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ISSUE REVIEW

Fiscal Services Division

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Property Tax System Modifications – Senate File 295

ISSUE

Senate File 295 (State and Local Taxation of Property and Income Act of 2013)[1] made significant changes to the way the state of Iowa taxes various classes of real property. The Act also provided for State General Fund appropriations to reimburse local governments for a significant portion of the revenue reductions dictated by the Act's modifications to the property tax system. This ***Issue Review*** explores the financial implications of the Act for taxpayers, local governments, and the State General Fund.

AFFECTED ENTITIES

Local Government Revenue

State General Fund Appropriations

PROPERTY TAX PROVISIONS OF THE ACT

Senate File 295 contained the following five significant property tax system modifications.[2] The property classifications of agricultural, residential, commercial, industrial, telecommunications, and railroad were all directly impacted by one or more provisions of the Act. All classes of taxed property within the state were also affected by the Act's potential impact on property tax rates.

Business Property Tax Credit: The Act created a new Business Property Tax Credit (BPTC) for property classified as commercial, industrial, or railroad (C/I/Rail). The new BPTC was designed to pay a portion of the property tax due on a property, up to a limited amount of property value. As designed, the BPTC is more beneficial to lower-value properties as a percent of property taxes due. All other factors being equal, the new property tax credit is also more beneficial to properties in areas with higher property tax rates.[3]

Property owners are required to initially apply to the county for the BPTC. As long as the ownership or property classification of the property does not change, further annual applications are not required. The BPTC is calculated on a property "unit" basis, where contiguous properties with the same use and similar ownership are regarded as one unit and eligible for one credit. Properties that qualify under a new multiresidential classification are not eligible for the BPTC.

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[1] 2013 Iowa Acts, ch. 123.
[2] In addition to the property tax system modifications discussed in this ***Issue Review***, SF 295 also created the Iowa Taxpayers Trust Fund Tax Credit, increased the Earned Income Tax Credit, required a study and report on the property taxation of telecommunications property, extended the Property Assessment Appeals Board, and made changes to the property assessment appeal process.
[3] A brief explanation of property tax credits and exemptions is provided in the **Appendix**.

As a property tax credit, the BPTC benefits the property owner by reducing the property owner's property tax bill. This reduction in taxpayer payments reduces property tax revenue to local governments. However, the property tax system and the local governments that rely on the tax revenue are reimbursed 100.0% of such reduction through an appropriation from the State General Fund so the BPTC does not reduce overall local government revenue.

The maximum amount of a property unit's value that is eligible for the BPTC is set each year by the Department of Revenue and this maximum depends on the amount of money available for the BPTC, the number and value of properties that qualify, and the property tax rate for each of the qualified properties. A detailed explanation of the BPTC calculation is presented in the **Appendix**.

The new BPTC has reduced property taxes owed statewide on C/I/Rail property by the following amounts:[4]

- FY 2015 = $49.0 million
- FY 2016 = $99.5 million
- FY 2017 and after = $123.9 million

FY 2017 fiscal impact of the BPTC:

- The $123.9 million BPTC property tax reduction equaled 8.8% of the taxes owed on all C/I/Rail property.
- Tax reduction, by impacted property class:
  - Commercial, $112.4 million tax reduction.
  - Industrial, $11.0 million tax reduction.
  - Railroad, $0.5 million tax reduction.
- School and Non-School Local Governments — No revenue impact.
- State General Fund – $125.0 million appropriation to fund the BPTC.

Beyond FY 2017, the tax reduction for C/I/Rail property will equal $125.0 million per year and the annual State General Fund appropriation will equal $125.0 million.

Commercial, Industrial, and Railroad Property Rollback to 90.0%: Iowa law provides a mechanism that keeps the total statewide taxable value of most classes of property from increasing, due to revaluation of existing property, more than a specified percentage from one tax year to the next. The application of this taxable value limitation is known as a rollback. A rollback is a percentage of the assessed value of a class of property that is subject to property tax. A rollback of 60.0% for a class of property means that every property within that class will have a taxable value equal to 60.0% of its assessed value for the applicable tax year.

