COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0452-01
Bill No.: SB 71
Subject: Taxation and Revenue - Property
Type: Original
Date: February 3, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue *	$0	$0	(Unknown)
Total Estimated Net Effect on General Revenue Fund *	**$0**	**$0**	**(Unknown)**

* Expected to exceed $100,000 per year, subject to appropriation.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Blind Pension *		Unknown	(Unknown)
Total Estimated Net Effect on Other State Funds *	**$0**	**Unknown**	**(Unknown)**

* Expected to exceed $100,000 per year.

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government *	**(Unknown)**	**Unknown to (Unknown)**	**(Unknown)**

* expected to exceed $100,000 per year.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue** (DOR) assume this proposal would freeze the assessed property value for any property that is considered a principal residence until the property is transferred or changes ownership. Senior citizens would still be required to pay property taxes, and would therefore still be eligible for the property tax credit. There would be no administrative impact to DOR.

Officials from the **Office of the Cole County Assessor** (Office) assume there would be no revenues or savings to the Cole County Assessor's office from this proposal. The Office estimates that 7%-9.5% of properties transfer in any given 2 year reassessment period in Cole County. Therefore, the value on 90.5%-93% of the properties would not change during a reassessment in Cole County. There would be no effect in 2004 as it is not a reassessment year and new construction will still be added since the proposal does not specify the treatment of new construction. Finally, the Office assumes programming changes would be required of the CAMA system at a cost of $5000 in 2004.

ASSUMPTION (continued)

In 2005, assuming an 8% growth in the reassessment cycle (4% per year), the loss in tax revenue to the taxing jurisdictions in Cole County would be approximately $3,153,600 under this bill. There would be no effect in 2006 as it is not a reassessment year and new construction would again be added. It is logical to assume at least the same amount would be lost to the taxing jurisdictions in every succeeding reassessment cycle.

Oversight assumes there would be unknown additional costs to county assessors to administer the requirements of this proposal.

Officials from the **State Tax Commission** (Commission) assume the proposal would offer tax relief for ALL owners of residential property; not just residential property owners who are 65 or older, and other individuals who would qualify for the Senior Citizens Property Tax Credit. After the effective date of this proposal, residential property would only be reassessed when the ownership of the property changes. Although this legislation will be effective on August 28, 2003, the Commission assumes the impact of this proposal would not be realized until the next reassessment year occurring in calendar year 2005, with the collections occurring in FY 06.

The 2002 assessment valuation for residential property is 33.1 billion dollars. The Commission is assuming a seven percent (7%) increase in total assessed valuation for 2003, resulting in an additional 2.3 billion dollars in revenue. The Commission staff project that in 2003 the assessment valuation for residential property will be approximately 35.4 billion dollars. As there are minimal improvements and additions to residential property in an even-numbered year, we would assume for 2004 the assessment valuation will again be approximately 35.4 billion dollars. In 2005, the next reassessment year, we assume there would be a loss of revenue as a result of this proposal. The Commission assumes that 70.3% of the residential property units are owner occupied and would be affected by this proposal and the statewide tax rate will be $6 per hundred.

Projected Residential Assessment Valuation for calendar year 2003:	$35,400,000,000
$35.4 Billion x 70.3% (residential property owner occupied):	$24,900,000,000
$24.9 Billion x 7% Average Assessment Increase:	$ 1,743,000,000
$1.743 Billion x $6 per hundred (average statewide tax rate):	$105,000,000

ASSUMPTION (continued)

The Commission is assuming that six percent (6%) of the residential properties change ownership each year, and that acquisition based assessment would result in an average of 15% increase in value for those properties.

$24.9 Billion x 6% (ownership transfers):	$1,500,000,000
$1.5 Billion x 15% (increase):	$ 225,000,000
$225 Million x $6 per hundred tax rate:	$ 13,500,000

Loss Revenue (Reassessment)	($105,000,000)
Revenue Gain (Sales)	13,500,000

Net Effect would be approximately $91,500,000

Finally, since this proposal would require the political subdivisions to be reimbursed, there would be a loss of revenue to the General Revenue Fund and the Blind Pension Fund.

Oversight assumes it is not possible to estimate the amount of net tax losses to political subdivisions. This proposal would prohibit reassessment of previously assessed real property and improvements until a transfer of ownership occurs. Oversight assumes that properties which change ownership after the effective date of this proposal in August 2003 could be reassessed as early as January 2004, resulting in additional 2004 tax revenues collected in FY 2005; and Oversight assumes the first reductions would occur in 2005 taxes collected in FY 2006. In subsequent odd-numbered years there would be an increase in tax revenues as compared to current statutes; in subsequent even-numbered years there would be a decrease in tax revenues as compared to current statutes.

Actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. Reducing the increase in assessed valuation on individual parcels would in turn reduce the tax rate rollback required, primarily shifting this tax burden to other taxpayers. Oversight assumes that after FY 2005, net losses to political subdivisions from this provision, as compared to current law would exceed $100,000 per year.

ASSUMPTION (continued)

Oversight assumes there would also be gains and losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions.

In response to a similar proposal, officials from the **Department of Elementary and Secondary Education** (DESE) noted that the proposal would prohibit reassessment of previously assessed real property and improvements until a transfer of ownership occurs. The reduced increase in total assessed valuation may result in no reduction in property tax rates that otherwise might occur per Article X of the Constitution.

While the proposal does not reference the state school aid foundation formula, DESE assumes non-hold harmless districts could potentially recover the lost local revenues through the state aid formula if the appropriation for the formula would be sufficient to provide a proration factor not less than 1.00. The proposal could therefore increase the cost to fully fund the state foundation formula. Hold harmless districts would experience a decrease in local revenue unless the General Assembly appropriates sufficient funds to compensate those districts for the lost revenue.

Oversight assumes the Foundation Formula issues, if any, would be addressed through the appropriation process.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Cost - Reimbursement to Political Subdivisions*	$0	$0	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	**$0**	**$0**	**(Unknown)**

*Expected to exceed $100,000 per year. Subject to appropriation; does not include possible costs to fully fund Foundation Formula.

BLIND PENSION FUND			
Additional Revenues			
Increased tax collections *	$0	Unknown	$0
Revenue reduction			
Reduced tax collections *	$0	$0	(Unknown)
NET EFFECT ON BLIND PENSION FUND *	**$0**	**Unknown**	**(Unknown)**

* expected to exceed $100,000.

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
POLITICAL SUBDIVISIONS			
Revenue			
Additional tax collections *	$0	Unknown	$0
State reimbursements *	$0	$0	Unknown
Revenue reduction			
Reduced tax collections *	$0	$0	(Unknown)
Cost to counties			
Additional administrative cost to county assessor. *	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**(Unknown)**	**Unknown to (Unknown)**	**(Unknown)**

* expected to exceed $100,000.

FISCAL IMPACT - Small Business

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

DESCRIPTION

Extends a homestead assessment freeze to all property except when it changes hands:

1. The assessed valuation of a property owned and used as the principal residence of a person or persons would not increase until such time as the property is transferred to another party or parties. Upon such transfer, the property would be reassessed, and its value shall be determined as of the date of transfer. Death or incapacity of a spouse would not constitute a transfer.

2. A homestead property would mean a dwelling and land not exceeding three acres as is reasonably necessary for use of the dwelling as a home.

3. Net revenue losses of any political subdivision resulting from the limitation on assessed valuations contained in this section, as calculated and reported by each political subdivision to the state tax commission by November first of each year, would be reimbursed to those political subdivisions by the state of Missouri through appropriations.

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

Department of Revenue
Office of the Cole County Assessor
State Tax Commission

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