COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4094-01
Bill No.: SJR 43
Subject: Taxation and Revenue - Property; Constitutional Amendments; Counties
Type: Original
Date: February 3, 2020

Bill Summary: This proposal limits the growth of property tax assessments.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	$0 or (More than $7,800,000)		
Total Estimated Net Effect on General Revenue	**$0 or (More than $7,800,000)**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Blind Pension Fund (0621)	$0	$0 or (Unknown, Could exceed $100,000)	$0 or (Unknown, Could exceed $100,000)
Total Estimated Net Effect on Other State Funds	**$0**	**$0 or (Unknown, Could exceed $100,000)**	**$0 or (Unknown, Could exceed $100,000)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	**$0***	**$0 or (Unknown)**	**$0 or (Unknown)**

*Potential costs and state reimbursements net to zero in FY 2021 **if** a special election is called.

FISCAL ANALYSIS

ASSUMPTION

Officials from **Office of the Secretary of State** assume, each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be $7.8 million based on the cost of the 2016 Presidential Preference Primary.

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In FY19, over $5.8 million was spent to publish the full text of the measures for the August and November elections. The SOS estimates $65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

The Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2021. This reflects the decision made by the Joint Committee on Legislative Research, that the cost of the elections should be shown in the fiscal note. The next scheduled statewide

ASSUMPTION (continued)

primary election is in August 2020 and the next scheduled general election is in November 2020 (FY 2021). It is assumed the subject within this proposal could be on one of these ballots; however, it could also be on a special election called for by the Governor (a different date). Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2021.

Officials from **State Tax Commission (STC)** assume this resolution proposes that no residential property (Class 1) shall be assessed by more than the percentage increase of the general price level (CPI). SJR 43 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, 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. An assessment limit would impact the assessment growth and over time potentially create a large disparity.

Officials from **Office of Administration - Budget and Planning (B&P)** assume this proposal requires voter approval, therefore this proposal will not impact TSR or the calculation under Article X, Section 18(e).

This proposal would amend the Missouri Constitution to limit the growth in the assessed value for residential property to the rate of inflation between assessments.

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 Revenue** assume the proposal will have no fiscal impact on their organization.

In response to a similar proposal, HB 1860 (2020), officials from the **Office of the State Auditor** assumed the proposal would have no fiscal impact on their organization. Any impact can be absorbed through current appropriations.

Officials from the **City of Springfield** assume this proposal limits growth in assessed valuation to 1%. The City has created a schedule from our CAFR and applied a simplistic calculation showing what the loss in property tax revenue would be for the excess of 1% growth in assessed valuation would be to our tax revenue (excluding surtax). Current tax calculations limit our

ASSUMPTION (continued)

growth to CPI anyway (excluding new growth). The average loss in revenue over the last ten years is estimated at $175,757.

Officials from the **City of Columbia** assume subject to voter approval, it is possible that this could result in reduced property tax revenues for the City of Columbia, but we have no way to accurately estimate any loss

Officials from the **City of Kansas City** assume this proposal has no fiscal impact to the City of Kansas City, Missouri.

Officials from the **Andrew County Assessor's Office** assume the assessor and staff will not be able to keep up with the market if we have a limit on % increase. The STC will hold us out of compliance and withhold money due to the counties.

Officials from **Cooper County Public Health Center** are unable to estimate the impact since each county health agency (96 out of 114) operates on taxes and each county has different tax rates and property values, commercial and residential properties. So unable to calculate.

Officials from **North Jefferson County Ambulance District** state with the current funding source being personal, real, sales and billing for services rendered any decrease in taxation funding portions will have a negative effect on tax-supported districts/departments that can result in detrimental budgetary issues.

Officials from **Warren County Assessor's Office** assume the revenue losses would be at least $2,100,000 per year in improvements and new construction to all taxing jurisdictions. The cost to the county for implementation and programming is estimated between $10,000 and $100,000.

Officials from **Perry County Assessor's Office** assume the potential loss in revenue would be based on the difference between the overall market increase for each jurisdiction and the limited increase allowed by this legislation. The costs for programming and implementation are estimated to be over $5,000.

Officials from the **City of St. Louis** assume taxing jurisdictions are already limited to an inflationary amount of the CPI or 5%, whichever is less. However, this language would not conform to Section X, Article 3 of the MO Constitution as it would cause for non-uniform assessments in the same subclass of property. Those properties that are appreciating at a faster rate would be taxed at a lesser percentage of value than those properties that are stagnant or decreasing in value.

ASSUMPTION (continued)

Additionally, this language would cause new construction increases to be capped at the CPI level. So, if a $100,000 property had a $50,000 new construction addition/garage/pool, etc., the value would only increase by the CPI (1.9% in 2019) to a value of $101,900, despite having new construction and improvements. Approximately 98% of the taxes on new construction would be lost.