Prior to passage of SF 295, the revaluation growth limit for commercial and industrial property (calculated separately) was 4.0% per year and railroad property was assigned a rollback equal

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[4] The amounts appropriated to fund the BPTC were FY 2015 = $50.0 million, FY 2016 = $100.0 million, and FY 2017 (and after) $125.0 million. The tax reduction each year is less than the appropriated amount due to a provision of law that distributes, each year, 98.0% of the appropriated amount plus the previous year's ending balance in the BPTC Fund. This provision ensures a funding source is available to pay valid claims that are confirmed after the BPTC value is calculated. Beginning FY 2018, the annual credit distribution should equal the full $125.0 million.

to that of commercial or industrial, whichever was lowest. Due to a lack of revaluation growth, commercial and industrial property had not benefited from a rollback percentage lower than 97.2% since the early 1980s, and for most assessment years the rollback for the three property classifications was 100.0%.

Senate File 295 ended the 4.0% growth limit restriction for C/I/Rail property and replaced it with a set rollback percentage equal to 95.0% for assessment year 2013 and 90.0% for assessment year 2014 and after. The direct impact of this change lowered the taxed value and the property taxes owed on a property classified as C/I/Rail by 5.0% for assessment year (AY) 2013 (FY 2015) and 10.0% for AY 2014 and after.

To compensate local governments (schools, counties, cities, community colleges, etc.) for the revenue reduction associated with the rollback, the Act created a standing unlimited appropriation from the State General Fund for FY 2015 through FY 2017, and a standing limited appropriation for FY 2018 and after. The FY 2015 through FY 2017 appropriation reimbursed the full commercial and industrial property tax reduction for all local governments. The FY 2018 and onward appropriations are limited to no more than the FY 2017 appropriation amount. If future-year commercial and industrial property tax revenue reductions statewide exceed the FY 2017 appropriated amount, the reimbursements to local governments will be less than 100.0% and all reimbursements will be prorated to match the reimbursement funds available.

In all instances, the state reimbursement payment does not include any revenue reduction associated with the railroad property rollback. For FY 2015 and FY 2016, the reimbursement included property tax reductions associated with properties falling under the new multiresidential classification. For FY 2017 onward, the multiresidential property tax reduction is not reimbursed by the State General Fund.

Taxed Value Impact of C/I/Rail Rollback to 95.0% and 90.0%

Dollars in Millions

Assessment Year	Fiscal Year	Commercial Taxed Value Reduction	Industrial Taxed Value Reduction	Railroad Taxed Value Reduction	Total Taxed Value Reduction	State Reimbursed Taxed Value	Unreimbursed Taxed Value	Taxed Value % Reduction for Taxpayer	Unreimbursed Taxed Value Reduction % for Local Governments *
AY 2013	FY 2015	$ 1,765.9	$ 366.1	$ 77.9	$ 2,210.0	$ 2,132.0	$ 77.9	5.0%	0.18%
AY 2014	FY 2016	3,591.1	789.3	163.2	4,543.7	4,380.4	163.2	10.0%	0.36%
AY 2015	FY 2017	3,324.5	847.1	185.5	4,357.2	4,171.7	185.5	10.0%	0.43%

* As a percent of C/I/Rail taxed value at a rollback of 100.0%.
Totals may not add due to rounding.

FY 2017 fiscal impact of the C/I/Rail Rollback:

- Across the three classes, the tax reduction totaled $157.6 million, 10.0% of the taxes owed on all C/I/Rail property. The tax reduction by impacted property class is estimated to be:
  - Commercial, $125.0 million tax reduction.
  - Industrial, $27.2 million tax reduction.
  - Railroad, $5.3 million tax reduction.
- Non-School Local Governments – A $2.8 million reduction in property tax revenue due to the unreimbursed reduction in railroad property value.

- Schools – The impact on school district finance is discussed in a separate section later in this document.
- State General Fund – $152.2 million appropriation to fund property tax replacement payments to local governments.
- State General Fund – $1.0 million increase in the School Aid appropriation due to the unreimbursed reduction in railroad taxed value subject to the $5.40 basic school levy.

Beyond FY 2017, the property tax reduction will increase in proportion to the growth in the assessed value of C/I/Rail property. The negative fiscal impact on local government will grow as the State General Fund for property tax replacement is capped at the FY 2017 level, while the tax reduction for the three classes is expected to expand through statewide growth in C/I/Rail assessed value. The State General Fund property tax reimbursement appropriation will remain at the FY 2017 level. There will be minor increases each year in the State General Fund appropriation for School Aid as the tax reduction for C/I/Rail property is expected to increase incrementally each year.

