COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2966-13
Bill No.: Truly Agreed To and Finally Passed CCS for HS for HCS for SS for SCS for SB 730
Subject: Taxation and Revenue - Property; Taxation and Revenue - General; Property, Real and Personal; County Officials
Type: Original
Date: May 18, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue	($500,000 to Unknown)	(Unknown)	($1,400,000 to Unknown)
Total Estimated Net Effect on General Revenue Fund *	**($500,000 to Unknown)**	**(Unknown)**	**($1,400,000 to Unknown)**

*Unknown could exceed $1 Million.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension *	$0	$0	$0
Total Estimated Net Effect on Other 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 12 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)**

*expected to exceed $100,000, net of revenue loss and reimbursement; reimbursement subject to appropriation.

FISCAL ANALYSIS

ASSUMPTIONS

Officials from the **Office of Administration, Administrative Hearing Commission, Division of Accounting**, **Division of Design and Construction**, and **Division of Budget and Planning**, assumed the proposal would have no impact on their organizations.

In response to an earlier version of this proposal, officials from the **Office of the Secretary of State** (SOS) assumed the proposal would create the Missouri Homestead Preservation Act. Based on experience with other divisions the rules, regulations and forms issued by the Department of Revenue could require approximately 18 pages in the Code of State Regulations. For any given rule, roughly one-half again as many pages are published in the Missouri Register as are published in the Code because of cost statements, fiscal notes and notices that are not published in the Code. 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. (($27 x 18) + ($23 x 27) = $1,107)

ASSUMPTIONS (continued)

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 decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **State Tax Commission** (TAX) assume there would be no impact to their organization from this proposal.

In response to an earlier version of this proposal, officials from the **Office of the Cole County Assessor** (Assessor) estimated that as many as 4500-5000 applications per year would be completed in Cole County for homestead exemption under this bill. The first year revenues are assumed to be received in 2006 for the 2005 tax year (based on interpretation, could be in 2005 for the 2004 tax year) based on .0025 of the amount reimbursed by the State, to go into the assessment fund. Based on an 8% appreciation rate in a year of reassessment (2005, 2007, etc), and estimating the homestead limit to be set at 5%, there would be a 3% differential that would be made up through State appropriations. The amount to the Assessor's offfice would be as follows:

2005 - $Unknown
2006 - $712 (Assumes increase in value only; no tax rate increase)
2007 - $Unknown
2008 - $823 (Assumes increase in value only; no tax rate increase)

The Assessor assumes it is impossible to figure how much income might be generated by tax rate increases that can occur in even numbered (non-reassessment) years.

The Assessor assumes there would be no savings to the Cole County Assessor's office from this bill, and one time programming change costs estimated at $2500 for the year 2005.

The Assessor stated his office would have to maintain a separate accounting of homestead properties and this will require a part time person for the amount of time specified in the bill (4/1 to 9/30) to maintain and implement this program on an ongoing basis at a yearly expense (including payroll expenses) of $9,000 per year.

ASSUMPTIONS (continued)

Based on an average 8% increase in a reassessment cycle, and assuming that the homestead limit to be set at 5%, the Assessor estimated that approximately $284,825 would be needed from the State in 2006 (for the 2005 reassessment), assuming no change in the tax rate. The loss in 2008 (for the 2007 reassessment) would be approximately $329,211 to all taxing jurisdictions, assuming no change in tax rate.

There could be a loss to taxing jurisdictions as early as 2004, depending on any tax issues that may pass in 2004, and also based on a determination of is the earliest this legislation could take effect.

The office further estimated that 90% of seniors owning residential property fall within the guidelines of this bill, and that 25% of residential property is owned by seniors.

