COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3564-01
Bill No.: HB 997
Subject: Property, Real and Personal; State Tax Commission; Taxation and Revenue - General; Taxation and Revenue - Property
Type: Original
Date: February 2, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue *	$0	Unknown	(Unknown)
Total Estimated Net Effect on General Revenue Fund *	**$0**	**Unknown**	**(Unknown)**

* expected to exceed $100,000 per year. Political subdivision reimbursement subject to appropriation, and does not include educational impact.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension	$0	($0 to $33,700)	($0 to $33,700)
Total Estimated Net Effect on Other State Funds	**$0**	**($0 to $33,700)**	**($0 to $33,700)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government *	$0	**(Unknown)**	**(Unknown)**

* expected to exceed $100,000, subject to appropriation, and does not include educational impact.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning**, (BAP) assume the proposal would have no impact on their organization. BAP estimates the proposal would have potentially significant although unknown cost to the state General Revenue Fund.

Although they did not respond to our request for information, officials from the **Department of Revenue** (DOR), in response to a similar proposal in the previous session, assumed the proposal would create the Missouri Homestead Preservation Act. Anyone claiming a homestead exemption would not be eligible for the property tax credit, and anyone claiming a property tax credit is ineligible for the homestead exemption. DOR would provide a list of taxpayers claiming a property tax credit.

DOR should also receive a list of taxpayers claiming the homestead exemption, so that it can be run against the tax records. DOR assumed this would be done with existing resources, and deferred to the State Tax Commission or Budget and Planning for an estimated revenue impact.

ASSUMPTION (continued)

Officials from the **Office of the Cole County Assessor** (Office) estimate that as many as 75% of seniors owning residential property may apply and pay the enrollment fee in any reassessment cycle. The revenues would be as follows, based on 3,000 applicants per cycle:

2005 - $45,000
2006 - $0
2007 - $45,000

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

The Office assumes that it would incur one-time programming change costs estimated at $2500 for the year 2005. The Assessor's office would have to maintain a separate accounting of homestead properties and this would 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 half time person would be needed to maintain and implement this program on an ongoing basis at a yearly expense (including payroll expenses) of $13,000 per year, or $26,000 per reassessment cycle.

The Office assumes that 75% of seniors owning residential property would qualify under this legislation. 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 proposal and to be made up by State appropriations would be approximately $425,000.

For 2006, there would be no loss. Although new construction improvements are added to the assessment roll, they are excluded from the homestead freeze by this bill.

For 2007, 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 State appropriations would be approximately $490,000.

As Cole County is to be reimbursed from the State for all loss in revenues, there would be 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.

Of the total losses listed above, 3% is earmarked to the State for the blind pension fund.
ASSUMPTION (continued)

The Cole County Assessor utilized 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. Utilizing this study, in addition to information in the Assessor's files, the following are estimated concerning homestead properties.

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

There are 27,064 occupied housing units out of a total 28,915 housing units in Cole County. 63.4% of housing units are owner occupied.
27,064 x .634 = 17,159 total owner occupied housing units

The highest possible number of households owned by those over 65 would be 4,850/17,159 = .2827 or 28.27% 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.

The Office estimates that as much as 25% of residential, owner occupied property could be owned by those over 65; this estimate is on the high end so as not to underestimate the potential effects of homestead legislation. It is further estimated that 75% of seniors fall within the income limits of this bill.

It should be noted that while Homestead legislation affects those over 65 who own property, approx. 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.

ASSUMPTION (continued)

Officials from the **Office of the Secretary of State** (SOS) assume the proposal would create the Missouri Homestead Preservation Act. The State Tax Commission may promulgate rules to implement this legislation. These rules will 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 State Tax Commission could require as many as 8 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. ((8 x $27)+(12 x $23)=$492)

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 **Department of Elementary and Secondary Education** (DESE) assume the proposal would prevent 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. 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.