Telecommunications Property Tax Exemption: Telecommunications property in Iowa is taxed as utility property under Iowa Code chapter 433 and the assessed valuation determination for this class is not calculated the same as commercial or industrial property. Senate File 295 provided a special property tax partial exemption for telecommunications property. The Act exempted specified percentages of each telecommunications property taxpayer's value in a stepped process over two years, beginning with AY 2013.

- Value up to $20.0 million, 20.0% exempt for AY 2013 (FY 2015) and 40.0% for AY 2014 and after.
- Value over $20.0 million and up to $55.0 million, 17.5% and 30.0%.
- Value over $55.0 million and up to $500.0 million, 12.5% and 25.0%.
- Value over $500.0 million, 10.0% and 20.0%.

The Act did not provide reimbursement from the State General Fund for the property tax revenue reduction associated with this change, although the negative impact on school property tax finance is partially offset through the State General Fund appropriation for School Aid.

The Department of Revenue calculated that the new property tax exemption reduced the statewide total taxable value of telecommunications property by the following amounts:

- FY 2015 = $260.4 million (15.2% of telecommunications property total value).
- FY 2016 = $515.1 million (30.0%).
- FY 2017 = $478.6 million (30.6%).

Going forward, the value of the exemption to the telecommunications industry will depend on the property value of the companies benefiting from the exemption.

FY 2017 fiscal impact of the Telecommunications Property Exemption provision:

- Telecommunications Property Owners – $14.3 million property tax reduction.
- Non-School Local Governments – $7.5 million reduction in property tax revenue.
- Schools – The impact on school district finance is discussed in a separate section later in this document.

- State General Fund – $2.6 million increase in the School Aid appropriation to adjust for the reduction in telecommunications value subject to the $5.40 basic school levy.

Beyond FY 2017, the tax reduction for the three property classes will expand or contract with annual positive or negative changes in the assessed value of telecommunications properties. Similarly, the impact on local government revenue and the State General Fund appropriation for School Aid will increase and decrease with annual changes in the assessed value of telecommunications companies.

Multiresidential Property Class Created: Prior to SF 295, the residential property classification was generally limited to properties with one or two living quarters. Properties with three or more living quarters and other extended-stay properties such as nursing homes and assisted living facilities were generally classified as commercial properties. Senate File 295 created a new property classification for qualified human habitation properties, beginning AY 2015 (FY 2017). The new classification is called multiresidential.

For AY 2015,[5] the multiresidential classification is assigned a rollback of 86.25%. For each assessment year through AY 2021, the rollback is reduced by 3.75 percentage points. For AY 2022 and after, the multiresidential rollback is assigned the residential property class rollback calculated for that assessment year.

For AY 2015, the statewide assessed valuation of multiresidential property was $4.9 billion, and of that amount, $4.7 billion was subject to property tax and benefited from the rollback to 86.25%. This rollback benefit reduced the taxed value of multiresidential properties by $647.6 million.[6] This reduction in taxed value will continue to grow through AY 2022, when the multiresidential classification becomes permanently tied to the residential rollback.

The local government revenue loss associated with the reduction in taxable value is not reimbursed by the state, so this change reduces the tax revenue available to local governments. The negative impact on school property tax revenue is partially offset through the State General Fund appropriation for School Aid.

FY 2017 fiscal impact of the multiresidential property class provision:

- Multiresidential Property Owners – $24.7 million property tax reduction.
- Non-School Local Governments – $14.9 million reduction in property tax revenue.
- Schools – The impact on school district finance is discussed in a separate section later in this document.
- State General Fund – $3.5 million increase in the School Aid appropriation to adjust for the reduction in multiresidential value subject to the $5.40 basic school levy.

Agricultural and Residential Revaluation Growth Limit Reduced to 3.0%: Since assessment year 1980,[7] the revaluation growth in statewide taxable value of agricultural and residential property (computed separately) has been limited to no more than 4.0% per year.

[5] For AY 2013 and AY 2014, human habitation property that would qualify in AY 2015 as multiresidential benefited from the C/I/Rail rollback to 95.0% and 90.0%.
[6] The $647.6 million reduction in taxed value for the multiresidential classification is calculated from a 100.0% rollback.
[7] For assessment years 1978 and 1979, the revaluation growth limit was 6.0%.

