

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3455S.01I
Bill No.: SJR 40
Subject: Constitutional Amendments; Taxation and Revenue - Property; Veterans
Type: Original
Date: January 25, 2022

Bill Summary: This proposal exempts certain disabled veterans from property taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	\$0 or (More than \$7,000,000)*	\$0 or Could exceed \$1,485,538	\$0 or Could exceed \$1,485,538
Total Estimated Net Effect on General Revenue	\$0 or (More than \$7,000,000)*	\$0 or Could exceed \$1,485,538	\$0 or Could exceed \$1,485,538

*The potential fiscal impact of “(More than \$7,000,000)” would be realized **only** if a special election were called by the Governor to submit this joint resolution to voters. All other impacts to state funds would be realized only if the joint resolution is approved by voters.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Blind Pension Fund (0621)	\$0	\$0 or (Could exceed \$87,039)	\$0 or (Could exceed \$87,039)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 or (Could exceed \$87,039)	\$0 or (Could exceed \$87,039)

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 <u>All</u> 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*	\$0 or (Unknown, Could exceed \$15,616,120)	\$0 or (Unknown, Could exceed \$15,616,120)

*Potential costs and state reimbursements net to zero in FY 2023 if a special election is called.

Oversight notes the fiscal impact could be substantially reduced if taxing authorities are able to increase the levy to other property owners to make up for the loss of property tax revenue of disabled veterans resulting from this proposal.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **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 million based on the cost of the 2020 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.

For the FY22 petition cycle, the SOS estimates publication costs at \$70,000 per page. The amount is subject to change based on the number of petitions received, length of those petitions and rates charged by newspaper publishers.

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, the SOS reserves the right to request funding to meet the cost of the 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 2023. 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 primary election is in August 2022 and the next scheduled general election is in November 2022 (both in FY 2023). 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 2023.

Officials from the **State Tax Commission** assume this proposal has a possible negative fiscal impact on local taxing jurisdictions such as school districts, counties, cities who rely on property tax assessments as a source of revenue. Under the criteria of the SJR, individuals who are receiving 100% disability compensation as a result of a service connected disability would be exempt from taxation. The STC does not have enough information on the number of individual properties this would effect to provide an accurate amount of the reduction for the local taxing entities.

Officials from the **Office of Administration - Budget and Planning (B&P)** state this proposal would go to public vote in November 2022. For the purpose of this fiscal note, B&P assumes that the tax exemption would begin January 1, 2023 if voter-approved.

This proposal would exempt, upon voter approval, veterans with 100% disability rating from the Department of Veterans Affairs (VA) from real and personal property taxation. Current law only exempts former prisoners of war (POW) with total service-connected disabilities from real property tax on their homestead.

B&P notes that the term “total service-connected disability” is not defined by either federal or state law. B&P further notes that other provisions relying on that term have been interpreted to only include veterans who are 100% disabled or all veterans with a disability that is wholly related to their service. For the purpose of this fiscal note, B&P will show two estimates; a low estimate where only 100% disabled veterans receive the property tax exemption and a high estimate where all veterans with a service related disability receive the exemption.

General Revenue

During tax year 2020, there were 2,173 veterans that claimed the Property Tax Credit (PTC) as a disabled veteran, for total PTC claims of \$1,462,816. Under this proposal, some of these veterans would no longer be subject to real personal property taxes and thus would no longer claim the PTC beginning with tax year 2023. B&P notes that some veterans age 65 and older may have elected to claim the PTC as a senior rather than as a disabled veteran, and would no longer claim the PTC under this proposal. Therefore, B&P estimates that this proposal will increase GR by up to \$1,462,816 annually beginning in FY24.

Blind Pension Trust Fund

Low Estimate

Based on data from the Missouri Veterans Commission there were 13,153 veterans with a 100% service-connected disability rating from the VA during FY19, the most recent complete year available. Additionally, based on data from the U.S. Census bureau, the average median housing value in Missouri was \$157,200 and the average median real estate taxes paid was \$1,526 in 2019. B&P notes however, that based on Section 137.115, RSMo, the assessed value for real property is 19% of the market value. Therefore, based on a market value of \$157,200, B&P estimates that the assessed value would be \$29,868.