The total amount of new construction taxes lost would be as follows based on 2019 new construction figures:

Taxing District	% of total rate	$ amount lost	
St. Louis Public Schools	61.20%	$	2,037,553
St. Louis Community College	2.43%	$	81,014
Metropolitan Sewer District	1.32%	$	43,934
Sheltered Workshop	1.64%	$	54,703
Mental Health	1.07%	$	35,490
Children's Services	2.25%	$	74,977
Senior Services Fund	0.60%	$	19,866
Metropolitan Zoo & Museum	3.12%	$	103,981
SLPL	6.65%	$	221,259
City of St. Louis	19.35%	$	644,402
MO Blind Pension	0.37%	$	12,238
Total		**$**	**3,329,417**

Additionally, the Collector of Revenue and Assessment Funds would lose the following amounts on an annual basis:

Collector of Revenue $49,941.25
Assessment Fund $20,808.85

ASSUMPTION (continued)

Officials from **Knox County Health Department** state that any negative impact to our ability to obtain the maximum mill tax for operation and maintenance of the county health facility could and would have tremendous impact on our ability in this 100% rural county, without local ordinances, to continue services that assure restaurant and food operation inspection and follow-up, communicable disease follow-up (pertussis, mumps, hepatitis A, Influenza, etc.), assurance of immunizations in the uninsured and under-insured and many more essential public health functions. Our current operating costs are approximately $44,000 a month, with only $4,000 per month coming from the state of Missouri and of that less than a $1,000 being state support ($3,000 CHIP allocation).

Officials from the **Ste Genevieve County Assessor's Office** assume the potential loss in revenue for Ste Genevieve County would be based on the difference between the overall market value of each County neighborhood, vs. the limited CPI increase as proposed in the language of SJR 43. Programming and implementation costs for this proposed Constitutional Amendment would be incurred, and estimated to exceed $5,000.

Oversight assumes this proposal limits increases in the assessed values of individual residential property to the percentage change in CPI per year (estimated at 1.9% for the 2018 year end). Under the proposed legislation, Oversight assumed the assessed value would be 19% of the market value or the prior year assessed value plus 1.9% growth whichever is lower. For fiscal note purposes, Oversight used a two property example to demonstrate the potential changes to the assessed values 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	$105,000	$19,950	**$19,361**
Property 2	$100,000	$19,000	$100,000	$19,000	**$19,000**
Total	$200,000	$38,000	$205,000	$38,950	**$38,361**

*For purposes of this example, Oversight assumed a 5% 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 1.9% increase whichever is lower.

ASSUMPTION (continued)

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:

Tax Rate Calculation	
Revenues Authorized Previous Year	$1,900
Times the Growth Factor*	* 1.9%
Authorized Revenue Growth	$36
Previous Year Authorized Revenues	$1,900
Plus Authorized Revenue Growth	+ $36
Current Year Authorized Revenues	$1,936
Total Current Assessed Value	$38,950
Less New Construction	- $0
Adjusted Total Current Assessed Value	$38,950
Tax Rate Calculation Continued	
Current Year Authorized Revenues	$1,936
Divided by Adjusted Total Current Assessed Value	/ $38,950
	0.04971
	* 100
Maximum Authorized Levy	$4.971
Growth Factor Calculation	
Current Year Adjusted Total Current Assessed Value	$38,950
Less Previous Year Adjusted Total Assessed Value	- $38,000
	$ 950
Divided by Previous Year Adjusted Total Assessed Value	/ $38,000
	0.25
Times 100	* 100
Actual Growth Factor	2.5%

Using the basic 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.

ASSUMPTION (continued)

Table II: Tax Rates

	Assessed Values	Growth Factor	Maximum Allowed Revenue (Prior Year Revenue plus Growth Factor)	Tax Rate Ceiling (Maximum Revenue/ Assessed Value)*100
Prior Year (Assumed)	$38,000	N/A	$1,900.00	5.0000
Current Year Current Law	$39,900	1.90%	$1,936.00	4.9705
Current Year Proposed Law	**$38,361**	**0.95%***	**$1,918.00**	**4.9999**

*The growth factor used in the tax levy calculation is either actual growth in assessed valuation, inflation based on CPI (1.9%) or 5% whichever is lower. In this example under the proposed law, actual growth is below inflation, therefore the growth factor used in the tax levy calculation is the actual growth rate of assessed values or 0.95% ((($38,361-$38,000)/$38,000)*100).

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 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.

Additionally, the growth in total assessed value was less than the percentage change in CPI which reduced the maximum allowed revenue. In order to achieve a maximum growth in revenue of 1.9% (current change in CPI) either all properties would have to increase at 1.9% (or above) or other classes of property would have to increase higher than 1.9% to overcome the net reduction from any properties that increased below 1.9% or decreased in value. Therefore, Oversight assumes this proposal could result in reduction in maximum allowed revenue even for tax entities below their statutory or voter approved rate.

