COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1460-01
Bill No.: HB 507
Subject: Elderly; Housing; State Tax Commission; Taxation and Revenue - General; Taxation and Revenue - Property
Type: Original
Date: February 23, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue *	$0	(Unknown)	(Unknown)
Total Estimated Net Effect on General Revenue Fund *	**$0**	**(Unknown)**	**(Unknown)**

*Unknown subject to appropriation, expected to exceed $1 Million.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Blind Pension *	$0	(Unknown)	(Unknown)
Total Estimated Net Effect on Other State Funds *	**$0**	**(Unknown)**	**(Unknown)**

* Unknown expected to exceed $100,000, net of revenue loss and reimbursement; reimbursement subject to appropriation.
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government *	**(Unknown)**	**(Unknown)**	**(Unknown)**

*expected to exceed $1,000,000, net of revenue loss and reimbursement; reimbursement subject to appropriation.

FISCAL ANALYSIS

ASSUMPTIONS

Officials from the **Office of Administration, Division of Budget and Planning** (BAP), assume there would be no added cost to the BAP as a result of this bill. This bill would result in a reduction to local revenues. BAP defers to the State Tax Commission for an estimate of possible increased costs and revenues to the state as a result of this proposal.

Officials from the **Department of Revenue** (DOR) assume this proposal would have no impact on their organization. DOR is assuming that all references to DOR are meaning the State Tax Commission since they are the administering agency for property taxes.

ASSUMPTIONS (continued)

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would authorize a 15% reduction on the assessment of property owned and occupied by those 62 and older. Reducing the value of some residential property and then freezing it may result in less total reassessment value increase for the taxing jurisdiction. The reduced increase in total assessed valuation for the taxing jurisdiction may result in no reduction in property tax rates that otherwise might occur per Article X of the Constitution. Except when a political subdivision's tax rate is at its tax rate ceiling, there may not be a mechanism to prevent the reduction in the assessed value from increasing the local property tax rate through the state auditor's calculations. In some areas of the state, the older population is more prevalent so if the rate is allowed to roll up to account for the loss in AV, the proposal may not provide much benefit to older taxpayers. To the extent tax rates do roll up, the state won't have to make up so much.

If the loss of revenue to the local taxing jurisdiction (school district), resulting from HB 507 would be made up from state sources, the effect would be neutral on the political subdivisions. Not increasing the assessed value on such property as long as the taxpayer remains eligible will decrease growth in property tax revenues for political subdivisions in future years and will work to reduce the increase in Guaranteed Tax Base used in the school foundation formula.

DESE does not have data available to estimate the amount of fiscal impact at the state or local level.

Officials from the **Office of the Cole County Assessor** responded as follows:

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 x .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%

Senior estimates:
For the purposes of estimations for this legislation, the Cole County Assessor estimates that as much as 25% of residential, owner occupied property could possibly be owned by those over 65; this estimate is on the high end so as not to underestimate the potential effects of homestead legislation.

In response to a similar proposal in the previous session, Officials from the Office of the Cole County Assessor assumed the Assessor's office would have to maintain a separate accounting of homestead properties and this would require additional personnel time. It was 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.

Oversight assumes there would be unknown additional costs to county assessors should this proposal pass, expected to exceed $100,000 per year.

Officials from the **State Tax Commission** (TAX) assume the prpopsal would reduce by fifteen percent the assessed value of real property owned and occupied by individual(s) sixty-two years of age or older.

The 2003 assessed valuation for residential property was $36,168,817,425. As there are minimal improvements to residential property in an even-numbered year, we assume for 2004, the assessed valuation would again be approximately 36.1 billion dollars.

In 2005, we project that there would be an increase in assessed valuation of seven percent (7%) for all real property.

$36,168,817,425 x 7 percent = $2,531,817,219 or a total of $38,700,634,644 assessed valuation for all real property.

ASSUMPTIONS (continued)

In 2005, we project that the average state-wide tax rate will be $6.15 per hundred dollars of assessed valuation. $38,700,634,644 x $6.15 per hundred dollars of assessed valuation = $2,380,089,030 (revenue gain in 2005).

Normally there are minimal improvements to residential property in an even-numbered year and the assessed valuation would again be approximately 38.7 billion dollars. However, effective January 1, 2006, this proposed legislation reduces by fifteen percent the assessed valuation for real property owned and occupied by individuals sixty two years or older. All loss of revenue as a result of this proposed legislation will occur in Fiscal Year 2007.

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

Projected residential assessment valuation for calendar year 2005 and 2006 is $38,700,634,644.

$38.7 Billion x 70.3% (residential property owner occupied) $27,206,546,154.

$27.2 Billion x 25% (residential property owner occupied over 62) $6,801,636,538.

$27.2 Billion minus $6.8 Billion = $20,404,909,616.

$6,801,636,538 x 15% (reduction in assessment) =$1,020,245,480.

$1,020,245,480 x $6.15 per hundred dollars (average state-wide tax rate) = $62,745,097. revenue loss due reduction in assessed valuation.

We assume this same loss would occur in calendar year 2007.

Oversight assumptions as to revenue reductions and state reimbursements, based on information provided by the State Tax Commission and from Federal Census reports, follow.

