

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3205H.02P
 Bill No.: Perfected HCS for 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: April 29, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
General Revenue*	\$0	Unknown	Unknown
Total Estimated Net Effect on General Revenue	\$0	Unknown	Unknown

*Oversight notes the changes in the proposal have an opt-in clause in §137.115.17(4). Oversight assumes there will be residential property owners that opt-in and participate in these changes in assessment, resulting in a reduced growth amount of residential property taxes paid compared to current statutes. Oversight assumes the fiscal impact could exceed the \$250,000 threshold.

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

* **Oversight** assumes the unknown fiscal impact to the Blind Pension Fund depending on prevailing market conditions (and program participation) could exceed the \$250,000 threshold 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 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> 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	(Unknown)	(Unknown)

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 residential real property, used as a primary residence, 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 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 residential real property, used as a primary residence, 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.

Officials from the **Department of Revenue (DOR)** note in order to determine how much a person will owe in real property tax, an assessment of the real property must be done every two years by the County Assessor. Using the value of the property, the assessor can calculate the property tax owed by applying a formula outlined in statute. This proposal starting January 1, 2025, would stop the increases of the value of real property unless the property is sold or construction on the property doubles the value of the property. Future property values will be based on the sale price of property. Property taxes are handled by the county assessors and the State Tax Commission. DOR defers to them for an estimate of the impact to the counties.

The Department notes that the constitutionally-created Blind Pension Fund (Article III, Section 38(b)) receives \$.03 for each \$100 valuation of taxable property in the state of Missouri. Reducing or holding constant the assessed value could decrease the amount of future revenue growth expected by the Fund. DOR defers to the Department of Social Services for the estimated loss of funding to the Blind Pension Fund.

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 (or increases that do not occur) 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 growth.

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 and other administrative functions. Oversight will show an unknown cost to county assessors to implement this proposal beginning in FY 2026.

Oversight will show an unknown savings to General Revenue beginning in FY 2026. Oversight notes total property tax credit amounts claimed would need to decrease by approximately 0.75% to reach a \$250,000 impact.

In response to a previous version (HB 1906) officials from 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.

In response to a previous version (HB 1906) officials from the **City of Osceola** assume there is a fiscal impact of an indeterminate amount.

Officials from the **Callaway County SB 40 Board** assume there is a fiscal impact of an indeterminate amount.

Officials from the **Rolling Hills Consolidated Library** assume any bill that has the effect of lowering the amount paid in real property or personal property tax will have a detrimental effect on the Rolling Hills Consolidated Library district. Lowering the assessment of real property or limiting the growth in value of property changes how property tax levies fund essential public services. This could result in the loss of income substantially over time, resulting in future requests to voters to increase the total library levy to keep up with inflation and other rising costs such as increases in the minimum wage, etc. The library is unable to determine at this time the total dollar figure this might result in a reduction of library tax levy income.

Officials from the **Daniel Boone Regional Library** assume a minimum \$10,000 in lost revenue the first year this is in effect; in subsequent years likely much higher due to stagnant assessments.

In response to a previous version (HB 1906) 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 loss 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.

In response to a previous version (HB 1906) 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 **Newton County Health Department, Phelps County Sheriff, Kansas City Police Department**, and the **St. Louis County Police Department** 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, Office of the State Auditor**, 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
GENERAL REVENUE FUND			
<u>Cost Avoidance</u> – Potential reduction in property tax credit redemptions due to the reduction in assessed values if the bill results in lower property taxes	\$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0	(Unknown)	(Unknown)

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
BLIND PENSION FUND			
<u>Revenue Loss</u> - §137.115.17 - from the limitation of assessment growth	\$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	\$0	(Unknown)	(Unknown)

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Costs</u> - County Assessors - computer programing and administrative costs	\$0	(Unknown)	(Unknown)
<u>Revenue Loss</u> - §137.115.17 - from the limitation of assessment growth	\$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0	(Unknown)	(Unknown)

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.

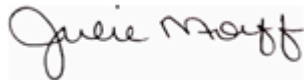
FISCAL DESCRIPTION

This legislation modifies provisions relating to the assessed valuation of real property.

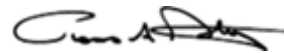
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Social Services
Department of Commerce and Insurance
County Employees' Retirement Fund (CERF)
City of Kansas City
City of Osceola
St Louis Budget Division
Eureka Fire Protection District (EURE) - St. Louis
Newton County Health Department
Phelps County Sheriff
Kansas City Police Dept.
St. Louis County Police Dept
Office of the State Auditor
Callaway County SB 40 Board
Rolling Hills Consolidated Library
Daniel Boone Regional Library



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