COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3717S.01I
Bill No.: SB 680
Subject: Taxation and Revenue - Property; Counties
Type: Original
Date: January 18, 2022

Bill Summary: This proposal places a limit on the growth in assessments of residential real property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Blind Pension Fund (0621)*	$0	(Unknown, could exceed $250,000)	(Unknown, could exceed $250,000)
Total Estimated Net Effect on Other State Funds	**$0**	**(Unknown, could exceed $250,000)**	**(Unknown, could exceed $250,000)**

*Generally represents potential limitation of increased revenue collections.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Local Government	**$0**	**(Unknown)**	**(Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** have reviewed and determined that this legislation proposes that no residential property (Class 1) shall be assessed by more than the percentage increase of the consumer price index (1.4% - 2020) or five percent whichever is greater. The act has an unknown fiscal impact, 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.

Officials from **Office of Administration - Budget and Planning (B&P)** assume subsection 137.115.1 would limit increases to the assessed value of real residential property to either the rate of inflation or 5%, whichever is greater; unless there has been new construction at such property.

B&P notes that while this proposal will not have a direct impact to the Blind Pension Trust Fund or local revenues, this may have a negative indirect impact over time.

Officials from the **Department of Social Services** and **Office of the State Auditor** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from the **City of St. Louis** state the average increase in real estate property values during the 2017, 2019, and 2021 reassessments was 7% - 8% for the City of St. Louis and the CPI was 2.1%, 1.9% and 1.4% in those same reassessments. This change would have negated 6% (the vast majority) of the value being reported to the taxing jurisdictions. Since taxing jurisdictions collect taxes based on the amount of assessed value and are already limited to a total tax increase of 5% or the CPI, whichever is less, this change could result in more cuts in taxes to the taxing jurisdictions.

It should be noted that this change would cause those properties with the largest increases in value to be valued as a lesser proportion than those properties that have lesser value increases. This change likely violates Article X, Section 3 of the Missouri Constitution as it would cause for non-uniform assessments in the same subclass of property.

Officials from the **Florissant Valley Fire Protection District** state this could have a negative impact on the agency related to costs and associated revenues in providing emergency services. Growth has been realized from increased call volume, not developmental or geographic which creates increased costs that outpace revenues.

Officials from the **St. Charles Community College** and the **City of Hughesville** 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 increase in the percentage change in CPI (estimated at 1.4% for 2020) or 5% whichever is greater. Under the proposed legislation, Oversight assumed the assessed value would be 19% of the market value or the prior year assessed value plus five percent growth whichever is lower. For fiscal note purposes, Oversight used a two property example to demonstrate the potential changes 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	$115,000	$21,850	**$19,950**
Property 2	$100,000	$19,000	$100,000	$19,000	**$19,000**
Total	$200,000	$38,000	$215,000	$40,850	**$38,950**

*For purposes of this example, Oversight assumed a 15% 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 5% increase whichever is lower.

Oversight notes property tax revenues are generally designed to be revenue neutral from year to year. The tax levy is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Below is the basic formula for the tax rate-setting calculation:

<u>Growth Factor Calculation</u>

Current Year Adjusted Total Current Assessed Value	$40,850
Less Previous Year Adjusted Total Assessed Value	- $38,000
	$2,850
Divided by Previous Year Adjusted Total Assessed Value	/ $38,000
	0.75
Times 100	x 100
Actual Percentage Growth in Assessed Value	**7.5%**

*The growth factor used in the tax levy calculation is either actual growth in assessed valuation as calculated above (7.5%), inflation based on CPI (1.4%) or 5% whichever is <u>lower</u>. In this example actual growth exceeds inflation, therefore the revenue growth factor used in the tax levy calculation is capped at inflation (1.4%).

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	$40,850
Less New Construction (assumed for simplicity)	- $0
Adjusted Total Current Assessed Value	$40,850
Current Year Authorized Revenues	$1,927
Divided by Adjusted Total Current Assessed Value	/ $40,850
	0.04717
	x 100
Maximum Authorized Levy	**$4.717**

Using the basic tax rate 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

	Total Assessed Values	Growth Factor	Maximum Allowed Revenue (Prior Year Revenue plus Growth Factor)	Tax Rate (Maximum Revenue/ Assessed Value)*100
Prior Year (Assumed)	$38,000	N/A	$1,900.00	5.0000
Current Year Current Law	$40,850	1.4%	$1,927.00	4.7173
Current Year Proposed Law	**$38,950**	**1.4%**	**$1,927.00**	**4.9474**

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 (or reduced increase) 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.

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.)

Additionally, in the example above, the growth in total assessed value was greater than inflation (as provided by STC). However, 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 2021 was 6.8% (all items per BLS).

Because the tax levy would fall at a slower rate 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 (4.7173)	Assessed Value Proposed (Table I)	**Tax Burden Proposed (4.9474)**
Property 1	$950.00	$21,850	$1,030.72	$19,950	**$987.00**
Property 2	$950.00	$19,000	$896.28	$19,000	**$940.00**
Total	$1,900.00	$40,850	$1,927.00	$38,950	**$1,927.00**

Based on information from the Federal Housing Finance Agency website, **Oversight** notes there were 689 census tracts in Missouri with an annual change in the House Price Index (HPI) that exceeded 5% for the 2018 and 2019 period (based on a two year reassessment cycle). Because this proposal limits the assessed value of individual residential properties to a 5% increase 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 5% over the two year reassessment 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 limits 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

	Total Assessed Value	Blind Pension Trust Fund (Assessed Value/100)*0.03
Prior Year	$38,000	$11.40
Current Year Current Law	$40,850	$12.26
Current Year Proposed Law	**$38,950**	**$11.69**

Per the STC's website, total assessed value for residential property was $64,061,602,665 in 2020. If this proposal reduced the total assessed value by 1.5%, the loss to the blind pension fund is estimated at $288,277.

Total Assessed Value (Current)	$64,061,602,665
Total Assessed Value if reduced by 1.5% (Assumed)	$63,100,678,625
Difference	-$960,924,040
Divided by 100	-$9,609,240
Multiplied by 0.03 (Estimated Changed)	-$288,277

In response to similar legislation from 2020, **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.

Although the effective date of this proposal, if passed, would be FY 2023 (August 2022), 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 2023 (10 Mo.)	FY 2024	FY 2025
BLIND PENSION FUND			
Revenue Loss - loss of property tax on property that appreciates more than 5% - §137.115	$0	(Unknown, Could exceed $250,000)	(Unknown, Could exceed $250,000)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**(Unknown, Could exceed $250,000)**	**(Unknown, Could exceed $250,000)**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
Costs - for assessors for implementation and computer programming - §137.115	$0	(Unknown)	(Unknown)
Loss - loss of property tax on property that appreciates more than 5% - §137.115	$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 tax rates are adjusted relative to changes in assessed value.

FISCAL DESCRIPTION

This act provides that the assessed valuation for residential real property shall not exceed the previous assessed valuation for such property, exclusive of new construction and improvements, by more than five percent or the percent increase in inflation, whichever is greater.

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
Office of the State Auditor
City of St. Louis
City of Hughesville
Florissant Valley Fire Protection District
St. Charles Community College

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January 18, 2022

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