Based on information provided by the Office of the State Auditor, **Oversight** notes there are over 2,500 tax entities with 4,000 different tax rates. Of those entities, 3,155 tax rate ceilings are below the entities' statutory or voter approved maximum tax rate and 929 tax rate ceilings are at the entities' statutory or voter approved maximum rate. (These numbers do not include entities which use a multi-rate method that calculate a separate tax rate for each subclass of property.)

ASSUMPTION (continued)

Because the tax levy would be higher relative to current law 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 (4.9705)	Assessed Value Proposed (Table I)	**Tax Burden Proposed (4.9999)**
Property 1	$950.00	$19,500	$991.64	$19,361	**$968.02**
Property 2	$950.00	$19,000	$944.39	$19,000	**$949.98**
Total	$1,900.00	$38,950	$1,936.00	$38,361	**$1,918.00**

Based on information from the Federal Housing Finance Agency website, **Oversight** notes there were 818 census tracts in Missouri with a change in the House Price Index (HPI) that exceeded the 1.9% combined for 2017 and 2018 period (based on a two year assessment cycle). Because this proposal limits the assessed value of individual residential properties to the increase in CPI (1.9%) 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 1.9% 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

	Assessed Value	Blind Pension Trust Fund (Assessed Value/100)*0.03
Prior Year	$38,000	$11.40
Current Year Current Law	$38,950	$11.69
Current Year Proposed Law	**$38,361**	**$11.51**

ASSUMPTION (continued)

Per the Auditor's report, Jackson County had an 18.64% increase in adjusted total assessed value (less new construction and improvements) from 2018 to 2019. Using information from the State Tax Commission's Annual Report, **Oversight** estimated total residential assessed value was $6,005,888,167 in 2018. Applying the growth rate of 18.64%, Oversight estimated residential assessed values would potentially increase to $7,111,572,179 ($6,005,888,167 *1.1864) in 2019.

Under this proposal the maximum increase would be capped at 1.9% which is estimated at $6,120,000,042 ($6,005,888,167 * 1.019). **Oversight** assumes the 1.9% cap would decrease the residential assessed value by $991,572,136 ($7,111,572,179 - $6,120,000,042). Correspondingly, the Blind Pension Fund would decrease by $297,472 relative to what would have been received under current law (($991,572,136/100)*.03).

In addition, **Oversight** notes this proposal does not appear to have an exception for improvements or new construction. Some counties have indicated this would subject improvements and new construction to the limited increase in assessed value which could substantially reduce assessed values and revenues.

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 $100,000 to the Blind Pension Fund relative to what it would have received under current law.

Oversight assumes, upon voter approval, this proposal would allow assessed values of residential property to be limited by law. Oversight will show the impact as either $0 (Constitutional amendment is not approved by voters) to an unknown loss in revenue to the Blind Pension Fund and local political subdivisions beginning in FY 2022.

Oversight notes some counties indicated additional costs for implementation and computer programming. Oversight will show the impact as either $0 (Constitutional amendment is not approved by voters) to an unknown cost to assessors beginning in FY 2022.

FISCAL IMPACT - State Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
GENERAL REVENUE			
Transfer Out - Local Election Authorities the cost of the special election **if** called for by the Governor	$0 or more than ($7,800,000)	$0	$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 or more than ($7,800,000)**	**$0**	**$0**
BLIND PENSION FUND			
Revenue Loss - loss of property tax on property that appreciates more than the change in CPI **if** voter approved	$0	$0 or (Unknown, Could exceed $100,000)	$0 or (Unknown, Could exceed $100,000)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**$0 or (Unknown, Could exceed $100,000)**	**$0 or (Unknown, Could exceed $100,000)**

FISCAL IMPACT - Local Government	FY 2021 (10 Mo.)	FY 2022	FY 2023
LOCAL POLITICAL SUBDIVISIONS			
Transfer In - to Local Election Authorities the cost of a special election	$0 or $7,800,000	$0	$0
Cost - Local Election Authorities the cost of the special election **if** called for by the Governor	$0 or ($7,800,000)	$0	$0

FISCAL IMPACT - Local Government (continued)	FY 2021 (10 Mo.)	FY 2022	FY 2023
Cost - for assessors for implementation and computer programming **if** voter approved	$0	$0 or (Unknown)	(Unknown)
Revenue Loss - loss of property tax on improvements and new construction and property that appreciates more than the change in CPI **if** voter approved	$0	$0 or (Unknown)	$0 or (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 this proposal resulted in an increase in the tax rate for commercial property.

FISCAL DESCRIPTION

This constitutional amendment, if approved by the voters, provides that the assessed valuation for residential real property shall not exceed the previous assessed valuation for such property by more than the percent increase in inflation.

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
State Tax Commission
Office of Administration - Budget and Planning
Department of Revenue
Office of the State Auditor
City of Columbia
City of Kansas City
City of Springfield

JLH:LR:OD

SOURCES OF INFORMATION (continued)

City of St. Louis
North Jefferson County Ambulance District
Warren County Assessor's Office
Perry County Assessor's Office
Ste Genevieve County Assessor's Office
Cooper County Public Health Center
Know County Health Department

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