COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4106S.01I
Bill No.: SB 649
Subject: Taxation and Revenue - Property; Counties
Type: Original
Date: January 12, 2022

Bill Summary: This proposal reduces the assessment percentage of personal property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2074)
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2074)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**	**$0**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2074)
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2074)
Total Estimated Net Effect on FTE	**0**	**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	Fully Implemented (FY 2074)
Local Government	**$0**	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** assume the proposal has an unknown fiscal impact. Assessment reductions will impact negatively the revenue for school districts, counties, cities and other taxing jurisdiction who are supported by property taxes. This bill reduces the amount of personal property tax revenues equal to the increase in real property tax revenues so this would eliminate an increase in local revenues until the percentage for personal property assessment reaches zero.

Officials from **Office of Administration - Budget and Planning (B&P)** assume this proposal would reduce the assessment percentage for personal property each year, starting with tax year 2023 and ending tax year 2073. B&P notes that the assessment percentage for personal property is currently 33.3%. The reduction in the assessment percentage will be by an amount that would offset increases in assessed valuation of real property each tax year. In other words, the revenues generated under the personal property tax would be reduced by an amount to offset any revenue gains from increased real property values.

B&P notes that the reduction in the assessment percentage must only offset the increase in the real property assessed value, up to the consumer price index (inflation) between the two years. Therefore, if housing prices increased by 7%, but CPI only increased by 2%, the reduction in personal property would offset the 2% inflation limit.

B&P further notes that Section 137.115.1(4) states that the state assessment under Article III, Section 38(b) of the Missouri Constitution shall remain at 33.3%. Article III, Section 38(b) of the Missouri Constitution applies to the Blind Pension Trust Fund and the state property tax levy of $0.03 per $100 valuation. Therefore, this proposal will not impact TSR or the Blind Pension Trust Fund.

B&P notes that under this proposal county assessors would have to maintain two sets of calculations for personal property. One for the reductions on local assessments as required under this proposal and another for the Blind Pension Trust Fund state assessment. B&P defers to local jurisdictions for more specific impacts.

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. **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 **Howell County Assessor's Office** state the best estimate is this could reduce local funding by $1.6 billion dollars based on the 2020 data available. Personal property comprises approximately 20% of the total assessed value in the state and total revenue generated was approximately $8.5 billion dollars. So their local subdivisions will lose funding, their office will have increased operating costs and their potential for a lawsuit will be increased.

Officials from the **St. Francois County Assessor's Office** assume the following loss (or shift of burden) in property taxes based on different percentages:

25%	($2,240,484)
43%	($3,854,303)
61%	($5,467,732)
79%	($7,081,161)
99%	($8,873,860)

Officials from the **City of St. Louis** assume the passage of this bill would result in lost revenue to the City of St. Louis, the Collector of Revenue, and the Assessor's Office. In 2022, this loss would total more than $850,000 among the three entities. This loss would only increase yearly the next ten years.

The calculations rest on these assumptions:

- Personal property remains steady and stable; the City has had about $1 billion assessed value of personal property for many, many years. It does not vary up or down that much over the last decade
- The tax rate remains the same as it was in 2021.
- Real estate growth is 75% due to residential and 25% due to commercial. If total growth exceeds the CPI (which has historically been 2% average over the last 5 years) there is no instruction on how much of the 2% to be used for growth comes from residential, agricultural or commercial property. That determination will make a difference in tax amounts as commercial taxes are approximately double residential taxes for the same value property.
- New construction stays consistent as it has over the past 5 years
- Assumes 6.5% growth PLUS new construction in every odd-numbered reassessment year

Note that the assessment rate change for personal property (one of the major components of this legislation) goes up in non-reassessment years. This is because personal property is about the same value every year, and new construction is about the same every year, so the calculations for even numbered, non-reassessment years are going to be very similar in what rate to charge to collect the allowable taxes. Since this legislation ends in 2073, then it will have a lower assessment rate (as assumed is intended).

If the assessment rate goes down 4%-5% per 10 years, then in 2073 (after approx. 50 years), there will still be approximately a 20%-25% decrease in the assessment rate, which would leave as assessment rate of approx. 8% to 13% in 2073.

Due to the number and nature of assumptions, and the very long time frame to 2073, there is a lot that could change if there are changes to any of the following:

- CPI
- Market increases or decreases in real estate
- New construction fluctuations in real estate
- Tax rates
- Personal property values

Officials from the City of St. Louis computed a reduction in the personal property assessment from 33.3% currently to 29.4% over a ten year period. In the tenth year, the estimated loss totaled over $2.075 million annually.