This limitation has produced a significant rollback for residential property for all years, and a significant rollback for agricultural property in select years.

The Act reduced the 4.0% limitation to 3.0% for AY 2013 and after. This change results in a lower rollback percentage for AY 2013 and after, and the direct result is a reduction in taxes owed on residential and agricultural property and reduced local government revenue. Since the taxed value available to local schools is a factor in determining the amount of State General Fund support a school district receives, an additional result of the revaluation growth change from 4.0% to 3.0% is a larger State General Fund appropriation for School Aid than would be the case without the change.

With the assessments for AY 2015, the reduction in the percent of allowed growth due to revaluation has been in place for three assessment years. The lower revaluation limit has resulted in a $2.4 billion reduction in taxed value below what it would have otherwise been for residential property and $0.9 billion for agricultural property. The taxed value reduction across the two property classes is 2.94%.

This reduction in the revaluation growth limit is permanent and will add approximately 1.0 percentage points to the taxed value reduction each assessment year. This will occur every year that the agricultural rollback remains below 100.0%. For assessment years for which the agricultural rollback is 100.0%, this provision will not add to the taxed value reduction until the agricultural rollback once again falls below 100.0%.

Change in Taxed Value Due to 3.0% Revaluation Limit
In Millions of Dollars

Assessment Year	Fiscal Year	Residential Taxed Value Reduction	Agricultural Taxed Value Reduction	Total
2013	2015	$ -731.6	$ -283.6	$ -1,015.2
2014	2016	-1,539.1	-588.6	-2,127.7
2015	2017	-2,427.7	-917.4	-3,345.2

FY 2017 fiscal impact of agricultural and residential property tax limitation provision:

- Residential Property Owners – $84.5 million property tax reduction.
- Agricultural Property Owners – $23.2 million property tax reduction.
- Non-School Local Governments – $59.4 million reduction in property tax revenue.
- Schools – The impact on school district finance is discussed in a separate section later in this document.
- State General Fund – $18.1 million increase in the school aid appropriation to adjust for the reduction in residential and agricultural value subject to the $5.40 basic school levy.

ACTUAL AND POTENTIAL IMPACT ON PROPERTY TAX RATES[8]

School Property Tax Rates: The preceding descriptions of each of the five property tax reduction provisions of SF 295 provide calculated dollar amounts for the tax reduction for each impacted property class. The tax reduction amounts are calculated by comparing the taxes owed by the owners of properties in each class under current law to the amount that would be owed under the previous law, with the assumption that all local government tax rates would be the same under the new law versus the previous law.

However, the financing of Iowa public schools is in part limited not by tax rates, but by total revenue raised.[9] Each year the Legislature establishes the per-pupil funding limit for all schools, and the state school aid formula distributes the financial implications of that per-pupil amount between the local taxpayer (property tax) and the State General Fund. What this means for the school property tax system is that when new tax exemptions are created, every school's property tax rate gets established at a higher rate than it would have been without the new property tax exemption. For the majority of school finance, exemptions do not decrease overall school taxes paid because school tax rates directly increase to compensate for the lower tax base.

Through action of the state school aid formula, a portion of the impact of new property tax exemptions is a true property tax reduction. The formula dictates that all taxed property in the state is subject to a $5.40 per $1,000 basic levy. The revenue generated by this basic levy is used in calculating the amount of revenue each school district receives from the State General Fund. Any state law change that creates a new exemption reduces the amount raised by the $5.40 basic levy and at the same time directly increases the State General Fund commitment to school finance by a compensating amount.

The calculated revenue reduction for school finance across all provisions of SF 295 totaled $67.4 million for FY 2017. Of that amount, approximately $44.9 million (two-thirds) is controlled by the school aid formula and considered a direct impact for this analysis. To compensate for this revenue reduction, the school aid formula functions to increase State General Fund School Aid by $25.1 million and increase school property tax rates by an amount sufficient to replace the remaining amount ($19.8 million). The remainder of the $67.4 million revenue decrease ($22.5 million) is outside the school aid formula and may or may not be replaced by higher school property tax rates. This $22.5 million is considered a potential impact. If school boards, in response to lower taxable values due to the new property value exemptions, established higher FY 2017 property tax rates than they would have otherwise, some of the potential $22.5 million property tax reduction would not in fact occur.

