COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4176-01
Bill No.: HB 1367
Subject: Elderly; Property, Real and Personal; State Tax Commission; Taxation and Revenue - General; Taxation and Revenue - Property
Type: Original
Date: February 24, 2004

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
General Revenue *	($5,000)	$0	($2,605,000)
Total Estimated Net Effect on General Revenue Fund *	**($5,000)**	**$0**	**($2,605,000)**

* subject to appropriation.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2005	FY 2006	FY 2007
Blind Pension *	$0	($13,000)	$13,000
Total Estimated Net Effect on Other State Funds *	**$0**	**($13,000)**	**$13,000**

* 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)**	**($600,000 to Unknown)**	**(Unknown) to $2,600,000**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration**, **Division of Budget and Planning**, assume this proposal would have no impact on their organization, but they note it could have a potentially significant impact on the state General Revenue Fund.

Although they did not respond to our request for information, officials from the **Office of the Cole County Assessor** (Office), in response to a similar proposal assumed that as many as 4,500 applications for homestead exemption per year would be completed in Cole County under this proposal. 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 Office estimated that 75% of seniors owning residential property would fall within the guidelines of the proposal, and that 25% of residential property is owned by seniors.

ASSUMPTIONS (continued)

Savings:

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

Cost:

The office assumes that one time programming change costs of $2,500 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.

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.

Senior estimates:

The Office estimates that as much as 25% of residential, owner occupied property could be owned by those over 65. 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 and collectors to implement the requirements of this proposal. Oversight assumes these costs would exceed $100,000 per year.

Officials from the **State Tax Commission** (TAX) stated that TAX does not have any information on the number of individuals who may apply for the homestead exemption. Therefore, TAX is unable to estimate the fiscal impact of this legislation. There will be various administrative costs to the county assessor and collector offices.

ASSUMPTIONS (continued)

Oversight assumptions as to application fees, and revenue reductions and state reimbursement are based on information provided by the State Tax Commission and from Federal Census reports.

According to the 2000 census information, 70.3% of housing units are owner occupied with 10.3% of the householders 65 and older. In addition, 86.6% of households had income less than $100,000. Information is not available as to age or handicap status for spouses of homeowners over 65. For fiscal note purposes, Oversight assumes all households with householder over 65 have a spouse over 65 or handicapped.

Application fees

Oversight assumes all qualifying homeowners would apply for the credit. According to the 2000 census information, there are approximately 2.2 million households in the state of Missouri. The number of households with a homeowner over 65 and income under $100,000 would be as follows (rounded):

2.2 million x 70.3% (owner occupied) = 1.5 million

1.5 million x 10.3% (over 65) = 154,500

154,500 x 86.6% (income under $100,000) = 134,000

134,000 x $15 (application fee) = $2 million.

Revenue Reduction and State Reimbursement

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.

ASSUMPTIONS (continued)

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.

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 86.6% (income under $100,000) = $2.2 Billion.

$2.2 Billion x 7% average assessment increase = $154 Million.

$154 Million x $6 per hundred average state tax rate = $9.2 Million tax increase without proposal.

$2.2 Billion x 5% assumed homestead exemption limit = $110 Million.

$110 Million x $6 per hundred average state tax rate = $6.6 Million tax increase with proposal.

$44 Million ($154 Million less $110 Million) x $6 per hundred state tax rate = $2.6 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 and state reimbursements to all taxes levied, resulting in losses to the Blind Pension Fund of approximately 1/2 of 1% of the credits, or $13,000 in FY 2006 and a reimbursement of that amount in FY 2007.

ASSUMPTIONS (continued)

Oversight assumes the first property tax payments with exemptions as a result of this proposal would be paid in December 2005 (FY 2006). Oversight assumes application fees would be received beginning in January 2005 (FY 2005) but would be insignificant until FY 2006. In addition, Oversight notes that application fees could be more or less than the administrative costs of processing the credits.

Officials from the **Office of the Secretary of State** (SOS) assume this 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 8 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. ((8 x $27) +(12 x $23) = $492)

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 **Department of Revenue** (DOR) assume DOR would be responsible for printing 500,000 to 1,000,000 claim forms and distributing them to assessors' offices. DOR estimated the printing cost at $5,000 and noted it was unable to estimate the postage cost.

Oversight assumes that no more than 500,000 forms would be needed and that printing costs would not exceed $2,500. Oversight assumes that postage would not exceed printing cost, and has added that amount to the fiscal impact. Also, Oversight assumes these costs would be incurred in FY 2005 and again in FY 2007.

Officials from the **Office of the Cole County Collector** and the **Office of the Cole County Assessor** did not respond to our request for information.

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	($2,600,000)
Cost - Department of Revenue Printing and mailing forms.	($5,000)	$0	($5,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*	**($5,000)**	**$0**	**($2,605,000)**
* Reimbursement to political subdivisions subject to appropriation.			
BLIND PENSION FUND			
Revenue State reimbursements *	$0	$0	$13,000
Revenue reduction Reduced tax collections	$0	($13,000)	$0
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**($13,000)**	**$13,000**
* subject to appropriation			

FISCAL IMPACT - Local Government	FY 2005 (10 Mo.)	FY 2006	FY 2007
POLITICAL SUBDIVISIONS			
Revenue			
State reimbursements *	$0	$0	$2,600,000
Application fees	$0	$2,000,000	$0
Revenue reduction			
Reduced tax collections	$0	($2,600,000)	$0
Cost to counties			
Additional administrative cost to county assessor, collector, and clerk *	(Unknown)	(Unknown)	(Unknown)
NET EFFECT ON POLITICAL SUBDIVISIONS *	**(Unknown)**	**($600,000 to Unknown)**	**(Unknown) to $2,600,000**

* 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 establish a Missouri Homestead Preservation Act. Any potential owner desiring to apply for the exemption would submit an application to their local assessor's office. If the applicant is eligible for the senior citizens property tax credit, they would not be eligible for the homestead exemption. An applicant would provide their Missouri taxable income to the both the county assessor and collector on the application. The maximum income limit for the first year of the exemption (2005) is $100,000.

DESCRIPTION (continued)

The application must contain certain information and be accompanied by a $15 application fee and copies of property tax receipts for the two prior tax years. An owner would be ineligible if the individual has not paid their property tax liability, if any, in full by the payment due date in any of the three prior tax years.

The assessor would record on the application the tax liability on the homestead for the prior and current taxable year and send the application to the collector by October 31st. The county collector would verify the applicant's adjusted gross income, age, and payment status of property taxes for the previous years.

The legislature would be required to appropriate moneys to provide proportional reimbursement to those political subdivisions which lose tax revenues as a result of the proposal.

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
Office of Administration
    Division of Budget and Planning
Department of Revenue
Office of the Secretary of State

NOT RESPONDING

Office of the Cole County Collector
Office of the Cole County Assessor

Mickey Wilson, CPA
Director
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