

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0831H.05C
Bill No.: HCS for HJR Nos. 33 & 45
Subject: Taxation and Revenue - Property; Property, Real and Personal; Constitutional Amendments; Department of Revenue
Type: Original
Date: March 7, 2023

Bill Summary: This amendment proposes a constitutional amendment relating to real property tax assessments.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
General Revenue*	\$0 or (More than \$10,000,000)	\$0	\$0 or Unknown
Total Estimated Net Effect on General Revenue	\$0 or (More than \$10,000,000)	\$0	\$0 or Unknown

*The potential fiscal impact of “(More than \$10,000,000)” in FY 2024 would be realized **only** if a special election were called by the Governor to submit this joint resolution to voters. Also, if voters approve the joint resolution, the savings to the state from a reduction of Senior Citizen Property Tax Credits could possibly reach the \$250,000 threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Blind Pension Fund*	\$0	\$0	\$0 or (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0 or (Unknown)

* **Oversight** assumes the unknown fiscal impact to the Blind Pension Fund could reach (\$250,000) relative to what it would have received under current law

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
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 2024	FY 2025	FY 2026
Local Government	\$0*	\$0	\$0 or (Unknown)

*Transfers and costs net to zero **if** the Governor calls a special election.

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 \$10 million based on the cost of the 2022 primary and general election reimbursements.

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.

For the FY24 petitions cycle, the SOS estimates publication costs at \$70,000 per page. This amount is subject to change based on number of petitions received, length of those petitions and rates charged by newspaper publishers.

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, the SOS reserves the right to request funding to meet the cost of the 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 2024. 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 2024 and the next scheduled general election is in November 2024 (both in FY 2025). 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). Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2024.

Officials from the **State Tax Commission (STC)** have 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 or 2% whichever is less. Additionally, the bill would freeze the assessment for property owners that are 65 years of age or older.

If an individual 65 or over purchases a new home, the assessment would be frozen at the previous sale price or assessment. 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 **Office of Administration - Budget and Planning** note this proposal would go to a public vote in November 2024. If voter approved, B&P assumes that this provision would become effective for tax year 2025. This proposal would freeze the assessment value of real property used as a primary residence for individuals 65 years and older who own their home.

B&P notes that the Blind Pension Trust Fund levies a property tax rate of \$0.03 per \$100 of assessed value. Since this proposal requires subsequent jurisdiction approval, this proposal will not have a direct impact on revenues to the Blind Pension Trust Fund. However, this proposal may result in an indirect loss to Blind Pension Trust Fund Revenues.

Officials from the **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 **City of Kansas City** assume this legislation is projected to have a negative fiscal impact of an indeterminable amount. Residential real property assessed valuation growth would be limited to the change in the consumer price index (CPI) of most recent previous assessment or 2% annual increase in assessed valuation whichever is less. Currently the permitted reassessment revenue growth is based on the lower of actual growth, the change in CPI or 5%

The **City of Springfield** anticipates there could be a fiscal impact from this bill but does not have sufficient data to determine whether an impact would be positive or negative.

Officials from the **Newton County Health Department** assume this will, over time, create a negative fiscal impact on the department as collected tax revenue will decrease as citizens become age eligible.

Officials from the **Fruitland Area Fire Protection District (FRUI) - Cape Girardeau** assume this would have fiscal impact; it is currently unknown how much. Since they are funded by taxes, this could have a very negative effect in terms of being able to upgrade equipment to meet the needs of the district. Equipment and supplies keep increasing in cost, while good for the taxpayer in capping taxes; it would force the district to find alternative ways to fund their operations.

The **County Employees' Retirement Fund (CERF)** indicates that this proposal would likely result in reductions in contribution revenue to CERF of an unknown amount annually. A certain portion of the moneys that are used to fund the County Employees' Retirement Fund are tied to the collection of real property taxes. Data is not available to quantify how changes to real property assessments under HCS/HJR 33 would impact contribution revenue but CERF assumes the impact would be negative.

Oversight notes this proposal would set the true value of a property (that has been sold since its most recent assessment) at the total fair market value of the compensation received by the seller. Oversight assumes if the compensation received by the seller is substantially different from the value as determined by the county assessor, this proposal could impact property tax revenues for the Blind Pension Fund and local political subdivisions. Oversight notes the STC conducts a biennial [ratio study](#) which compares a sample of the values set by the county assessors to the recent sale price or value estimated by an independent appraisal. Most county ratios studies indicate the assessed values are below (in some cases substantially below) the market value proxy.

For purposes of this fiscal note, Oversight assumes this provision could cause an increase in assessed values. Oversight will show a range of impact for this provision from \$0 (the joint resolution is not passed or tax levies are able to be adjusted) to an unknown gain in revenue.

Additionally, for properties that have not sold since their most recent assessment, **Oversight** assumes this proposal would limit increases in the assessed values of individual residential property to the change in CPI per year (estimated at 6.5% for 2022) or 2% whichever is lower. 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	\$19,380
Property 2	\$100,000	\$19,000	\$100,000	\$19,000	\$19,000
Total	\$200,000	\$38,000	\$205,000	\$38,950	\$38,380

*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 2% increase whichever is lower.

