COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3064H.01I
Bill No.: HJR 78
Subject: Taxation and Revenue - General; Constitutional Amendments; Property, Real and Personal; State Tax Commission; Department of Revenue; Housing; Elderly
Type: Original
Date: January 23, 2024

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 2025	FY 2026	FY 2027
General Revenue*	$0 or (More than $8,000,000)	$0	$0 or Unknown**
Total Estimated Net Effect on General Revenue	**$0 or (More than $8,000,000)**	**$0**	**$0 or Unknown****

*The potential fiscal impact of "(More than $8,000,000)" would be realized only if a special election were called by the Governor to submit this joint resolution to voters.
**Oversight notes the potential savings to the General Revenue Fund is from reduced Senior Property tax credits issued if the proposed changes in the base year result in lower property tax bills for qualifying seniors in the future. Oversight assumes the potential savings will not reach the $250,000 threshold in the next three years because the change in the base years will be relatively small until future years.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Blind Pension Fund	$0	$0	$0 or (Unknown)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0 or (Unknown)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Local Government	**$0***	**$0**	**$0 or (Unknown)**

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

FISCAL ANALYSIS

ASSUMPTION

In response to similar proposals, officials from **Office of the Secretary of State (SOS)** 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 $8 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 FY25 petitions cycle, the SOS estimates publication costs at $60,000 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 2025. 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 general election is in November 2024 (FY 2025). It is assumed the subject within this proposal could be on this ballot; 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 2025.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume 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.

B&P notes that this proposal appears to duplicate SB 190 (2023). SB 190 (2023) grants a tax credit for the difference in a taxpayer's real property tax liability in a given tax year less the liability amount they owed when they first qualified for the credit. B&P further notes that multiple jurisdictions have adopted the SB 190 tax credit in at least some form.

Officials from the **Department of Revenue (DOR)** note this is a constitutional amendment that will be voted on at the November 2024 general election. If the amendment is not adopted it will not have a fiscal impact. If it is adopted, it would allow some home owning residents to be assessed at a lower rate. This would allow homeowners on their primary residence that turn 65 in 2025 or later to have as their true value of their property the same in the future as their most recent assessment when they turned 65. It is unclear if a person age 65 before 2025 would be allowed to receive this reduction.

Residential property tax is calculated by using the appraised value of the property and multiplying that by the applicable percentage to get the assessed value. The assessed value is then multiplied by the local property tax rate (levy) to determine the amount owed. Property tax is owed by December 31st each year. Due to how the levy is adjusted it is unclear if this would result in a lesser amount of property tax being owed.

The Senior Property Tax Credit allows qualified seniors to get a tax credit for the property tax they pay. Should qualified seniors pay less in property tax then there could potentially be a savings to the Senior Property tax credit. At this time, the impact is Unknown.

<u>Blind Pension Fund</u>
This proposal does not make clear if the constitutionally created Blind Pension Fund (Article III, Section 38(b)) would still be allowed to assess their property tax on all properties. The Missouri Blind Pension fund receives $.03 for each $100 valuation of taxable property in the state of Missouri. DOR defers to the Department of Social Service for the fiscal impact.

<u>Summary</u>
Property tax is handled by the County Assessors and the State Tax Commission. DOR assumes a small unknown impact.

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.

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 ratio 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 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 roughly the same revenue from the prior year with an allowance for growth. Therefore, this proposal may result in a higher tax rate relative to current law thus distributing more of the tax burden to other property owners.

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.

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 (or limits growth) 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.

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 value of real residential property 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 data from the United States Census Bureau, **Oversight** notes there are 530,159 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) to an unknown loss in property tax revenue from property tax exemptions for age qualified taxpayers to local political subdivisions.

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.

Officials from the **City of Kansas City** assume a negative fiscal impact of an indeterminate amount.

Officials from the **City of Springfield** anticipate a negative fiscal impact of an undetermined amount.

Officials from the **City of Osceola** assume anticipate a fiscal impact of an undetermined amount.

Officials from the **St Louis Budget** Division note according to the City of St. Louis Assessor's Office, the passage of this legislation would result in less revenue from City Property taxes. Limiting the CPI to 2% and freezing assessments for owner occupied properties for owners over 65 would result in approx. $716,000 in lost revenue to the City. Both the Assessment fund and the Collector of Revenue fund would also lose revenue as shown below. Please see the attached worksheet for a further explanation.

	Potential Revenue Loss
Prop Taxes (all jurisdictions)	$3,557,400
City Prop Taxes	$715,967
Fee to Collector Fund	$53,361
Fee to Assessment Fund	$22,234

Officials from the **Newton County Health Department** assume there will be a negative fiscal impact on the Newton County Health Department depending upon the number of properties with decreased assessments due to property owners meeting the criteria of this bill.

Officials from the **Howell County Assessor** assume the cost of programming, additional staff and maintenance is estimated between $15,000 and $35,000 year 1 and will average $10,000 to $30,000 each year this is in effect.

