COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0138H.01I
Bill No.: HJR 8
Subject: Taxation And Revenue - General; Taxation And Revenue - Property; Constitutional Amendments; Property, Real And Personal
Type: Original
Date: January 4, 2021

Bill Summary: This joint resolution proposes a constitutional amendment to prohibit the increase of residential property assessments by more than three percent per year.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue	$0 or (More than $7,000,000)		
Total Estimated Net Effect on General Revenue	**$0 or (More than $7,000,000)**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Blind Pension Fund (0621)	$0	$0	$0 or (Unknown, Could exceed $100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	**$0**	**$0**	**$0 or (Unknown, Could exceed $100,000)**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	**$0***	**$0**	**$0 or (Unknown)**

*Potential costs and state reimbursements net to zero in FY 2022 if a special election is called.

FISCAL ANALYSIS

ASSUMPTION

Officials from **Office of the Secretary of State** assume, each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be $7 million based on the cost of the 2020 Presidential Preference Primary.

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In FY19, over $5.8 million was spent to publish the full text of the measures for the August and November elections. The SOS estimates $65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

The Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected, in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2022. This reflects the decision made by the Joint Committee on Legislative Research that the cost of the elections should be shown in the fiscal note. The next scheduled statewide primary election is in August 2022 and the next scheduled general election is in November 2022 (both in FY 2023). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor (a different date).

ASSUMPTION (continued)

Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2022.

Officials from the **State Tax Commission** have reviewed and determined HJR 8 amends the Mo Constitution and proposes that no residential property (Class 1) shall be assessed more than 3%, the act has an unknown fiscal impact, however the limitation on assessment growth may negatively impact revenues for school districts, counties, cities, fire districts and other local taxing jurisdictions supported by property tax revenues. Additionally, restrictions on assessment growth may create disparities and inequities over time among residential properties and categories of homeowners, shifting a greater share of the tax burden from one class of homeowner to another. A newer home's true market value used for assessment may increase far more than an older home. An assessment limit would impact the assessment growth and over time potentially create a large disparity.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal requires voter approval; therefore, this proposal will not impact TSR or the calculation under Article X, Section 18(e).

This proposal would amend the Missouri Constitution to limit the growth in assessed value for residential property to 3% per calendar year.

B&P notes that while this proposal will not have a direct impact to the Blind Pension Trust Fund or local revenues, this may have a negative indirect impact over time.

In response to a similar proposal from 2020, **B&P** indicated the proposal would maintain current levels of funding relative to the prior year. The funding level would not decrease from current levels. The future funding levels under the proposed law could be less relative to funding levels under current law (barring a recession/declining property values). B&P consider the constraint of future revenues to be an indirect effect.

Officials from the **Department of Revenue**, **Office of the State Auditor** and **Department of Social Services** each assume the proposal will have no fiscal impact on their respective organizations.

In response to a similar proposal from 2020, **Department of Social Services** stated the proposal would change the rate of growth of the blind pension fund. However, it will not decrease the fund income from where it is today, so the Department does not anticipate a fiscal impact. This bill would not decrease the current monthly payment amount to Blind Pensioners. It may affect the growth of revenue the fund receives. The average Blind Pension Fund income growth over the past 10 years has been 1.52%. Since this will not reduce revenue, only change increases, DSS is still responding with no fiscal impact.

ASSUMPTION (continued)

Officials from the **Boone County Assessor's Office** assume this proposal violates Article X, Section 3 of the Missouri Constitution which states in part that "taxes shall be uniform upon the same class or subclass." Limiting the increase in assessments by no more than 3% would not allow the assessor to value new construction, alterations and additions at market value annually. This proposal would create an inequity between the new and older housing stock. The 3% restriction would not allow the assessor to equalize the tax burden which is essential to ensure public trust in the ad valorem method of taxation. This proposal would cost the taxing entities of Boone County Missouri $3 million dollars annually.