8 The discussion of the potential rate impacts of the Act's property tax provisions applies only to the unreimbursed provisions and does not apply to the BPTC or to the exemptions that are reimbursed by the State General Fund. The unreimbursed changes to the property tax base include the multiresidential classification rollback, the reduction in allowed taxable value growth for residential and agricultural property from 4.0% per year to 3.0%, the telecommunications property exemption, and the railroad property rollback to 90.0000%.

9 Several portions of a school's total tax levy are not controlled by the state school aid formula and those portions equate to approximately one-third of the property tax revenue that flows to schools. Examples include debt levies and the cash reserve levy. For the purposes of this analysis, one-third of school property tax revenue is treated as revenue-limited and one-third is considered rate-limited (a potential impact).

Non-School Property Tax Rates: Non-school local governments include cities, counties, community colleges, assessors, agricultural extension, and special-purpose entities with property tax authority such as hospitals and townships. These entities establish their property tax rates each year based on the revenue needs of the entity and their willingness and ability to establish a specified property tax rate. In many instances, state law establishes a maximum rate the entity may set for a specific purpose. However, for most levels of local government, additional authority is available to exceed the maximum rate for specified purposes or time frames.

Cities are allowed a rate of no more than $8.10 per $1,000 for general purposes, and counties are allowed a general purpose rate of no more than $3.50 per $1,000 in urban areas and $7.45 per $1,000 in rural areas. However, the special purposes additional levies allow many cities and counties to exceed the basic purpose levy rates. For FY 2017, the statewide average city property tax rate was $13.85 per $1,000, while the statewide average county rates were $6.39 and $9.52 per $1,000 for urban and rural areas, respectively. These average tax rates indicate that local governments have flexibility in establishing property tax rates in excess of defined general purpose maximum rates.

The tax reductions cited in the earlier sections of this ***Issue Review*** assume that the unreimbursed exemptions created in the Act did not impact any non-school local government's property tax rate. This assumption results in the maximum calculated tax reduction for non-school local governments of $84.7 million for FY 2017. This $84.7 million reduction is considered a potential impact. If local government governing bodies, in response to lower taxable values due to the new property value exemptions, established higher FY 2017 property tax rates than they would have otherwise, then some of the $84.7 million property tax reduction would not in fact occur.

FY 2017 REVENUE IMPLICATIONS FOR LOCAL GOVERNMENTS

For FY 2017, the various property tax provisions of SF 295 reduced overall local government revenue by as much as $107.2 million ($22.5 million for schools and $84.7 million for non-school local governments). This calculation accounts for the reduction in property taxes paid by taxpayers and the increased revenue received from the State General Fund to offset some of the property tax reduction. The $107.2 million represents approximately 1.9% of the property tax revenue the local governments would have received for FY 2017 without the changes made by SF 295.

If, in response to the lowered tax base, some local governments set property tax rates higher for FY 2017 than they otherwise would have, some of the $107.2 million revenue reduction would not materialize and in turn, some of the property tax reduction calculated for property taxpayers would also not materialize.

Calculation of FY 2017 Local Government Revenue Reduction Across All Provisions

In Millions of Dollars

School Calculation	Property Tax Revenue Under Pre-SF 295	Property Tax and State Reimbursement Revenue Under Current Law	Local Government Revenue Change
School	2,522.0	2,454.6	-67.4
State School Aid Adjustment	0.0	25.1	25.1
School Aid Formula Adjustment	0.0	19.8	19.8
School Total *	$ 2,522.0	$ 2,499.5	$ -22.5

All Local Governments	Property Tax Revenue Under Pre-SF 295	Property Tax and State Reimbursement Revenue Under Current Law	Local Government Revenue Change
School, calculated above	$ 2,522.0	$ 2,499.5	$ -22.5
County	1,314.8	1,278.7	-36.1
City	1,473.9	1,437.6	-36.3
Other Local Governments	457.1	444.8	-12.3
Local Government Total *	$ 5,767.8	$ 5,660.6	$ -107.2

* The calculated revenue reductions represent the maximum potential reductions. If local governments set higher property tax rates than they otherwise would have, some of the reduction would not occur.

