COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3335-01
Bill No.: SB 824
Subject: County Government; Cities, Towns and Villages; Elderly; Taxation and Revenue - Property
Type: Original
Date: January 4, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue***	$0	($43,791,000)	($46,004,000)
Blind Pension **	$0	($219,000)	($230,000)
Total Estimated Net Effect on <u>All</u> State Funds* **	**$0**	**($44,010,000)**	**($46,234,000)**

*Does not include possible increased cost to fully fund Foundation Formula
**Subject to appropriation

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**

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Political subdivisions **	$0	$0	$0
Local Government	**$0**	**$0**	**$0**

**Offsetting costs from reduction of tax revenues, and state reimbursements.
Numbers within parentheses: ( ) indicate costs or losses.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration** and the **State Auditor's Office** assume this proposal would have no impact on their organizations.

Officials from the **Department of Revenue** assume no administrative impact on their organization.

Officials from the **State Tax Commission** assume residential property assessed valuation is $30 billion. In the year of reassessment statewide increase of residential property is 8%. 70% of residential properties are owner occupied and 24% of residences contain a member who is 65 years and older. Statewide levy is $6 per $100 assessed valuation.

Calculations are as follows: $30 billion assessed valuation times 8% increase equals $2.4 billion increase. $2.4 billion times 70% owner occupied is $1.68 billion times 24% senior citizens equals $400 million times $6 levy equals $24 million in revenues the state would need to replace.

Oversight estimated possible losses as follows.

Residential Property Tax paid in 2000	$1,725,846,000
Projected Tax 2001	$1,915,689,000
Projected Increase	$ 189,843,000
Percent elderly	x .269
Projected Increase for 64+ Occupied	$ 51,068,000
Percent owner occupied	x .70
Projected Increase for 64+ owner-occupied	**$ 35,748,000**

Estimated CY 2002 Loss: $35,748,000 x 1.035 x 1.015 = $37,554,000

ASSUMPTION (continued)

The proposal would become effective for year beginning January 1, 2003, and **Oversight** assumes reimbursements for political subdivisions' calendar years would be from immediately following state fiscal years.

CY 2003: $37,554,000 x 1.11 x 1.035 x 1.015 = $43,791,000

CY 2004: $43,791,000 x 1.035 x 1.015 = $46,004,000

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

In response to a similar proposal in the prior session, **Department of Elementary and Secondary Education** officials noted that the proposal would decrease assessed values compared to current law, which would increase the amount needed to fully fund the Foundation Formula. They also noted that 1) "hold harmless" districts would recoup their losses through state payments, 2) state payments required by this proposal are not included in the Formula, thus allowing other districts a "double dip" consisting of reimbursements from the state and increased payments through a fully funded Formula, and 3) the effects of the proposal on the Formula should disappear after three or so years because reducing the guaranteed tax base reduces the inflationary adjustment in the Formula for districts to fund inflationary increases in expenses.

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

FISCAL IMPACT - State Government	FY 2003 (6 Mo.)	FY 2004	FY 2005
GENERAL REVENUE			
Cost - Reimbursements to Political Subdivisions*	$0	($43,791,000)	($46,004,000)
NET EFFECT ON GENERAL REVENUE FUND*	$0	**($43,791,000)**	**($46,004,000)**

Does not include possible increase in cost to fully fund Foundation Formula.

FISCAL IMPACT - State Government	FY 2003 (6 Mo.)	FY 2004	FY 2005
BLIND PENSION FUND			
Loss - Reduced Collections	$0	($219,000)	($230,000)
NET EFFECT ON BLIND PENSION FUND	**$0**	**($219,000)**	**($230,000)**

FISCAL IMPACT - Local Government	FY 2003 (6 Mo.)	FY 2004	FY 2005
POLITICAL SUBDIVISIONS			
Income - Reimbursements from State*	$0	$43,791,000	$46,004,000
Loss - Reduced Property Tax Collections	$0	($43,791,000)	($46,004,000)
NET EFFECT ON POLITICAL SUBDIVISIONS*	**$0**	**$0**	**$0**

*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 exempt the principal residence of persons over sixty-four years of age from increases in property tax due to either increases in assessed values or increases in tax rates.

The state would reimburse political subdivisions for tax losses as certified by the State Auditor.

This proposal would apply to tax years beginning on and after 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. This proposal would affect total state revenue.

SOURCES OF INFORMATION
Department of Revenue
State Tax Commission
Office of Administration
State Auditor's Office

Mickey Wilson, CPA
Acting Director
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SS:LR:OD (12/01)