Officials from **Pattonville R-III School District** assume the elimination of personal property taxes would eliminate approximately $17 million in annual revenue to the school district, and $870 million to public schools across the state. The revenue loss will vary based on changes in real property valuation. However, the total impact to the district will be a reduction of $17 million in revenue.

Officials from the **Newton County Health Department** and the **St. Louis County Health 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 agencies.

<u>Local Political Subdivisions</u>
Oversight assumes this proposal reduces the percentage at which personal property is assessed effectively reducing the assessed value of personal property over time. Oversight notes the revenue growth in property tax is determine by the following method:

Last year's revenues plus an allowance for growth equal to either:
- Inflation;
- Growth in total assessed value, or;
- 5%, whichever is lower.

Oversight assumes **if** the growth in total assessed value is the lower of the three options, then any reduction in the percentage at which personal property is assessed would reduce the maximum allowed revenue growth (relative to current law) which could impact all taxing entities. For example:

	Assessed Value Real	Assessed Value PP	Total Assessed Value	Revenue Growth Factor	Maximum Allowed Revenue
Base Year (Assumed)	$4,250,000,000	$750,000,000	$5,000,000,000	-	$6,240,000
Current Law (Next Year)	$4,377,500,000	$772,500,000	$5,150,000,000	3.0%	$6,427,200
Next Proposed (Next Year)	$4,377,500,000	$702,272,727*	$5,079,772,727	-1.4%	$6,240,000

Oversight applied a 3% growth in real and personal property. To calculate the proposed assessed value, Oversight reduced the 33% currently applied to personal property values by the growth in real property (33% - 3% = 30%).

*Using the $750,000,000 assessed value for personal property, Oversight calculated the full value of personal property:

Full Value of Personal Property *.33 = $750,000,000
Full Value of Personal Property = $750,000,000/.33
Full Value of Personal Property = $2,272,727,273

Using the full value of personal property, Oversight applied a growth rate of 3% and calculated the different assessed values below.

$2,272,727,273 x 1.03	$2,340,909,091	Total PP Value w/Growth
$2,340,909,091 x .33	$772,500,000	Assessed Value PP (Current Law)
Or		
$2,340,909,091 x (.33-.03)	$702,272,727	Assessed Value PP (Proposed Law)

Oversight notes, in the example above, the proposal functionally eliminates the allowable increase in revenues attributable to growth. Revenues become fixed in time. However, Oversight notes the maximum allowed revenue would be lower than what could have been achieved under current law.

Alternatively, **if** inflation or 5% is the lower option for determining the maximum allowed revenue, the calculation of revenue growth may not be limited by the reduction in assessed personal property. However, **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 real property owners (as personal property assessed values decrease).

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum or are at a fixed rate. 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 an actual 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.)

Oversight will show a range of impact of $0 (the tax burden is shifted to real property owners or no growth in real property) to an unknown loss in property tax revenue for local political subdivisions.

The next assessment cycle would not occur until calendar year 2023 with impacted revenues occurring in FY 2024 (due in December 2023). **Oversight** will show the impact local political subdivisions beginning in FY 2024.

Oversight notes section 137.115.1(4) requires assessors to continue to assess personal property at 33.3% for purposes of Article III, Section 38(b) of the Missouri Constitution. Therefore, Oversight assumes this proposal will not impact the Blind Pension Fund.

Ultimately, **Oversight** is uncertain how language of the proposal would be applied, but assume local political subdivisions (counties) would incur some additional costs administering these adjustments (i.e. computer programming changes). In addition, 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 approval to publish a new fiscal note.

Oversight only reflects the responses that we have 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 Oversight's database is available upon request.

FISCAL IMPACT – State Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2074)
	$0	**$0**	**$0**	**$0**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2074)
LOCAL POLITICAL SUBDIVISIONS				
Costs – Counties – to administer the changes in assessment from this proposal	$0	(Unknown)	(Unknown)	(Unknown)
Revenue Loss - loss of property tax from reduction in personal property assessed value - §137.115	$0	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT – Small Business

Oversight assumes there could be a fiscal impact to small businesses if this proposal resulted in a higher overall tax rate for commercial property owners. However, small businesses that own personal property could see a reduction in property taxes.

FISCAL DESCRIPTION

Current law requires that personal property be assessed at 33.3% of its true value in money. This act requires county assessors to annually reduce such percentage such that the amount by which the revenue generated by taxes levied on such personal property is reduced substantially equal to one hundred percent of the growth in revenue generated by real property assessment growth, as defined in the act. Annual reductions shall be made until December 31, 2073. Thereafter, the percentage of true value in money at which personal property is assessed shall be equal to the percentage in effect on January 1, 2073.

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 State Auditor
City of St. Louis
Newton County Health Department
St. Louis County Health Department
Howell County Assessor's Office
Pattonville R-III School District

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