FY 2017 IMPLICATIONS FOR PROPERTY TAXPAYERS

For FY 2017, the various property tax provisions of SF 295 reduced property taxes owed by property taxpayers by as much as $408.3 million. While a majority of this potential reduction ($302.3 million) is direct and certain as the reduction is due to increased payments from the State General Fund to the property tax and school finance systems (see the following **Table**), the remainder, up to $106.0 million, is the result of potential impacts on local government tax revenue.[10] This potential impact may not occur in total if some local governments set higher property tax rates in response to the lower available taxed value.

[10] The $107.2 million local government potential revenue reduction and the $106.0 million potential taxpayer tax reduction are the same number, differing only by the difference between the FY 2017 appropriation for the BPTC and what is distributed for the year. The $1.2 million difference is in the BPTC Fund and held for distribution in FY 2018.

Summary of Reductions in FY 2017 Property Taxes Owed
In Millions of Dollars

Provision	Property Tax Reductions Benefitting Property
Business Property Tax Credit (BPTC)	$ -123.9
C/I/Rail Rollback to 90.0%	-157.5
Telecommunications Exemption	-14.3
Multiresidential Classification	-24.7
Residential and Agricultural Revaluation Limit to 3.0%	-107.7
School Aid Formula Property Tax Adjustment	19.8
Total Reduction	$ -408.3

FY 2017 STATE GENERAL FUND IMPLICATIONS

For FY 2017, the various property tax provisions of SF 295 increased State General Fund appropriations to the property tax and school finance systems by a combined $302.3 million.

FY 2017 General Fund Appropriation Impact of SF 295 Property Tax Provisions
In Millions of Dollars

Provision	Appropriation
Business Property Tax Credit Appropriation	$ 125.0
Property Tax Replacement Appropriation	152.2
School Aid Appropriation Increase	25.1
Total	$ 302.3

IMPLICATIONS BEYOND FY 2017

Three provisions of the Act will continue to reduce the growth in statewide taxable value. Those provisions include:

- The residential and agricultural revaluation growth limit lowered from 4.0% to 3.0%. This will limit the growth in taxable value for these two property classes in any year for which the agricultural rollback is less than 100.0%. For properties in the two classes, it means lower taxable values than would be the case under a 4.0% limitation. For local governments it means lower revenue or higher tax rates, and for the State General Fund it means a higher annual appropriation for School Aid, as there will be less value subject to the $5.40 basic levy.
- The continued rollback reduction for multiresidential property until it equals the residential rollback. This provision will reduce the taxable value of multiresidential property by 3.75 percentage points each year through FY 2021. For multiresidential property tax payers, this

means lower taxed values. For local governments it means lower revenue or higher tax rates, and for the State General Fund it means a higher annual appropriation for School Aid, as there will be less value subject to the $5.40 basic levy.

- The conversion of the commercial and industrial rollback reimbursement to a standing limited appropriation beginning with FY 2018. This means that any taxable value growth for those two classes will result in a prorated reimbursement to the property tax system and all local governments will receive less than 100.0% of the revenue reduction. This will not directly impact commercial and industrial property taxpayers. For local governments it means lower revenue or higher tax rates, and for the State General Fund it means a higher annual appropriation for School Aid.

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APPENDIX

BUSINESS PROPERTY TAX CREDIT PROCESS AND CALULATION

Calculation of the Business Property Tax Credit (BPTC) is a duty of the Department of Revenue as described in Iowa Code section 426C.4. The Department calculates the BPTC based on the following information and calculation process.

