COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4387-01
Bill No.: HB 1800
Subject: Property, Real and Personal, Taxation and Revenue - Property
Type: Original
Date: February 16, 2010

Bill Summary: Would create a homestead exemption phased in over 15 years for senior citizens 65 and older.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	$0	$0	($0 to $4,085,325)
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**($0 to $4,085,325)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Blind Pension	$0	($0 to $20,325)	($0 to $19,667)
Total Estimated Net Effect on Other State Funds	**$0**	**($0 to $20,325)**	**($0 to $19,667)**

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 20121	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	**$0**	**($0 to $4,065,000)**	**($0 to $3,933,500)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Office of the State Auditor** (SAO) assume this proposal would require the SAO to calculate or verify any revenue loss claimed by a political subdivision as a result of the reduced assessments for certain taxpayers. It is estimated that the additional calculation duty would require two FTE additional staff auditor I to gather the necessary data, analyze the submitted data, and calculate the revenue loss for each individual taxing authority. With 4,850 tax rates, it is difficult to estimate the number of these calculations the auditor's office would be asked to complete. Therefore it is possible that additional FTE may be necessary as a result of this legislation.

SAO officials provided an estimated cost to implement this proposal including two additional staff with benefits, equipment, and expenses totaling $103,922 for FY 2011, $126,361 for FY 2012, and $130,153 for FY 2013.

Officials from the **Department of Revenue** (DOR) assume this proposal would reduce the number of applicants for the Missouri Property Tax Credit and Homestead Preservation Credit. DOR officials also assume there would be no other impact to their organization. DOR officials provided the following information regarding the administrative impact on their organization.

ASSUMPTION (continued)

Collections and Tax Assistance would provide assistance to taxpayer's who were denied the Homestead or Property Tax Credit, and would require one FTE Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually on the non-delinquent line, and one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually in the Tax Assistance Offices.

DOR officials provided an estimated cost to implement this proposal including two additional staff with benefits, equipment, and expenses totaling $79,301 for FY 2011, $84,162 for FY 2012, and $86,689 for FY 2013.

Oversight notes that this proposal would, beginning in FY 2012, provide a 2.5% reduction in the assessed valuation of the primary residence of a resident taxpayer aged sixty-five or over with household income less than $50,000 per year. In FY 2013, the proposal would provide a 5% reduction in the assessed valuation of properties eligible in FY 2012, and a 2.5% reduction in the assessed valuation for the primary residence of a taxpayer who had turned sixty-five.

Oversight assumes that many taxpayers who would be eligible for the proposed 2.5% and 5.0% tax reductions would also qualify for the Homestead Preservation Act Credit or the Property Tax Credit. Oversight also assumes that benefits under the existing programs would be larger than the proposed tax reductions. Accordingly Oversight assumes that only a limited number of residents who do not qualify for the existing programs would apply for the proposed reduction in assessed valuation.

Oversight assumes that the Office of the State Auditor and the Department of Revenue could process the activity generated by a limited number of applicants with existing resources. If an unanticipated additional workload is created, or if multiple proposals which create additional activity are enacted, resources could be requested through the budget process.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would allow an exemption for persons 65 or over on their place of residence and up to 5 acres. This exemption would be phased in at 2.5% over 15 years. To be eligible the person would be required to have an income of $50,000 or less and not participate in the Homestead Preservation Act Provisions. The proposal provides for revenue lost to local taxing authorities to be made up by the state. While there would be a fiscal impact to the state; it is undeterminable by DESE.

ASSUMPTION (continued)

Officials from the **City of Centralia** and the **Parkway School District** assume this proposal would have no fiscal impact to their organizations.

Officials from the **Office of Administration, Division of Budget and Planning,** and the **State Tax Commission** did not respond to our request for information.

Oversight notes that this proposal would create a homestead exemption phased in over 15 years for the primary residence of citizens 65 and older with household income under $50,000 per year. The household income limit would be indexed annually to the Consumer Price Index.

The exemption would reduce the amount of property tax assessed by two and one-half percent for each year after the person becomes an eligible resident. The exemption would continue to increase by two and one-half percent each year until the resident reaches eighty years of age; each resident who is eighty years of age or older would be liable for no more than sixty percent of the amount of property tax assessed.

A resident claiming either the property tax credit or the homestead exemption would not be eligible for the proposed exemption. The exemption would be claimed by completing and submitting an application provided by the local assessor's office no later than May first of each year. The resident would provide documentation of eligibility for the exemption, and upon verification of the application the assessor would adjust the assessment of the resident's homestead as required under this section.

Revenue losses of any political subdivision resulting from the proposed exemption would be reimbursed by the state of Missouri through appropriations, with the losses to be substantiated by the State Auditor.

Oversight has collected the following information to make this estimate:

1. The State Tax Commission has provided a total residential assessed valuation for 2009 of $51 billion, and a statewide average local tax rate of $6.16 per $100 assessed valuation. The State Tax Commission has also assumed that the 2011 assessed valuation will be the same as the 2009 assessed valuation.

