
- Concerns about the current formula.

PPT Reforms 2014: Types of Personal Property (PP) Exempted from the Property Tax

- Certain commercial personal property (CPP) and industrial personal property (IPP)
  - Small taxpayer personal property (owner's true cash value of CPP and IPP in the taxing unit is less than $80,000).
  - Eligible manufacturing personal property
- The exemptions phase in over 9 years
- Calendar year 2016 exemptions
  - All eligible manufacturing personal property acquired before 2006 or after 2012 (2006 to 2012 phase-in one year at a time until 2023).
  - Small taxpayer personal property (since 2014).

Reimbursement of Local Government Revenue Loss

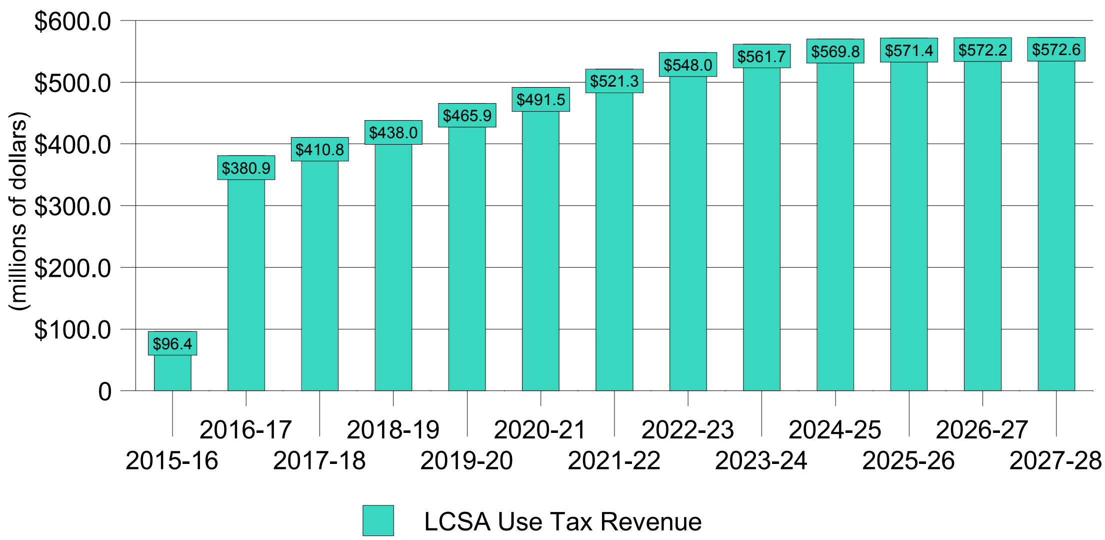
- As some commercial and industrial PP becomes exempt, local government tax revenue is lower than it would be otherwise.
- Revenue loss due to the exemptions is calculated (approximated) based on a statutory formula.
- Reimbursement to local governments is provided by a statewide local government, the Local Community Stabilization Authority (LCSA).
- Money for reimbursement payments comes from a portion of the use tax that is levied by the LCSA.

PPT Reimbursement

- Statute specifies the amount of use tax revenue that the LCSA levies and distributes each year to eligible local governments.
  - Based on estimates of PPT losses when legislation was enacted.
  - Amount provided to the LCSA is independent of reimbursement formula calculations.
  - Statute requires distribution of the entire amount specified.
- The total amount of reimbursement each year was set in 2014 for FY 2016-17 and future years.
- The use tax revenue now levied by the LCSA previously went to the General Fund.

Use Tax Revenue Levied by the LCSA

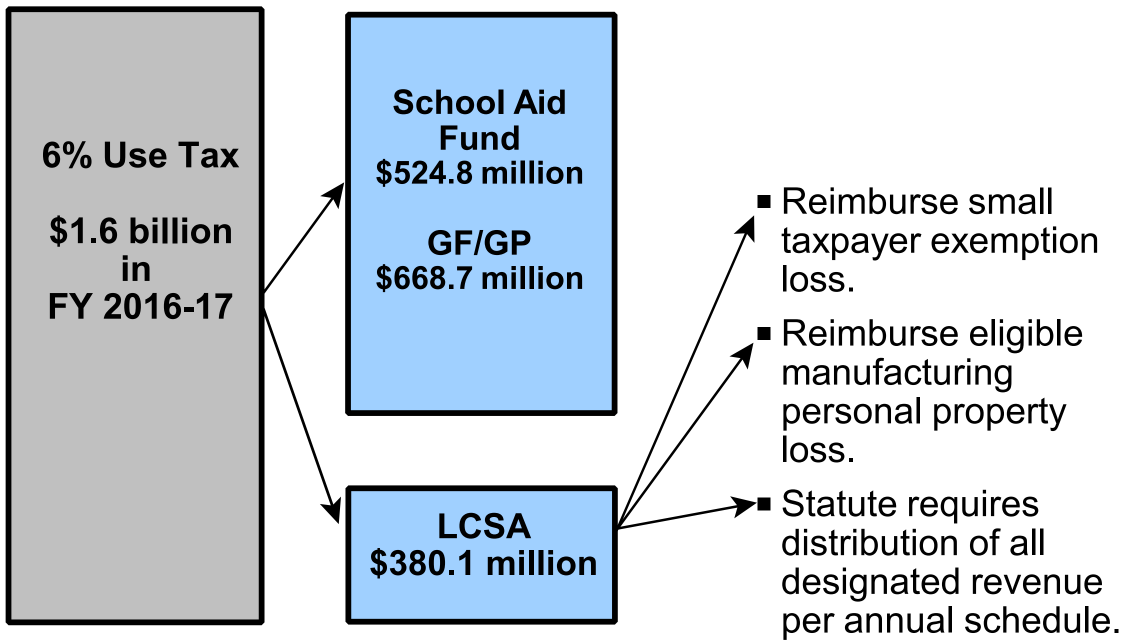
Current Law Requires Distribution of These Amounts Per Statutory Schedule