Oversight assumes there would be a loss of tax revenue as a result of this legislation. Although this proposal would be effective in August of 2005, the first impact of the proposal would be a reduction of 15% of the assessed valuation of principal residences of persons aged sixty-two or older in calendar 2006. Additional losses would be realized as more persons qualify for the credit due to more homeowners reaching the age of 62, and when the principal residences of persons aged sixty-two or more are not reassessed in calendar 2007 (FY 2008).

ASSUMPTIONS (continued)

The proposal calls for political subdivisions to certify revenue losses for calendar year 2006 (FY 2007) to the Commissioner of Administration by November 1, 2007. Presumably, this certification would be used to develop an appropriation request for FY 2008, and state reimbursements would be made in the calendar year after the loss. The proposal requires an appropriation to be made for the purpose of reimbursing political subdivisions for their revenue losses.

According to the 2000 census information, 70.3% of the housing units are owner occupied with 25% of the householders 62 and older. Information is not available as to age for spouses of homeowners over 62. For fiscal note purposes, Oversight assumes all householders over 62 have a spouse over 62.

Residential Assessed Valuation for Calendar Year 2003 (and 2004) is $36.2 billion.

$36.2 billion x 70.3% (residential property owner occupied) = $25.4 billion

$25.4 billion x 25.0% (residential property owner occupied over 62) = $6.4 billion

$6.4 billion + 7% reassessment increase (estimated 2005 and 2006 valuation, residential property owner occupied over 62) = $6.8 billion

$6.8 billion x 15% assessment reduction = $1,020 million

$1,020 million x $6.15 per $100 average statewide tax rate = $62.7 million loss for 2006 (FY 2007)

$62.7 million + 7% estimated reassessment increase = $67.1 million loss for 2007 (FY 2008) and for 2008 (FY 2009)

Oversight assumes the county collectors would abstract the tax credits to all taxes levied, resulting in losses to the Blind Pension Fund of approximately ½ of 1% of the credits, or $313,500 for FY 2007 and $335,500 for FY 2008 and for FY 2009. In FY 2008 there would be a state reimbursement, subject to appropriation, of an amount equal to that tax loss which would be abstracted by the county collectors and received by the Blind Pension Fund.

ASSUMPTIONS (continued)

Oversight assumes this proposal would create losses less than the amounts calculated due to changes in levy rates each year. That impact would vary by taxing authority, and could be either positive or negative. Oversight also assumes that changes in assessed valuations for individual taxing authorities could be greater or less than the aggregate rate used in the Oversight calculation of local impact and state reimbursements.

This proposal would reduce total state revenue.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
Cost - Reimbursement for Local Government Property Tax Reductions	$0	$0	(Unknown)
Cost - Department of Revenue			
Personal Service	$0	(Unknown)	(Unknown)
Fringe Benefits	$0	(Unknown)	(Unknown)
Programming	$0	(Unknown)	(Unknown)
Expense and Equipment	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**$0**	**(Unknown)**	**(Unknown)**

*Unknown subject to appropriation, expected to exceed $1 Million.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
BLIND PENSION FUND			
Revenue			
Reimbursement for Local Government Property Tax Reductions *	$0	$0	Unknown
Revenue reduction			
Property Tax Reductions	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON BLIND PENSION FUND *	**$0**	**(Unknown)**	**(Unknown)**

* Unknown expected to exceed $100,000, net of revenue loss and reimbursement; reimbursement subject to appropriation.

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
POLITICAL SUBDIVISIONS			
Revenue			
Reimbursement for Local Government Property Tax Reductions *	$0	$0	Unknown
Revenue reduction			
Property tax reduction	$0	(Unknown)	(Unknown)
Cost to counties			
Additional administrative cost to county assessor and collector *	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**(Unknown)**	**(Unknown)**	**(Unknown)**

*expected to exceed $1,000,000, net of revenue loss and reimbursement; reimbursement subject to appropriation.

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal would reduce by fifteen percent the property tax assessments of real property owned and occupied as the principal residence by an individual sixty-two years of age or older, or owned and occupied jointly as the principal residence jointly by any individuals all of whom are sixty-two years of age or older. Such assessment would not increase in any assessment conducted after the individual or individuals have reached sixty-two years of age. Eligible property owners would provide notify the county assessor by affidavit before the next assessment is conducted. The department of revenue would develop rules and regulations to implement this section.

Any revenue lost by counties and political subdivisions as a result of the enactment of this section would be replaced through appropriations. A political subdivision which loses revenue as a result of the exemption provided in this section shall certify such revenue loss for calendar year 2006 to the commissioner of administration by November 1, 2007, and by each succeeding November for revenue losses incurred in the previous calendar year. The director of revenue is authorized to examine the tax records of every political subdivision to estimate the amount of revenue lost by each political subdivision as a result of the exemption provided in this section.

The provisions of the new program authorized under this section would automatically sunset six years after the effective date of this section unless reauthorized by an act of the general assembly; if such program is reauthorized, the program would automatically sunset twelve years after the effective date of the reauthorization.

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

Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
Office of the Cole County Assessor
State Tax Commission

Mickey Wilson

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