

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2188-01
Bill No.: HB 965
Subject: Elderly; Property, Real and Personal; State Tax Commission; Taxation and
Revenue - Property
Type: Original
Date: March 25, 2009

Bill Summary: Would provide for a percentage reduction in property taxes for property owners seventy years of age or older.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	\$0	(\$114,906)	(\$242,763,320)
Total Estimated Net Effect on General Revenue Fund	\$0	(\$114,906)	(\$242,763,320)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Blind Pension *	\$0	(\$1,207,250)	\$0
Total Estimated Net Effect on <u>Other</u> State Funds *	\$0	(\$1,207,250)	\$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 <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
General Revenue	0	2	2
Total Estimated Net Effect on FTE	0	2	2

☐ 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	(\$241,450,000)	\$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 mandate additional property tax certification calculations. With over 5,000 taxing jurisdictions, it is difficult to estimate the number of additional calculations SAO would be asked to complete. SAO officials estimated that two FTE staff auditor I would be needed. The additional staff would gather the necessary data, analyze the submitted data, and calculate the revenue loss for each individual taxing authority. It is possible that additional staff above the two FTE may be necessary.

SAO officials provided an estimate of the cost to implement this proposal including two additional staff and the related equipment and expenditures cost totaling \$103,010 for FY 2010, \$112,877 for FY 2011, and \$116,264 for FY 2012.

Oversight assumes that this proposal would result in at least an additional calculation step for affected local governments.

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 adjusted the SAO estimate of equipment and expense cost in accordance with OA budget guidelines.

ASSUMPTION (continued)

Oversight notes that this proposal would become effective January 1, 2010 and assumes that tax rate calculations for 2010 would be done starting in July 2010 (FY 2011). Oversight will include the additional SAO staff for twelve months of FY 2011 and 2012.

Officials from the **Department of Elementary and Secondary Education** stated that the proposal would not require an increase to the Foundation Formula, and noted that the proposal would require an appropriation to reimburse local governments for the decrease in property taxes.

Officials from the **Department of Revenue, Linn State Technical College, St. Louis County,** and the **City of Kansas City**, assume this proposal would have no fiscal impact on their organizations.

Officials from the **City of Raytown** stated that it would not be possible to estimate the impact to their organization without knowing the aging demographic of their community.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** did not respond to our request for information.

Oversight has estimated the fiscal impact of this proposal.

Real Property

- A. According to the United States Census Bureau, 5.6% of Missouri residents are aged 70-79 and 4.0% are aged 80 and over.
- B. 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.
- C. The State Tax Commission reported that 2007 assessed valuation for Missouri residential property was \$51,016 million and that the average local government property tax rate was \$6.135 per \$100 assessed valuation.
- D. The assessed valuation of owner-occupied residential property would be (\$51,016 million x 71.9%) = \$36,681 million.

ASSUMPTION (continued)

- E. The assessed valuation of property occupied by owners aged 70-79 would be (\$36,681 million x 5.6%) = \$2,054 million, the tax on those properties would be \$2,054 million x \$6.135 per \$100 = \$126 million. The table below shows the impact of the exemption which begins with 10% at age 70 and increases to 100% at age 79.

Age	Exemption Percent	Exemption Amount
70	10	\$1,260,000
71	20	\$2,520,000
72	30	\$3,780,000
73	40	\$5,040,000
74	50	\$6,300,000
75	60	\$7,560,000
76	70	\$8,820,000
77	80	\$10,080,000
78	90	\$11,340,000
79	100	\$12,600,000
	Total	\$69,300,000

- F. The assessed valuation of property occupied by owners aged 80 and over would be (\$36,681 million x 4.0%) = \$1,467 million, and the tax reduction on those properties would be (\$1,467 x \$6.135 per \$100) = \$90 million.
- G. The revenue reduction to local governments would be (\$69.3 million + \$90 million) = \$159.3 million.
- H. The revenue reduction for the Blind Pension Fund would be ½% of the local government revenue reduction (\$159.3 million x .005) = \$796,500.

