COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3159-01
Bill No.: HB 1370
Subject: Elderly; Housing; Revenue Dept.; Taxation and Revenue - Property
Type: Original
Date: February 6, 2008

Bill Summary: Would exempt real property owned by individuals 65 years of age and older with certain levels of income from increases in assessed valuation.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	$0	($42,250)	($17,945,265)
Total Estimated Net Effect on General Revenue Fund	**$0**	**($42,250)**	**($17,945,265)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Blind Pension	$0	($89,000)	($89,000)
Total Estimated Net Effect on Other State Funds	**$0**	**($89,000)**	**($89,000)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
General Revenue	0	1	1
Total Estimated Net Effect on FTE	**0**	**1**	**1**

☐ 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 2009	FY 2010	FY 2011
Local Government *	**$0**	**($17,900,000)**	**$0**

* Net of revenue reduction and reimbursement.

FISCAL ANALYSIS

ASSUMPTION

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 the 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 the SAO would require 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 could 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 including one additional Staff Auditor I with estimated equipment and expense costs totaling $48,913 for FY 2009, $53,278 for FY 2010, and $54,876 for FY 2011.

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).

ASSUMPTION (continued)

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization. BAP officials also assume this proposal would not impact general and total state revenues. BAP officials summarized the proposal as follows.

This proposal would freeze property assessments and tax rates for homestead owners over age 65 whose total federal adjusted gross income (FAGI) is less than 200% of the poverty guidelines, beginning in 2009. The state would reimburse political subdivisions for lost revenue.

* According to the United States Census Bureau (USCB), as of July 1, 2006, 13.3% of Missourians met the age requirement and an estimated 35.6% of citizens 65 or over would meet the 200-percent of poverty requirement.

* The Missouri State Tax Commission (TAX) reported the 2006 assessed valuation of residential property at $44,330 million, an increase of 3.6% from 2005. Further, TAX is estimating 2007 assessed valuations to increase by 10%.

* TAX also reports the average state property tax rate is $6.25 per $100 assessed valuation.

ASSUMPTION (continued)

Using this information, and assuming a constant growth rate of 2.5% for even years and 5% for odd years beyond 2007, BAP estimates the potential state reimbursement below.

Year	Residential Valuation ($ millions)	Qualifying Valuation ($ millions)	Property Tax ($ millions)	Growth ($ millions)
2005	$42,776	$2,025	$126.6	
2006	$44,330	$2,099	$131.2	
2007	$48,763	$2,309	$144.3	
2008	$49,982	$2,367	$147.9	
2009	$52,481	$2,485	$155.3	$7.3
2010	$53,793	$2,547	$159.2	$3.9
2011	$56,483	$2,674	$167.1	$7.9
2012	$57,895	$2,741	$171.3	$4.2

Because the first calendar year impacted is 2009, BAP projects the first reimbursements to be required in FY10. This program could reduce participation in the Homestead Preservation program, subsequently reducing the necessary appropriation for that program. BAP cannot estimate these impacts. Further, the estimated reimbursement above is subject to appropriation.

Officials from the **Department of Revenue** assume this proposal would not have a fiscal impact on their organization.

Officials from the **State Tax Commission** (TAX) assume this proposal would have no fiscal impact on their organization. The proposal would become effective with the assessment year beginning January 1, 2009.

Residential property is reassessed in odd-numbered years. Calendar year 2007 was a reassessment year. There is minimal assessed valuation changes to residential property in the following year (2008). January 1, 2009 will be the next reassessment year.

ASSUMPTION (continued)

This proposal 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. This legislation would require the General Revenue Fund to reimburse the local political subdivisions for any loss of revenue as a result of its implementation.

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. We do 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.

The 2007 assessed valuation for residential property is $50,998,652,589.

$50,998,652,589 x 70.3% (residential property owner-occupied) = $35,852,052,770.

$35,852,052,770 x 22.4% (residential property owner-occupied 65 years and older) = $8,030,859,820.

In the next reassessment year 2009, we project there would be an increase in assessed valuation of five percent (5%) for all real property including residential property owner-occupied 65 years and older. The local political subdivisions may not experience a loss of revenue as a result of this proposal, if the aggregate percentage increase in assessed valuation equals or exceeds the CPI allowance provided by the Hancock Amendment. This proposal would then shift the tax burden from qualified seniors to all other taxpayers.

ASSUMPTION (continued)

Oversight has estimated the fiscal impact of this proposal using information provided by the Office of Administration, Division of Budget and Planning, and the State Tax Commission. The Oversight estimate of fiscal impact to local governments excludes any impact from or offset resulting from other property tax limitations such as the Homestead Preservation and the Hancock Amendment. Finally, the Oversight estimate is based on the projection of historical observations to future years which could vary significantly. All numbers are rounded.

The 2007 assessed valuation of residential property (rounded) is $50,999,000,000.

$50,999,000,000 x 70.3% (owner-occupied) = $35,900,000,000.

$35,900,000,000 x 22.4% (65 years and older) = $8,031,000,000.

$8,031,000,000 x 35.6% (income less than 200% of federal poverty guideline) = $2,859,000,000.

$2,859,000,000 x 10% = $285,900,000 expected assessment increase that would be disallowed.

$285,900,000 x $6.25/$100 = $17,900,000 tax revenue to be reimbursed to taxing authorities.

Oversight assumes that the Blind Pension Fund would have a property tax revenue reduction 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.

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE FUND			
Cost - Office of the state Auditor			
Personal Service (1.0 FTE)	$0	($25,220)	($31,172)
Fringe Benefits	$0	($11,152)	($13,784)
Expense and Equipment	$0	($5,878)	($309)
Totals	$0	($42,250)	($45,265)
Cost - Reimbursement to Local Governments	$0	$0	($17,900,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**($42,250)**	**($17,945,265)**

FISCAL IMPACT - State Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
Estimated Net FTE Effect on General Revenue Fund	0	1	1
BLIND PENSION FUND			
Revenue reduction - assessment limitation	$0	($89,000)	($89,000)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**($89,000)**	**($89,000)**

FISCAL IMPACT - Local Government	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
Revenue - state reimbursement	$0	$0	$17,900,000
Revenue reduction - assessment limitation	$0	($17,900,000)	($17,900,000)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**($17,900,000)**	**$0**

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 exempt real property owned by individuals 65 years of age and older with certain levels of income from increases in assessed valuation.

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
Office of Administration
    Division of Budget and Planning
Department of Revenue
State Tax Commission

Mickey Wilson

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Director
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