

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0678S.01P
Bill No.: Perfected SJR 21
Subject: Constitutional Amendments; Taxation and Revenue - Property
Type: Original
Date: March 28, 2023

Bill Summary: This proposal authorizes counties to freeze the real property assessed values of certain senior citizens.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|--|----------------|-----------------------|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| General Revenue* | \$0 or (More than \$10,000,000)** | \$0 | \$0 or Unknown |
| Total Estimated Net Effect on General Revenue | \$0 or (More than \$10,000,000)** | \$0 | \$0 or Unknown |

*The potential fiscal impact of “(More than \$10,000,000)” in FY 2024 would be realized **only if** a special election were called by the Governor to submit this joint resolution to voters. Also, **if** voters approve the joint resolution and **if** local taxing jurisdictions approve exemptions, the savings to the state of Senior Property Tax Credits could possibly reach the \$250,000 threshold

**SOS has updated the estimated cost of a statewide special election after examining actual reimbursement costs for the General Primary and General Election held during 2022.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|--|----------------|----------------|-------------------------|
| FUND AFFECTED | FY 2024 | FY 2025 | FY 2026 |
| Blind Pension Fund | \$0 | \$0 | \$0 or (Unknown) |
| Total Estimated Net Effect on Other State Funds | \$0 | \$0 | \$0 or (Unknown) |

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 <u>All</u> 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) |

*Transfer out and transfer in nets to zero if the Governor calls a special election.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission (STC)** assume this proposal will have an unknown fiscal impact on local taxing jurisdictions such as school districts, counties, cities who rely on property tax assessments as a source of revenue. The constitutional amendment, if approved by the voters, allows a taxing district to exempt taxpayers sixty-five years or older from increases in the rate of property tax. Such exemption shall either be approved by the governing body of the taxing district or approved by the voters in the local taxing district. The STC does not have data to determine how many of the 1,061,775 Missourians over sixty five who meet the proposed criteria and eligibility or how many of the 2,900 taxing jurisdictions may choose to grant the exemption from increases in the rate of property tax.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would go to a public vote in November 2024. If voter approved, this proposal would begin January 1, 2025; however, this language would only allow counties and the City of St. Louis to freeze the assessment increases. Counties and the City of St. Louis would then be required to pass an ordinance creating the assessed value freeze. Therefore, B&P assumes that the earliest any such county could implement this would be for tax year 2025 property tax liabilities. B&P notes that property tax liabilities are paid annually in December. Therefore, this proposal may have an unknown impact on local property tax revenues as early as FY26.

B&P notes that property taxes for all taxing jurisdictions located in a county (fully or partially) are levied and collected at the county level. Therefore, B&P assumes that if a property tax assessment freeze were granted within a specific county, the freeze would apply to all property tax levies. This would include countywide levies, city/town/village levies, special levies (such as ambulance districts), and the statewide levy for the Blind Pension Trust Fund.

B&P further notes that it is unclear which assessed value would prevail if a taxpayer were to move between two local jurisdictions after reaching age 65: whether it would be the assessed value in the year the individual moved into the new jurisdiction or the assessed value the year of local approval of the freeze. B&P assumes that the assessment value would be frozen to the value in the year the individual moved into the taxing jurisdiction.

B&P also notes that it is unclear what would happen to the assessed value of property that is owned by a qualifying individual, but subsequently is sold or transferred to a non-qualifying individual. It is unclear if the assessed value would begin increasing from the value as of the year of sale/transfer, or if past (forgone) increases to assessed value would be applied in the year of sale/transfer.

B&P notes that the Blind Pension Trust Fund levies a property tax rate of \$0.03 per \$100 of assessed value. Since this proposal requires subsequent jurisdiction approval, this proposal will

not have a direct impact on revenues to the Blind Pension Trust Fund. However, this proposal may result in an indirect loss to Blind Pension Trust Fund Revenues.

Officials from the **Department of Revenue (DOR)** assume this proposal would freeze any increase in the assessment valuation rates of any property taxes levied on any property owned by an individual who has attained an age of at least sixty-five years and is liable for the payment of real property taxes on property. The local political subdivision may implement income limits to qualify for this freeze in rate. This proposal does not completely eliminate what is currently owed, but would slow the rate of growth of property taxes collected in the future.

