LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7205 **DATE PREPARED:** Jan 15, 2000
BILL NUMBER: HB 1349 **BILL AMENDED:**

SUBJECT: Property taxes.

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FUNDS AFFECTED: X GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

FUNDS AFFECTED:		
X	GENERAL	
X	DEDICATED	
	FEDERAL	

Summary of Legislation: ***Reassessment*:** This bill phases in the changes in assessed value due to the general reassessment over four years.

***Maximum Levies*:** The bill provides that, in determining a civil taxing unit's maximum property tax levy, the minimum increase in the unit's assessed value growth quotient is equal to the lesser of the rate of inflation (determined according to the gross domestic product implicit price deflator prepared by the United States Department of Commerce) or 5%. (Current law provides that the minimum increase in the assessed value growth quotient is 5%.)

***Welfare*:** Beginning in 2001, The bill also eliminates the remaining property tax levies for public welfare (the Family and Children's Fund levy, the county Medical Assistance to Wards levy, the county Hospital Care for the Indigent levy, and the Children with Special Health Care Needs levy), except for property tax levies needed to repay loans and bonds issued before January 1, 2001. It transfers responsibility for funding these services to the state. The bill revises the county adjusted gross income tax and the county option income tax fund distributions and adjusts county maximum levies.

Effective Date: July 1, 2000; January 1, 2001; March 1, 2001.

Explanation of State Expenditures: ***Reassessment*:** The State pays homestead credits based on property tax billings for owner-occupied residential property. The homestead credit is equal to 10% of a homeowner's property tax liability through 2001 and 4% of the liability beginning in 2002. Reassessment generally shifts more of the tax burden onto residential property, thereby increasing the state's liability for homestead credits. Phasing in the reassessment changes would also mean that the state's increased homestead liability would be phased in over the four year period. Homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any change in Homestead credit expenditures would ultimately affect the General Fund.

***Maximum Levies*:** If, as explained in local revenues, local unit levy growth is reduced by this bill then there would be a reduction in the state's expense for property tax replacement credit (PTRC). The reduction would be equal to 20% of the levy reduction. PTRC is paid from the Property Tax Replacement Fund which is supplemented by the state General Fund. Based on the reduction in maximum levies explained below in local revenues, the state could save approximately $11.5 M in CY 2001, $24.0 M in CY 2002, $37.4 M in CY 2003, $51.9 M in CY 2004, and $67.5 M in CY 2005 in PTRC expenses.

Since property tax bills would be reduced by this bill, the amount needed to fund the state homestead credit would also be reduced. It is estimated that the homestead credit cost would be reduced by $2.1 M in CY 2001, $4.3 M in CY 2002, $2.7 M in CY 2003, $3.7 M in CY 2004, and $4.9 M in CY 2005.

The total reduction in expenditures for the state under this provision are estimated at $6.8 M in FY 2001, $21.0 M in FY 2002, $32.9 M in FY 2003, $47.9 M in FY 2004, and $64.0 M in FY 2005. These estimated expenditure reductions assume that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual state expenditure reduction under the proposal may be slightly less than the above amounts.

***Welfare*:** This bill eliminates the remaining county funding of welfare and children's services. (HEA 1001-1999 removed the property tax levies for the County Welfare Fund and the County Welfare Administration Fund and transferred funding responsibility to the state.)

Beginning in CY 2001, the state would be responsible for the current gross county expenditures for welfare and children's services which are estimated at $165.1 M for FY 2001 (first half of CY 2001), $338.0 M for FY 2002, and $353.9 M for FY 2003. Child welfare expenditures experienced an average annual increase of about 20% between 1987 and 1995. The projections, above, are based on estimated continued growth in child welfare expenditures of about 5% per year reflecting the lower annual increases of the last few years. Also, average growth rates are based on the previous five years for the other funds.

The State already contributes to this expenditure in the form of property tax replacement credit (PTRC) and homestead credit. Because of the elimination of the gross property tax levies under this provision, the state payment for PTRC and homestead credit would be reduced by about $31.5 M for FY 2001 and $61.8 M for FY 2002, and $62.1 million for FY 2003. **The net additional state expenditures (additional expenditures less PTRC and homestead credit) are estimated at $133.6 M for FY 2001, $276.2 M for FY 2002, and $291.8 M for FY2003.**

The estimated cost broken down by fund is presented in the following table.

