

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3205H.011  
 Bill No.: HB 1906  
 Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property, Real  
 And Personal; Counties; Department of Revenue; State Tax Commission  
 Type: Original  
 Date: January 23, 2024

Bill Summary: This proposal modifies provisions relating to the assessed valuation of real property.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

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

\* **Oversight** assumes the unknown fiscal impact to the Blind Pension Fund depending on prevailing market conditions could exceed the \$250,000 threshold relative to what it would have received under current law.

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2025</b>	<b>FY 2026</b>	<b>FY 2027</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>(Unknown)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 137.115.1 Property Tax Assessment

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with calendar year 2025, this provision would hold the market value of all real property at the market value determined during 2024. The market value will remain at the 2024 amount until the property is sold/transferred or enough new construction/improvements has occurred to trigger a reassessment. B&P notes that this proposal would apply to all real property, not just residential real property. Other types of real property include: commercial, industrial, utility, railroad, agriculture, horticulture, etc.

B&P notes that this proposal would allow the market value to increase if new construction and/or improvements have added 50% to the value of the real property. B&P further notes that in 2022, the median market value for residential real property was \$199,400. Therefore, it would take at least \$99,700 in new construction or improvements before a reassessment is triggered. This proposal requires owners to inform the county assessor when new construction or improvements have been made so that the assessor can reassess the property.

This proposal also allows assessors to appeal a sales price, if the assessor believes the price does not accurately reflect the true market value of real property. In addition, an owner of real property may opt out of this proposal and continue to be assessed under the current assessment method.

B&P notes that the Blind Pension Trust Fund levies a \$0.03 per \$100 value property tax on all property in Missouri. B&P further notes that while this proposal will not result in a direct loss of revenue, it could result in significant forgone revenue in the future.

Officials from the **State Tax Commission** 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 only occurs when the property is sold or an improvement occurs that is equal to or greater than 50% of the property value. 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 ratios studies indicate the assessed values are below (in some cases substantially below) the market value proxy.

Additionally, for properties that have not sold since their most recent assessment, **Oversight** assumes this proposal would limit increases in the assessed values of real property. Property values would stay fixed in time until the property is transferred or sold (or extensively improved). Oversight is unable to calculate this change as it would depend on the market conditions within each taxing entities' boundaries. For purposes of this fiscal note, Oversight will illustrate the potential impact assuming different scenarios in the chart below.

Per the State Tax Commission's Annual Report, the current assessed value of real property is \$100,357,805,420. If the limit in increases to assessed value caused the following overall reductions.

Foregone Increase	Foregone Assessed Value	Forgone Tax Revenue Blind Pension	Foregone Tax Revenue Local Political Subdivisions*
0.25%	\$250,894,514	\$75,268	\$14,129,375
0.50%	\$501,789,027	\$150,537	\$28,258,751
1.00%	\$1,003,578,054	\$301,073	\$56,517,502

\* Oversight notes property tax levies differ based on the location of the property and the varying taxing entities. Oversight estimated the impact to local political subdivisions using the tax levy experienced by a property in the City of Springfield at \$5.6316 (not counting the .03 collected for the Blind Pension Fund).

**Oversight** notes property tax revenues are designed to be relatively 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. Currently, growth in assessed value allows the tax rate to fall over time. Under the proposed legislation, the tax rate would fall at a slower rate than under the current law (or rise). (This in turn could shift a higher burden of taxation to personal property.)

**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.

Also, **Oversight** notes improvements to real property under 50% of the value of the property would no longer be included in the assessed value (until sold or transferred). Oversight notes this may also result in foregone revenues for all taxing entities.

**Oversight** notes both impacts are cumulative, which could result in a substantial loss to local political subdivisions over time. Oversight will show an unknown loss in property tax revenue for local political subdivisions.

**Oversight** assumes the magnitude of the impact to the Blind Pension Fund would depend on prevailing market conditions. Oversight will show a potential 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** 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.

The **County Employees' Retirement Fund (CERF)** review of this bill would indicate that it 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 HB 1906 would impact contribution revenue but CERF assumes the impact would be negative.

