

MEMORANDUM

April 30, 2009

TO: Management and Fiscal Policy Committee
FROM: *CHS*
Charles H. Sherer, Legislative Analyst
SUBJECT: Property tax options for FY09 and FY10

FY09 For FY09, a table showing the relevant amounts of property tax is at the end of this memo. For the FY09 budget last year, the Council had two sets of property tax options:

1. How much total property tax should the Council use to fund the FY09 operating budget? The Executive recommended exceeding the Charter limit by \$137.8 million. The Council decided to reduce his property tax amount by \$20 million, and therefore exceeded the Charter limit by \$117.8 million.
2. What mix of property tax rate change and income tax offset credit should the Council use to reduce the amount of property tax from the amount at current rates to the Council's amount? The Council considered several options and selected option b.
 - a) The Executive proposed to increase the rate 7.5¢ and to give an income tax offset credit in the amount of \$1,014 per eligible household (this would have raised \$20 million more than the Council decided to raise).
 - b) Keep the rate the same in FY09 as in FY08 and give an income tax offset credit in the amount of \$579 per eligible household.
 - c) Reduce the rate by 8.4¢ and give no income tax offset credit.
 - d) Various combinations of reducing the rate and giving an income tax offset credit.

FY10 For FY10, a table showing the relevant amounts of property tax is at the end of this memo. The Council has fewer options for FY10.

1. With regard to how much total property tax the Council should use to fund the FY10 operating budget, the Council cannot exceed the Charter limit, because the Charter amendment the voters approved in November 2008 specifies that nine affirmative votes are required to exceed the Charter limit, and the Council will have only eight members in office when you approve the tax rates on May 21, 2009.

At the Charter limit achieved entirely by giving a credit, property tax in FY10 will increase 5.4% from FY09 (4.5% from an increase for inflation on existing real property and 0.9% from new construction and personal property).

2. With regard to the mix of property tax rate change and income tax offset credit to reduce the amount of property tax from the amount at current rates to the Charter limit, the Council will probably support the Executive’s recommendation to leave the rate the same as in FY09 and give an income tax offset credit in the amount of \$690 per eligible household.

The reason for supporting the Executive’s recommendation is that the Executive’s recommendation results in the **maximum** amount of property tax at the Charter limit. This is because

1. The Charter limit applies only to existing real property, not to new construction and not to personal property. In total, existing real property will pay the same amount of property tax in FY10 at the Charter limit no matter what mix of rate reduction and income tax offset credit the Council uses.
2. However, the other two groups - new construction and personal property – will pay **less** if the Council reduces the rate, and more if the Council leaves the rate unchanged and gives a credit. This is true because a rate reduction reduces the tax for all groups, but the income tax offset credit only reduces the tax for qualified residential property.

Therefore, keeping the rate the same and giving an income tax offset credit – as the Executive recommends - results in the maximum amount of property tax at the Charter limit. Property tax at the Charter limit achieved by giving a credit is \$12.1 million more than property tax at the Charter limit achieved by reducing the rate.

A simple hypothetical example will illustrate this point. Note that existing real property pays the same tax in both options, but new real property and personal property pay more if the Council reaches the Charter limit by keeping the rate unchanged and giving a credit. Therefore, total property tax is more with the credit option than with the rate reduction option.

	Existing real	New real	Personal	Total
Property tax at current rates, before credit or rate reduction	1,000	200	100	1,300
Options for reducing tax on existing real property to the Charter limit:				
Option 1: give an income tax offset credit, don’t reduce rate	(100)	0	0	(100)
Property tax after credit	900	200	100	1,200
Option 2: reduce rate, don’t give credit	(100)	(20)	(10)	(130)
Property tax after reduced rate	900	180	90	1,170

FY09 DATA

1. FY08 approved property tax	1,207,534,618
2. FY09 Property tax at current rates	1,507,286,693
3. FY09 CE property tax	1,385,223,969
4. FY09 Council property tax	1,365,223,969
5. FY09 Council property tax, OMB	1,364,931,692
6. FY09 Property tax at Charter limit by credit	1,265,910,476
7. FY09 Property tax at Charter limit by reducing rate	1,247,460,516
8. FY09 Decrease PT from current rates to CL by credit	(241,376,217)
9. FY09 Decrease PT from current rates to CL by reducing rate	(259,826,177)
10. FY09 PT at CL by credit minus PT at CL by reducing rate	18,449,960
11. FY09 Change property tax resulting from 1¢ change rate	16,780,000
12. FY09 ¢ reduction from current rates to CL	-15.5¢
13. FY09 # households eligible for credit	245,000
14. FY09 Credit per household to CL	(985)
15. CE property tax is this much less than current rates	(122,062,724)
16. CE property tax is this much greater than Charter limit by reducing rate	137,763,453
17. CE property tax is this much greater than Charter limit by credit	119,313,493