Note: These amounts represent a shift in revenue from the General Fund to local units of government with eligible revenue losses due to personal property tax reform.

Source: Senate Fiscal Agency

PPT Reimbursement



LCSA Reimbursement Distribution

Payments to Local Governments Depend on the Type of Millage Levied and Calculation of Taxable Value Loss

<u>Tier 1</u>
Millages Paid at 100% of Statutory Formula

<u>Tier 2</u>
All the rest of the money distributed in proportion to each local unit's qualified loss as a % of the total qualified loss.

Tier 2 reimbursement may be more or less than the calculated loss.

Types of LCSA Reimbursement Payments

Tier 1 Guaranteed 100% Reimbursement for:

- All taxing units' small taxpayer exemption loss.
- Essential services millage (police, fire, jail, ambulance, and related pensions) levied by counties and CVTs.
- Local school district and ISD debt and operating millage (those not reimbursed by School Aid Fund).
- Tax increment financing authorities.

Types of LCSA Reimbursement Payments

Tier 2 Reimbursement of Qualified Loss Not Guaranteed, Payments Subject to Proration

- Non-essential services millage levied by counties and CVTs
- Community college debt and operating mills
- Library debt and operating mills
- Authority debt and operating mills

Tier 2 Payments:

- Paid from LCSA revenue remaining after Tier 1 payments.
- Can be less than or more than calculated loss, depending on total claims and LCSA revenue available.
- Prorated according to each local unit's share of total qualified loss.

LCSA Reimbursement FY 2016-17

For Calendar Year 2016 Property Taxes

(millions of dollars)

Total Payments	$374.3	Amount required by statute.
Less Tier 1	$158.2	Paid at 100% of calculated loss.
Equals Tier 2	$216.1	Paid at 265% or $134.6 mil. more than qualified loss. (100% of Tier 2 qualified loss = $81.5 mil.)

Source: Senate Fiscal Agency

(100% of Tier 2 qualified loss = $81.5 mil.)

LCSA Reimbursement FY 2016-17

For Calendar Year 2016 Property Taxes

(millions of dollars)

	LCSA Payments	Recipients
Tier 1	$158.2	▪ 79 of 83 counties ▪ 1,618 of 1,773 CVTs ▪ 16 of 28 community colleges ▪ 431 of 541 local school districts ▪ 52 of 56 ISDs ▪ 451 authorities, libraries, TIFAs
Tier 2	$216.1	▪ 69 of 83 counties ▪ 963 of 1,773 CVTs ▪ 25 of 28 community colleges ▪ 160 authorities and libraries ▪ No local school districts, ISDs, or TIFAs

Source: Senate Fiscal Agency

Estimating Local Revenue Losses Due to PPT Reform

Current Law

Estimate Change in Taxable Value

The statute considers the change in taxable value for commercial and industrial personal property from 2013 to the current year (small taxpayer loss is considered separately, but is also based on changes from 2013).

Determine Millage Rates to Use

- Operating Millage: Use the lowest rate levied for each type of millage since 2012. Calculate the share of operating millage used for essential services. Use zero mills for a millage not levied in any year.
- Debt Millage: Millages levied for debt approved before 2013 that pledged unlimited or limited taxing power of the municipality.

Measuring Taxable Value Loss

Formula Does Not Distinguish Among the Reasons for Taxable Value Changes

The current year taxable value of personal property differs from 2013 due to several factors:

- Impact of tax exemptions for small taxpayers.
- Impact of tax exemptions for eligible manufacturing PP.
- Increases in nonexempt industrial and commercial PP.
- Depreciation.
- PP removed from service.

