COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2609-01
Bill No.: HB 1060
Subject: Elderly, Property, Real and Personal, State Tax Commission, Taxation and Revenue - General, Taxation and Revenue - Property
Type: Original
Date: December 26, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue* **	$0	($61,915,000 to $81,902,000)	($63,463,000 to $83,949,000)
Blind Pension	$0	(($310,000 to $410,000)	($317,000 to $420,000)
Total Estimated Net Effect on All State Funds*	**$0**	**($62,225,000 to $82,312,000)**	**($63,780,000 to $84,369,000)**

*Does not include possible increased cost to fully fund Foundation Formula
**Subject to appropriation

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**$0**	**$0**	**$0**

**Offsetting costs from reduction of tax revenues, and state reimbursements.
Numbers within parentheses: ( ) indicate costs or losses.

FISCAL ANALYSIS

ASSUMPTION

State Tax Commission (TAX) officials assumed $21.1 Billion assessed valuation for owner occupied residential property. Senior citizens represents 24% of households. Therefore $5.1 billion assessed valuation is currently credited to Senior Citizens. Assuming an 8% increase in residential assessed valuation in a 2 year assessment cycle, the increase would be $408 million. Applying a statewide levy of $6 per $100 assessed valuation this equates to a perceived loss of revenue of approximately $25 million. Assuming, a 7% cola combined for 2 years and a 8% increase in assessed valuation: $16 billion assessed valuation represents owner occupied < 65 years of age. 8% increase less 7% COLA represents 1% perceived loss for local subdivisions which would have to be replaced by state appropriations. $16 billion times 1% = $160 million assessed valuation times $6 per $100 assessed valuation levy equates to a loss of $9.6 million.

Oversight estimated possible losses as follows:

An increase in taxes on residential property of 11% per 2-year cycle of reassessment, an inflation rate of 3.5%, 70% of residential property is owner occupied, and 26.9% of residential property owners are over 64.

Total property tax paid in 2000	$	3,922,378,000	
Percent residential		x .44	
Residential Property Tax paid in 2000		$	1,725,846,000
Projected Tax 2002	$	1,915,689,000	
Projected Increase	$	189,843,000	
Percentage of population 64+			x .269
Projected Increase for 64+ Occupied	$	51,068,000	
Percentage of owner-occupied			x .70
Projected Increase for 64+ owner-occupied	**$**	**35,748,000**	

ASSUMPTION (continued)

If all senior citizen owner-occupied property is occupied by persons who have lived in the property for five years or more then the total amount would be lost. If all owner-occupied property is occupied by persons who have lived in the property for less than five years then the loss would be 5/11ths of possible loss. Projected losses for subsequent years would increase from 2.5% to 5.5%.

Projected Increase	$ 189,843,000	
Percentage of population under 65	x .731	
Projected Increase for Under 65 Occupied	$ 138,775,000	
Percentage of owner-occupied		x .70
Projected Increase for Under 65 owner-occupied	**$ 97,143,000**	

Assuming the consumer price index rises more than 5% every two years, 5/11ths of the increase would be lost. Projected losses for subsequent years would increase 2.5%.

Projected Losses for FY 2003:

$35,748,000 x 5/11 = $16,250,000 to $35,748,000 for 64+
$97,143,000 x 5/11 = $44,156,000 for under 65s.

Total = $60,406,000 to $79,904,000

Projected losses for FY 2004:

$16,655,000 to $36,642,000 for 64+
$45,260,000 for under 65s

Total = $61,915,000 to $81,902,000

Projected losses for FY 2005:

$17,072,000 to $37,558,000 for 64+
$46,391,000 for under 65s

Total = $63,463,000 to $83,948,000

ASSUMPTION (continued)

There would also be losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions.

State Tax commission officials also note that they would be required to provide technological and instructional assistance to county officials, but would request additional resources as needed through budget decision items.

In response to a similar proposal, **Department of Elementary and Secondary Education** officials noted that the proposal would decrease assessed values compared to current law, which would increase the amount needed to fully fund the Foundation Formula. They also noted that 1) “hold harmless” districts would recoup their losses through state payments, 2) state payments required by this proposal are not included in the Formula, thus allowing other districts a “double dip” consisting of reimbursements from the state and increased payments through a fully funded Formula, and 3) the effects of the proposal on the Formula should disappear after three or so years because reducing the guaranteed tax base reduces the inflationary adjustment in the Formula for districts to fund inflationary increases in expenses.

Oversight assumes the Foundation Formula issues, if any, would be addressed through the appropriation process.

Officials of the **Department of Revenue** indicated that the proposal would not affect their agency, administratively.

FISCAL IMPACT - State Government	FY 2003 (6 Mo.)	FY 2004	FY 2005
GENERAL REVENUE			
Cost - Increased Transfers to State School Moneys Fund	$0	(Unknown)	(Unknown)
Cost - Reimbursements to Political Subdivisions	$0	($61,915,000 to $81,902,000)	($63,463,000 to $83,949,000)
NET EFFECT ON GENERAL REVENUE FUND*	**$0**	**($61,915,000 to $81,902,000)**	**($63,463,000 to $83,949,000)**

***Does not include possible increase in cost to fully fund Foundation Formula.**

FISCAL IMPACT - State Government	FY 2003 (6 Mo.)	FY 2004	FY 2005
BLIND PENSION FUND			
Loss - Reduced Collections	$0	($310,000 to $410,000)	($317,000 to $420,000)
NET EFFECT ON BLIND PENSION FUND	**$0**	**($310,000 to $410,000)**	**($317,000 to $420,000)**

FISCAL IMPACT - Local Government	FY 2003 (6 Mo.)	FY 2004	FY 2005
POLITICAL SUBDIVISIONS			
Income - Reimbursements from State*	$0	$61,915,000 to $81,902,000	$63,463,000 to $83,949,000
Loss - Reduced Property Tax Collections	$0	($61,915,000 to $81,902,000)	($63,463,000 to $83,949,000)
NET EFFECT ON POLITICAL SUBDIVISIONS*	**$0**	**$0**	**$0**

***Does not include possible increased distributions to school districts**.

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal would limit increase in assessed value of residential property, excluding new construction or improvements, to the increase in the consumer price index.

The proposal would also freeze assessed value of residential property owned by persons sixty-five or older who have resided on the property five years or more.

This proposal has an effective date of January 1, 2003.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
State Tax Commission

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Director
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