

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0684S.01I
Bill No.: SB 105
Subject: Taxation and Revenue - Property
Type: Original
Date: February 7, 2023

Bill Summary: This proposal reduces the assessment percentage of real property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2028)
General Revenue Fund	\$0	\$427,678	\$1,435,056	\$3,908,525
Total Estimated Net Effect on General Revenue	\$0	\$427,678	\$1,435,056	\$3,908,525

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2028)
Blind Pension Fund	\$0	(\$702,055)	(\$1,404,109)	(\$2,808,219)
Total Estimated Net Effect on Other State Funds	\$0	(\$702,055)	(\$1,404,109)	(\$2,808,219)

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2028)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2024	FY 2025	FY 2026	Fully Implemented (FY 2028)
Total Estimated Net Effect on FTE	0	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	Fully Implemented (FY 2028)
Local Government*	\$0	Up to (\$187,402,998)	Up to (\$374,805,996)	Up to (\$749,611,992)

*Oversight notes local property tax revenues are 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. Some taxing entities will be able to increase the tax rate levied on other property to make-up for the lost revenue from reduced assessments for residential property.

FISCAL ANALYSIS

ASSUMPTION

Section 137.115 Residential Property Tax

Officials from the **Department of Revenue (DOR)** note that currently residential property is assessed at a rate of 19% of appraised value to determine its assessed value. This proposal starting January 1, 2024 through December 31, 2026 would lower that rate by 1% per year, reducing the assessed value of the property. This would reduce the rate to 16% by December 31, 2026. Then on January 1, 2027, it would set the new permanent residential property assessment rate at 15%. The County Assessors and the State Tax Commission handle the assessment of personal property. DOR will defer to them for the fiscal impact of this provision on the counties.

The Department notes that the constitutionally created Blind Pension Fund (Article III, Section 38(b)) receives \$.03 for each \$100 valuation of taxable property in the state of Missouri. Reducing the assessed rate will decrease the amount they receive. DOR defers to the Department of Social Services for the estimated loss of funding.

The Department administers the Senior Property tax credit that gives seniors a tax credit for the amount of residential property tax paid or the amount of property tax paid as part of their rent. When residential property tax is reduced by this proposal, this would result in a savings to the state from some of these credits no longer being able to be claimed. Below is the amount claimed each of the last three years.

Tax Year	Number of Filers	Amount Claimed
2019	149,941	\$86,159,181
2020	142,947	\$82,894,597
2021	131,235	\$79,049,535

DOR is not able to determine exactly how much this will reduce what can be claimed due to the income limits also on the tax credits. However, since the new assessment rate is approximately 20% less than the current, assuming a same 20% decrease in use of the PTC program DOR could potentially see a savings of \$15 million annually. DOR will show the impact as could exceed \$1 million annually.

Officials from the **Office of Administration - Budget and Planning** note this proposal reduces the real property assessment value percentage on subclass (1) property from 19% to 15% beginning with tax year 2024. B&P notes that subclass (1) real property is residential real property. For calendar years 2024 through 2027, the assessment percentage is reduced by 1% from the previous year's percentage. Beginning with calendar year 2027, personal property is to be assessed at 15% of its true value.

Based on data published by the U.S. Census Bureau, there were \$3,573,996,000 in real residential property taxes paid in Missouri during 2021. Using data published by the State Tax Commission (STC) and the 2021 property tax levy audit report, B&P estimates that subclass (1) property makes up approximately 42.7% of all locally assessed property. B&P then used the above data to estimate a population weighted statewide local property tax levy. In addition, B&P notes that the Blind Pension Trust Fund has a property tax levy of \$0.03 per \$100 valuation.

B&P further notes that property taxes are levied for a calendar year, with the taxes owed by December 31st of that year. Therefore, a reduction to a tax year's assessed value will impact collections for the following fiscal year. For example: tax year 2024 reduction will impact FY25 collections.