While the proposal does not reference the state school aid foundation formula, non-hold harmless districts (districts on the formula) could potentially recover 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 factor in the foundation formula would not increase as much as current law provides since the assessed valuation for the district would not increase as much without the exemption, thereby increasing the cost to fund the state foundation formula at a proration factor of no less than 1.00.

ASSUMPTION (continued)

Hold harmless districts would 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 assessments 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. A reduced guaranteed tax base reduces the inflationary adjustment needed in the formula for districts to fund inflationary increases of its education and operational expenses.

DESE does not have data available to estimate the amount of fiscal impact at the state or local level

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

Officials from the **State Tax Commission** (TAX) assume TAX would promulgate rules and regulations to administer this section. TAX is responsible for determining the homestead exemption maximum base amount from the increase in the consumer price index for the previous twelve-month period and would certify the base amount to each county clerk each year. Currently TAX certifies the CPI during the month of April each year. The proposal is unclear as to what agency or office must prepare an estimate of the appropriation necessary to compensate the taxing jurisdictions. If TAX is responsible for preparing that estimate, additional staff would be needed.

The 2003 assessed valuation for residential property is $36,168,817,425. As there are minimal improvements to residential property in an even-number year, we will assume for 2004, the assessed valuation will again be approximately $36.1 billion. In 2005, we assume there would be a loss of revenue to the political subdivisions that must be reimbursed by the state of Missouri as a result of this legislation..

According to the 2003 census information, 70.3% of the housing units are owner occupied with 10.3% of the householders 65 and older. This census shows that approximately 41.9% of the total Missouri households have an income of $34,999 or less.

If a person desires to claim the homestead exemption instead of the property tax credit, there could be a positive fiscal impact to the General Revenue and Blind Pension Funds. However, TAX does not have any information available on how many owners would choose the homestead exemption or the property tax credit; therefore we are unable to project any revenue loss.

ASSUMPTION (continued)

Residential assessed valuation for calendar year 2003 is $36,168,817,425.

$36.1 billion x 70.3% (residential property owner occupied) $25,425,678,649.

$25.4 billion x 10.3% (residential property owner occupied over 65) $2,618,947,900.

$2.6 billion x 60% (residential property owned by 65 and older, with income less than $39,000) = $1,571,368,740.

TAX assumes a seven percent (7%) increase in the assessed valuation in the next reassessment year of 2005.

$1.6 billion x 7% = $109,995,811 (assessment increase)

$110 million x $6.13 per hundred dollars average state tax rate = $6,742,743 revenue loss.

There would be an impact to the General Revenue Fund and the Blind Pension Fund, as the state must reimburse any political subdivision losing revenue during the period the exemption was granted.

There may be some administrative costs to the county assessors to administer this proposal. However, the $15.00 fee that must be paid to the assessor by the applicant each assessment period (we assume that fee would be collected in odd-numbered years only) should cover this cost. Although the state of Missouri must reimburse the political subdivisions for any loss of revenue as a result of this legislation, there may be substantial revenue loss if the general assembly fails to appropriate the necessary funds.

Oversight assumes an unknown number or percentage of eligible property owners would enroll in the program created by this proposal. Further, Oversight assumes that 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. Oversight assumes that net losses to political subdivisions from this provision, as compared to current law are unknown but would exceed $100,000 per year.

ASSUMPTION (continued)

This proposal would become effective January 1, 2005, for taxes to be collected in FY 2006. Oversight assumes the first appropriations for replacement of lost local tax revenues would be provided in FY 2007.

Oversight assumes that the impact of requiring taxpayers to choose between the Homestead Tax Exemption and the Missouri "Circuit Breaker" property tax credit is unknown, but could be significant. In addition, Oversight assumes the Homestead Tax Exemption and resulting reimbursement to taxing authorities would be greater than the property tax credit reduction because the property tax credit is computed using more restrictive income limitations. A reduction in property tax credits claimed would partially offset the General Revenue Fund cost of reimbursing lost tax revenues to the taxing authorities; however, it would increase reported state personal income tax revenues.

