

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2966-02
Bill No.: SB 730
Subject: Taxation and Revenue - Property; Taxation and Revenue - General; Property, real and personal; County Officials
Type: Original
Date: January 20, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue Fund *	(Unknown)	(Unknown)	(\$1.6 Million to Unknown)
Total Estimated Net Effect on General Revenue Fund *	(Unknown)	(Unknown)	(\$1.6 Million to Unknown)

* subject to appropriation.

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension Fund *	\$0	(\$8,000)	\$8,000
Total Estimated Net Effect on All State Funds*	\$0	(\$8,000)	\$8,000

* FY 2007 revenue subject to appropriation.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government *	(Unknown)	(\$1.6 Million to Unknown)	\$1.6 Million to (Unknown)

* net effect of revenue reduction and state reimbursement, state reimbursement subject to appropriation.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Design and Construction, and Division of Budget and Planning**, assume this proposal would have no impact on their organizations.

Officials from the **Office of the Secretary of State** assume this proposal would create the Missouri Homestead Preservation Act. The Department of Revenue may promulgate rules to implement this legislation. These rules would be published in the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Revenue could require as many as 10 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the Missouri Register is \$23. The estimated cost of a page in the Code of State Regulations is \$27. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded, or withdrawn. $((\$23 \times 15) + \$27 \times 10) = \$615$

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 decision to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Office of the Cole County Assessor** (Office) assume that as many as 4500 applications for homestead exemption per year would be completed in Cole County under this proposal. The first year the Office would receive state reimbursement would be 2006 (for the 2005 tax year) based on .0025 of the amount reimbursed by the State, to go into the assessment fund. Assuming an 8% appreciation rate over a two year reassessment cycle, and assuming the homestead limit would be set at 5%, there would be a 3% differential to be made up through State appropriations. The amount to the Assessor's office would be \$ 0 in 2005 for 2004, \$400 in 2006 for 2005, and \$0 in 2007 for 2006.

The Office estimates that 75% of seniors owning residential property would fall within the guidelines of this proposal, and that 25% of residential property is owned by seniors.

Savings:

There would be no savings to the Cole County Assessor's office from this bill.

Cost:

The office assumes that one time programming change costs of \$2500 would be incurred in 2005. The 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. The Office estimates a part time person would be needed for the amount of time specified in the bill (1/1 to 9/30) of every even numbered year to maintain and implement the program on an ongoing basis at a yearly expense (including payroll expenses) of \$13,000 per year.

ASSUMPTION (continued)

Revenue Reduction:

Based on an average 8% increase in a reassessment cycle, and assuming that the homestead limit would be set at 5%, it is estimated that approximately \$160,000 would be appropriated to reimburse the county and its taxing authorities for lost revenues. One-quarter of one percent of \$160,000 would be \$400.

The Cole County Assessor used a recent demographic study by the Jefferson City Area Chamber of Commerce for information regarding population housing, and income, broken down into different age categories. This information, in addition to information in the Assessor's files, indicated the following estimates concerning eligible homestead properties.

Population:

- Over 65 make up 11.5% of total county population
- Over 65 make up 15.5% of total county population over the age of 18
- Over 65 make up 17.14% of total county population over the age of 24

8,081 population of persons 65 or older in Cole County
60.7% (approx. 4,850) live in Family Households

Housing:

There are a total 28,915 housing units in Cole County.
Of these, there are 27,064 occupied housing units.
63.4% of housing units are owner occupied.
 $27,064 \times .634 = 17,159$ owner occupied housing units

Therefore, the highest possible number of households owned by those over 65 would be $4,850/17,159 = .2827$ or 28.27% of all owner occupied housing units.

Income:

Approximately 60% of households make less than \$50,000 in Cole County. It is assumed that more seniors fall within this category than any other/higher income category.

ASSUMPTION (continued)

Senior estimates:

The Office estimates that as much as 25% of residential, owner occupied property could be owned by those over 65; and that 75% of seniors fall within the income limits of this bill. However, approximately 40% of this population segment do not own property and are offered tax relief through the Missouri Property Credit Program.

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. The work load of the Assessor would actually increase due to this program.

Oversight assumes there would be significant but unknown additional costs to county assessors to implement the requirements of this proposal. Oversight assumes these costs would exceed \$100,000 per year.

Officials from the **State Tax Commission** (TAX) assume they are unable to estimate the administrative cost or fiscal impact of this proposal.

Officials from the **Department of Revenue** (DOR) assume this proposal would create the Missouri Homestead Preservation Act. DOR would be responsible for providing application forms to the assessor's office for the program, verifying Missouri taxable income and age, providing a list of eligible applicants to the county collectors, calculating the level of appropriation necessary to set the homestead exemption, applying the limit to the homestead of every eligible owner and calculating the credit, sending a list to county collectors of credit amount for eligible owners, instructing the State Treasurer on how to distribute the appropriated funds to each county, and promulgating rules for the program.

DOR assumes that anyone who has claimed a senior citizen property tax credit would not qualify for the program since the proposal would make them ineligible. Therefore, DOR assumes there will not be a reduction in the number of property tax credit returns.

DOR assumes the proposal could require taxpayers to file tax returns or otherwise provide income to DOR that would not have been required otherwise, in order to establish Missouri taxable income. Taxation cannot estimate the volume of additional filings this requirement will create, but estimates one Tax Season Temporary for every 30,000 returns, for key entry, and one Tax Processing Tech I for every 30,000 errors generated by this new filing.