The Cole County Assessor utilized 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. Utilizing this study, in addition to information in the Assessor's files, the following are estimated concerning 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 27,064 occupied housing units out of a total 28,915 housing units in Cole County. 63.4% of housing units are owner occupied.
27,064 x .634 = 17,159 total owner occupied housing units

The highest possible number of households owned by those over 65 is 4,850/17,159 = .2827 or 28.27%

ASSUMPTIONS (continued)

The Assessor assumes 91.8% of all households in Cole County make less than $100,000 per year, and that more seniors fall below this threshold than any other category. For the purposes of estimations for this homestead legislation, the Cole County Assessor estimates that as much as 25% of residential, owner occupied property could possibly be owned by those over 65; this estimate is on the high end so as not to underestimate the potential effects of homestead legislation. It is further estimated that 90% of seniors fall within the income limits of this bill.

It should be noted that while Homestead legislation affects those over 65 who own property, that approx. 40% of this population segment do not own property and are offered tax relief through the Missouri Property Credit Program.

Oversight assumes there would be unknown additional costs to county assessors should this proposal pass, expected to exceed $100,000 per year.

Officials from the **Department of Revenue** (DOR) assume 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 it would be required to calculate property taxes for applicants in order to determine the homestead exemption. A consolidated data base of this information is not currently available. Therefore, DOR would have to create and maintain a new system, and programming would also be needed to interface the new system to our existing systems. DOR estimates 5 FTE would be needed to create and 2 FTE to maintain the system at a cost of $346,944 (10,400 hours of programming). The department does not have the resources to handle this entire project and will need to contract programming out at an additional cost of $500,000.

DOR assumes it would need to verify information for the counties, create the lists of eligible taxpayers and tax estimates and provide notices to the counties. The department estimates it would take one Tax Processing Tech I for every 12,000 claims received a year. This would be similar to keying and verifying a form 1040A, and past experience indicates that a Tax Season Temp can key 160 returns a day or 3,200 a month. If DOR were to receive 500,000 applications to process in the 9/30 to 12/15 window, 83 tax season temporaries for the period 9/1/ to 12/15 (2 months) would be needed to handle the processing in addition to three permanent full-time Tax Processing Tech I and one Tax Processing Tech IV to handle system maintenance, correspondence and reporting requirements.

DOR assumes it would be responsible for printing 500,000 to 1,000,000 application forms and for the postage to deliver those bulk forms to 115 county assessors. Printing costs are estimated at approximately $5,000 and postage costs are unknown at this time. DOR assumes it would post the forms on the Internet and make the forms available in its fee and branch offices.

DOR assumes that determining the amount of the tax credit appropriation required by the proposal would be handled either by the State Tax Commission or Office of Administration, Division of Budget and Planning. If that assumption is incorrect further review will be necessary.

DOR provided Oversight with a fiscal impact estimate including ten additional employees, fringe benefits, and internal and external computer programming costs totaling $1,478,605 for FY 2005, $780,644 for FY 2006, and $792,540 for FY 2007.

Oversight assumes the database system required for this proposal would integrate the application and approval process, and local tax rates. Oversight further assumes there would be a significant but unknown additional staff cost to DOR to implement this proposal. The unknown additional staff cost indicated for DOR includes DOR staff programmers as well as additional DOR staff for administrative and program purposes.

ASSUMPTIONS (continued)

Oversight assumptions as to revenue reductions and state reimbursements, 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(FY 2006). If an appropriation is made for that purpose, the first credits applicable to the proposal would be provided in the following year, Fiscal Year 2007.

The 2003 assessed valuation for residential property is approximately $36.2 billion. As there are minimal improvements to residential property in an even-number year, the 2004 assessed valuation would again be approximately $36.2 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 22.4% of the householders 65 and older. In addition, 89.6% of households had income less than $70,000. Information is not available as to spouse age or handicapped status for spouses of homeowners over 65. For fiscal note purposes, Oversight assumes all householders over 65 have a spouse over 60 or handicapped.

ASSUMPTIONS (continued)

Residential Assessed Valuation for Calendar Year 2003 is $36.2 Billion.