This proposal would need to be voted on by the citizens at the November 2024 general election to be adopted as a constitutional amendment. This proposal, should it be adopted at the November 2024 election, would not be certified until December 2024 and this proposal could not be implemented until January 1, 2025.

DOR notes should this proposal not be adopted as a constitutional amendment, this proposal would have no fiscal impact. Should the constitutional amendment, be adopted then it is up to the local political subdivisions to hold an election to adopt the proposal.

This proposal would require each political subdivision wanting to freeze the property tax of these seniors to hold an election. It is assumed the first available election that local political subdivision could put this on the ballot would be the April 2025 municipal election. The Department will assume this would start October 1, 2025, the second quarter after passage of this proposal. This would change the property tax rate during the middle of a tax year.

DOR notes if no local political subdivisions adopt an ordinance this proposal will have no fiscal impact. Should any local political subdivisions choose to adopt the ordinance, then the local political subdivision would receive less property tax and the state may be impacted.

The only property tax collected by the State is for the Blind Pension Fund. The Missouri Blind Pension Fund is a fund for payment of pensions for the blind. The tax, or collection for the fund, consists of 3 cents on each \$100 valuation of taxable property in the State of Missouri. Should the valuation of property hold the same and not increase, then this could result in future lost revenue.

DOR notes the state may also have an impact to the Senior Property Tax Credit. Some seniors paying property tax are eligible to receive the senior property tax credit. Claims for the credit are based on the actual amount of property tax paid. Freezing the property tax rates will result in a savings of future lost revenue (due to increasing property tax rates).

The Department is unable to determine how much of the total valuation of real property in tax year 2020 is attributed to properties owned by individuals who would qualify for this future real property tax freeze. The Department is also not able to predict if any political subdivisions will

adopt this proposal or when they may adopt it; and therefore the impact of this proposal is unknown.

Officials from **Office of the Secretary of State (SOS)** 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 \$10 million based on the cost of the 2022 primary and general election reimbursements.

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 FY24 petitions cycle, the SOS estimates publication costs at \$70,000 per page. This amount is subject to change based on 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 2024. 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 2024 and the next scheduled general election is in November 2024 (both in FY 2025). 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 2024.

Officials from the **City of Springfield** anticipate this proposal would cause a negative fiscal impact of an undetermined amount.

Officials from the **Newton County Health Department** assume this proposal would cause a negative fiscal impact on the Newton County Health Department depending upon the number of citizens eligible for the tax reduction. The impact would be the difference in taxes collected before this provision compared to taxes collected after the provision.

Officials from the **Lincoln County Assessor** note this proposal will place more tax burden on the taxpayers that do not qualify for the assessment freeze. Additionally, officials from Lincoln County note time-consuming documentation will be needed every year if income guidelines are required to qualify for the exemption. This would be a burden on the taxpayers as well to provide the necessary information to qualify.

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

Officials from the **Department of Social Services** and the **Office of the State Auditor** 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.

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 decrease in revenue relative to what it would have received under current law. Therefore, Oversight will show an unknown loss the Blind Pension Fund.

Per the STC's website, total assessed value for residential property was \$69,816,718,311 in 2021. If this proposal reduced the total assessed value by 1.5%, the loss to the Blind Pension Fund is estimated at \$314,175.

| | |
|---|------------------|
| Total Assessed Value (Current) | \$69,816,718,311 |
| Total Assessed Value if reduced by 1.5% (Assumed) | \$68,769,467,537 |
| Difference | -\$1,047,250,774 |
| Divided by 100 | -\$10,472,508 |
| Multiplied by 0.03 (Estimated Changed) | -\$314,175 |

Based on Demographic Characteristics for Occupied Housing Units from the United States Census Bureau, **Oversight** notes there are 517,775 owner-occupied housing units where the age of the householder is 65 years of age or older. Oversight is uncertain how many would have qualifying income or how many taxing districts would approve the exemption of these properties. Therefore, Oversight is uncertain how many would be exempt from increases in assessed value.

In addition, **Oversight** assumes there could be a saving to General Revenue from a reduction in the amount of Senior Property Tax Credits claimed. Oversight will show a range of impact of \$0 (no reduction) to an unknown savings to General Revenue.

