COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0953H.01I
Bill No.: HB 248
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property, Real and Personal; County Government; County Officials
Type: Original
Date: March 2, 2021

Bill Summary: This proposal modifies provisions relating to real property tax assessments.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Blind Pension Fund*	$0	$0	$0 or (Unknown)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0 or (Unknown)**

*The enactment of this proposal is dependent upon passage of an amendment to the Constitution of Missouri (passage of a joint resolution) allowing for the statutory limitation on the amount by which the assessed value of residential real property may be increased.

Numbers within parentheses: () indicate costs or losses.

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 $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

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

FISCAL ANALYSIS

ASSUMPTION

Section 137.115 Cap on Assessed Values

Officials from the **Office of Administration - Budget and Planning**, **Department of Revenue**, **Department of Social Services** and the **Office of the State Auditor** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Officials from the **State Tax Commission** has determined that this bill proposes residential real property be valued at the most recent assessed value, or the fair market value for said property be determined at the most recent sale. This bill also proposes that the increase of real residential property is the Consumer Price Index percentage rate of increase. This proposal has an unknown fiscal impact on the State Tax Commission, 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, potentially 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 or vice versa depending on market conditions. An assessment limit may impact assessment growth and over time potentially create a large disparity.

Officials from the **City of Hale** and the **St. Clair Fire Protection District** each assume the proposal could have a fiscal impact on their respective organizations.

Officials from the **City of Springfield** anticipate a potential fiscal impact, but whether the impact would be positive or negative and the amount of such impact depends on whether assessments of residential real property presently equal actual fair market values. The City has no information regarding whether assessment reflect market values so cannot determine whether there would be a fiscal impact, and, if so, the amount.

Officials from the **City of St. Louis** assume the passage of this legislation would have a negative impact on the City of St. Louis's revenue. This legislation would limit assessed value increase to the Consumer Price Index (CPI). Limiting the increase amounts would result in less revenue collected by the City of St. Louis as explained and show below.

Current law allows taxing jurisdictions to collect an increase in the CPI or 5%, whichever is less as an inflationary factor. In the last two reassessments, the overall increase in all property value was about 6% - 7%. The CPI over the same time frame has been around 2%. However, regardless of how much the increase, the greatest amount collected cannot exceed 5%. The difference in collections at a 2% increase (required by the proposed legislation) vs. 5% increase (allowed by current law) is shown below:

	2019 Figures	2% Reassessment Growth	5% Reassessment Growth	Difference
2019 total prop taxes collected	$395,650,137	$403,563,140	$415,432,644	$11,869,504
2019 City prop taxes collected	$76,790,000	$78,325,800	$80,629,500	$2,303,700
2019 fee to Collector Fund	$5,934,752	$6,053,447	$6,231,490	$178,043
2019 fee to Assessment Fund	$2,540,000	$2,590,800	$2,667,000	$76,200

Passing this legislation would result in $2.3M less in property tax revenue for the City of St. Louis than if the legislation does not pass. A loss of revenue would impact the City's ability to provide basic City services.

This change would cause properties to be valued non-uniformly and cause those with the greatest percentage value increases to pay the least in taxes. Those living in thriving neighborhoods would pay less than those in depressed neighborhoods. This legislation would likely violate Article X, Section 3 of the Missouri Constitution as it would cause non-uniform assessments in the same subclass of property.

Officials from **Jackson County** assume this proposed amendment would have a significant negative fiscal impact on Jackson County and every other taxing jurisdiction. Without any enforcement or penalty provisions the certificate of value requirement remains voluntary. A cap of allowable growth to the consumer price index would significantly impact communities that are seeing growth in demand/for value in their properties.

Officials from the **Howell County Assessor's Office** estimated the impact is between $100,000 and $1,000,000 in lost tax receipts and the estimated cost to the county is between $50,000 and $100,000 in legal defense fees.

Officials from the **St. Charles Community College** assume this proposal has the potential for a negative fiscal impact, but the amount can't be quantified with the information provided.

Officials from the **City of Ballwin**, **City of Kansas City**, **City of Claycomo**, **Crawford County 911 Board**, **Nodaway County Ambulance District**, **High Point R-III School District** and the **Newton County Health** Department each assume the proposal will have no fiscal impact on their respective organizations.

Oversight assumes this proposal limits increases in the assessed values of individual residential property to the change in CPI per year (estimated at 1.4% for the 2020 year end). Under the proposed legislation, Oversight assumed the assessed value would be 19% of the market value or the prior year assessed value plus 1.4% growth 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	**$19,279**
Property 2	$100,000	$19,000	$100,000	$19,000	**$19,000**
Total	$200,000	$38,000	$205,000	$38,950	**$38,279**

*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 1.4% increase whichever is lower.

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	x 100
Actual Percentage Growth in Assessed Value	**2.5%**

Tax Rate Calculation

Revenues Authorized Previous Year	$1,900
Times the Growth Factor*	x 1.4%
Authorized Revenue Growth	$27
Previous Year Authorized Revenues	$1,900
Plus Authorized Revenue Growth	+ $27
Current Year Authorized Revenues	$1,927
Total Current Assessed Value	$38,950
Less New Construction (assumed for simplicity)	- $0
Adjusted Total Current Assessed Value	$38,950
Current Year Authorized Revenues	$1,927
Divided by Adjusted Total Current Assessed Value	/ $38,950
	0.049474
	x 100
Maximum Authorized Levy	**$4.9474**

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	5.0000
Current Year Current Law	$38,950	1.4%	$1,927	4.9474
Current Year Proposed Law	**$38,279**	**0.73%***	**$1,914**	**5.0001**

*The growth factor used in the tax levy calculation is either actual growth in assessed valuation, inflation based on CPI (1.4%) 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 0.73% ((($38,279-$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. **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.

