

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3736-01  
Bill No.: SB 1079  
Subject: Taxation and Revenue - Property; Property, Real and Personal; Taxation and Revenue - General; Elderly  
Type: Original  
Date: April 2, 2004

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension *	\$0	(Unknown)	(Unknown)
<b>Total Estimated Net Effect on Other State Funds *</b>	<b>\$0</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

\* expected to exceed \$100,000.

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

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>
<b>Local Government</b> *	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

\* expected to exceed \$100,000.

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials from the **Department of Revenue (DOR)** assume this proposal would only limit the amount of property taxes paid by seniors, and would not eliminate the taxes they currently pay. Therefore, those individuals may still be eligible for the property tax credit. The Division of Taxation assumes there will not be a decrease in the number of property tax credit claims received by the department and also assumes that no information will be needed from DOR in the computation of revenue loss. Therefore, there would be no impact to DOR. DOR defers any estimate of revenue impact to the State Tax Commission or to the Office of Administration, Division of Budget and Planning.

Officials from the **Office of Administration, Division of Budget and Planning**, assume the proposed legislation would not result in additional costs or savings to the Division of Budget and Planning. However, there could be a cost to general revenue if the state has to reimburse locals for the loss in property tax.

**ASSUMPTIONS (continued)**

Officials from the **Office of the Cole County Assessor** (Office) assume there would be no additional revenues or savings to the Cole County Assessor's office from this bill. The Office assumes there would be a need for one time programming change costs estimated at \$2500 for the year 2005.

The Office would have to maintain a separate accounting of homestead properties and this will require additional personnel time. 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.

For 2005, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss caused by this bill to all taxing jurisdictions would be approximately \$565,000. The loss to the Cole County Assessment fund (1/2 of 1% of taxes collected) would be approximately \$2,825.

For 2006, it is assumed there would be no loss. The treatment of new construction, alterations and additions is not addressed in the language of the bill.

For 2007, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss caused by this bill to all taxing jurisdictions would be approximately \$655,000. The loss to the Cole County Assessment fund (1/2 of 1% of taxes collected) would be approximately \$3,275.

Of the total losses listed above, 3% would be earmarked to the State Blind Pension Fund.

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.

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

ASSUMPTIONS (continued)

**Housing:**

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.

$27,064 \times .634 = 17,159$  total owner occupied housing units

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

For the purposes of estimations for this homestead legislation, the Cole County Assessor estimates that as much as 25% of residential, owner occupied property could possibly be owned by those over 62; this estimate is on the high end so as not to underestimate the potential effects of homestead legislation.

It should be noted that approximately 40% of this population segment do not own property and are offered tax relief through the Missouri Property Tax Credit Program.

**Oversight** has reflected unknown additional costs to county assessors beginning in FY 2005 in the fiscal impact to local governments.

Officials from the **State Tax Commission** (TAX) assume 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 as a result of this legislation.

According to the 2000 census information, 70.3% of the housing units are owner occupied with 25% of the householders 62 and older.

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

$\$36.1 \text{ Billion} \times 70.3\% \text{ (residential property owner occupied)} = \$25,426,678,649.$

$\$25.4 \text{ Billion} \times 25\% \text{ (residential property owner occupied over 62)} = \$6,356,669,662.$

$\$6.3 \text{ Billion} \times 7\% \text{ (average assessment increase)} = \$444,966,876 \text{ lost assessed valuation}$

$\$445 \text{ Million} \times \$6.13 \text{ per hundred dollars (average state tax rate)} = \$27,276,469 \text{ revenue loss}$

ASSUMPTIONS (continued)

**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-two 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-two 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 beginning in 2005 (FY 2006).

**Oversight** also assumes there would be losses to the Blind Pension Fund of a little more than ½ of 1% of the losses to the political subdivisions.

In response to a similar proposal in the prior session, officials from the **Department of Elementary and Secondary Education** noted the proposal would prohibit the assessed value of residential property owned by a person at least 62 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.

#### ASSUMPTIONS (continued)

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

<u>FISCAL IMPACT - State Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
<b>BLIND PENSION FUND</b>			
<u>Revenue reduction</u>			
Reduced tax collections *	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>NET EFFECT ON BLIND PENSION FUND</b>	<b><u>\$0</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
* expected to exceed \$100,000.			
<u>FISCAL IMPACT - Local Government</u>	FY 2005 (10 Mo.)	FY 2006	FY 2007
<b>POLITICAL SUBDIVISIONS</b>			
<u>Revenue reduction</u>			
Reduced tax collections *	\$0	(Unknown)	(Unknown)
<u>Cost to counties</u>			
Additional administrative cost to county            assessor *	(Unknown)	(Unknown)	(Unknown)
<b>NET EFFECT ON POLITICAL SUBDIVISIONS *</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>
* expected to exceed \$100,000			
<u>FISCAL IMPACT - Small Business</u>			

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

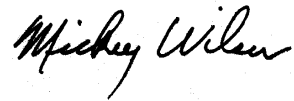
DESCRIPTION

This proposal would prohibit an increase in the assessed valuation of a homestead property so long as a person over the age of sixty-two owns that property. The property would be assessed as of the date of the transfer if the property was transferred to another owner.

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  
Office of Administration  
    Division of Budget and Planning  
Office of the Cole County Assessor



Mickey Wilson, CPA  
Director  
April 2, 2004