COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

**FISCAL NOTE**

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|---|---|
| L.R. No.: | 0547-01 |
| Bill No.: | SB 99 |
| Subject: | Counties; County Officials; Property, Real and Personal; Taxation and Revenue - Property |
| Type: | Original |
| Date: | March 4, 2009 |

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Bill Summary: Would create the predictable property tax act.

**FISCAL SUMMARY**

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| **Total Estimated Net Effect on General Revenue Fund** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| Blind Pension | $0 | $0 | $0 or ($6,250,000) |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0** | **$0 or ($6,250,000)** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 10 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2010 | FY 2011 | FY 2012 |
| | | | |
| | | | |
| **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 2010 | FY 2011 | FY 2012 |
| **Local Government** | **$0** | **$0** | **$0 or ($1,250,000,000)** |

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the Secretary of State** (SOS) stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than $2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

In response to similar proposals requiring a popular vote, SOS officials have provided the following estimate of the cost to publish the statewide ballot measure language for the proposal.

Each year a number of bills are considered by the General Assembly that would require statewide elections to allow the voters to decide the issues in the legislation. State statutes require the SOS to be provided with $4.3 million in general revenue core funding to handle such special elections. The appropriation had historically been an estimated appropriation because the final cost each year is dependent upon the number of special elections required to fill vacant legislative seats and the number of ballot measures approved by the General Assembly. However, in recent years an estimated appropriation has only been provided in presidential primary years. Therefore, the SOS assumes for the purposes of this fiscal note that it should have the full appropriation authority it needs to meet these special election costs. However, we reserve the right to request funding if needed to meet these mandatory requirements.

**Oversight** assumes that this proposal would be submitted to the voters on a general election ballot and that the cost to the SOS could be absorbed with existing resources.

Officials from the **Department of Revenue**, **Linn State Technical College**, the **Metropolitan Community Colleges**, and **Taney County** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assume the proposal would not result in additional costs or savings to their organization.

BAP officials stated that this proposal would create the Predictable Property Tax Act which would, beginning August 28, 2009, freeze the assessed valuation of real property at the 2006 assessed value or at the acquisition price of any property purchased after the effective date of the act. The act states further that the total amount of real property taxes collected could not exceed one percent of the true value in money. This proposal would have no direct impact on general revenues, but could reduce Blind Pension Fund revenues. BAP defers to the State Tax Commission, DESE, and municipal governments for estimated impacts on collections.

The provisions of this act would only become effective upon voter approval of a constitutional amendment limiting increases in assessed value until a transfer of ownership occurs.

Officials from the **State Tax Commission** assume this proposal would require the rollback of assessed valuations on real property to 2006 levels, which would result in revenue reductions to local government of $700 million per year of which $500 million would be from school districts.

Officials from **St. Louis County** assume this proposal would result in a loss in revenue of approximately $7.5 million per year. The tax revenue received by St. Louis County in 2006 was approximately $111 million. New construction in 2008 was $416 million ($2.3 million in taxes) and a 2% cost of living would give us an additional $2.2 million. This proposal would bring us up to an allowable revenue of approximately $115.5 million. Under the current law we estimate $123 million for 2010.

Officials from the **Office of the St. Louis County Assessor** stated that the proposal would put a cap on taxes; taxes could not exceed 1% of appraised value. This could limit all future revenue increases depending on the overall increase in appraised value. The immediate potential loss of the revenue could be the difference between the 2006 taxes collected and this year's tax collections.

Officials from the **City of Centralia** assume this proposal would cause a revenue reduction of at least $3,876 per year due to the rollback requirement.

ASSUMPTION (continued)

Officials from the **City of St. Louis** stated that this proposal would have an extremely negative fiscal impact on the City and all other taxing jurisdictions herein (i.e. St. Louis Public Schools, Junior College District, Metropolitan Sewer District, Zoo/Museum District, Library District, Mental Health, Developmentally Disabled, Children Services Fund). The formula for reducing the tax base, compounded by a rollback to 2006 levels would be unrecoverable.

Costs associated with programming and added personnel to facilitate the changes are estimated to be $87,400 in the first year; $62,400 thereafter, increasing by 5-8% annually. Revenue losses will be much greater and are estimated as follows:

| | |
|---|---|
| Initial loss due to change in rate | $94,402,689 |
| Initial loss due to 2006 Rollback: Residential | 21,136,436 |
| Initial loss due to 2006 Rollback: Commercial | 7,194,926 |
| Subtotal | $122,734,051 |
| | |
| Initial/Annual loss from Improvements / Remodeling | $2,782,200 |
| Revenue Loss Total | $125,516,251 |

**Oversight** assumes this proposal would reduce assessed valuations for property tax purposes to 2006 levels with limited exceptions for additions and improvements, and would require a reduction in the assessed valuation of a property under certain circumstances. In addition, the proposal would limit property taxes to one percent of the property's true value in money except for certain exceptions. The proposal would become effective only after the voters approve a constitutional amendment limiting increases in assessed valuation due to reassessment.

