COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2966-05
Bill No.: Perfected SS for SCS for SB 730
Subject: Taxation and Revenue - Property; Taxation and Revenue - General; Property, real and personal; County Officials
Type: Original
Date: February 16, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue Fund *	(Unknown)	(Unknown)	($1.6 Million to Unknown)
Total Estimated Net Effect on General Revenue Fund *	**(Unknown)**	**(Unknown)**	**($1.6 Million to Unknown)**

* subject to appropriation.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension Fund *	$0	($8,000)	$8,000
Senior Property Tax Deferral Revolving *	Unknown	Unknown	Unknown
Total Estimated Net Effect on Other State Funds*	**Unknown**	**($8,000) to Unknown**	**$8,000 to Unknown**

* FY 2007 Blind Pension Fund revenue subject to appropriation. Senior Property Tax Revolving Fund is net of receipts over disbursements.
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 16 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Local Government *	**(Unknown)**	**($1.6 Million to Unknown)**	**$1.6 Million to (Unknown)**

* net effect of revenue reduction and state reimbursement, state reimbursement subject to appropriation.

FISCAL ANALYSIS

ASSUMPTIONS

SS for SCS for SB 730 - Missouri Homestead Preservation Act

Officials from the **Office of Administration, Division of Accounting, Division of Design and Construction,** and **Division of Budget and Planning** (BAP) assume the proposal would have no impact on their organizations. BAP also assumes the proposal would have a potentially large cost to general revenue, and that the state's bond ratings could be adversely affected. BAP defers to OA, Division of Accounting for an estimate of the impact of the bonding provisions.

Officials from the **State Tax Commission** (TAX) assume they are unable to estimate the administrative cost or fiscal impact of the proposal.

ASSUMPTIONS (continued)

In response to a previous version of this proposal, officials from the **Office of the Secretary of State** (SOS) assumed the proposal would create the Missouri Homestead Preservation Act. The Department of Revenue may promulgate rules to implement this legislation. These rules would be published in the Missouri Register and the Code of State Regulations. Based on experience with other divisions, the rules, regulations and forms issued by the Department of Revenue could require as many as 10 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in the Code. These costs are estimated. The estimated cost of a page in the Missouri Register is $23. The estimated cost of a page in the Code of State Regulations is $27. The actual cost could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded, or withdrawn. (($23 x 15)+$27 x 10) = $615)

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decision to raise fees to defray costs would likely be made in subsequent fiscal years.

In response to a previous version of this proposal, officials from the **Office of the Cole County Assessor** (Office) assume that as many as 4500 applications for homestead exemption per year would be completed in Cole County under this proposal. The first year the Office would receive state reimbursement would be 2006 (for the 2005 tax year) based on .0025 of the amount reimbursed by the State, to go into the assessment fund. Assuming an 8% appreciation rate over a two year reassessment cycle, and assuming the homestead limit would be set at 5%, there would be a 3% differential to be made up through State appropriations. The amount to the Assessor's office would be $ 0 in 2005 for 2004, $400 in 2006 for 2005, and $0 in 2007 for 2006.

The Office estimates that 75% of seniors owning residential property would fall within the guidelines of this proposal, and that 25% of residential property is owned by seniors.

Savings:

There would be no savings to the Cole County Assessor's office from this bill.

ASSUMPTIONS (continued)

Cost:

The office assumes that one time programming change costs of $2500 would be incurred in 2005. The Office will have to maintain a separate accounting of homestead properties and this will require additional personnel time. The Cole County Assessor's office is understaffed and no additional requirements can be placed on the existing staff without sacrificing some other function of the office. The Office estimates a part time person would be needed for the amount of time specified in the bill (1/1 to 9/30) of every even numbered year to maintain and implement the program on an ongoing basis at a yearly expense (including payroll expenses) of $13,000 per year.

Revenue Reduction:

Based on an average 8% increase in a reassessment cycle, and assuming that the homestead limit would be set at 5%, it is estimated that approximately $160,000 would be appropriated to reimburse the county and its taxing authorities for lost revenues. One-quarter of one percent of $160,000 would be $400.

The Cole County Assessor used a recent demographic study by the Jefferson City Area Chamber of Commerce for information regarding population housing, and income, broken down into different age categories. This information, in addition to information in the Assessor's files, indicated the following estimates concerning eligible homestead properties.

