Overview of Proposed Amendments

Bill No. 120173 (use and occupancy tax millage)

Amendment: Increase revenues for School District by $94M in 2013

- **Issue**: As a group, commercial and industrial properties are currently assessed closer to their actual value than residential properties. Thus, when all properties are assessed at their actual value under AVI, the overall taxes paid by residential properties will go up while those paid by commercial and industrial properties will go down. The administration's proposal to increase School District real estate tax revenues by $94M in 2013 exacerbates this issue, as the increase will be disproportionately borne by residential taxpayers. The potential shift of tax burden to residential properties is **$200M to $300M**.

- **Proposed solution**: Keep real estate tax revenues the same in 2013 as they are in 2012 and raise the Use and Occupancy (U&O) Tax – which is dedicated to the School District and paid only by commercial and industrial property owners/tenants on property that is in use – to generate $94M more for the School District. This would reduce the increased burden AVI places on homeowners while providing the District with the funds it says it needs.

Bill No. 120175 (real estate tax millage)

Amendment 1: On School District millage, remove $94M increase for 2013 and eliminate additional $29M tax increase for 2014

- **Issues**: First, the above-described concern about the shift of real estate tax burden onto residential taxpayers being exacerbated by raising School District revenues $94M. Second, the administration's proposal included an automatic $29M tax increase for the School District in 2014.

- **Proposed solutions:** Move the $94M revenue increase for the School District from the real estate tax to the U&O tax. Eliminate the automatic $29M increase in 2014 for the School District.

Amendment 2: On City millage, eliminate additional $19M tax increase for 2014

- **Issue**: The administration's proposal also included an automatic $19M real estate tax increase for the City in 2014.

- **Proposed solution**: Eliminate the automatic $19M increase in 2014 for the City.

Amendment 3: Adjust "default" tax rate to reduce risk of massive over-collection

- **Issue**: The Administration's legislation has a "default rate" of 2.5% that would apply if a court rejects its formulaic proposal for setting a tax rate. This high default rate approach runs the risk of the City collecting far more real estate tax revenue than it says it plans to. Under the most conservative assumptions (i.e., that the total value of taxable real estate in the city is only $71B), this default rate would generate $1.78B in revenue – a **half billion dollars** more than proposed. Under a more reasonable assumption (i.e., $84.6B of taxable real estate), the default rate would generate $2.1B in revenue – a **full billion dollars** more than will be collected this year.

- **Proposed solution:** Set a more reasonable default tax rate of 1.8%, with 0.787% on the City side and 1.013% on the School District side.

Amendment 4: Create taxpayer credit in case of over-collection

- **Issue**: Given all of the variables built into the administration's formulaic real estate tax rate proposal and collection estimate formula, we don't know how much revenue will be collected next year. There is a possibility that

- **Proposed solution**: Creating a "taxpayer credit" process whereby, if the administration collects more current year real estate tax revenue between January 1, 2013 and August 31, 2013 than it says it plans to, those excess collections will be credited to taxpayers on 2014 tax bills. This would have no impact on the administration's ability or incentive to collect prior year back taxes.

Amendment 5: Eliminate "smoothing"

- **Issue**: The Administration's proposal has a "smoothing" feature, whereby tax bills will not be entirely based on actual values until 2015. Smoothing was intended to buffer the effect of tax increases due to significant increases in assessed value. However, analysis provided by the administration indicates that smoothing would have just the opposite effect for some of these homeowners: their tax bills will increase due to AVI, but due to smoothing their tax bills would be **even higher in 2013 and 2014** than in 2015 because of the higher tax rates in the first two years of AVI that would be needed to pay for smoothing. Because assessments have not been completed, it is impossible to know how many homeowners would be subject to this smoothing sticker shock.

- **Proposed solution**: Eliminating smoothing, while increasing the homestead exemption from $15K to $40K, and implementing various measures proposed by

Council President Clarke that would allow residents to defer some portion of their increased tax liabilities.

Amendment 6: Increase homestead exemption to $40K

- **Issue**: The impact of AVI on owners of low-value homes.
- **Proposed solution**: Increase homestead exemption from $15K to $40K.