COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 2966-08
Bill No.: HS for HCS for SS for SCS for SB 730 with HSA 1 for HA 1, HA 2 and HA 3
Subject: Taxation and Revenue - Property; Taxation and Revenue - General; Property, real and personal; County Officials
Type: Original
Date: March 29, 2004

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| General Revenue Fund * | (Unknown) | (Unknown) | ($9,400,000 to Unknown) |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund *** | **(Unknown)** | **(Unknown)** | **($9,400,000 to Unknown)** |

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

| ESTIMATED NET EFFECT ON STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2005 | FY 2006 | FY 2007 |
| Blind Pension Fund * | $0 | $0 | $0 |
| | | | |
| **Total Estimated Net Effect on All State Funds*** | **$0** | **$0** | **$0** |

*Net of revenue loss and reimbursement, reimbursement subject to appropriation.
Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 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)** | **(Unknown)** | **(Unknown)** |

* net of revenue reduction and state reimbursement, state reimbursement subject to appropriation, unknown expected to exceed $100,000

## FISCAL ANALYSIS

ASSUMPTIONS

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

In response to a previous version of the proposal, officials from the **Office of Administration, Division of Design and Construction** and **Division of Budget and Planning**, assumed the proposal would have no impact on their organizations.

ASSUMPTIONS (continued)

Officials from the **Office of the Secretary of State** assume this proposal would create the Missouri Homestead Preservation Act. The Department of Revenue may promulgate rules to implement this legislation, and those rules would be published in the Missouri Register and the Code of State Regulations. Based on experience with other legislation, 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. The estimated cost of a page in the Missouri Register is $23, and the estimated cost of a page in the Code of State Regulations is $27. The impact of this legislation in future years is unknown and would depend 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 the 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 2.5%, there would be a 5.5% differential to be made up through State appropriations. The amount to the Assessor's office would be $ 0 in 2005 for 2004, $$950 in 2006 for 2005, and $0 in 2007 for 2006.

The Office estimates that 98% 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 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 2.5%, it is estimated that approximately $381,500 would be appropriated to reimburse the county and its taxing authorities for lost revenues. One-quarter of one percent of $381,500 would be $950. This estimate is based on assessed valuation changes only, the Office has no way to estimate the impact of tax levy rate changes.

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

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

ASSUMPTIONS (continued)

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 98% of households make less than $95,000 in Cole County.

Senior estimates:

The Office estimates that as much as 25% of residential, owner occupied property could be owned by those over 65; and that 98% 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.

In response to a previous version of the proposal, officials from **Greene County** assumed the proposal would require software programming changes and additional staff time to maintain the additional data for homestead properties. Greene County officials were not able to estimate the total additional cost.

**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.

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

Officials from the **Department of Revenue** (DOR) assume this legislation would create the Missouri Homestead Preservation Act. The Department of Revenue 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 appropriated fund to each county, and promulgating rules for the program.

ASSUMPTIONS (continued)

It is DOR's assumption that anyone that has filed a Property Tax Credit (PTC) will not qualify for the program. Therefore, there will not be a reduction in the number of property tax credit returns.

DOR notes this legislation could require taxpayers to file tax returns or provide income information with the department that would not have originally been required, in order to establish household income. DOR cannot estimate the volume of additional returns/reportings this verification requirement will create, but estimates 1 Tax Season Temporary for every 30,000 returns for key entry and 1 Tax Processing Tech I for every 30,000 errors generated by this new filing

DOR assumes it would be responsible for the printing of 500,000 to 1,000,000 forms for applications and DOR will be responsible for the postage to 115 assessors of these bulk forms. The printing costs are estimated at approximately $5,000 and the postage costs are unknown at this time.

DOR 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 for approval. It is estimated that PC application will take 346 hours of programming, at a cost of $11,543. This employee will also be responsible for the maintenance of this program and the key entry of all non-qualifying taxpayers received from the county assessors.

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 and the State Tax Commission to verify income eligibility and maintain the resulting data as required in this proposal.

**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 $35.4 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, 94.4% of households had income less than $95,000. 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.

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 22.4% (residential property owner occupied over 65) = $5.6 Billion

$5.6 Billion x 94.4% (income under $95,000) = $5.3 Billion.

$5.3 Billion x 5.47% assessment increase = $290 Million.

$290 Million x $6 per hundred average state tax rate = $17.4 Million tax increase without proposal.

$5.3 Billion x 2.5% homestead exemption limit = $133 million.

$133 Million x $6 per hundred average state tax rate = $8.0 Million tax increase with proposal.

$157 Million ($290 Million less $133 Million) x $6 per hundred state tax rate = $9.4 Million Tax Loss in 2006 (state FY 2007) due to the proposal and reimbursable to the political subdivisions in state FY 2007, subject to appropriation.

ASSUMPTIONS (continued)

**Oversight** assumes the county collectors would abstract the tax credits to all taxes levied, resulting in losses to the Blind Pension Fund of approximately ½ of 1% of the credits, or $47,000 in FY 2007. In FY 2007 there would be a state reimbursement, subject to appropriation, of an amount equal to that tax loss would be abstracted by the county collectors and received by the Blind Pension Fund.

| FISCAL IMPACT - State Government | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
|---|---|---|---|
| **GENERAL REVENUE FUND** | | | |
| Cost - Reimbursement to Political Subdivisions * | $0 | $0 | ($9,400,000) |
| Cost - State Tax Commission * | (Unknown) | (Unknown) | (Unknown) |
| Cost - Department of Revenue * | (Unknown) | (Unknown) | (Unknown) |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*** | **(Unknown)** | **(Unknown)** | **($9,400,000 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 | $47,000 |
| Revenue reduction | | | |
| Reduced tax collections | $0 | $0 | ($47,000) |
| **ESTIMATED NET EFFECT ON BLIND PENSION FUND *** | **$0** | **$0** | **$0** |
| * subject to appropriation | | | |

| FISCAL IMPACT - Local Government | FY 2005 (10 Mo.) | FY 2006 | FY 2007 |
|---|---|---|---|
| **POLITICAL SUBDIVISIONS** | | | |
| Revenue - political subdivisions | | | |
| State reimbursements (99.75%)* | $0 | $0 | $9,376,500 |
| Revenue - county assessment funds | | | |
| State reimbursements (00.25%)* | $0 | $0 | $23,500 |
| Revenue reduction | | | |
| Reduced tax collections | $0 | $0 | ($9,400,000) |
| Cost to counties | | | |
| Additional administrative cost to county assessor, collector, and clerk. * | (Unknown) | (Unknown) | (Unknown) |
| **NET EFFECT ON POLITICAL SUBDIVISIONS *** | **(Unknown)** | **(Unknown)** | **(Unknown)** |
| * 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.

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 Accounting
    Division of Design and Construction
    Division of Budget and Planning
Greene County

Mickey Wilson

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Director
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