# NORTH CAROLINA GENERAL ASSEMBLY

## LEGISLATIVE FISCAL NOTE

**BILL NUMBER**: HB 50 1st Edition

**SHORT TITLE**: Local Option Homestead Exemption

**SPONSOR(S)**: Rep. Rayfield

### FISCAL IMPACT

**Yes (X) No ( ) No Estimate Available (X)**

| | FY 2001-02 | FY 2002-03 | FY 2003-04 | FY 2004-05 | FY 2005-06 |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| **General Fund** | **No General Fund Impact** | | | | |
| **Local Governments** | **(See Assumptions and Methodology Section)** | | | | |

**PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED**: If the statewide measure passes, county governments (and their associated municipalities) that choose to participate.

**EFFECTIVE DATE**: Sections 2,3, and 4 of this act become effective when the State Board of Elections certifies voter approval of the measure. The remainder becomes effective when it becomes law.

**BILL SUMMARY**: The bill authorizes a statewide vote of the people on a local option homestead exemption increase. If approved by the voters in the 2002 general election, the General Assembly can grant all counties the authority 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 at 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. All changes to the homestead exemption must apply uniformly within the county.

**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 $27 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 1997 the U.S. Bureau of the Census estimated that the national median elderly home value was $89,294. 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 accessed 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 $72,105. The Bureau of Labor statistics estimates that housing costs have increased 6% in the south since 1997. Using this information to move the data into the current year creates an elderly North Carolina home value of $76,431. The most recent U.S. Bureau of the Census estimates indicates that there are 555,000 owner occupied elderly households in North Carolina. As such, the total value of homes owned by North Carolina elderly was approximately $42.4 billion. Assuming the weighted average property tax rate applied (approximately $1.00), the total tax liability created by elderly households is $420 million. Making adjustment for the current homestead exemption, the net cost of exempting all elderly homes would be $393 million.

<u>No exact fiscal estimate is possible on this bill for three reasons.</u> **First**, Fiscal Research cannot predict the outcome of the 2002 General Election vote on the Homestead Exemption. **Second,** even if voters statewide approve the increase, the legislation is permissive. Therefore 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. **Third,** no maximum loss estimate (assuming all counties participate) is possible because the bill does not include a cap. As a result, 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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