- A list of all the C/I/Rail property units approved for the BPTC that year, along with the properties' assessed value and consolidated property tax rate. A total of 76,481 property units, representing 100,323 parcels, were approved for the BPTC for FY 2017.
- The difference between the rollback percentage for residential property and C/I/Rail property for that assessment year. For FY 2017, the residential rollback equaled 55.6259% and the C/I/Rail rollback equaled 90.0000%.
- The amount of money available to fund the BPTC that fiscal year. Available funds include 98.0% of the State General Fund appropriation plus any balance in the BPTC Fund.[11] For FY 2017, the appropriation equaled $125.0 million and the available BPTC Fund balance was $1.5 million. The money available to fund the BPTC for FY 2017 equaled: (($125.0 million + $1.5 million) x 98.0%) = $124.0 million.
- The equation for determining the BPTC for an individual property unit is: T x R x D = Credit, where:
  - T = the portion of the property's taxed value that is eligible for the BPTC. The portion eligible is equal to the lower of either the taxed value of the property, or the maximum value allowed for the BPTC that year as determined by the Department in the next step.
  - R = the consolidated tax rate for the property that fiscal year.
  - D = the difference between the C/I/Rail rollback and the residential rollback that fiscal year. For FY 2017, the rollback differential equaled 34.3741% (90.0000% minus 55.6259%).
- The Department uses a mathematical optimization process to determine the maximum value to which the BPTC can apply for any one property while expending, across all qualified properties, the funds available for the BPTC that year. As the amount available to finance the BPTC has increased each year from FY 2015 through FY 2017, the maximum value on which the BPTC is based has increased. The State General Fund has reached its $125.0 million annual maximum, so going forward the maximum value should be fairly constant, with variations caused by changes to the residential rollback, property tax rates, and the number of property units qualifying for the BPTC. For the first three fiscal years, the maximum property value to which the BPTC applied was:
  - FY 2015 = $ 59,507
  - FY 2016 = $183,896
  - FY 2017 = $255,857
- Since the State General Fund pays the property tax system dollar-for-dollar for the tax reduction, local government finance is not impacted by the BPTC.

[11] For an explanation of the 98.0% factor, see footnote 4 of this document.

- FY 2017 examples:
  - A $100,000 commercial property with a consolidated tax rate of $28.00 per $1,000 of taxed value (2.8%). The property tax owed on this property is $2,520 ($100,000 value x 90.0000% rollback x 2.8% tax rate), but the BPTC covers $962 of the tax ($100,000 x 34.3741% rollback differential x 2.8%). This leaves the taxpayer responsible for $1,558. The BPTC reduced the property tax paid by the taxpayer by 38.2%. This example shows that if the C/I/Rail property value is below the maximum BPTC threshold of $255,857, the property benefits fully from the BPTC and is taxed the same as a residential property with the same assessed value and tax rate ($100,000 house x 55.6259% residential rollback x 2.8% tax rate = $1,558 tax owed by the taxpayer).
  - A $100,000 commercial property with a consolidated tax rate of $35.00 per $1,000 of taxed value (3.5%). The property tax owed on this property is $3,150 ($100,000 value x 90.0000% rollback x 3.5% tax rate), but the BPTC covers $1,204 of the tax ($100,000 x 34.3741% rollback differential x 3.5%). This leaves the taxpayer responsible for $1,946. The BPTC reduced the property tax paid by the taxpayer by 38.2%. This example shows that properties in an area with a higher property tax rate receive a higher dollar benefit from the BPTC. However, the percentage tax reduction is the same.
  - A $1,000,000 commercial property with a consolidated tax rate of $35.00 per $1,000 of taxed value (3.5%). The property tax owed on this property is $31,500 ($1,000,000 value x 90.0000% rollback x 3.5% tax rate), but the BPTC covers $3,078 of the tax ($255,857 maximum value x 34.3741% rollback differential x 3.5%). This leaves the taxpayer responsible for $28,422. The BPTC reduced the property tax paid by the taxpayer by 9.8%. This example shows that while properties with taxed values above the maximum BPTC threshold receive as much benefit as is allowed under the law, the percentage decrease in the taxpayer's property tax bill is lower than the percentage benefit received by those properties with values below the BPTC threshold (first and second examples).

PROPERTY TAX CREDITS VERSUS PROPERTY TAX EXEMPTIONS

- While property tax credits and property tax exemptions both directly benefit the property owner by lowering the property tax paid by the owner for that property, the two benefits do not work the same. Senate File 295 contained both property tax credits and property tax exemptions.

- In the case of property tax credits, the property value remains fully taxed, but the state pays a portion of the taxes in place of the taxpayer. The property tax system and the local governments that depend on it receive revenue based on the full taxed value.

- In the case of standard property tax exemptions, the exempt value is not subject to property tax. The property owner does not owe or pay the tax and there is no reimbursement for local governments.

- In the case of reimbursed property tax exemptions, the exempt value is also not subject to property tax. However, the State General Fund reimburses the property tax system for the reduced revenue that is the result of the exemption.

- Property tax credits and reimbursed exemptions do not impact the State General Fund appropriation for School Aid. Unreimbursed exemptions do increase the State General

Fund appropriation for School Aid by an amount equal to $5.40 per $1,000 of exempted value that would otherwise be subject to property tax.