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	5.00
Current Year Current Law	\$38,950	2.50%	\$1,948	5.00
Current Year Proposed Law	\$38,380	1.00%	\$1,919	5.00

*The growth factor used in the tax levy calculation is either actual growth in assessed valuation, inflation based on CPI (6.5%) 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% $((\$38,380 - \$38,000) / \$38,000) * 100$.

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.

In the example above, the growth in total assessed value as capped by this proposal was less than inflation (the most recent certification provided by STC). Oversight notes **if** the growth in total assessed values is less than inflation this proposal would result in a reduction of the maximum

allowed revenue which would impact all taxing entities. Inflation as of December of 2022 was 6.5% (all items per BLS).

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.) 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	Assessed Value Proposed (Table I)	Tax Burden Proposed
Property 1	\$950.00	\$19,950	\$998	\$19,380	\$969
Property 2	\$950.00	\$19,000	\$950	\$19,000	\$950
Total	\$1,900.00	\$38,950	\$1,948	\$38,380	\$1,919

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 ($(\text{Total Assessed Value}/100) \times .03$). 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	\$38,380	\$11.51

Oversight assumes the magnitude of the impact to the Blind Pension Fund would depend on prevailing market conditions.

Oversight assumes the impact from setting the assessed value at the compensation the seller would receive would be smaller than the impact from the cap on assessed values given that it would affect a smaller subset of properties. However, if this assumption is incorrect, this could alter the fiscal impact as presented in this fiscal note.

Based on Demographic Characteristics for Occupied Housing Units from the United States Census Bureau, **Oversight** notes there are 517,775 owner-occupied housing units where the age of the householder is 65 years of age or older. Oversight is uncertain how many would be exempt from increases in assessed value.

In addition, **Oversight** assumes there could be a saving to General Revenue from a reduction the amount of Senior Citizen Property Tax Credits claimed. Oversight will show a range of impact of \$0 (no reduction) to an unknown savings.

Oversight will show a range of impact of \$0 (not voter approved or the tax burden is shifted to real property owner) to an unknown loss in property tax revenue from property tax exemptions for age qualified taxpayers to local political subdivisions.

In addition, **Oversight** assumes there could be costs to local taxing entities to implement and monitor aged qualified individual's property assessed value freezes. Oversight will show an unknown cost to local political subdivisions for implementation.

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 2026.

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 2026.

Oversight received a limited number of responses from local political subdivisions related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
GENERAL REVENUE			
<u>Transfer Out</u> - SOS - reimbursement of local election authority election costs if a special election is called by the Governor	\$0 or (More than \$10,000,000)	\$0	\$0
<u>Cost Avoidance</u> – possible reduction in the amount of Senior Property Tax Credit claims	\$0	\$0	\$0 or Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 or (More than \$10,000,000)</u>	<u>\$0</u>	<u>\$0 or Unknown</u>
BLIND PENSION FUND			
<u>Revenue Gain</u> - from an unknown impact on assessed values if assessments are based on compensation received	\$0	\$0	\$0 or Unknown
<u>Revenue Loss</u> - loss of property tax on property that appreciates more than the change in CPI or 2%	\$0	\$0	\$0 or (Unknown)
<u>Revenue Loss</u> - from a possible difference in assessed value of property from age-qualified taxpayers relative to current law	\$0	\$0	\$0 or (Unknown)
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - Local Election Authorities - reimbursement of election costs by the State for a special election	\$0 or More than \$10,000,000	\$0	\$0
<u>Costs</u> - Local Election Authorities - cost of a special election if called for by the Governor	\$0 or (More than \$10,000,000)	\$0	\$0
<u>Costs</u> - County Assessors - computer programing, administrative costs, and implementation and monitoring of assessed value increase exemptions on certain properties	\$0	\$0	\$0 or (Unknown)
<u>Revenue Gain</u> - from an unknown impact on assessed values if assessments are based on compensation received	\$0	\$0	\$0 or Unknown
<u>Revenue Loss</u> - loss of property tax on property that appreciates more than the change in CPI or 2%	\$0	\$0	\$0 or (Unknown)
<u>Revenue Loss</u> – from assessed value increase exemptions for age-qualified taxpayers	\$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 tax rates are adjusted relative to changes in assessed value.

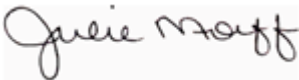
FISCAL DESCRIPTION

This legislation proposes a constitutional amendment relating to real property tax assessments.

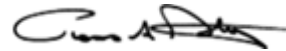
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Social Services
Office of the Secretary of State
Office of the State Auditor
City of Kansas City
City of Springfield
Newton County Health Department
Fruitland Area Fire Protection District (FRUI) - Cape Girardeau
County Employees Retirement Fund (CERF)



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