

Policy Memorandum

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SUBJECT: An Initial Analysis of HR 162

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HR 162 limits the annual inflationary increase in the assessed value of individual parcels to 3 percent or the rate of increase in the Consumer Price Increase, whichever is less. This limit applies to all classes of property, not just homesteaded property, except the limitation does not apply to increases in value due to additions or renovations or when the property is sold except for sales within a family. Since the increase in the CPI has generally exceeded 3 percent, it is likely that the cap will be at 3 percent.

The effect of HR 162 on a jurisdiction's property tax base will depend on the extent to which inflationary increases in property values exceed 3 percent and to the rate of turnover of property.

To provide some indication of the effect of HR 162 on property tax bases, we calculated for each county what the allowable property tax base would have been in 2004 if property values in 2000 were allowed to increase by only 3 percent per year. We then compared this value with the actual 2004 property tax base.

This calculation clearly overstates the effect on the property tax base since it does not account for growth due to new construction, additions and renovations, and turnover of property. Nor does it account for the possibility that some parcels could have increases in actual values that are less than 3 percent while other parcels exceed 3 percent. Unfortunately, data to account for these factors were not available.

Nonetheless, we present the results of our calculations. The second column in the following table shows the percentage "loss" of the property tax base if HR 162 had been in effect in 2000. Again, as noted above this overstates the effect.

Percentage Loss	-----Number of Counties-----	
	Based on Total Assessed -----Value-----	Based on Assessed Value -----per Capita-----
40% or 50%	4	2
30% to 40%	15	5
20% to 30%	28	27
10% to 20%	47	44
0 to 10%	33	47
No Effect	31	33
Total	158	158

Source: Department of Revenue Consolidation Sheets; data were missing for one county.

To try to account for the increase in the property tax base due to new construction, we calculated the base per capita, and allowed that to increase by 3 percent per year. Again we compared the resulting value with the actual value for 2004 of the property tax base per capita. The third column of the following table shows the percentage “loss” in the property tax base if HR 162 had been in effect in 2000. Again, this overstates the effect, although we have tried to adjust for the growth in the property tax base due to the economic growth in the county as measured by population growth.

The table is interpreted as follows. Based on the calculations using assessed value per capita, we find that if HR 162 had been in effect beginning in 2000 the property tax base per capita for 2 counties would have been more than 40 percent less than the counties’ actual property tax base per capita in 2004.

Our calculations find that sixty percent of the counties would have experienced a “loss” of property tax base and fifty percent of the counties would have experienced a “loss” of property tax base per capita in excess of 10 percent over the 4-year period. The percentage “loss” will grow over time if the annual inflationary increase in property values continued to exceed 3 percent.

Several counties experienced an increase in their actual property tax base or property tax base per capita that was less than 3 percent per year. For these 31 and 33 counties, respectively, HR 162 would have had no effect on their property tax base.