COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 0883-01
Bill No.: HB 353
Subject: Elderly; Housing; State Tax Commission; Taxation and Revenue - Property
Type: Original
Date: February 18, 2009

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Bill Summary: Would exempt from real property taxes certain eligible taxpayers 75 years of age and older with certain income levels.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| General Revenue | ($205,031) | ($219,073) | ($58,976,616) |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund** | **($205,031)** | **($219,073)** | **($58,976,616)** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| Blind Pension * | $0 | ($292,500) | $0 |
| | | | |
| **Total Estimated Net Effect on Other State Funds *** | **$0** | **($292,500)** | **$0** |

* Net of revenue reduction and reimbursement.

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

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| General Revenue | 5 | 5 | 5 |
| | | | |
| **Total Estimated Net Effect on FTE** | **5** | **5** | **5** |

☐ 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 2010 | FY 2011 | FY 2012 |
| **Local Government** * | **$0** | **($58,500,000)** | **$0** |

* Net of revenue reduction and reimbursement.

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated that 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 their organization to calculate or verify any revenue loss claimed by a political subdivision as a result of reduced assessments for certain taxpayers.

SAO officials estimated that the additional calculation duty would require 2 FTE at the staff auditor I level in the tax rate section to gather the necessary data, analyze the submitted data, and calculate the revenue loss for each individual taxing authority. With over 5,000 taxing jurisdictions, it is difficult to estimate the number of these calculations the auditor's office would be asked to complete. Therefore it is possible that additional staff above the aforementioned 2 FTE may be necessary as a result of this legislation.

The cost estimate to implement this proposal submitted by the SAO included two additional FTE and related equipment and expenditures, and totaled $103,010 for FY 2010, $112,877 for FY 2011, and $116,264 for FY 2012.

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional positions 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 has adjusted the SAO estimate of equipment and expenditures in accordance with OA budget guidelines, and Oversight assumes that a nominal number of additional employees could be accommodated in existing office space.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) assume this proposal would provide a real property tax exemption for eligible residents. An eligible resident would be 75 years or older as of January 1 of the taxable year for which the individual claims the exemption with an income of $27,000 or less if the taxpayer is filing single, married filing separate, qualifying widow(er) or head of household, or $30,000 or less if the taxpayer's filing status is married filing jointly. Beginning in January, 2011, income limits would be increased annually by the same percentage as the increase over the prior year in the Consumer Price Index. The state would reimburse political subdivisions if there is a loss in revenue due to this exemption. DOR and the Office of the State Auditor may promulgate rules to implement the provisions.

An eligible resident would be required to submit an application to the Department of Revenue by September 30 of each year; DOR would provide the application form; therefore, a new form would need to be developed. A new system similar to the Homestead Preservation Credit System would need to be developed which interacts with the MINITS system and the HPC system in order to verify a taxpayer's eligibility. Reports would need to be developed and generated for the assessors.

DOR would be required to verify the eligibility of the individual, and DOR would provide the County Assessors or Clerks with a list of eligible taxpayers. DOR assumes that Personal Tax would require one FTE Temporary Tax Employee for every 10,700 claims received, and one FTE Revenue Processing Technician I (Range 10, Step L) for every 5,000 returns verified. Collections and Tax Assistance would require one FTE Tax Collection Technician I (Range 10, Step L) for every additional 24,000 contacts annually on the non-delinquent tax line, and one FTE Revenue Processing Technician I (Range 10, Step L) for every additional 4,800 contacts annually in the tax assistance offices. DOR assumes there would be $3,800 in printing costs for every 50,000 new forms and instructions.

The cost estimate to implement this proposal submitted by the DOR included three additional FTE and related equipment and expenditures, and totaled $116,387 for FY 2010, $123,147 for FY 2011, and $126,840 for FY 2012.

ASSUMPTION (continued)

**Oversight** has, for fiscal note purposes only, changed the starting salary for the additional positions 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 has adjusted the DOR estimate of equipment and expenditures in accordance with OA budget guidelines, and Oversight assumes that a nominal number of additional employees could be accommodated in existing office space.

DOR officials also provided an estimate of the IT cost to implement this proposal.

Officials from the **Office of Administration**, **Information Technology Services Division** (ITSD/DOR) estimated that the IT portion of this proposal could be implemented using two existing FTE CIT III for five months for the development of a new system similar to the Homestead Exemption program at a total cost of $44,410. ITSD/DOR officials assume the IT portion of this proposal could be implemented with existing resources; however, if priorities shift, additional FTE or overtime would be needed.

**Oversight** assumes this proposal could be implemented with existing IT resources.

**Oversight** assumes that the provisions affecting DOR and SAO would require significant administrative work beginning August 2009 (FY 2010) when the proposal becomes effective although the proposal would not result in revenue reductions until 2010 (FY 2011).

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assume there would not be any additional costs or savings to their organization as a result of this proposal. This proposal would exempt from property taxation homesteads of those 75 and older that meet certain income requirements. The state would reimburse political subdivisions for lost revenue by appropriation.

ASSUMPTION (continued)

BAP officials provided an estimate of the fiscal impact of the proposal.

According to the US Census Bureau, as of July 1, 2007, 6.6% of Missourians met the age requirement, and according to statistics provided by MU-EPARC 39.4%households might meet the income requirement. The Missouri State Tax Commission reported the 2007 assessed valuation of residential property at $51,016M. BAP has no data on how many properties qualify as homestead under this proposal. Multiplying the rates above suggests that $1,327 billion of assessed valuation could be impacted by the proposal. The State Tax Commission also reports the average state property tax rate is $6.135 per $100 assessed valuation.