B&P estimates that this proposal could reduce revenues to the Blind Pension Trust Fund by \$702,055 and local property tax collections by \$187,402,998 in FY25. Once fully implemented in FY28, this proposal could reduce revenues to the Blind Pension Trust Fund by \$2,808,219 and local property tax collections by \$749,611,992. Table 1 shows the estimated impact per year.

Table 1: Estimated Impact per Year

Tax Year / Fiscal Year	Estimated Local Loss	Estimated Loss to Blind Pension Fund
TY24 / FY25	(\$187,402,998)	(\$702,055)
TY25 / FY26	(\$374,805,996)	(\$1,404,109)
TY26 / FY27	(\$562,208,994)	(\$2,106,164)
TY27/ FY28	(\$749,611,992)	(\$2,808,219)

PTC Claims

B&P notes that this proposal may also impact redemptions for the senior property tax credit (PTC). In tax year 2021, 64,463 homeowners claimed the PTC for a total of \$40,572,458. However, the majority of homeowners pay more property taxes than the maximum credit amount allowed. Therefore, while this proposal may reduce real residential property taxes, it will not reduce PTC claims by a corresponding amount. Using data provided by DOR and the estimates shown above, B&P estimates that this provision may reduce PTC claims and increase GR by \$427,678 in FY25. Once fully implemented, this proposal could increase GR by \$3,908,525 annually. Table 2 shows the estimated impact per year.

Table 2: Estimated impact to GR by Year

Tax Year / Fiscal Year	GR Gain
TY24 / FY25	\$427,678
TY25 / FY26	\$1,435,056
TY26 / FY27	\$2,577,942
TY27/ FY28	\$3,908,525

Summary

B&P estimates that this provision could reduce TSR by \$274,377 in FY25. Once fully implemented, this proposal could increase TSR by \$1,100,306 annually. Table 3 shows the estimated net state impact.

Table 3: Net State Impact

Tax Year / Fiscal Year	Blind Pension Trust Fund	General Revenue	Net State Impact
TY24 / FY25	(\$702,055)	\$427,678	(\$274,377)
TY25 / FY26	(\$1,404,109)	\$1,435,056	\$30,947
TY26 / FY27	(\$2,106,164)	\$2,577,942	\$471,778
TY27/ FY28	(\$2,808,219)	\$3,908,525	\$1,100,306

Officials from the **State Tax Commission** note 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 SB 105, the percentage of true market value for residential properties in class 1 is reduced by 1% per year until the assessed value is 15% of the true market value. Using values for 2021 published on the State Tax Commission website, the residential assessed values accounts for 54.43% of the total assessment, which would equal \$69,816,718,311.24. If the assessment percentage is reduced by 1%, the new assessed value for residential would be \$66,142,154,189.60. The loss in assessed value would correlate to a loss in taxes collected of \$256,484,575.68. It is not possible to calculate values for the following 3 years of reductions due to changes in assessment of residential properties and tax levy increases or rollbacks.

Officials from the **Department of Social Services** assume Section 137.115 is amended to change the residential real property, as defined by [137.016 RSMo](#), tax rate as follows:

For all calendar years ending on or before December 31, 2023	Nineteen percent of true value
2024 calendar year	Eighteen percent of true value
2025 calendar year	Seventeen percent of true value
2026 calendar year	Sixteen percent of true value
2027 calendar year	Fifteen percent of true value

Blind Pension (BP) is funded from 0.03% of each \$100 assessed valuation of taxable property. Reducing taxes on residential real property could impact the amount collected for the BP fund.

According to the [State Tax Commission Annual Report](#), in 2021, the total assessed valuation for all property in the State of Missouri is \$128,268,819,238. Per the Missouri State Tax Commission's [2021 statistics](#), 54.43% of all property assessments were residential property which means that \$69,816,718,311 ($\$128,268,819,238 * .5443$) is the total assessment for residential real property. FSD made the assumption that this statute does not govern the assessment percentages of real property assessed by the tax commission (Centrally Assessed Companies). Therefore, any funds received for the BP fund from that source were not considered in the calculation of the fiscal impact of this legislation.