Oversight assumes there would be losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions, and has calculated a range of lost revenue from $0 to $33,700.

This proposal could affect total state revenues.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Revenue - Reduction in "Circuit Breaker" Property Tax Credits Claimed *	$0	Unknown	Unknown
Cost - Reimbursement to Political Subdivisions*	$0	$0	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	**$0**	**Unknown**	**(Unknown)**

* expected to exceed $100,000 per year. Political subdivision reimbursement subject to appropriation, and does not include educational impact.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
BLIND PENSION FUND			
Revenue reduction			
Reduced tax collections	$0	($0 to $33,700)	($0 to $33,700)
NET EFFECT ON BLIND PENSION FUND	**$0**	**($0 to $33,700)**	**($0 to $33,700)**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
Revenue			
State reimbursements *	$0	$0	Unknown
Revenue			
Assessment fund enrollment charges *	$0	Unknown	$0
Revenue reduction			
Reduced tax collections *	$0	(Unknown)	(Unknown)
Cost to counties			
Additional administrative cost to county assessor and clerk.*	$0	(Unknown)	(Unknown)
Cost to other political subdivisions			
Additional administrative and reporting cost. *	$0	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**$0**	**(Unknown)**	**(Unknown)**

* expected to exceed $100,000; enrollment charges expected to exceed additional costs to county assessors.

FISCAL IMPACT - Small Business

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

SS:LR:OD (12/02)

DESCRIPTION

This proposal would create the Missouri Homestead Preservation Act:

- The assessed value of primary residential property, excluding any value added by new construction or improvements, which is owned by any person who is sixty-five years of age or older and who uses the property as a homestead would not increase during any tax-year reassessment cycle during the period of time the person resides on that property after attaining the age of sixty-five years.

- Any person claiming a homestead exemption would be required to pay an enrollment fee of fifteen dollars each assessment cycle, with the revenue being deposited in the assessment fund of each county and any city not within a county. Moneys deposited into the assessment fund may be expended for administrative costs associated with the Missouri Homestead Act.

- Age and years of residence for purposes of this section would be determined as of January first of each odd-numbered year; such information would be provided by affidavit of the owner of homestead property to the county assessor.

- No person claiming a homestead exemption under this section would be eligible to claim the property tax credit, and no person claiming the property tax credit would be eligible to claim the homestead exemption.

- No person with a household combined adjusted gross income of more than the household exemption maximum base amount would be eligible to claim the homestead exemption allowed in this section. The term "homestead exemption maximum base amount" would in calendar year 2004, be thirty-nine thousand dollars, and for each succeeding calendar year the sum would be increased, in one hundred dollar increments, by the same percentage as the increase in the general price level as measured by the consumer price index.

DESCRIPTION (continued)

- Beginning January 1, 2005, the state tax commission would determine the homestead exemption maximum base amount from the increase in the consumer price index for the previous twelve-month period and certify such base amount to each county clerk.

- The general assembly would appropriate moneys from the general revenue fund so that any political subdivision losing revenue during the time the assessed value on the real property was exempt under this section would receive restitution, based on the ratio the tax levy of each political subdivision bears to the total tax levy of all political subdivisions levying a real property tax against such property.

- The state tax commission would promulgate rules and regulations to administer this section in accordance with the intent of the general assembly that this section be construed liberally to promote maximum property tax relief for persons sixty-five years of age and older.

- This section would become effective January 1, 2005, and shall apply to all taxable years beginning after December 31, 2004.

- The provisions of the new program authorized under this section would automatically sunset six years after the effective date of this section unless reauthorized by an act of the general assembly.

- If such program is reauthorized, the program authorized under this section shall automatically sunset twelve years after the effective date of the reauthorization of this section; the program would terminate on the following September first.

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
Office of Administration
    Division of Budget and Planning
Office of the Secretary of State
Department of Elementary and Secondary Education
Office of the Cole County Assessor

NOT RESPONDING

Department of Revenue

Mickey Wilson

Mickey Wilson, CPA
Director
February 2, 2004