Population:

Over 65 make up 11.5% of total county population
Over 65 make up 15.5% of total county population over the age of 18
Over 65 make up 17.14% of total county population over the age of 24

8,081 population of persons 65 or older in Cole County
60.7% (approx. 4,850) live in Family Households

ASSUMPTIONS (continued)

Housing:

There are a total 28,915 housing units in Cole County.
Of these, there are 27,064 occupied housing units.
63.4% of housing units are owner occupied.
27,064 x .634 = 17,159 owner occupied housing units

Therefore, the highest possible number of households owned by those over 65 would be 4,850/17,159 = .2827 or 28.27% of all owner occupied housing units.

Income:

Approximately 60% of households make less than $50,000 in Cole County. It is assumed that more seniors fall within this category than any other/higher income category.

Senior estimates:

The Office estimates that as much as 25% of residential, owner occupied property could be owned by those over 65; and that 75% of seniors fall within the income limits of this bill. However, approximately 40% of this population segment do not own property and are offered tax relief through the Missouri Property Credit Program.

The Assessor's work load would not change as all properties under this bill still need to be inspected during physical property review for additions, alterations, and/or deletions. The work load of the Assessor would actually increase due to this program.

Oversight assumes there would be significant but unknown additional costs to county assessors to implement the requirements of this proposal. Oversight assumes these costs would exceed $100,000 per year.

ASSUMPTIONS (continued)

Officials from the **Department of Revenue** (DOR) assumed the proposal would create the Missouri Homestead Preservation Act. DOR would be responsible for providing application forms to the assessor's office for the program, verifying Missouri taxable income and age, providing a list of eligible applicants to the county collectors, calculating the level of appropriation necessary to set the homestead exemption, applying the limit to the homestead of every eligible owner and calculating the credit, sending a list to county collectors of credit amount for eligible owners, instructing the State Treasurer on how to distribute the appropriated funds to each county, and promulgating rules for the program.

DOR assumes that anyone who has claimed a senior citizen property tax credit would not qualify for the program since the proposal would make them ineligible. Therefore, DOR assumes there will not be a reduction in the number of property tax credit returns.

DOR assumes the proposal could require taxpayers to file tax returns or otherwise provide income to DOR that would not have been required otherwise, in order to establish Missouri taxable income. Taxation cannot estimate the volume of additional filings this requirement will create, but estimates one Tax Season Temporary for every 30,000 returns, for key entry, and one Tax Processing Tech I for every 30,000 errors generated by this new filing.

DOR would be responsible for printing up to one million application forms and DOR would be responsible for the postage on these bulk forms. The printing costs are estimated at approximately $5,000 and the postage costs are unknown at this time.

DOR Division of Taxation would need to create a database on a PC system to handle the approved applications for the counties and 1 Tax Processing Tech I for every 3,000 applications. DOR estimates the PC application would require 346 hours of programming, at a total cost of $11,543. This employee will also be responsible for the maintenance of this program and the key entry of all non-qualifying applications.

DOR, Division of Taxation assumes that calculation of the necessary appropriation level would be handled either by State Tax Commission or Office of Administration, Division of Budget and Planning. If this assumption is incorrect further review will be necessary. Since Taxation is not responsible for the setting of appropriations, Taxation anticipates forwarding the approved verification listing and information to Budget and Planning and they will be responsible for the appropriation amount.

ASSUMPTIONS (continued)

Taxation assumes DOR will supply a listing of verified applicants with the information submitted by the county assessor (as required in subsection 9) to the State Tax Commission and the State Tax Commission, as the administrator of property taxes statewide, will be responsible for the calculation and notification to the assessors and county collectors.

DOR provided an estimate of three FTE to process the information generated by this proposal. Including salaries, benefits, equipment, expenses, and office space, the DOR cost estimate was $136,315 for FY 2005, $120,224 for FY 2006, and $122,865 for FY 2007.

Oversight assumes there will be a significant but unknown additional cost to the Department of Revenue to verify income eligibility, process tax returns, and respond to taxpayer questions if this proposal is enacted.

Oversight assumptions as to revenue reduction and state reimbursement, based on information provided by the State Tax Commission and from Federal Census reports, follow.

Residential Property is reassessed in odd-numbered years. Calendar year 2003 is a reassessment year with minimal assessed valuation changes to the residential property in following year (2004). Although this legislation would be effective on August 28, 2004, the impact of this proposal would not be realized until the next reassessment year occurring in calendar year 2005 with the collections occurring in Fiscal Year 2006.