B&P notes that the Blind Pension Trust Fund has a property tax levy of \$0.03 per \$100 valuation. Based on the U.S. Census Bureau data, B&P estimates that the Blind Pension Trust Fund receives a median of \$8.96 per real property within Missouri (\$29,868 median assessed value x 0.0003 Blind Pension levy). Therefore, B&P estimates that this proposal could reduce funding to the Blind Pension Trust fund by up to \$117,856 (\$8.96 x 13,153 veterans).

Median Value	\$157,200
Assessed %	x 19%
Assessed Value	\$29,868
	x
Blind Pension Trust Fund levy	(0.03/100)
Median Blind Pension Tax	\$8.96
	x 13,153
Qualifying veterans	
Loss to Blind Pension Trust Fund	(\$117,856)

High Estimate

For the purpose of these estimates, B&P assumes that all veterans with a disability wholly related to their service will receive the property tax exemption.

Based on data from the U.S. Census Bureau, there were 86,767 veterans with a service-connected disability in Missouri during 2019. Additionally, based on data from the U.S. Census bureau, the average median housing value in Missouri was \$157,200 and the average median real estate taxes paid was \$1,526 in 2019. B&P notes however, that based on Section 137.115, RSMo, the assessed value for real property is 19% of the market value. Therefore, based on a market value of \$157,200, B&P estimates that the assessed value would be \$29,868.

B&P notes that the Blind Pension Trust Fund has a property tax levy of \$0.03 per \$100 valuation. Based on the U.S. Census Bureau data, B&P estimates that the Blind Pension Trust Fund receives a median of \$8.64 per real property within Missouri (\$28,804 median assessed value x 0.0003 Blind Pension levy). Therefore, B&P estimates that this proposal could reduce funding to the Blind Pension Trust fund by up to \$777,467 (\$8.96 x 86,767 veterans).

Median Value		\$157,200
Assessed %	x	19%
Assessed Value		\$29,868
Blind Pension Trust Fund levy	x (0.03/100)	\$8.96
Qualifying veterans	x	86,767
Loss to Blind Pension Trust Fund		(\$777,467)

Local Property Tax Collections

Low Estimate

For the purpose of these estimates, B&P assumes that only veterans who are 100% disabled will receive the property tax exemption.

Based on data from the U.S. Census bureau, the average median housing value in Missouri was \$157,200 and the average median real estate taxes paid was \$1,526 in 2019. Using this data, B&P estimates that the median property tax levy in Missouri is \$0.97 per \$100 market value. Subtracting the \$0.03 per \$100 valuation levy for the Blind Pension Trust Fund, B&P estimates that the median local real property tax levy is \$0.965 per \$100 market value. Therefore, B&P estimates that this provision will reduce local real property tax revenues by \$19,953,622 (\$157,200 median home value x \$0.965/\$100 x 13,153 veterans).

Median Home Value		\$157,200
Median Local Real Property Tax Levy	x (0.965/100)	\$1,517.04
Median Local Real Property Tax		
Qualifying veterans	x	13,153
Local Real Estate Taxes Lost		(\$19,953,622)

High Estimate

For the purpose of these estimates, B&P assumes that all veterans with a disability wholly related to their service will receive the property tax exemption.

Based on data from the U.S. Census bureau, the average median housing value in Missouri was \$157,200 and the average median real estate taxes paid was \$1,526 in 2019. Using this data, B&P estimates that the median property tax levy in Missouri is \$0.97 per \$100 market value. Subtracting the \$0.03 per \$100 valuation levy for the Blind Pension Trust Fund, B&P estimates that the median local real property tax levy is \$0.965 per \$100 market value. Therefore, B&P estimates that this provision will reduce local real property tax revenues by \$131,628,975 (\$157,200 median home value x \$0.965/\$100 x 86,767 veterans).

