COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2998-01
Bill No.: SB 792
Subject: Taxation and Revenue - Property
Type: Original
Date: January 9, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
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 STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension *		Unknown	(Unknown)
Total Estimated Net Effect on All State Funds *	**$0**	**Unknown**	**(Unknown)**

* Expected to exceed $100,000 per year for FY 2007 and following years.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 9 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 to (Unknown)**	**(Unknown)**

* Expected to exceed $100,000 per year.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning**, (BAP) assume the proposed legislation would not result in additional costs or savings to the Division of Budget and Planning. However, BAP assumes there will be significant costs to general revenue to pay for the property tax foregone by the counties.

Officials from the **Department of Revenue** (DOR) assume this proposal would freeze increases in assessed valuation for taxes on real property used as a principal residence until the property is transferred. The proposal requires state reimbursement to any political subdivision for losses incurred from this legislation.

ASSUMPTION (continued)

Administrative Impact: This legislation only limits the amount of property taxes paid by seniors, and does not eliminate the taxes they currently pay. Therefore, those individuals may still be eligible for the property tax credit. The Division of Taxation assumes there will not be a decrease in the number of property tax credit claims received by the department. Therefore, there is no impact to DOR.

Revenue Impact: The department defers any estimate of revenue impact to the State Tax Commission or to the Office of Administration, Division of Budget and Planning.

Officials from the **Office of the Cole County Assessor** (Office) assume there would be no additional revenues or savings to their organization from this proposal. The office assumes a one time programming fee of $2,500 in 2005 would be needed for compliance with the proposal.

The office would have to maintain a separate accounting of homestead properties and this would 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 half time person would be needed to maintain and implement this program on an ongoing basis at a yearly cost (including payroll expenses) of $13,000 per year. The office also assumes that county collectors and clerks would be affected by the implementation of this proposal.

The office estimates that 7%-9.5% of properties transfer in any given 2 year reassessment period in Cole County. This means that the value on 90.5%-93% of the properties would not change during a reassessment in Cole County. For 2005, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss to the taxing jurisdictions that would result from implementing this proposal and would be reimbursed from state appropriations is approximately
$2 million.

For 2006, it is assumed there would be no loss, however the treatment of new construction (whether included or excluded) is not explained in the bill. The office assumes new construction would be excluded from the bill.

For 2007, assuming an 8% appreciation in property value for a typical reassessment cycle (4% per year), the loss to the taxing jurisdictions that would result from implementing this proposal and would have to be reimbursed from state appropriations is approximately $2.4 million.

ASSUMPTION (continued)

As Cole County would be reimbursed by the State for all revenue losses, there would be no actual loss to the County under this bill; however there is no explanation in the bill of what would occur should such appropriations not be made available by the State.

The office also estimates that of the total losses listed above, 3% would be earmarked for the state Blind Pension Fund.

In response to a similar proposal in the prior session, 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.

Officials from the **State Tax Commission** (TAX) assume that after the effective date of this proposal, residential property would only be reassessed when the ownership of the property changes.

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 the following year 2004. This legislation would be effective on August 28, 2004, therefore; TAX is assuming that the impact of this proposal would be realized in the 2005 reassessment with the first collections occurring in state FY 06.

ASSUMPTION (continued)

According to the 2000 census information, 70.3% of the housing units are owner occupied.

The 2002 assessed valuation for residential property is $33.1 billion. A seven percent (7%) increase in assessed valuation in 2003 would result in an additional $2.3 billion in assessed valuation. TAX is projecting that the 2003 assessed valuation for residential property would be approximately $35.4 billion. As there are minimal improvements and additions to residential property in an even-number year, the 2004 assessed valuation would also be approximately $35.4 billion.

In 2005, the next reassessment year, TAX assumes there would be a loss of revenue as a result of this proposal. Assuming that 70.3% of the residential property would be affected by this legislation and the average state wide tax rate will be $6.13 per hundred dollars of assessed value, the revenue loss would be approximately $93 million:

Projected Residential Assessed Valuation for calendar year 2003 is $35.4 billion.

$35.4 billion x 70.3% (residential property owner occupied) is $24.9 billion.

$24.9 billion x 7% average assessment increase is $1.7 billion

$1.7 billion x $6.13 per hundred dollars average statewide tax rate is $106 million.

We assume that six percent (6%) of residential properties will change ownership each year. Acquisition based assessment would result in an average of 15% increase in value for those properties.

$24.9 billion x 6% (ownership transfers) is $ 1.5 billion.

$1.5 billion x 15% (increase) is $ 224 million.

$224 million x $6.13 per hundred dollars average state wide tax rate is $ 13 million.

Revenue Loss (Freeze on reassessment) is $106 million.
Revenue Gain (Transfer of property) is $13 million.

Net Effect would be approximately ($ 93 million).

ASSUMPTION (continued)

As this legislation 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.

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.

FISCAL IMPACT - State Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
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 the 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 for FY 2007 and following years.

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
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, collector, and clerk. *	(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

This proposal would extend 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 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
State Tax Commission
Office of the Cole County Assessor
Office of Administration
    Division of Budget and Planning

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