

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4208-03  
Bill No.: SB 1036  
Subject: Taxation and Revenue - Property  
Type: Original  
Date: March 4, 2002

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue*	\$0	(\$64,095,000)	\$0
Blind Pension	\$0	(\$320,000)	\$60,000
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>\$0</b>	<b>(\$64,415,000)</b>	<b>\$60,000</b>

\* subject to appropriation, excludes possible Foundation Formula adjustments.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<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>			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
<b>Local Government*</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

\* offsetting loss of revenue and state reimbursement.

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 6 pages.

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## FISCAL ANALYSIS

### ASSUMPTIONS

Officials from the **Department of Revenue** assume no administrative impact to their department.

Officials from the **State Tax Commission** assume total assessed valuation for 2002 is \$68 billion. In addition, they assume a 6 percent increase in valuation due to reassessment in 2003 resulting in \$4 billion additional revenues. Using a \$6 average statewide tax rate times the \$4 billion assessed valuation would provide \$240 million potential increased revenues for local subdivisions.

The State Tax Commission assumes 6 percent of properties change ownership each year. Acquisition based assessment would result in an average 15% increase in value for those properties and \$40 million dollars in increased revenues to local political subdivisions.

The net effect of the change would be the loss of \$240 million in additional reassessment revenue less \$40 million in additional acquisition based revenue for a net \$200 million loss for local governments.

According to the 2000 census information, 10.3 percent of householders are age 65 and older, and 70.3% housing units are owner occupied.

**Oversight** assumes that 44% of property tax collections are residential and 70% of residential property is owner-occupied, and Oversight calculates the fiscal impact of this proposal as follows:

Assessed valuation for 2002	\$68,000,000,000
Estimated local tax collections lost for 2003 without reassessment 6% of \$68 Billion x \$6 per hundred	(\$244,800,000)
Estimated 2003 local tax collections increased due to ownership change 6% of 15% of \$68 Billion x \$6 per hundred	\$36,700,000
Calculated local tax loss in 2003 (\$244,800,000 less \$36,700,000)	(\$208,100,000)
Owner-occupied residential	30.8%

**Net local loss for 2003 taxes** **(\$64,095,000)**

ASSUMPTIONS (continued)

Local tax gain in 2004  
((\$36,700,000 plus 6%) \$38,900,000

Owner-occupied residential 30.8%

**Net local gain for 2004 taxes** **\$11,981,000**

**Oversight** assumes there would also be gains and losses to the Blind Pension Fund as a result of this proposal.

Estimated Blind Pension Fund tax collections lost for 2003 without reassessment  
(6% of \$68 Billion x 3 cents per hundred) (\$1,224,000)

Estimated 2003 Blind Pension Fund tax collections increased due to ownership change  
(6% of 15% of \$68 Billion x 3 cents per hundred) \$184,000

Net Blind Pension Fund tax loss in 2003  
((\$1,224,000 less \$183,600) (\$1,040,000)

Owner-occupied residential 30.8%

**Net loss for 2003 taxes** **\$320,000**

Blind Pension Fund tax gain in 2004  
((\$184,000 plus 6%) \$195,000

Owner-occupied residential 30.8%

**Net gain for 2004 taxes** **\$60,000**

In response to a similar proposal in the prior session, officials from the **Department of Elementary and Secondary Education** note that the proposal would 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.



ASSUMPTION (continued)

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

**Oversight** assumes the first year affected by the proposal would be calendar year 2003 taxes collected in FY 2004. Oversight assumes there would be a diminishing fluctuation in assessed valuation changes because of the offsetting cumulative effect of deferred biennial reassessment and sale-based reassessment. Residential properties reassessed after several years would have large increases in assessed valuation when ownership changes. Oversight assumes that the state will reimburse political subdivisions for their lost tax revenues from the General Revenue Fund, and that the net reimbursement provision would allow the state to offset additional local revenues in FY2005 and subsequent odd-numbered years from local revenue reductions in even-numbered years.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>GENERAL REVENUE FUND</b>			
<u>Cost - Reimbursement to Political Subdivisions*</u>	<u>\$0</u>	<u>(\$64,095,000)</u>	<u>\$0</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*</b>	<b><u>\$0</u></b>	<b><u>(\$64,095,000)</u></b>	<b><u>\$0</u></b>
*Subject to appropriation, does not include possible costs to fully fund Foundation Formula			
<b>BLIND PENSION FUND</b>			
<u>Revenue - additional property tax</u>	<u>\$0</u>	\$0	\$60,000
<u>Loss - Reduced Property Tax</u>	<u>\$0</u>	(\$320,000)	\$0
<b>ESTIMATED NET EFFECT ON BLIND PENSION FUND</b>	<b><u>\$0</u></b>	<b><u>(\$320,000)</u></b>	<b><u>\$60,000</u></b>

FISCAL IMPACT - Local Government

FY 2003                      FY 2004                      FY 2005  
(10 Mo.)

**POLITICAL SUBDIVISIONS**

<u>Revenue</u> - State Reimbursements *	<u>\$0</u>	\$64,095,000	\$0
<u>Revenue</u> - additional property tax	<u>\$0</u>	\$0	\$11,981,000
<u>Loss</u> - Reduced Property Tax	<u>\$0</u>	(\$64,095,000)	\$0

**ESTIMATED NET EFFECT ON  
POLITICAL SUBDIVISIONS**

**\$0**                      **\$0**                      **\$11,981,000**

\* excludes possible Foundation Formula adjustments.

FISCAL IMPACT - Small Business

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

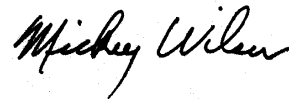
DESCRIPTION

This proposal would freeze the assessed valuation of owner-occupied residential real estate which has been previously assessed. The property would only be reassessed at the time ownership changes. Net losses to political subdivisions would be reimbursed by the state through appropriations.

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



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Acting Director  
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