Median Home Value		\$157,200
Median Local Real Property Tax Levy	x	(0.965/100)
Median Local Real Property Tax		\$1,517.04
Qualifying veterans	x	86,767
Local Real Estate Taxes Lost		(\$131,628,975)

Summary

B&P estimates that this proposal will increase GR by an amount up to \$1,462,816 annually beginning in FY24. In addition, depending on how the term “total service-connected disability” is implemented this proposal will reduce funding to the Blind Pension Trust Fund either by up to \$117,856 or by up to \$777,467 annually beginning in FY24. This proposal will also reduce local tax collections by an amount up to \$19,953,622 or by an amount up to \$131,628,975 annually beginning in FY24.

B&P notes that while this proposal will impact state funds, neither TSR nor the calculation under 18(e) would be impacted since it is voter-approved.

Officials from the **Department of Revenue (DOR)** assume, if approved by voters at the November 2022, general election or at a special election called for this purpose, this proposal would allow for an exemption of property tax for military disabled veterans. If this is not adopted by the voters, there will be no fiscal impact. If adopted, it is assumed that based on the certification date of this proposal, it would become effective January 1, 2023.

This proposal says that it would apply to all veterans of the Armed Forces with a total-service-connected disability and exempt them from property tax. However, it does not define if the "total service-connected" disability must be 100% or a lesser rating. The Department reached out to the Missouri Veterans Commission and found out that as of 2019 there are 13,153 veterans with a disability rating of 100%. Additionally, they provided that there are 24,574 with a 70%-90% disability rating. For fiscal note purposes, the DOR will show the low impact as those 13,153 with a 100% rating.

Per data from the U.S. Census Bureau it identifies the following number of service disabilities. Missouri Estimate

Total: 401,779

Has no service-connected disability rating 311,615

Has a service-connected disability rating: 90,164

0 percent 3,397

10 or 20 percent 27,256

30 or 40 percent 13,814

50 or 60 percent 11,518

70 percent or higher 28,918

Rating not reported 5,261

The DOR will assume that those with a disability rating of 10-60 may also qualify in addition to the 24,574 that the Veterans Commission show with a rating of 70% or more. That would add another 77,162 that could potentially qualify.

Assuming that all of these individuals own their dwelling and or tangible personal property, specific by the various classifications of property tax, they would pay Missouri property tax. The Tax Foundation estimates that the per capita state and local property tax collections for Missouri equals \$1,039. The Department notes that some veterans may have a property tax amount that is lower than this amount. Therefore, the 100% rating veterans would be exempt from state and local property tax, of greater than \$13,665,967 (\$1,039 per person x 13,153 veterans). The remaining veterans would be exempt \$80,171,318 (\$1,039* 77,162). The DOR will show a range of \$13,665,967 - \$93,837,285 (\$13,665,967 + \$80,171,318) as the potential loss.

The Missouri Blind Pension fund receives \$.03 for each \$100 valuation of taxable property in the state of Missouri. The Department is unable to determine the actual valuation of the taxable property owned by Missouri veterans, as there are no publications specifying assessed value of property owned by Missouri veterans.

The Department estimates that the Missouri Blind Pension Fund could decrease by a minimum to substantial amount.

Additionally, DOR notes that if a military disabled veteran is exempt from paying real property tax, they would no longer be eligible to claim the Senior Property Tax Credit. Currently a person can claim the Senior Property Tax Credit if:

- A. They are 65 years or older
- B. 100% Disabled Veteran as a result of military service
- C. 100% Disabled or
- D. 60 years of age or older and receiving surviving spouse benefits

In TY 2019- 2,299 taxpayers checked the disabled veteran box on the PTC form. They claimed \$1,508,260 in property tax credits.

In TY 2020 - 2,173 taxpayers checked the disable veteran box on the PTC form. They claimed 1,462,816 in property tax credits.

Two year average claimed by disabled veterans is \$1,485,538.

