COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 552-01
Bill No.: HB 150
Subject: Elderly; Property, Real and Personal; State Tax Commission; Taxation and Revenue - General; Taxation and Revenue - Property
Type: Original
Date: February 17, 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)**

*Expected to exceed $100,000 per year. Subject to appropriation; does not include possible costs to fully fund Foundation Formula.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Blind Pension *	$0	$0	(Unknown)
Total Estimated Net Effect on Other State Funds *	**$0**	**$0**	**(Unknown)**

* Expected to exceed $100,000 per year.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All 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 per year.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Auditor** indicated that the proposal would not affect their organization.

Officials from the **Office of the Secretary of State** assume this bill creates the Missouri Homestead Preservation Act. The State Auditor could promulgate rules to enact this legislation. Based on experience with other divisions, the rules, regulations, and forms issued by the State Auditor could require as many as 8 pages in the Code of State Regulations and half again as many pages in the Missouri Register because cost statements, fiscal notes and the like are not repeated in Code. These costs are estimated. The estimated cost of a page in the Register is $23 and the estimated cost of a page in the Code is $27. The actual cost could be more or less than the numbers given. The impact of the legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded or withdrawn.
((8x$27)+(12x$23)=$492)

ASSUMPTION (continued)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Cole County Assessor's Office** assume there will be no savings to the Cole County Assessor's office from this bill. The Cole County Assessor's Office assumes there will be one time programming change costs estimated at $4000 for the year 2004. In addition, 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 $6000 per year, starting in 2004.

Furthermore, the proposal may require the County to have additional administrative expenses for the process of collecting, reporting and submitting data to the State Auditor regarding revenue losses by the taxing jurisdictions. This will require work on the part of the Assessor, the Collector, and the Clerk, at a minimum. There is no funding in the bill for the extra duties that may be assigned and, with no other information available, a $12,000 per year estimate for this item seems appropriate.

The average increase of the CPI for the past five years has been 2.46 per year or average of 4.92 for 2 year cycle. It appears that the 5% listed in this section would be similar to the CPI average increase for the recent past. Typically, in Cole County, appreciation rates are 4% to 5% per year which would result in 8%-10% increases over a 2 year reassessment cycle. Thus, there would typically be a 3% to 5% difference for actual market appreciation over and above the 5% limit/CPI increase as written in the bill in any reassessment cycle.

The loss to all taxing jurisdictions from this difference between market appreciation and limits set by the bill, in a typical reassessment cycle, is estimated to be $487,500 to $812,500 for the year 2005 (reassessment year; assumes 65% of property value owned by those under 65). There would be no loss in 2004 or 2006 as these are not reassessment years.

It is assumed that slightly more would be lost in each succeeding reassessment cycle than the numbers shown above due to gradually increasing assessed value in each cycle.

ASSUMPTION (continued)

Oversight assumes there would be significant but unknown costs to the County Assessors, County Clerks, and other political subdivisions due to the reporting requirements in the proposal.

The **Cole County Assessor's Office** estimates that persons over 65 make up 15% of the total county population. Of those who are of ownership age (18 years +), persons over 65 make up 20% of the potential owners in the county. It is assumed that a greater percentage of senior citizens own property than those under 25 years of age, and overall it is estimated that owners over 65 own 35% of the residential property in Cole County (estimates are on the high end so as not to underestimate).

In 2004, the Jefferson City school district would be affected as there is a $0.29 levy to be added in that year to the tax rate which would not apply to property affected by this bill. Assessor's estimate is that the JC school district would lose approx. $186,700 in 2004 and in each year thereafter, from the enactment of this bill.

For 2005, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss to the taxing jurisdictions caused by this bill that has to be made up by the State, through appropriations, is approximately $720,000. This is additional to the amount(s) shown under losses above.

The Cole County Assessor's Office assumes that since Cole County is to be reimbursed from the State for all loss in revenues, there is no actual loss to the County under this bill; however there is no explanation in the bill of what would occur should such appropriations not be available through the State.

This bill would change the basis for assessment value such that new properties, and new construction added on to existing properties, would be valued at market value, though existing properties would not. The Assessor's work load would not change as all properties under this bill still need to be inspected during physical property review for additions, alterations, and/or deletions, including non-reassessment years. As stated earlier, the work load of the Assessor would actually increase due to the administrative cost of implementing this program in the Assessor's office.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would create the Missouri Homestead Preservation act and freeze 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. DOR defers to the State Tax Commission or Budget and Planning for an estimated revenue impact.

In response to a similar proposal, officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal limits reassessment increases of assessed value on residential property to the lesser of the consumer price index or five percent if the residential property is owned by a person less than 65 years old or has been owned less than five years by a person 65 years or older. In addition, the assessed value of residential property owned at least five years by a person 65 years or older shall not be increased as long as the person resides on the property. In both cases only the assessed value of new construction and property improvements will be added to the assessed value in place on January 1, 2004. This proposal prevents the assessed valuation of residential property from keeping pace with the local economy on property sales and may result in less local revenue for taxing jurisdictions including school districts.

DESE assumes 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.

Proposed subsection 137.103.4 indicates that the lost revenue resulting from the homestead exemption shall be reimbursed by the state through appropriations. If the lost revenue to the local taxing jurisdiction (school district) is truly made up from state sources, the effect is neutral on the taxing jurisdiction. Other sections of law require appropriations that have never been made or have been reduced or eliminated. There is no assurance that the appropriation will be made year after year.