Residential real property is currently assessed at 19% of true value in money. Therefore, \$367,456,412,163 ($\$69,816,718,311/0.19$) is the true value of residential property. This proposed legislation will affect the BP fund as follows:

Calendar Year	True Value of Residential Real Property Assessed at Current Rate of 19%	Assessment Rate, as amended per year	Amended Assessed Value of Real Residential Property	Residential Real Property Tax Collections for the BP fund (0.03% of each \$100 assessed)	Reduction in Collections for the BP Fund
2023	\$367,456,412,163	19%	\$69,816,718,311	\$20,945,015	\$0
2024	\$367,456,412,163	18%	\$66,142,154,189	\$19,842,646	\$1,102,369
2025	\$367,456,412,163	17%	\$62,467,590,068	\$18,740,277	\$2,204,738
2026	\$367,456,412,163	16%	\$58,793,025,946	\$17,637,908	\$3,307,108
2027	\$367,456,412,163	15%	\$55,118,461,824	\$16,535,539	\$4,409,477

Therefore, FSD estimates that the fiscal impact to the BP fund as a result of this legislation would be \$1,102,369 in SFY 24; \$2,204,738 in SFY 25; \$3,307,108 in SFY 26; \$4,409,477 in SFY 27 and ongoing.

If the state chooses to continue funding BP payments at the current level, a general revenue pickup would be needed to replace lost BP fund revenue resulting from this legislation. The current BP payment is \$750 per participant. If enacted, the BP payment would be reduced by \$532 to \$218 without the replacement of funding.

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 Secretary of State's office 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 Secretary of State's office for Administrative Rules is less

than \$5,000. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, 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 their office can sustain with their core budget. Therefore, the Office of the Secretary of State 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.

Officials from the **City of Kansas City, City of Springfield, Newton County Health Department, St Louis County Health Department, and the Gasconade County Assessor** each assume this proposal would have a negative fiscal impact on their respective cities of an indeterminate amount. Oversight notes the proposed reduction in the percentage at which real residential property is assessed could reduce the maximum allowed revenue growth (relative to current law) which could impact all taxing entities. Therefore, Oversight will note B&P's estimated impact for all local political subdivisions on the fiscal note.

Officials from the **Office of the State Auditor** assume the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for this agency.

Officials from the **Lincoln County Assessor** assume this proposal would cause a tax burden shift for taxing entities; do not expect the proposal to affect their duties or procedures.

Local Political Subdivisions

Oversight assumes this proposal reduces the percentage at which real residential property is assessed, effectively reducing the assessed value of real residential property over time. Oversight notes the revenue growth in property tax is determined by the following method:

Last year's revenues plus an allowance for growth equal to either:

- Inflation;
- Growth in total assessed value, or;
- 5%, whichever is lowest.

Oversight assumes **if** the growth in total assessed value is the lowest of the three options, then any reduction in the percentage at which real residential property is assessed would reduce the maximum allowed revenue growth (relative to current law) which could impact all taxing entities. For example:

Year	Assessed Value Real	Assessed Value PP	Total Assessed Value Real and PP	Revenue Growth Factor	Maximum Allowed Revenue
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Base Year (Assumed)	\$4,250,000,000	\$750,000,000	\$5,000,000,000		\$6,240,000
Current Law (Next Year) (19%)	\$4,377,500,000	\$772,500,000	\$5,150,000,000	3%	\$6,427,200
Next Proposed (Next Year) (18%)	\$4,147,105,263	\$772,500,000	\$4,919,605,263	-1.63%	\$6,138,028

Oversight applied a 3% growth in real and personal property. To calculate the proposed assessed value, Oversight reduced the 19% currently applied to real residential property values by the proposed 1% reduction in year one (19% - 1% = 18%).