The 2002 assessed valuation for residential property is $33.1 billion. A seven percent (7%) increase in the assessed valuation for 2003 would result in an additional $2.3 billion of assessed value, and total assessed valuation for residential property of $34.5 billion. As there are minimal improvements to residential property in an even-number year, the 2004 assessed valuation would again be approximately $35.4 billion and there would be no tax loss. In 2005, the next reassessment year, we assume there would be a loss of tax revenue as a result of this legislation.

According to the 2000 census information, 70.3% of the housing units are owner occupied with 10.3% of the householders 65 and older. In addition, 57.3% of households had income less than $50,000. Information is not available as to spouse age of handicapped spouses of homeowners over 65. For fiscal note purposes, Oversight assumes all households with householder over 65 have a spouse over 65 or handicapped.

ASSUMPTIONS (continued)

Residential Assessed Valuation for Calendar Year 2003 is $35.4 Billion.

$35.4 Billion x 70.3% (residential property owner occupied) = $24.9 Billion

$24.9 Billion x 10.3% (residential property owner occupied over 65) = $2.5 Billion

$2.5 Billion x 57.3% (income under $50,000) = $1.4 Billion.

$1.4 Billion x 7% average assessment increase = $98 Million.

$98 Million x $6 per hundred average state tax rate = $5.9 Million tax increase without proposal.

$1.4 Billion x 5% assumed homestead exemption limit = $70 Million.

$70 Million x $6 per hundred average state tax rate = $4.2 Million tax increase with proposal.

$28 Million ($98 Million less $70 Million) x $6 per hundred state tax rate = $1.7 Million Tax Loss in 2005 (state FY 2006) due to the proposal, and reimbursable to the political subdivisions in state FY 2007, subject to appropriation.

Oversight assumes the county collectors would abstract the tax credits to all taxes levied, resulting in losses to the Blind Pension Fund of approximately 1/2 of 1% of the credits, or $8,000 in FY 2006.

AMENDMENT I - Senior Property Tax Deferral Program

Officials from the **State Tax Commission** assumed no fiscal impact to their agency from the proposal. They said there are no numbers or methodologies to use as they do not have the number of senior citizens that would be in that income bracket, and how many eligible senior citizens would opt to utilize this program. The State Tax Commission assumes the proposal would affect the assessor's offices as well as the collector's office in all political subdivisions because they would have to track all deferred monies. The said the impact on these offices would have to be figured on an individual basis. They said there would also be an impact on schools, but it is impossible to determine at this time how large that impact will be.

ASSUMPTIONS (continued)

Officials from the **Office of Administration**, **Division of Accounting**, assume this proposal would have no impact on their organization.

In response to a similar proposal, officials from the **Office of Administration**, **Division of Budget and Planning**, and the **Office of the State Treasurer**, assume the proposal would have no impact on their organization.

In response to a similar proposal, officials from the **Office of the Secretary of State** (SOS) assume this proposal would result in an unknown cost to publish regulations for the resulting program.

Oversight assumes the SOS could absorb the costs, if any, of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

In response to a similar proposal in the prior session, officials from the **Cole County Assessor's Office** assumed one-time programming costs for changes to the Assessor's CAMA and mapping systems of $4,000 in 2004. Cost of maintenance of the program within the Assessor's office is estimated to require one additional part time employee at $6,000 per year starting in 2004. The Cole County Assessor's office said they are already understaffed, and any additional duties for existing staff would require that some other function in the office be sacrificed.

Officials from the Cole County Assessor's Office also assumed the Cole County Collector would have one-time programming costs for changes to implement this program at $5,000 in 2004. Additionally, the Collector would need a half-time person to administer and maintain the program at the annual cost of $12,000 per year, starting in 2004. They said the Cole County Collector's office is also understaffed and any additional duties on the existing staff would require some other function of the office to be sacrificed.

Officials from the Cole County Assessor's Office also assumed more costs will be incurred by the Cole County Clerk's Office, and by the Cole County Recorder's Office; especially personnel costs to maintain and administer the program.

ASSUMPTIONS (continued)

Officials from the **Department of Revenue** (DOR) assume the Division of Taxation (Taxation) would need to create a new system for the tracking and the estimation of the deferred taxes - which could fall into any part of Revenue since it does not deal with taxes that are currently administered by DOR.