ASSUMPTION (continued)

DOR would be responsible for printing up to one million application forms and DOR would be responsible for the postage on these bulk forms. The printing costs are estimated at approximately \$5,000 and the postage costs are unknown at this time.

DOR Division of Taxation will need to create a database on a PC system to handle the approved applications for the counties and 1 Tax Processing Tech I for every 3,000 applications. DOR estimates the PC application would require 346 hours of programming, at a total cost of \$11,543. This employee will also be responsible for the maintenance of this program and the key entry of all non-qualifying applications.

DOR, Division of Taxation assumes that calculation of the necessary appropriation level would be handled either by State Tax Commission or Office of Administration, Division of Budget and Planning. If this assumption is incorrect further review will be necessary. Since Taxation is not responsible for the setting of appropriations, Taxation anticipates forwarding the approved verification listing and information to Budget and Planning and they will be responsible for the appropriation amount.

Taxation assumes DOR will supply a listing of verified applicants with the information submitted by the county assessor (as required in subsection 9) to the State Tax Commission and the State Tax Commission, as the administrator of property taxes statewide, will be responsible for the calculation and notification to the assessors and county collectors.

Oversight assumes there will be a significant but unknown additional cost to the Department of Revenue to verify income eligibility as required in this proposal.

Oversight assumptions as to revenue reduction and state reimbursement, based on information provided by the State Tax Commission and from Federal Census reports, follow.

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 following year (2004). Although this legislation would be effective on August 28, 2004, 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 2002 assessed valuation for residential property is \$33.1 billion. A seven percent (7%) increase in the assessed valuation for 2003 would result in an additional \$2.3 billion of assessed

value, and total assessed valuation for residential property of \$34.5 billion. As there are minimal improvements to residential property in an even-number year, the 2004 assessed valuation would again be approximately \$35.4 billion and there would be no tax loss. In 2005, the next reassessment year, we assume there would be a loss of tax revenue as a result of this legislation.

According to the 2000 census information, 70.3% of the housing units are owner occupied with 10.3% of the householders 65 and older. In addition, 57.3% of households had income less than \$50,000. Information is not available as to spouse age of handicapped spouses of homeowners over 65. For fiscal note purposes, Oversight assumes all households with householder over 65 have a spouse over 65 or handicapped.

Residential Assessed Valuation for Calendar Year 2003 is \$35.4 Billion.

$\$35.4 \text{ Billion} \times 70.3\% \text{ (residential property owner occupied)} = \24.9 Billion

$\$24.9 \text{ Billion} \times 10.3\% \text{ (residential property owner occupied over 65)} = \2.5 Billion

$\$2.5 \text{ Billion} \times 57.3\% \text{ (income under } \$50,000) = \$1.4 \text{ Billion.}$

$\$1.4 \text{ Billion} \times 7\% \text{ average assessment increase} = \98 Million.

$\$98 \text{ Million} \times \$6 \text{ per hundred average state tax rate} = \$5.9 \text{ Million tax increase without proposal.}$

$\$1.4 \text{ Billion} \times 5\% \text{ assumed homestead exemption limit} = \70 million.

$\$70 \text{ Million} \times \$6 \text{ per hundred average state tax rate} = \$7.5 \text{ Million tax increase with proposal.}$

$\$28 \text{ Million} (\$98 \text{ Million less } \$70 \text{ Million}) \times \$6 \text{ per hundred state tax rate} = \$1.6 \text{ Million Tax Loss in 2005 (state FY 2006) due to the proposal and reimbursable to the political subdivisions in state FY 2007, subject to appropriation.}$

Oversight assumes the county collectors would abstract the tax credits to all taxes levied, resulting in losses to the Blind Pension Fund of approximately 1/4 of 1% of the credits, or \$8,000 in FY 2006.

ASSUMPTION (continued)

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
<u>Cost - Reimbursement to Political Subdivisions *</u>	\$0	\$0	(\$1.6 Million)
<u>Cost - State Tax Commission *</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Cost - Department of Revenue *</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(\$1.6 Million to Unknown)</u>
* cost to State Tax Commission and Department of Revenue expected to exceed \$100,000. Reimbursement to political subdivisions subject to appropriation.			
BLIND PENSION FUND			
<u>Revenue</u>			
State reimbursements *	\$0	\$0	\$8,000
<u>Revenue reduction</u>			
Reduced tax collections	<u>\$0</u>	<u>(\$8,000)</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>(\$8,000)</u>	<u>\$8,000</u>
* subject to appropriation			

<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
<u>Revenue</u>			
State reimbursements *	\$0	\$0	\$1.6 Million
<u>Revenue reduction</u>			
Reduced tax collections	\$0	(\$1.6 million)	\$0
<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>(\$1.6 Million to Unknown)</u>	 <u>(Unknown) to \$1.6 Million</u>

* unknown expected to exceed \$100,000, state reimbursement subject to appropriation.

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 “Missouri Homestead Preservation Act”. Eligible property owners would receive a credit against the following year’s property tax due for any increase in property taxes due on that property which exceeds a percentage to be determined by the Director of Revenue based on available appropriations for that purpose.

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

State Tax Commission
Department of Revenue
Office of the Cole County Assessor
Office of the Secretary of State
Office of Administration
 Division of Design and Construction
 Division of Budget and Planning



Mickey Wilson, CPA
Director
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