Officials from the **Eureka Fire Protection District (EURE) - St. Louis** assume this could provide an impact to increased value on increases due to reassessment on approximately 10% of the district's housing stock. Not knowing what the potential impact of reassessment, the district cannot provide a projected value.

The **County Employees' Retirement Fund (CERF)** has reviewed HJR 78 (3064H.01I). CERF's review of this bill would indicate that it may 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 property taxes. Data is not available to quantify how changes to real property assessments under HJR 78 would impact contribution revenue but CERF assumes there may be a negative impact.

Officials from the **Phelps County Sheriff**, **Kansas City Police Dept.**, and the **St. Louis County Police Dept**, 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 localities.

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.

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.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE			
Transfer Out - SOS - reimbursement of local election authority election costs **if** a special election is called by the Governor	$0 or (More than $8,000,000)	$0	$0
Cost Avoidance – possible reduction in the amount of Senior Property Tax Credit claims	$0	$0	$0 or Unknown
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 or (More than $8,000,000)**	**$0**	**$0 or Unknown**
BLIND PENSION FUND			
Revenue Gain - from an unknown impact on assessed values if values are based on compensation received	$0	$0	$0 or Unknown
Revenue Loss - loss of property tax on property that appreciates more than the change in CPI or 2%	$0	$0	$0 or (Unknown)

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
Revenue Loss - 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	**$0**	**$0**	**$0 or (Unknown)**

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
Transfer In - Local Election Authorities - reimbursement of election costs by the State for a special election	$0 or More than $8,000,000	$0	$0
Costs - Local Election Authorities - cost of a special election **if** called for by the Governor	$0 or (More than $8,000,000)	$0	$0
Costs - County Assessors - computer programing, administrative costs, and implementation and monitoring of assessed value increase exemptions on certain properties	$0	$0	$0 or (Unknown)
Revenue Gain - from an unknown impact on assessed values if values are based on compensation received	$0	$0	$0 or Unknown
Revenue Loss - loss of property tax on property that appreciates more than the change in CPI or 2%	$0	$0	$0 or (Unknown)
Revenue Loss – from assessed value increase exemptions for age-qualified taxpayers	$0	$0	$0 or (Unknown)

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027
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

Upon voter approval, beginning January 1, 2025, this proposed Constitutional amendment provides that the true value of all residential real property shall be deemed to be the same value determined at the most recent previous assessment of the property, or if the property has been sold since its most recent assessment, the true value of such property will be deemed to be the total fair market value of the compensation received by the seller for the sale of such property.

This Constitutional amendment shall apply to all residential real property that:

(1) Has been maintained by the homeowner as his or her primary residence; or
(2) Has been owned, used, or occupied by an owner who is 65 years of age or older, is liable for the payment of real property taxes on the residence, and is an owner of record or has a legal or equitable interest in the property as evidenced by a written instrument.

When a new assessment or reassessment of residential real property is conducted, the assessed valuation of such property may be increased from the assessed valuation of such property determined at its most recent previous assessment but only to the extent that such an increase:

(1) Incorporates the change in the Consumer Price Index since the most recent previous assessment or up to a 2% annual increase in the assessed valuation of the property, whichever is less; or
(2) Reflects the value added to the property as a result of new construction or improvements made to the property as follows:
(a) Such value shall be the actual cost of the materials purchased for improvements;
(b) Documentation of actual costs shall be sent to the assessor after the completion of the new construction or improvements;
(c) Such documentation of costs or other documents shall not be made available and shall be used only by the assessor for the sole purpose of establishing the true value of the property.

In the event that residential real property is sold, the title company of the purchaser of any such property must send to the assessor, as soon as reasonably practicable after the purchase, a notarized copy of the sales contract of the property, and such document shall be considered a closed record under state law.

Taxpayers who reach the age of 65 during a tax year shall be exempt from any increases in the assessed valuation of their real property, provided that such property is used and occupied as their primary residence. The valuation of real property for these age qualified taxpayers shall be based on the most recent assessed valuation of their primary residence for the tax year immediately preceding the year in which the age-qualified taxpayer became eligible for the exemption.

If an age-qualified taxpayer acquires residential real property after reaching the age of 65 or older, the assessed valuation of the newly acquired real property shall be based on the most recent assessed valuation of the real property before the tax year that the age-qualified taxpayer became eligible again for the exemption, so long as it has been established that the newly acquired property is being maintained by the homeowner as his or her primary residence.

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

Department of Revenue
Office of Administration - Budget and Planning
State Tax Commission
Department of Social Services
Office of the State Auditor
City of Kansas City
City of Springfield
City of Osceola
St Louis Budget
Newton County Health Department
Howell County Assessor
Eureka Fire Protection District (EURE) - St. Louis
County Employees' Retirement Fund (CERF)
Phelps County Sheriff
Kansas City Police Dept.
St. Louis County Police Dept

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