DOR estimated EDP Programming costs - 5 FTE for one year to create and maintain the system at a cost of $346,944 (10,400 hours of programming)

DOR Customer Assistance would need One Tax Collection Tech for every 24,000 calls a year on how to defer - One Tax Collection Tech I for every additional 15,000 calls regarding delinquency. DOR assumes field offices would have additional walk-in traffic and would need One Tax Collection Tech I for every additional 5,200 calls and 2,150 walk-ins.

Taxation currently has 192,000 "Circuit Breaker" property tax credit claims of individuals that would qualify for deferral, but DOR is unsure how many additional individuals would qualify since the proposal specifies a qualifying age of 62 ½.. DOR assumes Taxation would need one Tax Processing Tech I for every 12,000 claims received. Whoever is the keeper of this system would need to verify the information for the counties, create lien lists, estimates, and notices. Assuming an employee would be working 1,000 claims a month or 5.78 per hour, it is anticipated that 16 additional FTE could be needed.

DOR estimated total costs for the program including salaries, benefits, and expenses for 20 additional FTE, and computer programming totaling $1,069,857 for FY 2005, $833,552 for FY 2006, and $851,158 for FY 2007.

Oversight assumes that approximately 24.4 percent of owner-occupied residences are owned by persons over 61 years of age, and that 38.1 percent would have household income less than the upper limit of $32,000 per year. However, Oversight assumes it is not possible to estimate the number of persons who would actually apply for this tax deferral, the value of real estate they own, or the amount of taxes which would be subject to deferral under this proposal. Oversight also assumes the first applications for deferral would be prepared in October, 2004 for 2004 taxes. The resulting deferrals would be for 2004 taxes otherwise payable December 31, 2004. The first reimbursements to county collectors would be in January 2005 for those deferred taxes. The deferrals, reimbursements, and withholdings would begin in state FY 2005.

ASSUMPTIONS (continued)

Oversight assumes there would be significant unknown costs for the Department of Revenue, payable from the Senior Property Tax Deferral Revolving Account. Oversight assumes that transfers from the state General Revenue Fund to the Senior Property Tax Deferral Revolving Account would be required for the first few years of operation, but that there would be insufficient funds in the state General Revenue Fund to make the required transfers, and that a bond issue would instead be needed to fund Department of Revenue expenses and payments to county collectors. Oversight also assumes there would be significant unknown costs for county collectors, assessors, clerks, and recorders in implementing this proposal. Oversight assumes that the two percent withholding from payments to the collectors would result in an unknown reduction in revenues to the political subdivisions.

This proposal could affect total state revenue.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Cost - Reimbursement to Political Subdivisions *	$0	$0	($1.6 Million)
Cost - State Tax Commission *	(Unknown)	(Unknown)	(Unknown)
Cost - Department of Revenue *	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	**(Unknown)**	**(Unknown)**	**($1.6 Million to Unknown)**

* cost to State Tax Commission and Department of Revenue expected to exceed $100,000. Reimbursement to political subdivisions subject to appropriation.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
BLIND PENSION FUND			
Revenue			
State reimbursements *	$0	$0	$8,000
Revenue reduction			
Reduced tax collections	$0	($8,000)	$0
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**($8,000)**	**$8,000**
* subject to appropriation			
SENIOR PROPERTY TAX DEFERRAL REVOLVING ACCOUNT			
Revenues - collections of deferred taxes	$0	Unknown	Unknown
Transfers - proceeds from bond sales *	Unknown	Unknown	Unknown
Cost - Department of Revenue			
Personal Service	(Unknown)	(Unknown)	(Unknown)
Fringe Benefits	(Unknown)	(Unknown)	(Unknown)
Expense and Equipment	(Unknown)	(Unknown)	(Unknown)
Reimbursements - to county collectors *	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON SENIOR PROPERTY TAX DEFERRAL REVOLVING ACCOUNT *	**Unknown**	**Unknown**	**Unknown**
* expected to exceed $100,000 per year.			

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
Revenue			
State reimbursements *	$0	$0	$1.6 Million
Revenue reduction			
Reduced tax collections	$0	($1.6 million)	$0
Withholding from tax collections	(Unknown)	(Unknown)	(Unknown)
Cost to counties			
Additional administrative cost to county assessor, collector, clerk, and recorder *	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**(Unknown)**	**($1.6 Million to Unknown)**	**(Unknown) to $1.6 Million**

* unknown expected to exceed $100,000, state reimbursement subject to appropriation.

