

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0954-01
Bill No.: HB 456
Subject: Elderly; Property, Real and Personal; State Tax Commission; Taxation and Revenue - Property
Type: Original.
Date: March 14, 2007

Bill Summary: Would limit increases in valuation on real property owned by individuals 65 years of age and older with certain levels of income to percentage increases in Social Security benefits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue *	\$0	\$0	(\$41,234)
Total Estimated Net Effect on General Revenue Fund *	\$0	\$0	(\$41,234)

* Reimbursement to local governments to be made in 2011.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Blind Pension	\$0	\$0	(\$64,534)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	(\$64,534)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	0.0	0.0	1.0
Total Estimated Net Effect on FTE	0.0	0.0	1.0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government *	\$0	\$0	(\$12,906,787)

* Reimbursement from General Revenue Fund to be made in 2011.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume this proposal would not appear to require any increase in state cost to the basic state aid for public school districts. The proposal does specify that revenue losses to political subdivisions would be reimbursed by the state through appropriations. Therefore, there appears to be some unknown state cost.

Officials from the **Office of the Secretary of State** (SOS) provided the following response:

Many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of the State Auditor** (SAO) assume this proposal would require the SAO to verify the revenue loss subsequent to the annual property tax rate review. In order to do so, SAO would require the counties to submit the assessed valuations of all property as if the credit was not taken, and the assessed valuation of the "frozen property" so the loss can be calculated. An additional 1 FTE would be required to implement, calculate, and verify revenue losses to counties as well as provide technical support to county officials.

SAO provided an estimated cost to implement this proposal including 1.0 additional FTE and related benefits, equipment, and expenditures totaling \$49,119 for FY 2008, \$53,660 for FY 2009, and \$55,270 for FY 2010.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the additional position to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight assumes the additional position would be needed beginning in 2009 (FY 2010).

Officials from the **Office of the Cole County Assessor** (Assessor) assume this proposal would require their organization to contract for one-time programming changes to their assessment system for 2008. The Assessor stated that there would be an expected loss of revenue to the local taxing authorities of approximately \$363,075 to be made up from state appropriations. The Assessor also assumes this proposal would have no fiscal impact on the office workload.

Officials from the **State Tax Commission** (TAX) assume this proposal would become effective with the assessment year beginning on January 1, 2008. TAX officials assumed the proposal would have no fiscal impact on their organization.

Residential property is reassessed in odd-numbered years. Calendar year 2007 is a reassessment year. There is minimal assessed valuation changes to residential property in the following year (2008). Therefore, we assume the major impact of this legislation would occur in Calendar year 2009, the next reassessment year.

This proposed legislation would limit the amount of increase in assessed valuation for those residential property owners who have reached the age of 65 and whose total household federal adjusted gross income is less than two hundred percent of the poverty guidelines updated periodically in the Federal Register by the U.S. Department of Health and Human Services.

According to the 2000 census information, 70.3% of the housing units are owner occupied with 22.4% of the householders 65 years of age or older. TAX does not have any information available on the number of property owners whose total household federal adjusted gross income is less than two hundred percent of the poverty guidelines.

ASSUMPTION (continued)

The 2005 assessed valuation for residential property is \$42,782,543,503. As there are minimal improvements to residential property in an even-numbered year, we would assume for 2006, the assessed valuation would again be approximately \$42.7 billion.

$\$42,782,543,503 \times 70.3\%$ (residential property owner occupied) = \$30,076,128,082.

$\$30,076,128,082 \times 22.4\%$ (residential property owner occupied 65 years and older) = \$6,737,052,690.

In the next reassessment year (2007), we project there would be an increase in assessed valuation of ten percent (10%) for all real property. We assume that in calendar year 2008 there would be minimal assessed valuation changes to this property. Therefore, we assume the assessed valuation for real property in 2007 and 2008 would be as follows:

$\$6,737,052,690 \times 10\% = \$673,705,269$ or a total of \$7,410,757,959.

In 2007 and 2008 we project that the assessed valuation for residents 65 years and older would be \$7,410,757,959 and the average state-wide tax rate would be \$6.15 per hundred dollars of assessed valuation. $\$7,410,757,959 \times \6.15 per hundred dollars of assessed valuation = \$455,761,614.

In 2009 the next reassessment year, we assume this legislation would impact the General Revenue Fund.

Oversight has reviewed the available census data and determined that approximately 13.5% of the population is over 65 years of age. Therefore $(5,800,000 \times .135) =$ approximately 783,000 Missouri residents persons are over the age of 65. Additionally, the census data indicated that approximately 305,000 Missouri residents over the age of 65 had income less than 200% of the federal poverty level (FPL); thus $(305,000/783,000) = 38.9\%$ of Missouri residents over the age of 65 would meet the qualifications in the proposal.

Further, Oversight has analyzed cost of living increases for social security benefits; over the past five years benefits have increased an average 2.72 percent.

ASSUMPTION (continued)

Accordingly, the estimated fiscal impact of this proposal would be as follows.

$\$7,410,747,959 \times 38.9\% = \$2,882,780,956$ owned by persons over 65 and under 200% FPL

$\$2,882,780,956 \times 10\% = \$288,278,096$ expected assessment increase

$\$2,882,780,956 \times 2.72\% = \$78,411,642$ assessment increase allowed

$\$288,278,096 - \$78,411,642 = \$209,866,454$ assessment increase lost

$\$209,866,454 \times \$6.15/\$100 = \$12,906,787$ tax revenue to be reimbursed to taxing authorities.

Oversight assumes that the Blind Pension Fund would have a tax loss of approximately 1/2 of 1% of the taxing authorities' tax loss. Finally, Oversight assumes the reimbursement to the local governments would be based on appropriations which would be determined after the assessed valuations and tax rates are validated by the SAO in 2009 (FY 2010); thus, the appropriations could not be determined before FY 2011.

<u>FISCAL IMPACT</u> - State Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Cost</u> - SAO			
Personal Service (1.0 FTE)	\$0	\$0	(\$24,490)
Fringe Benefits	\$0	\$0	(\$10,790)
Expense and Equipment	<u>\$0</u>	<u>\$0</u>	<u>(\$5,954)</u>
	<u>\$0</u>	<u>\$0</u>	<u>(\$41,234)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	<u>\$0</u>	<u>\$0</u>	<u>(\$41,234)</u>
* Reimbursement to be made to local governments in 2011. _____			
Estimated Net FTE Change for General Revenue Fund	<u>0.0</u>	<u>0.0</u>	<u>1.0 FTE</u>
BLIND PENSION FUND			
Revenue reduction - assessment limitation	<u>\$0</u>	<u>\$0</u>	<u>(\$64,534)</u>
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>\$0</u>	<u>(\$64,534)</u>
<u>FISCAL IMPACT</u> - Local Government	FY 2008 (10 Mo.)	FY 2009	FY 2010
LOCAL GOVERNMENTS			
<u>Revenue reduction</u> - assessment limitation *	<u>\$0</u>	<u>\$0</u>	<u>(\$12,906,787)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS *	<u>\$0</u>	<u>\$0</u>	<u>(\$12,906,787)</u>
* Revenue loss to be reimbursed in FY 2011.			

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal would limit increases in valuation on real property owned by individuals 65 years of age and older with certain levels of income to percentage increases in Social Security benefits.

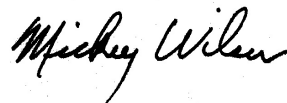
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of the State Auditor
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission
Office of the Cole County Assessor

NOT RESPONDING

Office of Administration
Division of Budget and Planning



Mickey Wilson, CPA
Director
March 14, 2007