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education** (DESE) assume that while the proposal does not reference the state school aid foundation formula, non-hold harmless districts (districts on the formula) could potentially recover the lost local revenues through the state aid formula rather than a separate appropriation if the appropriation for the formula would be sufficient to provide a proration factor no less than 1.00. The local deductions (Line 2) in the foundation formula would not increase as much as current law provides since the assessed valuation for the district will not increase as much as it would without the exemption, thereby increasing the cost to fund the state foundation formula at a proration factor of no less than 1.00. If the formula is not funded at the 1.00 level, the school districts would need a separate payment to replace the lost revenue due to the homestead exemption.

DESE assumes hold harmless districts will experience a decrease in local revenue unless the General Assembly appropriates sufficient funds to compensate for the lost revenue even if the foundation formula is funded at the 1.00 level. The lowered assessment would in three years start to reduce the increase in the state guaranteed tax base and the increased formula cost may be zeroed out after the third year for any given year's assessed value. A reduced guaranteed tax base reduces the inflationary adjustment needed in the formula for districts to fund inflationary increases of its education and operation expenses.

Appropriating funds for the homestead exemption reduces state money available for other state needs. DESE does not have data available to estimate the amount of fiscal impact at the state or local level.

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

Officials from the **State Tax Commission** assume this legislation creates the Missouri Homestead Preservation act and freezes the assessed property value for certain persons age sixty-five or older. Residential Property is reassessed in odd-numbered years. Calendar year 2003 is a reassessment year, with minimal assessed valuation changes to the residential property in the following year (2004). Although this legislation will be effective on January 1, 2004, we are assuming that the impact of this proposal would not be realized until the next reassessment year occurring in calendar year 2005 with the collections occurring in Fiscal Year 2006.

ASSUMPTION (continued)

The **State Tax Commission** assumes:

Projected Residential Assessment Valuation for Calendar Year 2003 is $35.400,000,000.

$35.4 Billion x 70.3% (residential property owner occupied) = $24.9 Billion.

$24.9 Billion x 10.3% (residential property owner occupied over 65) = $2.5 Billion.

$24.9 Billion minus $2.5 Billion (owner over 65) = $22.4 Billion owner occupied.

$22.4 x 7% Average Assessment = $1,563,553,195 increase.

$22.4 x 1.6% CPI (April, 2002) = $357, 381,301 increase.

$1,563,553,195 minus $357,381,301 = $1,206,161,894 loss in assessment increase.

$1,206,161,894 x $6 per hundred state tax rate = $72,369,713 loss from owner occupied.

$2,564,819,561 = assessed valuation for 65 and older owner occupied.

$2,564,819,561 x 7% Average Assessment Increase = $179,537,369.

$179,537,369 x $6 per hundred state tax rate = $10,772,242 loss from owner occupied 65 and older.

Net Effect would be approximately $72,369,713 + 10,772,242. Total loss $83,141,995.

The State Tax Commission assumes that since this legislation requires the political subdivision to be reimbursed, there would be a loss of revenue to the General Revenue Fund and to the Blind Pension Fund. There may be some unknown administrative cost to the political subdivision to implement this new proposal.

ASSUMPTION (continued)

Oversight assumes this proposal would freeze the assessed property value for the primary residence of persons age sixty-five or older, and would limit increases in assessed valuation for the primary residence of persons under sixty-five. Oversight assumes it is not possible to estimate the amount of net tax losses to political subdivisions.

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 certain individual parcels would in turn reduce the tax rate rollback required, primarily shifting this tax burden to other taxpayers. Limiting increases in assessed valuation would also reduce but not necessarily eliminate the required tax rate rollback. Oversight assumes that after FY 2005, net losses to political subdivisions from this provision, as compared to current law would exceed $100,000 per year.

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.

FISCAL IMPACT - State Government	FY 2004 (6 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Cost - Reimbursement to Political Subdivisions*	$0	$0	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	**$0**	**$0**	**(Unknown)**

*Expected to exceed $100,000 per year. Subject to appropriation; does not include possible costs to fully fund Foundation Formula.

FISCAL IMPACT - State Government	FY 2004 (6 Mo.)	FY 2005	FY 2006
BLIND PENSION FUND			
Revenue reduction			
Reduced tax collections *	$0	$0	(Unknown)
NET EFFECT ON BLIND PENSION FUND *	**$0**	**$0**	**(Unknown)**

* expected to exceed $100,000.

FISCAL IMPACT - Local Government	FY 2004 (6 Mo.)	FY 2005	FY 2006
POLITICAL SUBDIVISIONS			
Revenue			
State reimbursements *	$0	$0	Unknown
Revenue reduction			
Reduced tax collections *	$0	$0	(Unknown)
Cost to counties			
Additional administrative cost to county assessor and clerk.*	(Unknown)	(Unknown)	(Unknown)
Cost to other political subdivisions			
Additional administrative and reporting cost. *	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**(Unknown)**	**(Unknown)**	**(Unknown)**

* 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 create a homestead exemption from property tax, by limiting increases in valuation of all existing real estate to the lesser of five percent or the consumer price index increase. This proposal would also prohibit any increase in valuation of existing real estate owned by persons over 65. Revenue losses to political subdivisions, certified by the State Auditor, would be reimbursed by the state through appropriations. This proposal would have an effective date of January 1, 2004.

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

Office of the State Auditor
Office of the Secretary of State
Office of the Cole County Assessor
Department of Revenue
State Tax Commission

Mickey Wilson

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