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal would create a "Missouri Homestead Preservation Act". Eligible property owners would receive a credit against the following year's property tax due for any increase in property taxes due on that property which exceeds a percentage to be determined by the Director of Revenue based on available appropriations for that purpose.

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

Amendment I

This amendment would create a Senior Property Tax Deferral Program as follows:

A homestead is defined as an owner occupied principal dwelling and the land surrounding it, not to exceed five acres. If the homestead is located in a multi-unit building, the homestead is the portion of the building actually used as the principal dwelling and its percentage of the value of the common elements and of the property upon which it is built. If the homestead is located on a farm, the homestead consists of the dwelling, appurtenances, and land not to exceed five acres;

An individual, or two or more individuals jointly, may elect to defer the property taxes on their homestead by filing a claim for deferral with the county clerk if the individual, or the older individual, is sixty-two years of age or older. The individual, or all of the individuals together must have household income less than the upper limit of $32,000 per year. A guardian, conservator, or trustee may act for the individual.

The county clerk would forward each claim filed pursuant to this section to the director of revenue who shall determine if the property is eligible for deferral. The property must be the homestead of the individual or individuals, except for an individual required to be absent from the homestead by reason of health. The individual or individuals must own the fee simple estate or be purchasing the fee simple estate under a recorded instrument of sale. The equity interest in the homestead must be equal to or exceeding ten percent of the true value in money of the homestead. The individual or individuals must show proof of insurance in an amount equal to or exceeding market value, and insurance must be kept in place as long as the deferral is maintained.

DESCRIPTION (continued)

There must be no prohibition to the deferral of property taxes contained in any provision of federal law, rule or regulation applicable to a mortgage, trust deed, land sale contract or conditional sale contract for which the homestead is security. After August 28, 2004, it shall be unlawful for any mortgage trust deed or land sale contract to contain a clause or statement which prohibits the owner from applying for the benefits of the deferral of homestead property taxes. Any such clause or statement in a mortgage trust deed or land sale contract executed after August 28, 2004, would be void.

The director of revenue would notify the county assessor or collector who would show on the current ad valorem assessment and tax roll the property is tax-deferred by an entry clearly designating such property as tax-deferred. Interest would accrue on the actual amount of taxes advanced to the county for the tax-deferred property at the rate of six percent per annum. The director of revenue would cause to be recorded in the mortgage records of the county, a list of tax-deferred properties in that county. The director would not be required to pay any filing, indexing or recording fees to the county.

The director would pay to the respective county tax collectors an amount equivalent to the deferred taxes less two percent thereof. Payment would be made from an account established by the proposal. The director would maintain records for each deferred property and would accrue interest only on the actual amount of taxes advanced to the county. The director of revenue would send a notice to each taxpayer who is qualified to claim deferral of property taxes for the current tax year.

The director of revenue would estimate the amount of property taxes that will be deferred for a period of five tax years, and the interest thereon. Thereafter, the director would have a lien in the amount of the estimate. The liens would have the same priority as other real property tax liens except that the liens of mortgages, trust deeds or security interests which are recorded or noted on a certificate of title prior in time to the attachment of the liens for deferred taxes shall be prior to the liens for deferred taxes. A lien may be foreclosed by the director pursuant to the law relating to foreclosure in civil suits or any other collection methods given the director of revenue.

DESCRIPTION (continued)

There would be established in the state treasury the "Senior Property Tax Deferral Revolving Account". If there is not sufficient money in the revolving account to make the payments required by this section, an amount sufficient to make the required payments may be transferred by appropriations from the General Revenue Fund to the revolving account. When the department determines that moneys in sufficient amounts are available in the revolving account, the director would repay to the General Revenue Fund the amounts advanced or if no such transfer is made by the director, the general assembly may transfer excess funds from the revolving account to the General Revenue Fund. The moneys used to repay the General Revenue Fund pursuant to this section would not be considered as part of the calculation of total state revenue. If there are insufficient funds in the general revenue to provide the necessary funding to the revolving account established in this section, the commissioner of administration may issue revenue bonds. The commissioner may prescribe the form, details and incidents of the bonds, and make the covenants that in the commissioner's judgment are advisable or necessary properly to secure the payment thereof, but the form, details, incidents and covenants would not be inconsistent with any of the provisions of this act.

SOURCES OF INFORMATION

State Tax Commission
Department of Revenue
Office of the Cole County Assessor
Office of the Secretary of State
Office of Administration
    Division of Budget and Planning

Mickey Wilson

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Director
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