

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2666-01
Bill No.: SB 691
Subject: Cities, Towns and Villages; Counties; Elderly; General Assembly; Political Subdivisions; Property, Real and Personal
Type: Original
Date: December 17, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue*	\$0	\$0	\$0 to (\$37,746,000)
Total Estimated Net Effect on <u>All</u> State Funds	\$0	\$0	\$0 to (\$37,746,000)

*Excludes possible cost to fully fund the Foundation Formula.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government *	\$0	\$0	(UNKNOWN)

* Substantial offsetting revenue losses from reduced taxes and state reimbursements.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** assume senior citizens who reside in their own homes represents roughly \$5.1 billion in assessed valuation. This represents the base rate. In FY-03 assume 8% increase in value. The calculations are as follows: \$5.1 billion in assessed valuation times 8% value growth represents an increase of \$408 million assessed times the state levy of \$6 per \$100 assessed valuation equals \$24.5 million.

In response to a similar proposal in the 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.

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.

In response to a similar proposal in the prior session, **Department of Elementary and Secondary Education** officials note that the proposal could decrease tax collections, which would increase the amount needed to fully fund the Foundation Formula. They also noted that 1) “on the formula” districts would recoup their losses through state payments, and 2) “hold harmless” districts would not recover losses through additional payments through the Foundation Formula.

Oversight estimated possible losses as follows: An increase in taxes on residential property of 11% per 2-year cycle of reassessment, an inflation rate of 3.5%, 70% of residential property is owner occupied, and 26.9% of residential property owners are over 64.

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 will reimburse political subdivisions for their payments in lieu of Blind Pension taxes from the General Revenue Fund.

ASSUMPTION (continued)

Total property tax paid in 2000	\$	3,922,378,000
Percent residential		x .44
Residential Property Tax paid in 2000	\$	1,725,846,000
Projected Tax 2002	\$	1,915,689,000
Projected Increase	\$	189,843,000
Percentage of population 64+		x .269
Projected Increase for 64+ Occupied	\$	51,068,000
Percentage of owner-occupied		x .70
Projected Increase for 64+ owner-occupied	\$	35,748,000

Projected Losses for FY 2003:	\$35,748,000
Projected losses for FY 2004:	\$36,642,000
Projected losses for FY 2005:	\$37,558,000

Projected loss to Blind Pension Fund \$188,000

Projected total loss to be reimbursed \$37,746,000

Oversight assumes that the first reimbursements will be paid in FY 2005 since the proposal would become effective January 1, 2003. Exemption requests would be filed beginning January 1, 2003 and would affect tax collections for calendar 2004, resulting in reimbursements in FY 2005.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE			
<u>Cost - Increased Transfers to State School</u>			
Moneys Fund	\$0	\$0	(Unknown)
<u>Cost - Reimbursements to Political</u>			\$0 to
Subdivisions	\$0	\$0	(\$37,746,000)
ESTIMATED NET EFFECT ON			<u>\$0 to</u>
GENERAL REVENUE FUND*	<u>\$0</u>	<u>\$0</u>	<u>(\$37,746,000)</u>

*Does not include possible costs to fully fund Foundation Formula

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
BLIND PENSION FUND			
<u>Income</u> - Payments in lieu of taxes	\$0	\$0	\$188,000
<u>Loss</u> - Reduced Property Tax	\$0	\$0	(\$188,000)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
POLITICAL SUBDIVISIONS			
			\$0 to
<u>Income</u> - Reimbursements from State*	\$0	\$0	\$37,746,000
			\$0 to
<u>Loss</u> - Reduced Property Tax Collections	\$0	\$0	(\$37,746,000)
<u>Costs</u> - Clerk, Assessor, and Collector Administrative Duties	\$0	\$0	(Unknown)
ESTIMATED NET EFFECT ON POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>(UNKNOWN)</u>

***Does not include possible increased distributions to school districts.**

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.

Provisions are included to allow political subdivisions to recoup any loss in revenue as a result of the proposal and to protect income to the Blind Pension Fund.

This proposal has an effective date of January 1, 2003.

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

NOT RESPONDING

Department of Revenue
Office of Administration



Jeanne Jarrett, CPA
Director
December 17, 2001