ASSUMPTION (continued)

2. The United States Census Bureau reported a home ownership rate for Missouri of 71.9%, that 13.5% of Missouri residents are aged 65 or older, and that approximately 5.2% of the population of Missouri is aged 60 to 64.

3. The United States Census bureau also reported that 53.4% of Missouri households had less than $50,000 income.

4. According to information provided on the Missouri Department of Health and Senior Services website, approximately 5.4% of Missouri residents aged 65 or over die each year.

Oversight would calculate the fiscal impact of this proposal as follows:

A. The assessed valuation of owner-occupied residential property would be ($51 billion x 71.9%) = $36.7 billion.

B. The assessed valuation of property occupied by age eligible owners would be ($36.7 billion x 13.5%) = $4.95 billion.

C. The assessed valuation of property occupied by age and income eligible owners would be ($4.95 billion x 53.4%) = $2.64 billion.

E. The tax on those properties occupied by age and income eligible owners would be ($2.64 billion/$100 x $6.16) = $162.6 million.

G. The proposal would become effective for assessments made in 2011 (FY 2012) Reimbursements for lost revenues could be calculated by December 2011 (FY 2012) and included in the state budget for FY 2013. The reimbursement to local governments and the Blind Pension Fund would be paid one fiscal year after the revenue reduction was incurred.

H. The local government revenue reduction from the proposal for FY 2012 would be ($162.6 million x 2.5%) = approximately $4,065,000.

ASSUMPTION (continued)

I. The estimate of local government revenue reduction for FY 2013 would be approximately twice the FY 2012 revenue reduction. First-year eligibles would result in a second-year revenue reduction of ($162,600,000 million tax revenue x (2 x 2.5%) = 5% reduction rate x .946 (survival rate)) = $7,691,000.

Second-year first-time eligibles would result in an additional reduction of revenue as follows.

Oversight assumes for fiscal note purposes that there would be an equal number of residents for each year in the 60-65 age bracket. Accordingly there would be (5.2% / 5) = 1.04% of the population age 64 and 98.5% of those would reach age 65. (1.04% x .985) = 1.02%.

($36.7 billion owner occupied residential property x 1.02% age eligible) = $374 million assessed valuation.

($374 million owner occupied age eligible x 53.4% income eligible) = $200 million owner occupied age and income eligible.

The tax on that property would be ($200 million x $6.16 / $100) = $12.3 million, and the revenue reduction for that group would be ($12.3 million x 2.5%) = $307,500.

The total local government revenue reduction for 2012 (FY 2013) would be ($7,691,000 + $307,500) = $7,998,500.

J. The revenue reduction to the state Blind Pension Fund would be approximately ½ of 1% of the local government revenue reduction, or $20,325 for FY 2012 and $39,992 for FY 2013.

K. The cost of the program would increase each year as the surviving eligibles become entitled to an additional 2 ½ percent reduction in their assessed valuation. This incremental increase would continue until the full 20% reduction in assessed valuation becomes available to the first-year eligibles who survive until age 80 and to succeeding groups of eligible residents reach age 80.

ASSUMPTION (continued)

As we noted above, the proposed tax reduction would likely be claimed only by resident taxpayers who do not qualify for the Homestead Preservation Act Credit or for the Property Tax Credit. Any estimate of revenue losses due to a reduction in the assessed valuation for specific groups should be considered in the context of current state limitations on local government tax revenues. Due to existing property tax limitation provisions, Oversight assumes that this proposal would at least partially shift local property taxes from eligible owners of property to owners of property who are not eligible for the reduction in assessed valuation. Finally, based on our review of property tax rate information developed by the Office of the State Auditor, Oversight has determined that many local governments would be able to compensate for a reduction in assessed valuation by increasing tax rates within existing tax rate ceilings.

For fiscal note purposes, **Oversight** will indicate a range from $0 to the maximum calculated impact of the proposed local property tax reduction.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
GENERAL REVENUE FUND			
Cost - Reimbursement to local governments	$0	$0	($0 to $4,065,000)
Cost - Reimbursement to Blind Pension Fund	$0	$0	($0 to $20,325)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**$0**	**($0 to $4,085,325)**
BLIND PENSION FUND			
Reimbursement - General Revenue Fund	$0	$0	$0 to $20,325
Revenue Reduction - Tax reduction to qualified senior citizens	$0	($0 to $20,325)	($0 to $39,992)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**($0 to $20,325)**	**($0 to $19,667)**

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
LOCAL GOVERNMENTS			
State Reimbursement	$0	$0	$0 to 4,065,000
Revenue Reduction - Tax reduction to qualified senior citizens	$0	($0 to $4,065,000)	($0 to $7,998,500)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**($0 to $4,065,000)**	**$0 to $3,933,500)**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

Would create a homestead exemption phased in over 15 years for citizens 65 and older.

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 Secretary of State
Office of the State Auditor
Department of Elementary and Secondary Education
Department of Revenue
City of Centralia
Parkway School District

NOT RESPONDING

Office of Administration
Division of Budget and Planning
State Tax Commission

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Director
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