ASSUMPTION (continued)

Personal Property

Oversight has no specific information regarding personal property ownership by persons aged 70 and over and assumes for fiscal note purposes that personal property ownership and taxes would be in the same proportion to statewide totals as real property ownership and taxes.

- A. The State Tax Commission reported \$18.9 billion in assessed valuation for personal property for 2008, and the total tax on that personal property would be (\$18.9 billion x \$6.135 per \$100) = \$1.16 billion.
- B Tax on personal property owned by persons aged 70 to 79, would be (\$1.16 billion x 5.6%) = \$65 million. The table below shows the impact of the exemption which begins with 10% at age 70 and increases to 100% at age 79.

Age	Exemption Percent	Exemption Amount
70	10	\$650,000
71	20	\$1,300,000
72	30	\$1,950,000
73	40	\$2,600,000
74	50	\$3,250,000
75	60	\$3,900,000
76	70	\$4,550,000
77	80	\$5,200,000
78	90	\$5,850,000
79	100	\$6,500,000
	Total	\$35,750,000

ASSUMPTION (continued)

- C. Tax on personal property owned by persons aged 80 and over and subject to a 100% reduction would be $(\$1.16 \text{ billion} \times 4\%) = \46.4 million .
- D. The reduction in local government property tax revenues would be $(\$35.75 \text{ million} + \$46.4 \text{ million}) = \82.15 million .
- F. The revenue reduction for the Blind Pension Fund would be $\frac{1}{2}\%$ of the local government revenue reduction $(\$82.15 \text{ million} \times .005) = \$410,750$.

Oversight assumes for fiscal note purposes that the 2009 assessed valuation for real property would be the same as for 2007, that the 2009 assessed valuation for personal property would be the same as for 2008, 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.

<u>FISCAL IMPACT - State Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
GENERAL REVENUE FUND			
<u>Cost - State Auditor's Office</u>			
Salaries (2 FTE)	\$0	(\$68,845)	(\$70,911)
Benefits	\$0	(\$33,479)	(\$34,484)
Expense and equipment	\$0	(\$12,582)	(\$675)
Total	<u>\$0</u>	<u>(\$114,906)</u>	<u>(\$106,070)</u>
<u>Cost - reimbursements</u>			
Local governments	\$0	\$0	(\$241,450,000)
Blind Pension Fund	\$0	\$0	(\$1,207,250)
Total	<u>\$0</u>	<u>\$0</u>	<u>(\$242,657,250)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>(\$114,906)</u>	<u>(\$242,763,320)</u>
Estimated Net FTE Effect on General Revenue Fund	0	2	2
BLIND PENSION FUND			
<u>Reimbursement - General Revenue Fund</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,207,250</u>
<u>Revenue reduction - property taxes</u>			
Real	\$0	(\$796,500)	(\$796,500)
Personal	\$0	(\$410,750)	(\$410,750)
Total	<u>\$0</u>	<u>(\$1,207,250)</u>	<u>(\$1,207,250)</u>
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>(\$1,207,250)</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2010 (10 Mo.)	FY 2011	FY 2012
LOCAL GOVERNMENTS			
<u>Reimbursement - General Revenue Fund</u>	<u>\$0</u>	<u>\$0</u>	<u>\$241,450,000</u>
<u>Revenue reduction - property taxes</u>			
Real	\$0	(\$159,300,000)	(\$159,300,000)
Personal	<u>\$0</u>	<u>(\$82,150,000)</u>	<u>(\$82,150,000)</u>
Total	<u>\$0</u>	<u>(\$241,450,000)</u>	<u>(\$241,450,000)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>(\$241,450,000)</u>	<u>\$0</u>

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 provide a percentage reduction in property taxes for certain elderly property owners.

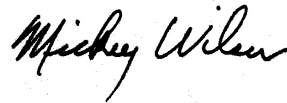
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Office of the State Auditor
Department of elementary and Secondary Education
Department of Revenue
Linn State Technical College
St. Louis County
City of Kansas City
City of Raytown

NOT RESPONDING

Office of Administration
Division of Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
March 25, 2009