Officials from the **Howell County Assessor's Office** state they are unable to determine the revenue losses but the range could be as small as $1,000 and as great as $1,000,000 or more per year for all political subdivisions. Additional programming costs could be as little as $500 and as great as $2,500.

Officials from the **City of Kansas City** assume this proposal might potentially have a negative fiscal impact to the City of Kansas City, Missouri if the assessed value percentage growth is less than increase in CPI. The levy calculation for property taxes already limits revenue growth. Currently the permitted reassessed revenue growth is based on the lower of the percentage of assessed value growth, the increase in CPI or 5%. The highest increase in CPI over the last twelve years was 2.7% (2009). The average is approximately 1.4%. As the allowable increase in assessed value percentage becomes closer to actual increases in CPI this could have an indeterminate negative financial impact to the City.

Officials from the **City of Springfield** anticipate a negative fiscal impact every other year when property values are reassessed. For Fiscal Year 2020, the estimated revenue in excess of the proposed limit of a 3% increase totaled $443,854.

Officials from the **City of Hale**, **Kimberling City Police Department**, **Gainesville Fire Department**, **Gravois Fire Protection**, **Raytown Fire Protection District**, **St. Clair Fire Protection District**, **Wentzville Fire Protection District**, and the **West Overland EMS and Fire Protection District** each assume the proposal could have a fiscal impact on their respective organizations.

Officials from the **City of Ballwin**, **City of Corder**, **Newton County Health Department**, **Boone County Sheriff**, **Crestwood Police Department**, **Ellisville Police Department**, **Kansas City Police Department**, **Springfield Police Department**, **St. Joseph Police Department**, **St. Louis County Police Department**, **Crawford County 911 Board**, **Nodaway County Ambulance District**, **Pettis County Ambulance District**, and the **Plato Rural Fire Protection Association** each assume the proposal will have no fiscal impact on their respective organizations.

ASSUMPTION (continued)

Oversight assumes this proposal limits increases in the assessed values of individual residential property to 3% in any calendar year. Under the proposed legislation, Oversight assumed the assessed value would be 19% of the market value or the prior year assessed value plus 3% whichever is lower. For fiscal note purposes, Oversight used a two property example to demonstrate the potential changes to the assessed values as a result of this proposal.

Table I: Assessed Values

	Prior Year Market Value	Prior Year Assessed Value (19%)	Current Year Market Value (Assumed)	Assessed Value Current (19%)	**Assessed Value Proposed***
Property 1	$100,000	$19,000	$105,000	$19,950	**$19,570**
Property 2	$100,000	$19,000	$100,000	$19,000	**$19,000**
Total	$200,000	$38,000	$205,000	$38,950	**$38,570**

*For purposes of this example, Oversight assumed a 5% increase in the market value of property 1 and no change in the market value of property 2.
**Oversight assumed the assessed value would be either the market value times 19% or the prior year assessed value plus a 3% increase whichever is lower.

Oversight notes property tax revenues are designed to be revenue neutral from year to year. The tax rate is adjusted relative to the assessed value to produce the same revenue from the prior year with an allowance for growth. Below is the basic formula for the tax rate-setting calculation:

Tax Rate Calculation	
Revenues Authorized Previous Year	$1,900
Times the Growth Factor*	* 1.9%
Authorized Revenue Growth	$36
Previous Year Authorized Revenues	$1,900
Plus Authorized Revenue Growth	+ $36
Current Year Authorized Revenues	$1,936
Total Current Assessed Value	$38,950
Less New Construction	- $0
Adjusted Total Current Assessed Value	$38,950
Current Year Authorized Revenues	$1,936
Divided by Adjusted Total Current Assessed Value	/ $38,950
	0.04971
	* 100
Maximum Authorized Levy	$4.971

ASSUMPTION (continued)

Growth Factor Calculation

Current Year Adjusted Total Current Assessed Value	$38,950
Less Previous Year Adjusted Total Assessed Value	- $38,000
	$ 950
Divided by Previous Year Adjusted Total Assessed Value	/ $38,000
	0.025
Times 100	* 100
Actual Growth Factor	2.5%

*The growth factor used in the tax levy calculation is either actual growth in assessed valuation, inflation based on CPI (1.9%) or 5% whichever is lower. In this example, actual growth in assessed value exceeds inflation, therefore the growth factor used in the tax levy calculation is capped at inflation (1.9%).