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

Officials from the **City of Osceola** assume there is a fiscal impact of an indeterminate 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. Existing legislation allows for a 5% reassessment growth and places no limits on new construction growth. The proposed legislation would do two things:

- Limit the 5% reassessment growth to 0%
- Limit new construction growth on properties where the new construction exceeds 50% of the existing value of the property

Implementing both of these would result in a lost of \$23.4M in revenue for all taxing jurisdictions. Revenue losses to the City of St. Louis would total \$4.7M. The City's Collector's Fund would lose \$356K and the Assessment Fund would lose \$148K.

By requiring the Assessor to treat sold property and unsold property differently, it should be noted that enacting this legislation may violate the Assessor's responsibilities under Article X of the MO Constitution that assessments and taxes be uniform upon the same class (or subclass) of subjects within boundaries of the City. Additionally, freezing assessments may also violate Article X of the MO Constitution.

Most new construction in the City is due to remodeling, alterations, additions, repairs, demolitions, etc. It is difficult to estimate how much of the new construction will exceed 50% of the existing value. For the purposes of this fiscal note, it is estimated that 20% of new constructions will meet the threshold of being above 50% of the existing value. The legislation requires the owner to notify the Assessor of any new construction or improvements, but the legislation does not indicate what happens if the owner fails to provide the information.

The scenario where some taxpayers opt out of the legislation will make for administrative challenges and necessitate program changes that may result in some large one-time fees.

Officials from the **Eureka Fire Protection District (EURE) - St. Louis** assume this bill could produce additional election expenses which for the FPD would be about \$20,000. This does not include increased legal fee's

Officials from the **City of O'Fallon, Newton County Health Department, Phelps County Sheriff, Kansas City Police Department**, 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.

**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 **Department of Social Services** and the **Department of Commerce and Insurance** 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 listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

Oversight will assume a net negative fiscal impact to both the state’s Blind Pension fund as well as to local political subdivisions.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>BLIND PENSION FUND</b>			
<u>Revenue Gain</u> - \$137.115 - from an unknown impact on assessed values if assessments are based on compensation received	\$0	\$0	\$0 to Unknown
<u>Revenue Loss</u> - \$137.115 - from the limitation of assessment growth	\$0	\$0	\$0 or (Unknown)
<b>ESTIMATED NET EFFECT ON THE BLIND PENSION FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(Unknown)</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Costs</u> - County Assessors - computer programing and administrative costs	\$0	\$0	(Unknown)
<u>Revenue Gain</u> - \$137.115 - from an unknown impact on assessed values, if assessments are based on compensation received	\$0	\$0	\$0 to Unknown

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
<u>Revenue Loss - §137.115 - from the limitation of assessment growth</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>(Unknown)</u></b>

FISCAL IMPACT – Small Business

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.

FISCAL DESCRIPTION

Beginning January 1, 2025, the true value in money of real property for assessment purposes shall be equal to the most recent purchase price of such real property. Such true value in money shall be the true value in money for all subsequent assessments until the next sale of such property.

As specified in the bill, if a homeowner makes additions or improvements to the property, and those additions or improvements increase the value of said property by 50% or more, the homeowner shall notify the assessor. The assessor shall then establish a new assessed valuation, which shall be the true value in money for all subsequent assessments until the next sale of such property.

If the sale of a piece of real estate results in a transaction that is below market value, the assessor shall provide evidence to the Board of Equalization or other equivalent entity that such sale price should not be used as the new true value in money for assessment purposes.

If a homeowner does not want to participate in the assessed valuation provisions under this bill, such owner may opt out by notifying the assessor's office, and the homeowners' real property shall be assessed under the assessment process in existence on or before December 31, 2024.

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  
 Department of Commerce and Insurance



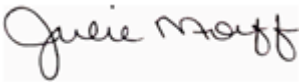
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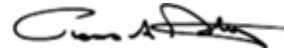
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County Employees' Retirement Fund (CERF)  
City of Kansas City  
City of Osceola  
St Louis Budget Division  
Eureka Fire Protection District (EURE) - St. Louis  
City of O'Fallon  
Newton County Health Department  
Phelps County Sheriff  
Kansas City Police Dept.  
St. Louis County Police Dept



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January 23, 2024



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