

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: S.B. 286

SHORT TITLE: Local Option Homestead Relief

SPONSOR(S): Sen. Reeves

FISCAL IMPACT

Yes () No () No Estimate Available (x)

FY 1999-00 FY 2000-01 FY 2001-02 FY 2002-03 FY 2003-04

REVENUES

General Fund

No General Fund Impact

Local Governments

(See Assumptions and Methodology Section)

PRINCIPAL DEPARTMENT(S) &

PROGRAM(S) AFFECTED: County and City Governments who choose to participate.

EFFECTIVE DATE: When it becomes law.

BILL SUMMARY: The bill authorizes counties to increase the amount of property excluded from tax under the homestead exemption for the elderly and disabled. It also authorizes the counties to increase the maximum income threshold to qualify for the exemption. Once increased, the counties are also authorized to decrease these limits and exemptions as long as they met the minimum criteria set by the state. (Currently the state recognizes an exclusion of \$20,000 of property owned by a qualified person with an income of less than \$15,000). The county commission is charged with making the local decisions on homestead exemptions.

ASSUMPTIONS AND METHODOLOGY: The Homestead Exemption is a partial exemption from property taxes for the residence of a person who is aged 65 or older, or totally disabled, and who has an income of less than \$15,000. The exemption amount was last increased in 1996, when it was increased from \$15,000 to \$20,000 effective July 1, 1997. Before then the exemption was last increased in 1993 from \$12,000 to \$15,000. The income eligibility amount was last increased in 1996, when it was increased from \$11,000 to \$15,000. Before then the income threshold had last been increased in 1987, when it was increased from \$10,000 to \$11,000.

The current annual cost of the Homestead Exemption program is approximately \$26 million. That cost is divided between the state and the localities. History indicates that when the exemption amount and the income requirement are changed incrementally, approximately 80% of the resulting loss corresponds to the property exemption and 20% to the income requirement. Of course this ratio may change if either the exemption or income requirements are altered dramatically.

In 1995 the U.S. Bureau of the Census estimated that the national median elderly home value was \$81,956. Inflating these numbers by the Consumer Price Index rate for shelter in 1996 and 1997 creates a 1997 national average elderly home value of \$87,201. Once adjusted for North Carolina's slightly lower than average home prices (5% adjustment) and the difference between actual value and assessed value for property tax purposes (because property is generally assessed every 4 or 8 years, the assessed value lags the actual value. On average the assessed value is approximately 85% of the actual value) a realistic North Carolina value would be approximately \$70,500. The U.S. Bureau of the Census estimates that there were 589,000 elderly households in North Carolina in 1997. As such, the total value of homes owned by North Carolina elderly was approximately \$41.5 billion. Assuming the weighted average property tax rate for 1997 applied, the total tax liability created by elderly households in 1997 was \$402 million. Making adjustment for the current homestead exemption, the net 1997 cost of exempting all elderly homes would have been \$376 million.

No exact fiscal estimate is possible on this bill for two reasons. First, the legislation is permissive; each individual county can decide if it will alter the income and exemption amounts. Fiscal Research cannot determine, reliably, which counties will actually decide to participate. Second, no maximum loss estimate (assuming all counties participate) is possible because the bill does not include a cap. As such, the range of potential loss goes from none, assuming no counties participate, to the entire value of all primary residences owned by all elderly persons (less the current homestead exemption).

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