*Using the \$4,250,000,000 assessed value for real property; Oversight calculated the full value of the real residential property:

Full Value of real residential Property *.19 = \$4,250,000,000

Full Value of real residential Property = \$4,250,000,000 /.19

Full Value of real residential Property = \$22,368,421,053

Using the full value of the real property, Oversight applied a growth rate of 3% and calculated the different assessed values below.

\$22,368,421,053 x 1.03	\$23,039,473,684	Total RP Value w/Growth
\$23,039,473,684 x .19	\$4,377,500,000	Assessed Value RP (Current Law)
Or		
\$23,039,473,684 x .18	\$4,147,105,263	Assessed Value RP (Proposed Law)

Oversight notes, in the example above, the proposal functionally eliminates the allowable increase in revenues attributable to growth. Revenues become fixed in time. However, Oversight notes the maximum allowed revenue would be lower than what could have been achieved under current law. Oversight notes the above example only includes the initial 1% reduction in assessed value and does not account for the implications of the three future reductions.

Alternatively, **if** inflation or 5% is the lowest option for determining the maximum allowed revenue, the calculation of revenue growth may not be limited by the reduction in assessed personal property. However, **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 personal property owners (as real property assessed values decrease).

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 notes the **Office of Administration - Budget and Planning** assumes this proposal could reduce revenues to the Blind Pension Trust Fund and local property tax collections beginning in FY 2025. Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by B&P to show the loss in property tax revenue for local political subdivisions and the Blind Pension Fund.

Oversight notes that this proposal may also impact the amount of claims for the senior property tax credit. For the purpose of this fiscal note, Oversight will note B&P's estimated impact for the revenue savings to general revenue from the reduced claims.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2028)
GENERAL REVENUE				
<u>Revenue Savings - §137.115 - Reduced Property Tax Credit Claims p. 4</u>	<u>\$0</u>	<u>\$427,678</u>	<u>\$1,435,056</u>	<u>\$3,908,525</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0</u>	<u>\$427,678</u>	<u>\$1,435,056</u>	<u>\$3,908,525</u>
BLIND PENSION FUND				
<u>Revenue Reduction - §137.115 - Reduced Real Residential Property Taxes p. 4</u>	<u>\$0</u>	<u>(\$702,055)</u>	<u>(\$1,404,109)</u>	<u>(\$2,808,219)</u>

ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>(\$702,055)</u>	<u>(\$1,404,109)</u>	<u>(\$2,808,219)</u>
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<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026	Fully Implemented (FY 2028)
LOCAL POLITICAL SUBDIVISIONS				
<u>Revenue Reduction - §137.115 - Reduced Real Residential Property Taxes p. 4</u>	<u>\$0</u>	<u>Up to (\$187,402,998)</u>	<u>Up to (\$374,805,996)</u>	<u>Up to (\$749,611,992)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>Up to (\$187,402,998)</u>	<u>Up to (\$374,805,996)</u>	<u>Up to (\$749,611,992)</u>

FISCAL IMPACT – Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Current law requires residential real property to be assessed at 19% of its true value in money. Beginning with the 2024 calendar year, this act reduces such percentage by one percent a year through the 2026 calendar year. Beginning with the 2027 calendar year, residential real property shall be assessed at 15% of its true value in money.

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
Office of the Secretary of State

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Office of the State Auditor

State Tax Commission

City of Kansas City

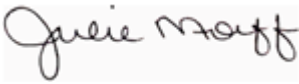
City of Springfield

Newton County Health Department

St Louis County Health Department

Lincoln County Assessor

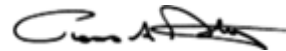
Gasconade County Assessor



Julie Morff

Director

February 7, 2023



Ross Strobe

Assistant Director

February 7, 2023