FY10 DATA

1. FY09 approved property tax (data below are FY10)	1,364,931,692
2. Property tax at current rates	1,607,664,000
3. CE property tax	1,438,731,000
4. d = Property tax at Charter limit by credit (no change rate)	1,438,731,000
5. e = Property tax at Charter limit by reducing rate (no credit)	1,426,623,000
6. f = Decrease PT from current rates to CL by credit	(168,933,000)
7. Decrease PT from current rates to CL by reducing rate	(181,041,000)
8. PT at CL by credit minus PT at CL by reducing rate	12,108,000
9. Change property tax resulting from 1¢ change rate	17,381,331
10. g = ¢ reduction from current rates to CL	-10.415831¢
11. # households eligible for credit	245,000
12. Credit per household to CL	(690)
13. CE property tax is this much less than current rates	(168,933,000)

FY09

	A	B	C	D	E
42					Council
43					approved
44	FY09 Scenarios to raise Council's property tax	Scenario 1	Scenario 2	Scenario 3	Scenario 4
45	County Executive property tax	1,385,223,969	1,385,223,969	1,385,223,969	1,385,223,969
46	Council option: decrease from Executive	(20,000,000)	(20,000,000)	(20,000,000)	(20,000,000)
47	Council property tax	1,365,223,969	1,365,223,969	1,365,223,969	1,365,223,969
48	Decrease from property tax at current rates	(142,062,724)	(142,062,724)	(142,062,724)	(142,062,724)
49	Decrease from credit	0	(74,942,724)	(108,502,724)	(142,062,724)
50	Decrease from reducing rate (or incr. from incr. rate)	(142,062,724)	(67,120,000)	(33,560,000)	0
51	Credit per household, rounded down to nearest \$	0	(305)	(442)	(579)
52	¢ change rate	-8.4¢	-4.0¢	-2.0¢	0.0¢

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FY10

	A	B	C	D	E	F	G	H	I	J	K	L
1	CHARTER LIMIT, see column G for how to achieve.				This is CE recommendation.							
2	Rate is from Schedule F-6											
3												
4	FY	FY05	FY06	FY07	FY08	FY09	FY10		CPI CY 2003 for FY05		116.2	
5	Rate prior year	1.005	0.995	0.953	0.903	0.903	0.903		CPI CY 2008 for FY10		139.5	
6	Change rate	(0.010)	(0.042)	(0.050)	+0.000	+0.000	+0.000		Total % increase		20.1%	
7	Rate this year	0.995	0.953	0.903	0.903	0.903	0.903		Annual % increase		3.7%	
8	Credit	0.00	(116.00)	(221.00)	(613.00)	(579.00)	(690.00)					
9												
10	Amount of Tax									% Change		
11	FY09 Taxable Value	FY05	FY06	FY07	FY08	FY09	FY10	Effective tax rate FY10	Amount change FY09-10	FY09-10	Total FY05-10	Annual FY05-10
12	100,000	680	600	525	208	324	303	0.276	(21)	-6.4%	-55.4%	-14.9%
13	200,000	1,359	1,316	1,272	1,029	1,227	1,297	0.589	70	5.7%	-4.6%	-0.9%
14	300,000	2,039	2,032	2,018	1,850	2,130	2,290	0.694	160	7.5%	12.3%	2.4%
15	Median 346,000	2,351	2,361	2,361	2,227	2,545	2,747	0.722	201	7.9%	16.8%	3.2%
16	400,000	2,718	2,748	2,764	2,671	3,033	3,283	0.746	250	8.2%	20.8%	3.8%
17	Average 421,000	2,861	2,898	2,921	2,843	3,223	3,492	0.754	269	8.4%	22.0%	4.1%
18	500,000	3,398	3,464	3,510	3,492	3,936	4,277	0.778	341	8.7%	25.9%	4.7%
19	600,000	4,078	4,180	4,257	4,312	4,839	5,270	0.798	431	8.9%	29.2%	5.3%
20	700,000	4,757	4,896	5,003	5,133	5,742	6,263	0.813	521	9.1%	31.7%	5.7%
21	800,000	5,437	5,612	5,749	5,954	6,645	7,256	0.825	611	9.2%	33.5%	5.9%
22	900,000	6,116	6,328	6,496	6,775	7,548	8,250	0.833	702	9.3%	34.9%	6.2%
23	1,000,000	6,796	7,044	7,242	7,596	8,451	9,243	0.840	792	9.4%	36.0%	6.3%
24	1,200,000	8,155	8,476	8,734	9,238	10,257	11,230	0.851	973	9.5%	37.7%	6.6%
25	1,400,000	9,514	9,908	10,227	10,880	12,063	13,216	0.858	1,153	9.6%	38.9%	6.8%
26	1,600,000	10,874	11,340	11,719	12,522	13,869	15,203	0.864	1,334	9.6%	39.8%	6.9%
27	1,800,000	12,233	12,772	13,212	14,163	15,675	17,189	0.868	1,514	9.7%	40.5%	7.0%
28	2,000,000	13,592	14,204	14,705	15,805	17,481	19,176	0.872	1,695	9.7%	41.1%	7.1%
29	Average tax:											
30	Residential, no HSPTC	2,381	2,725	3,032	3,555	4,082	4,141	0.903	59	1.4%	73.9%	11.7%
31	Commercial property	19,653	19,920	20,583	22,787	24,327	24,845	0.903	518	2.1%	26.4%	4.8%