Estimated Cost for State Takeover of Welfare Funding (In Millions)							
Fund	CY 2001	CY 2002	CY 2003		FY 2001	FY 2002	FY 2003
Family & Children	211.1	225.4	236.0		105.5	218.3	230.7
HCI	41.6	44.4	46.5		20.8	43.0	45.4
MAW	8.9	9.6	10.0		4.5	9.2	9.8
Children w/ Health Needs	5.5	5.8	6.0		2.8	5.7	5.9
TOTAL	**267.1**	**285.2**	**298.5**		**133.6**	**276.2**	**291.8**

Explanation of State Revenues:

Explanation of Local Expenditures: ***Welfare*****:** The counties will experience reduced expenditures for welfare and children's services at an estimated $330.2 M for CY 2001, $345.8 M for CY 2002, and $362.1 M for CY 2003.

Explanation of Local Revenues: ***Reassessment*****:** Under current law, the next general reassessment was scheduled to begin on July 1, 1999 and is to be completed by March 1, 2001 with tax billings first affected in CY 2002. This bill calls for this changes in the assessed value attributable to reassessment to be phased in at a rate of 25% per year over four years.

Personal property (business tangible property, inventory and individual personal property) is reported each year on forms prescribed by the State Tax Board. These forms, in effect, reassess personal property each year. Since real property is not reassessed each year, and its value generally increases, there is a shift of the property tax burden each year from real estate taxpayers to personal property taxpayers until reassessment. The phase-in of the changes in assessed value (AV) could help decrease the effects of the reassessment "shock" that many real property taxpayers experience after a reassessment. At the end of the four year phase-in period, each taxpayer's AV would be whole. Since reassessments are currently scheduled every four years, the process would start all over again at this time.

Local units would receive the same amount of revenue regardless when the reassessment changes take effect. The only impact to local units would be to their bonding authority. Local units are bound by a constitutional 2% of AV debt limit. Phasing in the reassessment changes would mean that local units would not receive their entire increase in bonding authority all at once after reassessment.

Maximum Levies**:** Currently, civil taxing units receive maximum levy increases equal to their three year average assessed value growth quotient, with a minimum of 5% and a maximum of 10%. This proposal would remove the 5% minimum and replace it with the Gross Domestic Product Implicit Price Deflator up to 5%. This means that the minimum guaranteed max levy increase would never be more than 5%, regardless of the actual price deflator. The deflator has averaged about 2.5% over the last few years. This analysis assumes that the deflator will remain constant at 2.5%. The actual deflator is, however, subject to fluctuation.

Since the deflator would be lower than the current minimum 5% max levy increase, the growth in local civil units' levies and tax rates would slow. The amount by which the levy growth slows is dependent upon (1) the actual deflator each year, (2) the unit's actual three year AV growth quotient, and (3) whether the unit sets the tax levy at the maximum permissible levy.

Under current law, the statewide total maximum levy for civil units (not including schools) is estimated at $2,236 M in CY 2001 and $2,353 M in CY 2002. Under this proposal, the statewide total civil unit maximum levy is estimated at $2,178 million in CY 2001 and $2,233 in CY 2002. The maximum levy reduction would amount to approximately **$58 M in CY 2001, $120 M in CY 2002, $187 M in CY 2003, $259 M in CY 2004, and $337 M in CY 2005**.

These maximum levy reductions would equate to actual levy reductions if it is assumed that all taxing units levy their maximum levy. While this is not true for all taxing units, it is believed true for most. The actual levy reduction under the proposal may be slightly less than the above amounts.

***Welfare*:** The counties will experience reduced net levies of an estimated $238.7 M for CY 2001, $256.2 M for CY 2002, and $268.9 M for CY 2003.

The reduced net levies, above, are equal to the reduced gross levies less the amount paid by the state for PTRC and homestead credits. The gross levies are estimated to be $301.7 M for CY 2001, $316.8 M for CY 2002, and $332.5 M for CY2003. PTRC and homestead payments are estimated to be $63.1 M for CY 2001, $60.6 M for CY 2002, and $63.6 M for CY 2003.

In addition to the elimination of the welfare funds and the shift in responsibility to pay for welfare and children's services, the FIT and Motor Vehicle Excise Tax monies that were apportioned to the welfare funds can now be used for other purposes within the county. The estimated total revenues that are freed up for these two taxes are about $28.5 M for CY 2001, $29.0 M for CY 2002, and $29.6 M for CY2003.

Tax increment financing (TIF) allocations are equal to the incremental assessed value in a TIF area multiplied by the taxing district's tax rate. As a consequence of eliminating these welfare and children's services levies and tax rates, TIF proceeds would be reduced. If the tax rates had been eliminated in CY 1999, TIF districts, statewide, would have lost about $5.9 M.

State Agencies Affected: State Board of Tax Commissioners; Family and Social Services Administration.

Local Agencies Affected: County Auditors; All civil taxing units.

Information Sources: Family and Social Services Administration; Local Government Database; Bureau of Labor and Statistics.