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 as below.

| Year | Residential Valuation ($ million) | Qualifying Valuation ($ million) | Total Property Tax ($ million) | Blind Pension Fund ($ million) |
|---|---|---|---|---|
| 2007 | 51,016 | 1,327 | 81.4 | 0.4 |
| 2008 | 52,291 | 1,360 | 83.4 | 0.4 |
| 2009 | 54,906 | 1,428 | 87.6 | 0.4 |
| 2010 | 56,279 | 1,463 | 89.8 | 0.4 |
| 2011 | 59,093 | 1,537 | 94.3 | 0.5 |

Because the first calendar year impacted is 2010, BAP projects the first state reimbursements to be required in FY11. This program may reduce participation in the Homestead Preservation program, subsequently reducing the necessary appropriation for that program. BAP cannot estimate these impacts. This proposal will not impact general revenues. The Blind Pension Fund may lose revenues as in the above chart should the General Assembly choose to not appropriate funds to cover losses resulting from this proposal.

Officials from the **Department of Elementary and Secondary Education** (DESE) stated that this proposal would provide for the homestead (and five acres or less) of an individual who is 75 or older and who meets the income levels to be exempt from real property taxes. The loss of revenue to a taxing authority would be refunded by the State of Missouri. There would not be a fiscal impact to the taxing authority but there would be a fiscal impact to the state. It is impossible to determine what that impact is.

ASSUMPTION (continued)

Officials from **Linn State Technical College**, the **Metropolitan Community Colleges**, **St. Louis County**, the **City of Centralia**, and the **City of West Plains** assume this proposal would have no fiscal impact on their organizations.

**Oversight** will use the BAP estimates of age eligibility, income eligibility, residential assessed valuation, and average property tax rate. Oversight notes that the United States Census Bureau reported a home ownership rate for Missouri of 71.9% for 2006, the most recently reported estimate.

Accordingly, an estimate of the fiscal impact of the proposal could be calculated as follows.

A. The 2007 assessed valuation for Missouri residential property was $51,016 million.

B. The assessed valuation of owner-occupied residential property was ($51,016 million x 71.9%) = $36,681 million.

C. The assessed valuation of property occupied by age eligible owners was ($36,681 million x 6.6%) = $2,421 million.

D. The assessed valuation of property occupied by age eligible and income eligible owners was ($2,421 million x 39.4%) = $954 million.

E. The tax on those properties occupied by age and income eligible owners was ($954 million/$100 x $6.135) = $58.5 million.

F. The revenue reduction for the Blind Pension Fund would be ½% of the local government revenue reduction ($58.5 million x .005) = $292,500.

**Oversight** assumes for fiscal note purposes that the 2009 assessed valuation would be the same as the 2007 assessed valuation and that the proposal would reduce property taxes for local governments in December 2010 (FY 2011). Reimbursements for lost revenues could be calculated by December 2010 (FY 2011) and included in the state budget for FY 2012. The reimbursement to local governments and the Blind Pension Fund would be paid one fiscal year after the revenue reduction was incurred.

| FISCAL IMPACT - State Government | FY 2010 (10 Mo.) | FY 2011 | FY 2012 |
|---|---|---|---|
| **GENERAL REVENUE FUND** | | | |
| Reimbursement - local governments | $0 | $0 | ($58,500,000) |
| Reimbursement - Blind Pension Fund | $0 | $0 | ($292,500) |
| Cost - State Auditor | | | |
| Salaries (2 FTE) | ($51,960) | ($64,223) | ($66,149) |
| Benefits | ($25,268) | ($31,231) | ($32,168) |
| Equipment and expense | ($12,216) | ($655) | ($675) |
| Total | ($89,444) | ($96,109) | ($98,992) |
| Cost - Department of Revenue | | | |
| Salaries (3 FTE) | ($63,395) | ($78,356) | ($39,248) |
| Benefits | ($30,829) | ($38,105) | ($39,248) |
| Equipment and Expense | ($21,363) | ($6,503) | ($6,698) |
| Total | ($115,587) | ($122,964) | ($85,194) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE FUND** | **($205,031)** | **($219,073)** | **($58,976,616)** |
| Estimated net FTE effect on General Revenue Fund | 5 | 5 | 5 |
| **BLIND PENSION FUND** | | | |
| Reimbursement - General Revenue Fund | $0 | $0 | $292,500 |
| Revenue Reduction - Property tax exemption | $0 | ($292,500) | ($292,500) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE FUND** | **$0** | **($292,500)** | **$0** |

| FISCAL IMPACT - Local Government | FY 2010 (10 Mo.) | FY 2011 | FY 2012 |
|---|---|---|---|
| **LOCAL GOVERNMENTS** | | | |
| Reimbursement - General Revenue Fund | $0 | $0 | $58,500,000 |
| Revenue Reduction - Property tax exemption | $0 | ($58,500,000) | ($58,500,000) |
| **ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS** | **$0** | **($58,500,000)** | **$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 from real property taxes certain eligible taxpayers 75 years of age and older with certain income levels.

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 Elementary and Secondary Education
Department of Revenue
Linn State Technical College
Metropolitan Community Colleges
St. Louis County
City of Centralia
City of West Plains

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