Additionally, the growth in total assessed value was less than the percentage change in CPI which reduced the maximum allowed revenue. In order to achieve a maximum growth in revenue of 1.4% (current change in CPI) either all properties would have to increase at 1.4% (or above) or other classes of property would have to increase higher than 1.4% to overcome the net reduction from any properties that increased below 1.4% or decreased in value. Therefore, Oversight assumes this proposal could result in reduction in 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, in 2020, there were over 2,500 tax entities with 4,000 different tax rates. Of those entities, 2,980 tax rate ceilings were below the entities' statutory or voter approved maximum tax rate and 1,098 tax rate ceilings were at the entities' statutory or voter approved maximum rate. (These numbers do not include entities which use a multi-rate method and 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 (Table I)	Tax Burden Current (4.9474)	Assessed Value Proposed (Table I)	**Tax Burden Proposed (5.0001)**
Property 1	$950.00	$19,950	$987	$19,279	**$964**
Property 2	$950.00	$19,000	$940	$19,000	**$950**
Total	$1,900.00	$38,950	$1,927	$38,279	**$1,914**

Based on information from the Federal Housing Finance Agency website, **Oversight** notes there were 726 census tracts in Missouri with a change in the House Price Index (HPI) that exceeded the change in CPI (or 1.4%) for 2019. Because this proposal limits the assessed value of individual residential properties to the increase in CPI (1.4%) from the previous assessment, this will result in a decrease to total assessed values (relative to current law) as a result of any property that appreciates more than the change in the CPI (1.4%) from the previous assessment 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, the Blind Pension Fund will experience a decrease in revenue relative to what it would 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	$38,950	$11.69
Current Year Proposed Law	**$38,279**	**$11.48**

Per the Auditor's report, Christian County had an 18.64% increase in adjusted total assessed value (less new construction and improvements) from 2018 to 2019. Using information from the State Tax Commission's Annual Report, **Oversight** estimated total residential assessed value was $6,005,888,167 in 2018. Applying the growth rate of 18.64%, Oversight estimated residential assessed values would potentially increase to $7,111,572,179 ($6,005,888,167 *1.1864) in 2019.

Under this proposal the maximum increase would be capped at 1.4% which is estimated at $6,089,970,601 ($6,005,888,167 * 1.014). Oversight assumes the 1.4% cap would decrease the residential assessed value by $1,021,601,578 ($7,111,572,179 - $6,089,970,601). Correspondingly, the Blind Pension Fund would decrease by $306,480 relative to what would have been received under current law (($1,021,601,578/100)*.03). Oversight assumes it is possible the revenue impact to the Blind Pension Fund could exceed $250,000; however, notes the percentage change in adjusted assessed value for Jackson County was -4.54% in 2020. Oversight assumes the magnitude of the impact to the Blind Pension Fund would depend on prevailing market conditions.

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 $250,000 to the Blind Pension Fund relative to what it would have received under current law.

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.

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 assumes there could be costs for implementation and computer programming. Oversight will show an unknown cost to county assessors to implement this proposal beginning in FY 2023.

FISCAL IMPACT – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
BLIND PENSION FUND			
Revenue Loss - loss of property tax on property that appreciates more than the change in CPI - §137.115.18	$0	$0	$0 or (Unknown)
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	**$0**	**$0**	**$0 or (Unknown)**

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
<u>Costs</u> - County Assessors - computer programing and administrative costs	$0	$0 or (Unknown)	$0 or (Unknown)
<u>Revenue Loss</u> - loss of property tax on property that appreciates more than the change in CPI - §137.115.18	<u>$0</u>	<u>$0</u>	$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**<u>$0</u>**	**$0 or <u>(Unknown)</u>**	**$0 or <u>(Unknown)</u>**

<u>FISCAL IMPACT – Small Business</u>

Oversight assumes there could be a fiscal impact to small businesses if the change in assessed value of residential property resulted in an adjustment in the tax rate for commercial property.

<u>FISCAL DESCRIPTION</u>

The previous assessed valuation of the property or the value of which the property was sold since its most recent assessment. Such valuation may increase over time contingent on a value increase resulting from inflation or value added to the property as a result of new construction or improvements.

This bill will not affect the ability of any county assessor to decrease the value of any residential real property. This bill has an effective date contingent on the passage of an amendment to the Constitution of Missouri allowing for a statutory limitation on the amount by which the assessed value of residential real property may be increased.

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 - Budget and Planning
Department of Revenue
Department of Social Services
Office of the State Auditor
City of Ballwin
City of Claycomo
City of Hale
City of Kansas City
City of Springfield
City of St. Louis
Jackson County
Newton County Health Department
Howell County Assessor
St. Clair Fire Protection District
Crawford County 911 Board
Nodaway County Ambulance District
High Point R-III School District
St. Charles Community College

Julie Morff
Director
March 2, 2021

Ross Strope
Assistant Director
March 2, 2021