Using the basic formula above and the Property Tax Rate Calculator (Single Rate Method) provided on the Missouri State Auditor's website, Oversight estimated the potential changes in the tax rate from this proposal in the table below using the two-property example.

Table II: Tax Rates

	Assessed Values	Growth Factor*	Maximum Allowed Revenue (Prior Year Revenue plus Growth Factor)	Tax Rate Ceiling (Maximum Revenue/ Assessed Value)*100
Prior Year (Assumed)	$38,000	N/A	$1,900.00	5.0000
Current Year Current Law	$39,900	1.9%	$1,936.00	4.9705
Current Year Proposed Law	**$38,570**	**1.5%**	**$1,929.00**	**5.0013**

*The growth factor used in the tax levy calculation is either actual growth in assessed valuation, inflation based on CPI (1.9%) or 5% whichever is lower. In this example under the proposed law, actual growth is below inflation, therefore the growth factor used in the tax levy calculation is the actual growth rate of assessed values or 1.5% ((($38,570-$38,000)/$38,000)*100).

Currently, growth in assessed values allows the tax rate to fall over time. In this example, under the proposed legislation, the tax rate would fall at a slower rate than under the current law (or rise). **Oversight** notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate (relative to current law) rather it would result in a loss of revenue.

ASSUMPTION (continued)

Additionally, in this example, the growth in total assessed value was less than the percentage change in CPI due to the cap which reduced the maximum allowed revenue. In order to achieve a maximum growth in revenue of 1.9% (current change in CPI) either all properties would have to increase at the rate of change in CPI or other classes of property would have to increase at a higher rate than the change in CPI to overcome the net reduction from any properties that increased at a rate below the change in CPI or decreased in value (as Class I properties would no longer make up this difference due to the cap). Therefore, Oversight assumes this proposal could result in a reduction in the maximum allowed revenue even for tax entities below their statutory or voter approved rate.

Based on information provided by the Office of the State Auditor, **Oversight** notes there are over 2,500 tax entities with over 4,500 different tax rates. As of 2019, there were 3,155 tax rate ceilings below the entities' statutory or voter approved maximum tax rate and 929 tax rate ceilings at the entities' statutory or voter approved maximum rate. (These numbers do not include entities which use a multi-rate method that calculate a separate tax rate for each subclass of property.)

Because the tax levy would be higher relative to current law in this example (as noted in Table II), the distribution of tax on individual property owners would change as noted below in Table III.

Table III: Distribution of Individual Property Tax

	Prior Year Tax Burden	Assessed Value Current Law (Table I)	Tax Burden Current Law (4.9705)	**Assessed Value Proposed Law (Table I)**	**Tax Burden Proposed Law (5.0013)**
Property 1	$950.00	$20,900	$1,014.10	**$19,570**	**$978.75**
Property 2	$950.00	$19,000	$921.90	**$19,000**	**$950.25**
Total	$1,900.00	$39,900	$1,936.00	**$38,570**	**$1,929.00**

Based on information from the Federal Housing Finance Agency website, **Oversight** notes there were 753 census tracts in Missouri with a change in the House Price Index (HPI) that exceeded the 3% from 2017 to 2019 period (based on a two year assessment cycle). Because this proposal limits the assessed value of individual residential properties to 3% increase in a calendar year, this will result in a decrease to total assessed values (relative to current law) as a result of any property that appreciates more than 3% over the two year reassessment cycle.