Oversight notes property tax revenues are designed to be revenue neutral from year to year. The tax rate is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Therefore, this proposal may result in a higher tax rate relative to current law thus distributing more of the tax burden to real property owners who are under 65 (as the assessed values relatively decrease for credit-qualifying property owners).

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum or are at a fixed rate. 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 an actual 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.)

Oversight will show a range of impact of \$0 (no local political subdivisions adopt the proposed ordinance) to an unknown loss in property tax revenue for local political subdivisions.

In addition, **Oversight** assumes there could be costs to local taxing entities which approve the exemption to implement and monitor individual property assessed value freezes. Oversight will show an unknown cost to local political subdivisions for implementation.

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) to an unknown loss in revenue to the Blind Pension Fund and local political subdivisions 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.

| <u>FISCAL IMPACT – State Government</u> | FY 2024 (10 Mo.) | FY 2025 | FY 2026 |
|---|--|------------|-----------------------------|
| GENERAL REVENUE | | | |
| <u>Cost Avoidance</u> - reduction in the amount of Senior Property Tax Credit claims (p. 5) | \$0 | \$0 | \$0 or Unknown |
| <u>Transfer Out</u> - SOS - reimbursement of local election authority election costs if a special election is called by the Governor (p. 3) | \$0 or (More than <u>\$10,000,000</u>)* | <u>\$0</u> | <u>\$0</u> |
| ESTIMATED NET EFFECT ON GENERAL REVENUE | <u>\$0 or (More than <u>\$10,000,000</u>)*</u> | <u>\$0</u> | <u>\$0 or Unknown</u> |
| BLIND PENSION FUND | | | |
| <u>Loss</u> - from a potential freeze in assessed value (p. 6-7) | <u>\$0</u> | <u>\$0</u> | \$0 or (Unknown) |
| ESTIMATED NET EFFECT ON THE BLIND PENSION FUND | <u>\$0</u> | <u>\$0</u> | <u>\$0 or (Unknown)</u> |

*SOS has updated the estimated cost of a statewide special election after examining actual reimbursement costs for the General Primary and General Election held during 2022.

| <u>FISCAL IMPACT – Local Government</u> | FY 2024 (10 Mo.) | FY 2025 | FY 2026 |
|---|----------------------------------|------------|-------------------------|
| LOCAL POLITICAL SUBDIVISIONS | | | |
| <u>Costs</u> – Local Election Authorities – to vote on implementing assessed value increase exemptions (p. 5-7) | \$0 | \$0 | \$0 or (Unknown) |
| <u>Costs</u> - Assessors - implementation and monitoring of assessed value increase exemptions on certain properties (p.7) | \$0 | \$0 | \$0 or (Unknown) |
| <u>Revenue Loss</u> – from assessed value increase exemptions (p.7) | \$0 | \$0 | \$0 or (Unknown) |
| <u>Transfer In</u> - Local Election Authorities - reimbursement of election costs by the State for a special election (p.3) | \$0 or More than \$10,000,000* | \$0 | \$0 |
| <u>Costs</u> - Local Election Authorities - cost of a special election if called for by the Governor (p.3) | \$0 or (More than \$10,000,000)* | \$0 | \$0 |
| ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS | \$0 | \$0 | \$0 or (Unknown) |

*SOS has updated the estimated cost of a statewide special election after examining actual reimbursement costs for the General Primary and General Election held during 2022.

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 constitutional amendment, if approved by the voters, allows a county or a city not within a county to exempt taxpayers sixty-five years of age or older meeting certain criteria, as described in the amendment, from increases in the assessed valuation of such taxpayer's residential real property. Such exemption shall be approved by the governing body of the county or city not within a county through an ordinance. In addition to criteria required in the amendment to

receive an exemption, a county or city not within a county may also require a taxpayer to meet certain income requirements.

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

Department of Revenue

Department of Social Services

Office of the Secretary of State

Office of the State Auditor

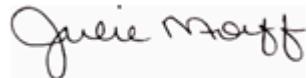
State Tax Commission

Newton County Health Department

Lincoln County Assessor

City of Kansas City

City of Springfield



Julie Morff

Director

March 28, 2023



Ross Strope

Assistant Director

March 28, 2023