	A	B	C	D
1	Average Taxable Assessment (1)	Residential (Owner)	Residential (Non-owner)	Commercial
2	LY2003 (FY04)	\$229,819	\$210,560	\$1,846,329
3	LY2004 (FY05)	\$251,992	\$239,250	\$1,975,153
4	LY2005 (FY06)	\$278,674	\$285,915	\$2,090,223
5	LY2006 (FY07)	\$312,196	\$335,762	\$2,279,404
6	LY2007 (FY08)	\$347,770	\$393,711	\$2,523,434
7	LY2008 (FY09) est.	\$383,413	\$452,098	\$2,694,074
8	LY2009 (FY10) est.	\$421,642	\$458,628	\$2,751,389
9				
10	Tax Rates (Weighted Average) (2)	(Owner)	(Non-owner)	Commercial
11	LY2003 (FY04)	\$1.005	\$1.005	\$1.005
12	LY2004 (FY05)	\$0.995	\$0.995	\$0.995
13	LY2005 (FY06)	\$0.953	\$0.953	\$0.953
14	LY2006 (FY07)	\$0.903	\$0.903	\$0.903
15	LY2007 (FY08)	\$0.903	\$0.903	\$0.903
16	LY2008 (FY09) est.	\$0.903	\$0.903	\$0.903
17	LY2009 (FY10) est.	\$0.903	\$0.903	\$0.903
18				
19	Tax Credit (Rebate)	(Owner)	(Non-owner)	Commercial
20	LY2003 (FY04)	\$0	\$0	\$0
21	LY2004 (FY05)	\$0	\$0	\$0
22	LY2005 (FY06)	\$116	\$0	\$0
23	LY2006 (FY07)	\$221	\$0	\$0
24	LY2007 (FY08)	\$613	\$0	\$0
25	LY2008 (FY09) est.	\$579	\$0	\$0
26	LY2009 (FY10) est.	\$690	\$0	\$0
27				
28	Estimated Average Tax	(Owner)	(Non-owner)	Commercial
29	LY2003 (FY04)	\$2,310	\$2,116	\$18,556
30	LY2004 (FY05)	\$2,507	\$2,381	\$19,653
31	LY2005 (FY06)	\$2,540	\$2,725	\$19,920
32	LY2006 (FY07)	\$2,598	\$3,032	\$20,583
33	LY2007 (FY08)	\$2,527	\$3,555	\$22,787
34	LY2008 (FY09) est.	\$2,883	\$4,082	\$24,327
35	LY2009 (FY10) est.	\$3,117	\$4,141	\$24,845
36				
37	Percent Increase	(Owner)	(Non-owner)	Commercial
38	LY2004 (FY05)	8.6%	12.5%	5.9%
39	LY2005 (FY06)	1.3%	14.5%	1.4%
40	LY2006 (FY07)	2.3%	11.3%	3.3%
41	LY2007 (FY08)	-2.7%	17.3%	10.7%
42	LY2008 (FY09) est.	14.1%	14.8%	6.8%
43	LY2009 (FY10) est.	8.1%	1.4%	2.1%
44				
45	NOTES: (1) Data from TXP340-1 reports and estimates by the Department of Finance			
46	(2) Weighted average rates based on assessments (see Schedule F-6, County Executive's			
47	FY10 Recommended Operating Budget			