DOR notes that if a disabled veteran is also over the age of 65 years of age they may have just checked the 65+ box instead of the Veterans box so the amount that could be exempt could be higher.

DOR assumes this would result in a savings to General Revenue that Could Exceed \$1,485,538 annually from military veterans no longer owing property tax and being ineligible for the property tax credit.

Given the election for this proposal is November 2022 (FY 2023) and the bill starts with property taxes on January 1, 2023; this proposal will have an impact starting in FY 2024 due to the filing deadline for the taxes being 12/31/2023 (FY 2024).

FY 2023 \$0

FY 2024 \$1,485,538 savings to GR and an Unknown loss to Blind Pension fund

FY 2025 \$1,485,538 savings to GR and an Unknown loss to Blind Pension fund

This will not have an administrative impact on the Department.

Officials from the **Department of Social Services, Department of Public Safety - Missouri Veterans Commission** and the **Office of the State Auditor** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from the **City of Springfield** anticipate a negative fiscal impact in an amount that cannot be determined because the City has no data regarding how much property tax is presently paid by disabled veterans.

Officials from the **St. Louis County Department of Public Health** state the department receives its funding from property taxes. Any reduction in property taxes would result in the department having to reduce or eliminate critical health services, such as primary health care, that the residents need and rely upon. The amount of revenue loss for years 2023, 2024 and 2025 is unknown.

Officials from the **Cape Girardeau Assessor's Office** state the fiscal impact of this bill is unknowable, but could be catastrophically significant. It would also be nearly impossible to administer.

Officials from the **Greene County Clerk** state there is an impact but it is unquantifiable.

Officials from the **Bevier Fire Protection District** and the **Palmyra Fire Protection District** each assume the proposal will have a fiscal impact on their respective organizations.

Officials from the **Fruitland Area Fire Protection District** assume the fiscal impact would be minimal.

Officials from the **Newton County Health Department** and the **Carroll County 911 Board** each assume the proposal will have no fiscal impact on their respective organizations.

Oversight notes, per information on the State Tax Commission’s [website](#), an applicant must meet the following requirements to qualify for the property tax exemption as it exists in current law:

- be a former prisoner of war and
- a veteran of any branch of the armed forces of the United States or this state who became one hundred percent disabled as a result of his or her military service, and must
- own and occupy the homestead as a primary residence.

Oversight notes the phrase “total service connected disability” exists in current law and for purposes of this fiscal note assumes it has the same meaning as noted above by the State Tax Commission.

Based on information provided by DOR and B&P, **Oversight** notes there were 13,153 veterans with a total (100%) service-connected disability in Missouri as of December 2019.

Based on estimates from the [Housing Assistance Council](#), **Oversight** notes the homeownership rate for veterans is 77.4% with a median house value of \$150,000. Assuming a similar homeownership rate for veterans with a total (100%) service connected disability, Oversight estimates 10,180 veterans may qualify for the property tax exemption ($13,153 * .774$).

Oversight notes property tax levies differ based on the location of the property and the varying taxing entities. Based on information from the [Greene County Collector's](#) website, Oversight estimated the property tax levy for a property in the City of Springfield at \$5.3822 (not counting the \$.03 collected for the Blind Pension Fund) in the table below:

Taxing District	2021 Tax Levy
County General Revenue	0.1075
Road	0.1075
Co. Dev. Disability Programs	0.0461
Library	0.2400
OTC College	0.1875
Springfield R-12 Schools	4.0740
City of Springfield	0.6196
Total	5.3822

Using the median value of \$150,000 and a tax levy of 5.3822, **Oversight** estimates a loss of revenue of \$1,534 per veteran ($((\$150,000 * .19 = \$28,500 \text{ in assessed value}) / 100 = \$285) * 5.3822$). Oversight estimates the total revenue losses to local political subdivisions at

\$15,616,120 (10,180 veterans * \$1,534 revenue loss per veteran). Because tax rates vary by location, Oversight assumes the loss to local political subdivisions could exceed \$15,616,120.