Oversight notes the Blind Pension Fund (0621) is calculated as an annual tax of three cents on each one hundred dollars valuation of taxable property ((Total Assessed Value/100)*.03). Because this proposal reduces the assessed value portion of this equation (relative to current law), the Blind Pension Fund will experience a decrease in revenue relative to what it would

ASSUMPTION (continued)

have received under current law. Below is an example of how this proposal would impact the Blind Pension Fund using the two property example.

Table IV: Blind Pension Trust Fund

	Assessed Value	Blind Pension Trust Fund (Assessed Value/100)*0.03
Prior Year	$38,000	$11.40
Current Year Current Law	$39,900	$11.97
Current Year Proposed Law	**$38,570**	**$11.57**

In addition, **Oversight** notes this proposal does not appear to have an exception for improvements or new construction. Some counties have indicated this would subject improvements and new construction to the limited increase in assessed value which could substantially reduce assessed values and revenues.

Oversight notes OA-B&P indicated they did not anticipate a reduction in funding relative to what is currently collected because the proposal still allows for some growth in assessed values. However, Oversight will show an unknown negative fiscal impact that could exceed $100,000 to the Blind Pension Fund relative to what it would have received under current law. Although the effective date of this proposal, if passed, would be FY 2022 (August 2021), the next re-assessment cycle would not occur until calendar year 2023 with impacted revenues occurring in FY 2024 (December 2023).

Oversight notes this proposal is contingent on a voter approved amendment to the Constitution. Oversight will show the impact as either $0 (Constitutional amendment is not approved by voters) to an unknown loss in revenue to the Blind Pension Fund and local political subdivisions beginning in FY 2024.

FISCAL IMPACT – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE			
Transfer Out - Local Election Authorities the cost of the special election **if** called for by the Governor	$0 or More Than ($7,000,000)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 or More Than ($7,000,000)**	**$0**	**$0**

FISCAL IMPACT – State Government (continued)	FY 2022 (10 Mo.)	FY 2023	FY 2024
BLIND PENSION FUND			
Revenue Loss - loss of property tax on property that appreciates more than 3%	$0	$0	$0 or (Unknown, Could exceed $100,000)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**$0**	**$0 or (Unknown, Could exceed $100,000)**

FISCAL IMPACT – Local Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
Transfer In - to Local Election Authorities - the cost of a special election	$0 or More Than $7,000,000	$0	$0
Cost - Local Election Authorities - the cost of the special election **if** called for by the Governor	$0 or More Than ($7,000,000)	$0	$0
Costs - Assessors - implementation and tracking	$0	$0	$0 or (Unknown)
Revenue Loss - loss of property tax on property that appreciates more than 3%	$0	$0	$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0**	**$0 or (Unknown)**

FISCAL IMPACT – Small Business

Oversight assumes there could be a fiscal impact to small businesses if this proposal resulted in a higher overall tax rate for commercial property.

FISCAL DESCRIPTION

Upon voter approval, this proposed Constitutional amendment would prevent the increase of assessments of residential, real property by more than 3% in any calendar year.

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

Office of Administration - Budget and Planning
Department of Revenue
Department of Social Services
Office of the Secretary of State
Office of the State Auditor
State Tax Commission
City of Ballwin
City of Corder
City of Hale
City of Kansas City
City of Springfield
Newton County Health Department
Boone County Assessor
Howell County Assessor
Boone County Sheriff
Crestwood Police Department
Ellisville Police Department
Kansas City Police Department
Kimberling City Police Department
Springfield Police Department
St. Joseph Police Department
St. Louis County Police Department
Gainesville Fire Department
Gravois Fire Protection District
Plato Rural Fire Protection District
Raytown Fire Protection District
St. Clair Fire Protection District
Wentzville Fire Protection District
West Overland EMS and Fire Protection District

SOURCES OF INFORMATION (continued)

Crawford County 911 Board
Nodaway County Ambulance District
Pettis County Ambulance District

Julie Morff
Director
January 4, 2021

Ross Strope
Assistant Director
January 4, 2021