Using data provided by the Office of the State Auditor, Oversight calculated an aggregate estimate of the amount of revenue which would be provided to local governments at their current aggregate assessed valuations, if their current levy rates were increased to the maximum authorized levy rates. The calculated amount was $1.1 billion for local governments which levied one overall tax levy rate, and $627 million for local governments which levy individual tax rates by property type. Oversight assumes that these amounts indicate that some local governments would be able to increase their levy rates to compensate for limitations on aggregate assessed valuation. The Oversight calculation that follows is an estimate of the maximum impact for this proposal; if local governments could compensate for the loss of assessed valuation by increasing their levy rates the impact would be reduced below the calculated amount.

ASSUMPTION (continued)

Reduction in Assessed Valuation

According to the State Tax Commission's annual reports, the total assessed valuation for real property for 2006 was $66 billion. Using data reported the State Tax Commission's annual reports, Oversight determined an average rate of increase from one reassessment year (odd-numbered) to the next reassessment over the five most recent reassessment cycles of 14.01%. Applying that 14% (rounded) increase to the TAX total assessed valuation for real estate for 2007 (the most recent reassessment year for which data was available) would provide an estimated 2009 assessed valuation of ($75 billion x 114%) = $86 billion. The $20 billion reduction in assessed valuation at an assumed average property tax rate of $6.25 per $100 assessed valuation would result in a reduction in revenue to local governments of ($20,000,000,000 x $6.25/$100) = $1,250,000,000. The Blind Pension Fund would have a revenue reduction of approximately one-half of one percent of the local government loss or ($1,250,000,000 x .005) = $6,250,000.

Limitation on Property Tax Rates

An estimate of local government revenues from real property taxes based on the assumed average local tax rate of $6.25 per $100 assessed valuation and the current total assessed valuation of $86 billion would be ($75,494,761,821 x $6.25/$100) = $4.718 billion.

**Oversight** notes that the proposal includes a limitation on property tax rates of one percent of the property's true value in money, which would be stated as a levy of $1.00 per $100 assessed valuation if real property was assessed at 100% of its true value in money. Real properties classified as commercial and industrial, are assessed at 32 percent; residential, 19 percent; and agricultural, 12 percent of true or fair market value.

ASSUMPTION (continued)

The following table provides an estimate of the true value in money based on the assessed valuation reported in the State Tax Commission's 2007 annual report.

| Category | Assessed Valuation | Assessment Ratio | Assessor's Appraisal |
|---|---|---|---|
| Commercial and Industrial | $22,849,050,721 | 32% | $71,403,283,503 |
| Residential | $51,016,399,719 | 19% | $267,507,366,942 |
| Agricultural | $1,629,311,381 | 12% | $13,577,594,842 |
| Totals | $75,494,761,821 | | $352,488,245,287 |

**Oversight** notes that a tax of one percent of the total $352 billion in assessor's appraisal values would provide local taxes of ($352,488,245,287 x .1) = $3,524,882,453. That amount is significantly less than the current estimated tax yield of $4.718 billion; however, local tax rates consist of multiple levies which Oversight assumes would be individually subject to the one percent limitation. Accordingly, Oversight assumes that the one percent limitation would have no fiscal impact.

**Oversight** will indicate a fiscal impact to local governments of $0 or $1.25 million and a fiscal impact to the Blind Pension Fund of $0 or $6.25 million. Oversight notes that there is no popular vote scheduled for a constitutional amendment limiting increases in assessed valuation due to reassessment; a popular vote would be scheduled after the General Assembly enacts and the Governor approves enabling legislation. Oversight assumes that such popular vote might be scheduled for the November 2010 general election and will indicate a fiscal impact for 2011 (FY 2012).

| FISCAL IMPACT - State Government | FY 2010 (10 Mo.) | FY 2011 | FY 2012 |
|---|---|---|---|
| **BLIND PENSION FUND** | | | |
| Revenue reduction - assessment limitation | $0 | $0 | $0 or ($6,250,000) |
| **ESTIMATED NET EFFECT ON BLIND PENSION FUND** | **$0** | **$0** | **$0 or ($6,250,000)** |

| FISCAL IMPACT - Local Government | FY 2010 (10 Mo.) | FY 2011 | FY 2012 |
|---|---|---|---|
| **LOCAL GOVERNMENTS** | | | |
| Revenue reduction - assessment limitation | $0 | $0 | $0 or ($1,250,000,000) |
| **ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS** | **$0** | **$0** | **$0 or ($1,250,000,000)** |

FISCAL IMPACT - Small Business

This proposal could have a direct fiscal impact to small businesses which own real property.

FISCAL DESCRIPTION

This proposal would create the predictable property tax act..

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 Revenue
Linn State Technical College
Metropolitan Community Colleges
St. Louis County
Taney County
City of Centralia
City of St. Louis

Mickey Wilson
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