

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4185-02
Bill No.: SB 992
Subject: Property, Real and Personal; Taxation and Revenue - Property
Type: Original
Date: February 25, 2008

Bill Summary: Would limit increases in assessed value of residential real property due to reassessment until a transfer of ownership occurs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Blind Pension	\$0	(\$1,030,000)	(\$1,150,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	(\$1,030,000)	(\$1,150,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2009	FY 2010	FY 2011
Local Government	\$0	(\$206,000,000)	(\$231,000,000)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State (SOS)** assume this proposal would have no fiscal impact on their organization. SOS officials assume the proposal would have a fiscal impact to Missouri public library districts, which rely on property tax revenue for between 90-95% of their operating income.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume there would be no added cost to BAP as a result of the proposal. BAP officials also note that the proposal would limit the growth in real property assessments to the annual change in the CPI except when a transfer of ownership occurs. This proposal would not impact general and total state revenues, but may indirectly impact the schools' foundation formula. BAP defers to the State Tax Commission and the Department of Elementary and Secondary Education for any such estimates.

Officials from the Department of Elementary and Secondary Education (DESE) assume this proposal would limit the growth of assessment in residential real property that has not changed ownership to no greater than the CPI. Because the CPI has been the growth factor used by most school districts over the past few years (unless the district's actual growth was lower) and because there are no restrictions placed on other categories of property it is doubtful there will be much if any negative impact on current tax revenue. Also, the school districts will still be able to utilize the increases in new construction and personal property. There would be no fiscal impact on the state school foundation formula.

Officials from the **Department of Revenue** assume this proposal would have no fiscal impact on their organization.

Officials from the **State Tax Commission (TAX)** assume this proposal would not impact this agency; however, we assume it would have a significant revenue impact to the local political subdivisions.

ASSUMPTION (continued)

In response to another proposal in this session (HB 1370 LR 3159-01), TAX officials provided the following information:

Residential property is reassessed in odd-numbered years. Calendar year 2007 was a reassessment year. There are minimal assessed valuation changes to residential property in the following year (2008).

The 2007 assessed valuation for residential property is \$50,998,652,589. In the next reassessment year 2009, we project there would be an increase in assessed valuation of five percent (5%) for all real property including residential property.

Oversight assumes there would be a reduction in reassessment losses due to ownership changes. In response to a similar proposal in a previous session (SB 955 LR 3825-02, 2002), TAX officials assumed 6 percent of properties change ownership each year, resulting in an average 15% increase in value for those properties.

Oversight has reviewed Consumer Price Index information published by the United States Department of Labor, Bureau of Labor Statistics, and determined the average annual change in the CPI for all urban consumers over the most recent five years is 2.88%.

Oversight has also calculated the average annual increase in real property assessed valuations for the past ten years and determined the average rate of increase is 2.86% in even numbered years and 10.15% in odd numbered (reassessment) years.

Oversight estimates the fiscal impact of this proposal as follows:

Assessed valuation for 2007 from real property	\$51,000,000,000
Estimated real property valuation for 2008 ($\$51,000,000,000 \times 1.0288$)	\$52,500,000,000

Oversight assumes there would be no loss for 2008 (FY 2009) since increases under existing statutes and historic performance would be equal to the inflation rate as measured by the Consumer Price Index.

ASSUMPTION (continued)

Estimated real property valuation for 2009 (FY 2010) based on historic performance: ($\$52,500,000,000 \times 1.1015$)	\$57,800,000,000
Estimated real property valuation for 2009 based on 2.88% CPI limit: ($\$52,500,000,000 \times 1.0288$)	\$54,000,000,000
Estimated reduction in assessed valuation increases due to CPI limit: ($\$57,800,000,000 - \$54,000,000,000$)	\$3,800,000,000
Estimated allowable increase due to changes in property ownership: ($\$3,800,000,000 \times 2 \text{ years} \times 6\% \text{ per year}$)	\$460,000,000
Estimated net loss in assessed valuation: ($\$3,800,000,000 - \$460,000,000$)	\$3,340,000,000
Estimated (loss) in real estate tax collections ($\$3,340,000,000 \times \6.25 per hundred)	<u>\$206,000,000</u>

Oversight assumes there would be a net loss of \$206 million to local governments in FY 2010 as a result of the CPI limitation on increased valuation.

Oversight also assumes there would be losses in 2010 (FY 2011) due to the compounding effect of the CPI limit.

Estimated real property valuation for 2010 based on historic performance: ($\$57,800,000,000 \times 1.0288$)	\$59,500,000,000
Estimated real property valuation for 2009 based on 2.88% CPI limit: ($\$54,000,000,000 \times 1.0288$)	\$55,600,000,000
Estimated reduction in assessed valuation increases due to CPI limit: ($\$57,800,000,000 - \$54,000,000,000$)	\$3,900,000,000
Estimated increase due to changes in property ownership: ($\$3,900,000,000 \times 6\% \text{ per year}$)	\$230,000,000

ASSUMPTION (continued)

Estimated net loss in assessed valuation:
 (\$3,800,000,000 - \$460,000,000) \$3,670,000,000

Estimated (loss) in real estate tax collections
 (\$3,700,000,000 x \$6.25 per hundred) \$231,000,000

Oversight also assumes there would be a loss to the state Blind Pension Fund of approximately 1/2 of 1% of the loss to local governments.

Oversight notes that these projections are based on historic information, and that future events may not follow historic patterns. Further, the impact of this CPI limit may be altered by the impact of other statutory provisions.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
BLIND PENSION FUND			
<u>Revenue reduction -</u>			
Assessment growth limitation	<u>\$0</u>	<u>(\$1,030,000)</u>	<u>(\$1,150,000)</u>
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>(\$1,030,000)</u>	<u>(\$1,030,000)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
LOCAL GOVERNMENTS			
<u>Revenue reduction -</u>			
Assessment growth limitation	<u>\$0</u>	<u>(\$206,000,000)</u>	<u>(\$231,000,000)</u>
ESTIAMTED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>(\$206,000,000)</u>	<u>(\$231,000,000)</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

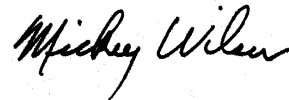
FISCAL DESCRIPTION

This proposal would limit increases in assessed value of residential real property due to reassessment until a transfer of ownership occurs.

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

Office of the Secretary of State
Office of Administration
 Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission



Mickey Wilson, CPA
Director
February 25, 2008