

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0245-01
Bill No.: HB 90
Subject: Elderly, Property, Real and Personal, State Tax Commission,
 Taxation and Revenue - General, Taxation and Revenue - Property
Type: Original
Date: January 3, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue *	\$0	\$0	(Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	(Unknown)

* Subject to appropriation, expected to exceed \$100,000.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Blind Pension	\$0	(\$53,720)	(\$55,600)
Total Estimated Net Effect on Other State Funds	\$0	(\$53,720)	(\$55,600)

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government *	(Unknown)	(Unknown)	(Unknown)

* expected to exceed \$100,000.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** (DOR) assume this legislation freezes the assessed property value for certain persons age sixty-five or older. Senior citizens will still be required to pay property taxes, and will therefore still be eligible for the property tax credit. There is no administrative impact to DOR.

Officials from the **State Tax Commission** (STC) assume that the annual increase in assessed valuation for Senior Citizens property would result in \$24.5 million in local government revenue. However, the State Tax Commission does not have data to indicate the number of citizens who have a household income less than \$17,000.

ASSUMPTION (continued)

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	

Oversight assumes that 22% of Missouri households would be eligible for the tax relief provided by this proposal and that the same percentage of elderly (64+) owner-occupied households would qualify.

Projected Increase for 64+ owner-occupied	\$	35,748,000	
Percent eligible			.22
Projected increase for eligible households	\$	7,865,000	

Potential political subdivision losses for FY 2003: $\$7,865,000 \times 1.11 \times 1.035 = \$9,036,000$

Potential political subdivision losses for FY 2004: $\$9,036,000 \times 1.035 = \$9,352,000$

Potential political subdivision losses for FY 2005: $\$9,352,000 \times 1.11 \times 1.035 = \$10,744,000$

Potential political subdivision losses for FY 2006: $\$10,744,000 \times 1.035 = \$11,120,000$

ASSUMPTION (continued)

Oversight assumes it is not possible to estimate the actual tax losses to political subdivisions. This proposal would allow a homestead exemption for purposes of real property tax relief for persons who are at least sixty-five years of age and have an income of less than \$17,000 per year for a single individual or \$23,000 per year for a married couple, who own and reside in property as a principal residence. That part of the assessed value of the homestead which exceeds the assessed value of the homestead in the year in which the owner reaches sixty-five or on the effective date of the proposal, whichever is later, would be exempted from property taxes. Actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. Reducing the increase in assessed valuation on individual parcels would in turn reduce the tax rate rollback required, primarily shifting this tax burden to other taxpayers.

Oversight assumes that potential tax losses to political subdivisions from this provision, as compared to current law would exceed \$100,000 per year. Provisions are included to provide reimbursement to the counties and other taxing authorities in the state for any tax losses, subject to appropriation. Oversight assumes that the state will reimburse political subdivisions for their tax losses from the General Revenue Fund. Oversight assumes the first reimbursements would be made in FY 2006 for reductions in 2004 tax collections collected in FY 2005.

Oversight assumes there would also be losses to the Blind Pension Fund of a little more than ½ of 1% of the losses to political subdivisions. The losses to the Blind Pension Fund are not reimbursed in this proposal.

Projected losses to the Blind Pension Fund are:

FY 2005	\$10,744,000	x .005 =	\$53,720
FY 2006	\$11,120,000	x .005 =	\$55,600

ASSUMPTION (continued)

Officials from the **Cole County Assessor's Office** assume the Assessor's Office will have to maintain a separate accounting of homestead properties and this will require additional personnel time; the Cole County Assessor's office is understaffed and no additional requirements can be placed on the existing staff without sacrificing some other function of the office. It is estimated a quarter time person would be needed to maintain and implement this program on an ongoing basis at a yearly expense of \$6,000 per year, starting in 2004. The Cole County Assessor's Office also assumed that collectors will be affected by this bill and input should be received by County Collectors to determine the fiscal impact on their operations from this bill.

Oversight has reflected unknown additional costs to county assessors, county clerks, and county collectors in the fiscal impact to local governments.

Officials from the **Department of Elementary and Secondary Education** noted that the proposal would prohibit assessed value of residential property owned by a person at least 65 years old, and meeting certain conditions, from keeping pace with the local economy on property sales and may result in less local revenue for taxing jurisdictions including school districts. Freezing the value of some residential property may result in less total reassessment value increase for the taxing jurisdiction. The reduced increase in total assessed valuation may result in no reduction in property tax rates that otherwise might occur per Article X of the Constitution. If the loss of revenue to the local taxing jurisdiction (school district) from the homestead exemption is truly made up from state sources, the effect is neutral on the political subdivisions. However, the replacement of lost revenue is subject to availability of appropriations.

While the proposal does not reference the state school aid foundation formula, non-hold harmless districts could potentially recover the lost local revenues through the state aid formula if the appropriation for the formula would be sufficient to provide a proration factor not less than 1.00. The proposal would increase the cost to fully fund the state foundation formula. Hold harmless districts would experience a decrease in local revenue unless the General Assembly appropriates sufficient funds to compensate for the lost revenue.

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

<u>FISCAL IMPACT - State Government</u>	FY 2004 (6 mo.)	FY 2005	FY 2006
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GENERAL REVENUE FUND

Cost

Reimbursements to political subdivisions*	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
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NET EFFECT ON GENERAL REVENUE FUND*	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
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* Subject to appropriation, expected to exceed \$100,000 per year. Excludes potential Foundation Formula adjustment.

BLIND PENSION FUND

<u>Loss</u> - Reduced property tax	\$0	(\$53,720)	(\$55,600)
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ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>(\$53,720)</u>	<u>(\$55,600)</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2004 (6 Mo.)	FY 2005	FY 2006
POLITICAL SUBDIVISIONS			
<u>Revenues</u>			
State reimbursements *	\$0	\$0	Unknown
<u>Revenue reduction</u>			
Reduced tax collections *	\$0	(Unknown)	(Unknown)
<u>Cost to counties</u>			
Additional administrative cost to county assessor, collector, and clerk *	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
* expected to exceed \$100,000 per year.			

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal would allow a homestead exemption for purposes of real property tax relief for persons who are at least sixty-five years of age and have an income of less than \$17,000 per year for a single individual or \$23,000 per year for a married couple, who own and reside in property as a principal residence. The assessed value of the homestead shall not increase during the time that person resides on the property after attaining the age of sixty-five or on the effective date of the proposal, whichever is later.

Provisions are included to reimburse any tax losses to counties and other taxing authorities in the state through appropriations.

This proposal has an effective date of January 1, 2004.

DESCRIPTION - continued

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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
Cole County Assessor
Department of Elementary and Secondary Education

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 3, 2003