COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0124-01
Bill No.: SB 76
Subject: Cities, Towns and Villages; Counties; Elderly; General Assembly; Political Subdivisions; Property, Real and Personal; Taxation and Revenue - Property
Type: Original
Date: January 9, 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.

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

* nets to $0.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 7 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.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** assume senior citizens who reside in their own homes represent roughly $5.1 billion in assessed valuation. The State Tax Commission assumes an 8% increase in value for FY 2004, and calculates losses as follows: $5.1 billion in assessed valuation times 8% value growth, for an increase of $408 million assessed valuation times the statewide average levy of $6 per $100 assessed valuation, for an estimated tax loss of $24.5 million.

In response to a similar proposal in a prior session, officials from the **State Tax Commission** noted that assessors would have to maintain two sets of assessments for exempt parcels and collectors would have to collect and affirm additional information from persons applying for the exemption. It is not possible to estimate how much those costs would be until assessors could determine how many parcels would be affected and collectors determined how many persons would be requesting exemptions; therefore, unknown additional costs to county assessors and collectors are reflected in the fiscal impact to local governments.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume 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 **Department of Elementary and Secondary Education** noted that the proposal
would prohibit the 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.

Oversight assumes it is not possible to estimate the magnitude of 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, 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 losses to political subdivisions from this provision would exceed $100,000 per year. Oversight assumes that the homestead exemption would be implemented, and that the state would 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 the political subdivisions. Under this proposal, the counties would make a payment in lieu of taxes to offset this loss, which would be reimbursed by the state. Oversight assumes that the state would reimburse the counties for the payments in lieu of taxes the from the General Revenue Fund. Oversight also assumes the first payments in lieu of taxes would be made in FY 2005 for FY 2004 taxes, and the first state reimbursements would be made in FY 2006 for the FY 2005 payments.

The proposal provides for any taxing jurisdiction or political subdivision to recover tax losses from the state. The State Tax Commission would be required to certify tax losses subject to reimbursement to the Commissioner of Administration, who would issue reimbursement vouchers to the taxing jurisdiction or political subdivision upon the availability of appropriations. If the General Assembly determines that state revenues are insufficient to provide for such reimbursement, the General Assembly may declare that there will be no homestead exemption for the succeeding year.

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. This bill will require the county clerk to maintain records, deal with the public, and provide other services to implement this bill.

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

In the current proposal, county clerks are required to verify and process exemption forms prepared by eligible property owners. It is not possible to estimate how much those costs would be until the number of eligible parcels could be determined; therefore, **Oversight** has reflected unknown additional costs to county clerks in the fiscal impact to local governments.

FISCAL IMPACT - State Government	FY 2004 (6 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Cost			
Reimbursements to political subdivisions*	$0	$0	(Unknown)
NET EFFECT ON GENERAL REVENUE FUND*	**$0**	**$0**	**(Unknown)**
* expected to exceed $100,000 per year. Excludes potential Foundation Formula adjustment.			
BLIND PENSION FUND			
Revenue reduction			
Reduced tax collections *	$0	(Unknown)	(Unknown)
Reimbursement			
Payments in lieu of taxes *	$0	Unknown	Unknown
* expected to exceed $100,000 per year.			
NET EFFECT ON BLIND PENSION FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2004 (6 Mo.)	FY 2005	FY 2006
POLITICAL SUBDIVISIONS			
Revenues			
State reimbursements *	$0	$0	Unknown
Revenue reduction			
Reduced tax collections *	(Unknown)	(Unknown)	(Unknown)
Cost to counties			
Additional administrative cost to county assessor, collector, and clerk *	(Unknown)	(Unknown)	(Unknown)
Payments in lieu of taxes *	$0	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**(Unknown)**	**(Unknown)**	**(Unknown)**

* expected to exceed $100,000

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, who own and reside in property as a principal residence.

The exemption would be for the 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.

DESCRIPTION - continued

The proposal provides for any taxing jurisdiction or political subdivision to recover tax losses from the state. The State Tax Commission would be required to certify tax losses subject to reimbursement to the Commissioner of Administration, who would issue reimbursement vouchers to the taxing jurisdiction or political subdivision upon the availability of appropriations. If the General Assembly determines that state revenues are insufficient to provide for such reimbursement, the General Assembly may declare that there will be no homestead exemption for the succeeding year.

Provisions are included to protect income to the Blind Pension Fund by providing reimbursement to the fund from the counties, in the form of payments in lieu of taxes. The payments in lieu of taxes would also be recovered from the state.

This proposal has 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

Department of Revenue
State Tax Commission
Cole County Assessor
Department of Elementary and Secondary Education

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Director
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