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 $((\text{Total Assessed Value}/100) \times .03)$. Oversight estimates a reduction in residential real property tax revenue to the Blind Pension Fund at \$8.55 per veteran $(\$150,000 \times .19 = \$28,500 \text{ in assessed value} / 100 = \$285 \times .03)$ for an estimated total of \$87,039 $(10,180 \times \$7.81)$.

Oversight notes this proposal is contingent on a voter approved amendment to the Constitution. Oversight will show the impact as either \$0 (Constitutional amendment is not approved by voters AND/OR the local political subdivisions may be able to increase the levy to all other taxpayers to replace the lost property tax revenues from disabled veterans) to an unknown loss in revenue to the Blind Pension Fund and local political subdivisions beginning in FY 2024.

Oversight will use the Department of Revenue's estimate of \$1,485,538 in savings to General Revenue for veterans no longer claiming the property tax credit.

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 the necessary approval to publish a new fiscal note.

Oversight assumes local political subdivisions may incur additional costs to implement and monitor these changes.

Oversight only reflects the responses 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.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
<u>Revenue Gain</u> – DOR – Veterans no longer claiming the Senior Property Tax Credit p. 8	\$0	\$0 or Could exceed \$1,485,538	\$0 or Could exceed \$1,485,538
<u>Transfer Out</u> - SOS - reimbursement of local election authority election costs if a special election is called by the Governor p. 3-4	\$0 or (More than \$7,000,000)	\$0	\$0
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or (More than \$7,000,000)	\$0 or Could exceed \$1,485,538	\$0 or Could exceed \$1,485,538
BLIND PENSION FUND			
<u>Revenue Loss</u> - no real property tax collected from veterans with a total service-connected disability p. 11	\$0	\$0 or (Could exceed \$87,039)	\$0 or (Could exceed \$87,039)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	\$0	\$0 or (Could exceed \$87,039)	\$0 or (Could exceed \$87,039)

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
<u>Costs</u> – to implement and monitor p. 11	\$0	\$0 or (Unknown)	\$0 or (Unknown)
<u>Revenue Loss</u> - no real property tax collected from veterans with a total service-connected disability* p. 10-11	\$0	\$0 or (Unknown, Could exceed \$15,616,120)	\$0 or (Unknown, Could exceed \$15,616,120)
<u>Transfer In</u> - Local Election Authorities - reimbursement of election costs by the State for a special election	\$0 or More than \$7,000,000	\$0	\$0
<u>Costs</u> - Local Election Authorities - cost of a special election if called for by the Governor p. 3-4	\$0 or (More than \$7,000,000)	\$0	\$0
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0	\$0 or (Unknown, Could exceed \$15,616,120)	\$0 or (Unknown, Could exceed \$15,616,120)

***Oversight notes this impact could be substantially reduced if taxing authorities are able to increase the levy to other property owners to make up for the loss of property tax revenue of disabled veterans resulting from this proposal.**

FISCAL IMPACT – Small Business

Oversight assumes there could be an impact to small businesses owned by veterans with a total service connected disability. Conversely, taxing jurisdictions may be able to increase the levy to all other property owners to make up for the lost revenue.

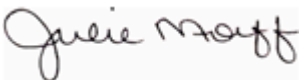
FISCAL DESCRIPTION

This constitutional amendment, if approved by the voters, expands the current exemption from real property taxes for former prisoners of war with a total service-connected disability to all veterans of the Armed Forces of the United States with a total service-connected disability.

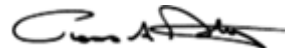
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Revenue
Department of Social Services
Department of Public Safety - Missouri Veterans Commission
Office of the Secretary of State
Office of the State Auditor
City of Springfield
Greene County Clerk
Newton County Health Department
St. Louis County Health Department
Bevier Fire Protection District
Palmyra Fire Protection District
Carroll County 911 Board
Fruitland Area Fire Protection District



Julie Morff
Director
January 25, 2022



Ross Strobe
Assistant Director
January 25, 2022