COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0058S.01I
Bill No.: SB 190
Subject: Taxation and Revenue - Property
Type: Original
Date: February 7, 2023

Bill Summary: This proposal places a limit on the growth in assessments of residential real property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on General Revenue	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Blind Pension Fund (0621)*	$0	$0	$0 or (Unknown, could exceed $250,000)
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0 or (Unknown, could exceed $250,000)**

*Generally represents potential limitation of increased revenue collections.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
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 2024	FY 2025	FY 2026
Local Government	**$0**	**$0**	**$0 or (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** note that this proposal states that no residential property (Class 1) shall be assessed by more than the percentage increase of the consumer price index (7.0% 2021) or ten percent whichever is greater. Real property is to be assessed between 90% and 110% of true market value but if a property has been assessed lower than this range, SB 190 would make it difficult to bring the assessment into compliance. The act has an unknown fiscal impact, 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.

Officials from the **Office of Administration - Budget and Planning** note Subsection 137.115.1 would limit increases to the assessed value of real residential property to either the rate of inflation or 10%, whichever is greater; unless there has been new construction at such property.

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.

Oversight assumes this proposal limits increases in the assessed values of individual residential property to the increase in the percentage change in CPI (estimated at 6.2% for 2021) or 10% whichever is greater.

Officials from the **City of Kansas City** assume this proposal would have a negative fiscal impact on their city of an indeterminate amount.

Officials from the **City of Springfield** assume the proposal will have no fiscal impact on their organization.

Officials from the **Gasconade County Assessor** and the **Lincoln County Assessor** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from the **Department of Revenue, Office of the State Auditor,** and the **Department of Social Services** 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 **Office of the Secretary of State (SOS)** note 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 $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with its core budget. Therefore, the SOS reserves 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.

Oversight assumes this proposal limits the increase in the assessed values of individual residential property to the increase in the percentage change in CPI (estimated at 6.5% for 2022) or 10% whichever is greater. Under the proposed legislation, Oversight assumed the assessed value would be 19% of the market value or the prior year assessed value plus ten percent growth whichever is lower. For fiscal note purposes, Oversight used a two property example to demonstrate the potential changes 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	$115,000	$21,850	**$20,900**
Property 2	$100,000	$19,000	$100,000	$19,000	**$19,000**
Total	$200,000	$38,000	$215,000	$40,850	**$39,900**

*For purposes of this example, Oversight assumed a 15% 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 10% increase whichever is lower.

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:

Growth Factor Calculation

Current Year Adjusted Total Current Assessed Value	$40,850
Less Previous Year Adjusted Total Assessed Value	- $38,000
	$2,850

Divided by Previous Year Adjusted Total Assessed Value	/ $38,000
	0.75
Times 100	x 100
Actual Percentage Growth in Assessed Value	**7.5%**

*The growth factor used in the tax levy calculation is either actual growth in assessed valuation as calculated above (7.5%), inflation based on CPI (6.5%) or 5% whichever is lowest.

Tax Rate Calculation

Revenues Authorized Previous Year	$1,900
Times the Growth Factor*	x 5%
Authorized Revenue Growth	$95
Previous Year Authorized Revenues	$1,900
Plus Authorized Revenue Growth	$95
Current Year Authorized Revenues	$1,995
Total Current Assessed Value	$40,850
Less New Construction (assumed for simplicity)	$0
Adjusted Total Current Assessed Value	$40,850
Current Year Authorized Revenues	$1,995
Divided by Adjusted Total Current Assessed Value	/ $40,850
	0.04883721
	x 100
Maximum Authorized Levy	**$4.88**

Using the basic tax rate 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.

Table II: Tax Rates

	Total Assessed Values	Growth Factor	Maximum Allowed Revenue (Prior Year Revenue plus Growth Factor)	Tax Rate (Maximum Revenue/ Assessed Value)*100
Prior Year (Assumed)	$38,000	N/A	$1,900.00	5.00
Current Year Current Law	$40,850	5.00%	$1,995.00	4.8837
Current Year Proposed Law	**$39,900**	**5.00%**	**$1,995.00**	**5.00**

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 (or reduced increase) 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.

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.)

Because the tax levy would fall at a slower rate 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 (4.7173)	Assessed Value Proposed (Table I)	**Tax Burden Proposed (4.9474)**
Property 1	$950.00	$21,850	$1,067.15	$20,900	**$1,045.00**
Property 2	$950.00	$19,000	$927.96	$19,000	**$950.00**
Total	$1,900.00	$40,850	$1,995.11	$39,900	**$1,995.00**

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 may experience a reduction in revenue growth 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

	Total Assessed Value	Blind Pension Trust Fund (Assessed Value/100)*0.03
Prior Year	$38,000	$11.40
Current Year Current Law	$40,850	$12.26
Current Year Proposed Law	**$39,900**	**$11.97**

Per the STC's website, total assessed value for residential property was $70,953,063,714 in 2022. If this proposal reduced the total assessed value by 1.5%, the loss to the blind pension fund is estimated at $319,289.

Total Assessed Value (Current)	$70,953,063,714
Total Assessed Value if reduced by 1.5% (Assumed)	$69,888,767,758
Difference	($1,064,295,956)
Divided by 100	($10,642,960)
Multiplied by 0.03 (Estimated Changed)	($319,289)

Oversight will show an potential unknown negative fiscal impact that could exceed $250,000 to the Blind Pension Fund relative to what it would have received under current law.

Oversight notes although the effective date of this proposal, if passed, would be FY 2024 (August 2023), the next re-assessment cycle would not occur until calendar year 2025 with impacted revenues occurring in FY 2026 (December 2025).

Oversight assumes there could be costs for implementation and computer programming. Oversight will show an unknown cost to county assessors to implement this proposal beginning in FY 2026.

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 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 listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

FISCAL IMPACT – State Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
BLIND PENSION FUND			
Revenue Loss - loss of property tax on property that appreciates more than 10% - §137.115	$0	$0	$0 or (Unknown, Could exceed $250,000)
			$0 or (Unknown,

ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**$0**	**Could exceed $250,000)**

FISCAL IMPACT – Local Government	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISIONS			
Costs - for assessors for implementation and computer programming - §137.115	$0	$0	$0 or (Unknown)
Loss - loss of property tax on property that appreciates more than 10% - §137.115	$0	$0	$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0**	**$0 or (Unknown)**

FISCAL IMPACT – Small Business

Oversight assumes there could be a fiscal impact to small businesses if tax rates are adjusted relative to changes in assessed value.

FISCAL DESCRIPTION

This act provides that the assessed valuation for residential real property shall not exceed the previous assessed valuation for such property, exclusive of new construction and improvements, by more than ten percent or the percent increase in inflation, whichever is greater.

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 Administration - Budget and Planning
State Tax Commission
Department of Revenue
Department of Social Services
Gasconade County Assessor
Lincoln County Assessor
City of Kansas City
City of Springfield

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February 7, 2023

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