

The GREAT Plan—Key Concerns

January 7, 2008

- The Plan still removes local decision-making by elected officials.
 - It still imposes a property tax revenue cap on property that is reassessed (same millage rate must apply to all property).
 - If the local government needs more property tax revenue to provide services, the local government must hold a referendum to gain voter approval.
 - Although the budgetary and property tax revenue needs will likely be determined in July or August, the referendum to allow additional property taxes will not be held until the following June or July, and the additional property taxes will not be levied until the following year's property tax bills are mailed, meaning that the local government will have insufficient funds for a year.
 - The local government will essentially be operating in arrears.
 - The Plan imposes an artificial assessment cap on homestead property.
 - HR900 and the draft enabling legislation both state that assessed values of homestead properties will be frozen at 2007 values.
 - If improvements are made to the property, the value of the improvement will be added to the 2007 assessed value, creating a new assessed value.
 - If the property is sold in an arms-length transaction, the acquisition cost will be the appraised value.
 - The proposals contain an annual cap of 1% on homestead property assessment increases.
 - Assessment freezes and caps have the effect of creating vastly differing tax liabilities for similarly situated properties. Essentially, new homeowners or new homestead purchasers are penalized while long-time owners of a single homestead are rewarded. In other states, this phenomenon has resulted in people being trapped in their homes, unable to downsize.
- The Plan still fails to address the lack of sales tax compliance.
 - It is estimated that around 20% of sales taxes remain uncollected or unremitted to DOR.
 - Since there is typically no tangible good associated with a service transaction, compliance with sales taxes on services is likely to be equally difficult if not more so.
- The Plan still encourages mediocrity over excellence by limiting local government and school resources without creating new revenue options to fund local government and education services
- The Plan still forces a one-size-fits-all formula on the numerous unique and diverse communities in our state.
- The Plan still forces a reliance on the state sales tax on services. Given the volatility of the sales tax during economic hard times, it is likely that the sales tax

will not provide sufficient revenue to adequately fund education property taxes or motor vehicle property taxes for cities, counties and schools.

- The Plan is silent as to what redress cities, counties and schools would have if the state did not provide adequate funding to replace the lost revenue.
 - What is the impact of this uncertainty on local government, and especially school district, bond ratings?
- While 15 categories of services that will be taxed are listed, those categories are not defined. This lack of definition could lead to significant confusion as to what services might be taxed and what services might not. For example:
 - What is included in household services?
 - What are banking services that could be taxed? What are personal services?
 - What is meant by “acquisition of real property” and “transportation and travel”?
- The proposal would allow taxpayers to appeal assessments after receiving tax bills as well as during the current appeals period.
 - Allowing taxpayers to appeal their assessed values after tax bills go out (and after tax digests have been approved by DOR) means the tax digests will be subject to change for an indefinite period of time.
 - A city will not know the actual digest when setting the millage rate and will not be able to ascertain whether a particular millage rate will generate sufficient revenues to provide necessary services.
- The Plan would likely have a negative impact on renters and senior citizens.
 - Renters would likely pay more in taxes due to the new taxes on services but would not realize any savings in rent payments as the property taxes on rental would not necessarily be reduced by the Plan.
 - Similarly, many senior citizens pay little in property taxes as many cities, counties and school districts have significant homestead exemptions for senior citizens. Thus senior citizens will receive little tax relief but will pay additional sales taxes on services.
- The Plan still does not resolve the state education funding inequity that is at issue in the pending litigation as the Plan focuses on local education funding rather than on the state education funding formula.