$36.2 Billion x 70.3% (residential property owner occupied) = $25.4 Billion

$25.4 Billion x 22.4% (residential property owner occupied over 65) = $5.7 Billion

$5.7 Billion x 89.6% (income under $70,000) = $5.1 Billion.

$5.1 Billion x 5.47% assessment increase = $279 Million.

$279 Million x $6 per hundred average state tax rate = $16.7 Million tax increase without proposal.

$5.1 Billion x 5% homestead exemption limit = $255 million.

$255 Million x $6 per hundred average state tax rate = $15.3 Million tax increase with proposal.

$24 Million ($279 Million less $255 Million) x $6 per hundred state tax rate = $1.4 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. The proposal includes a 2.5% limit on tax increases in alternate years; however, that provision would affect revenues in 2007 (FY 2008).

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 $7,000 in FY 2007. In FY 2007 there would be a state reimbursement, subject to appropriation, of an amount equal to that tax loss which would be abstracted by the county collectors and received by the Blind Pension Fund.

Oversight assumes this proposal would create an additional unknown impact on tax revenues due to changes in levy rates each year. That impact would vary by taxing authority, and could be either positive or negative. Oversight also assumes that changes in assessed valuations for individual taxing authorities could be greater or less than the aggregate rate used in the Oversight calculation of local impact and state reimbursements.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
GENERAL REVENUE FUND			
Cost - Reimbursement for Property Tax Credits	$0	$0	($1,400,000)
Cost - Department of Revenue			
Personal Service	(Unknown)	(Unknown)	(Unknown)
Fringe Benefits	(Unknown)	(Unknown)	(Unknown)
Programming	($500,000)	(Unknown)	(Unknown)
Expense and Equipment	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**($500,000 to Unknown)**	**(Unknown)**	**($1,400,000 to Unknown)**
*could exceed $1,000,000.			
BLIND PENSION FUND			
Revenue			
Reimbursement from appropriation for Senior Property Tax Credit	$0	$0	$7,000
Revenue reduction			
Senior Property Tax Credits	$0	$0	($7,000)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
Revenue			
State reimbursement to taxing authorities from appropriation for Homestead Exemption Credit	$0	$0	$1,396,500
State reimbursement to county assessment funds from appropriation for Homestead Exemption Credit	$0	$0	$3,500
Revenue reduction			
Property tax credits	$0	$0	($1,400,000)
Cost to counties			
Additional administrative cost to county assessor and collector *	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**(Unknown)**	**(Unknown)**	**(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

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 over the exemption limit. For years in which there is a reassessment, the limit would be five percent and in alternate years the limit would be 2.5%.

A individual owner of property who is sixty-five years of age or older with an income less than $70,000 per year would be eligible; a married couple with one spouse aged sixty-five years of age or older and the other spouse aged sixty or older, or disabled, and with income less than $70,000 per year would be eligible.

The Department of Revenue (DOR) would develop application form and provide the forms to county assessors; and potentially eligible property owners would apply for the credit by completing an application at their county assessor's office. The county assessors would forward completed applications to the DOR, which would calculate the property tax liability, verify applicants' eligibility, and notify the county collectors and county clerks of those eligible for the credit. The county collectors or county clerks would notify DOR of any eligible owners who did not pay the taxes due, and such owners would be disqualified for the credit.

DOR would calculate the amount of appropriation necessary to set the exemption limit at five percent, and notify the legislature and the Office of Administration of that amount. If an appropriation is made for the homestead exemption credit, DOR would set the amount of the actual exemption credit and calculate the amount of credit due each taxpayer. The credit amounts due each taxpayer would be provided to the county collectors and county clerks. If no appropriation is made, there would be no homestead tax credit for that year.

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
State Tax Commission
Office of Administration
- Division of Budget and Planning
- Division of Accounting
- Division of Design and Construction
- Administrative Hearing Commission

Office of the Secretary of State

Mickey Wilson

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Director
May 18, 2004