Characteristics of the Reimbursement Formula

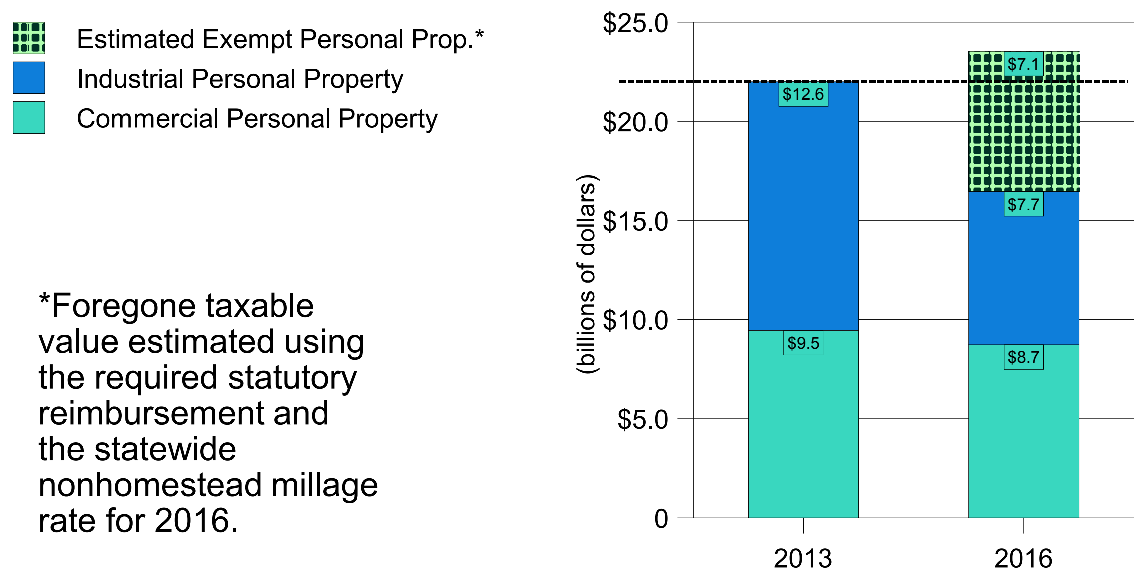
- Reimbursement is not based on the actual value of property exempted by the 2014 reforms.
- Exemption loss is measured simply as the change in the taxable value of industrial and commercial PP from 2013 to the current property tax year, with additional adjustments for small taxpayer loss (and renaissance zones and other expiring exemptions) calculated similarly.
- Reimbursement is calculated on commercial and industrial PP taxable value changes since 2013.
- New eligible manufacturing PP and small taxpayer PP acquired after 2012 is not subject to property tax. Local governments no longer receive increased tax revenue from this development and there is no reimbursement under the formula for the amount of foregone growth.

Are There “Excess” or “Bonus” Payments in FY 2016-17?

- The reimbursement formula does not measure the exact taxable value changes that occurred due to the personal property tax exemptions.
- The reimbursement amounts cannot be compared to actual losses from personal property tax reform. The data available does not address whether the reimbursement payments are more or less than the actual losses.
- The formula sets 2013 tax revenue as the base. There is only a bonus payment if the 2013 tax revenue, with no adjustments for taxable value gains or losses or millage rate changes that otherwise would have occurred, is considered (as it is in statute) the appropriate base for comparison into the future.
- Payments were made according to the statutory formula which pays more than 100% of the “qualified loss” when total Tier 2 “qualifed loss” is less than the funds required to be distributed after Tier 1 is paid.

Statewide Taxable Value of Industrial and Commercial Personal Property

With Estimated Exemptions in 2016



*Foregone taxable value estimated using the required statutory reimbursement and the statewide nonhomestead millage rate for 2016.

Source: Senate Fiscal Agency

Concerns about the Current Formula

Distributional Issues

- The formula boosts Tier 2 payments for those locals with commercial and industrial personal prop. taxable value **increases** during 2014 and 2015.
- For 2016 property taxes, Tier 1 is paid at 100% of statutory loss and Tier 2 is paid at 265% of qualified loss.
- Millages in Tier 2 are non-essential services debt and operating millages for CVTs and counties, and debt and operating millages for community colleges, libraries, and authorities.

Concerns about the Current Formula

Administrative Issues

- Payment timeline makes it difficult to verify data and correct errors. Data is due August 15 for payments that must be calculated by September 7.
- Proration/proportional distribution for Tier 2 means that all payments must be calculated before any payments can be made.
- Payment adjustments for errors or taxable value changes are not made until subsequent year.
- No taxable value adjustment data available for TIFAs and villages in the taxable value database that statute directs Treasury to use.
- Adjustment process has no time limit and affects all payments in the following year.

Upcoming Payments and Formula Change

- The next LCSA payment date is September 20, 2017 which begins reimbursements for calendar year 2017 property taxes.
- The total amount to be distributed by the LCSA increases from $374.3 million for calendar year 2016 property taxes to $404.7 million for calendar year 2017 property taxes.
- If law changes to the reimbursement process are considered, they would need to be enacted by July 2017 to change payments.
- Under current law, the reimbursement formula changes for 2019 property taxes, with the first year of payments based in part on the acquisition cost of eligible exempt PP. The shift to acquisition cost occurs over 20 years.

Questions?

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