COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3962S.01I
Bill No.: SB 1009
Subject: Taxation and Revenue - Property
Type: Original
Date: March 4, 2024

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2032)
General Revenue	$0	$181,008	$181,008	$2,566,282
Total Estimated Net Effect on General Revenue	**$0**	**$181,008**	**$181,008**	**$2,566,282**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2032)
Blind Pension Fund	$0	($1,061,180)	($1,061,180)	($4,244,721)
Total Estimated Net Effect on Other State Funds	**$0**	**($1,061,180)**	**($1,061,180)**	**($4,244,721)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2032)
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 2025	FY 2026	FY 2027	Fully Implemented (FY 2032)
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 2025	FY 2026	FY 2027	Fully Implemented (FY 2032)
Local Government*	**$0**	**Up to ($243,482,297)**	**Up to ($243,482,297)**	**Up to ($973,929,188)**

***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 Real Property Assessment Value Percentage Reduction

Officials from the **Department of Social Services** note 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, 2024 Nineteen percent of true value

2025 calendar year	Eighteen percent of true value
2026 calendar year	Eighteen percent of true value
2027 calendar year	Seventeen percent of true value
2028 calendar year	Seventeen percent of true value
2029 calendar year	Sixteen percent of true value
2030 calendar year	Sixteen percent of true value
2031 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 2022, the total assessed valuation for all property in the State of Missouri is $135,215,666,531. Per the Missouri State Tax Commission's 2022 statistics, 52.50% of all property assessments were residential property which means that $70,988,224,929 ($135,215,666,531*.5250 = $70,988,224,928.77, rounded up) is the total assessment for residential real property. The Family Support Division (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, $373,622,236,468 ($70,988,224,929/0.19 = $373,622,236,468) 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
2024	$373,622,236,468	19%	$70,988,224,929	$21,296,467	$0
2025	$373,622,236,468	18%	$67,252,002,564	$20,175,601	$1,120,867
2026	$373,622,236,468	18%	$67,252,002,564	$20,175,601	$1,120,867
2027	$373,622,236,468	17%	$63,515,780,200	$19,054,734	$2,241,733
2028	$373,622,236,468	17%	$63,515,780,200	$19,054,734	$2,241,733
2029	$373,622,236,468	16%	$59,779,557,835	$17,933,867	$3,362,600
2030	$373,622,236,468	16%	$59,779,557,835	$17,933,867	$3,362,600
2031	$373,622,236,468	15%	$56,043,335,470	$16,813,001	$4,483,467

Therefore, FSD estimates that the fiscal impact to the BP fund as a result of this legislation would be $1,120,867 in SFY 26 and SFY 27; $2,241,733 in SFY 28 and SFY 29; $3,362,600 in SFY 30 and SFY 31; and $4,483,467 in SFY 32 and ongoing.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal reduces the real property assessment value percentage on subclass (1) property from 19% to 15% over a number of years, beginning with tax year 2025. B&P notes that subclass (1) real property is residential real property. For calendar years 2025 through 2030, the assessment percentage is reduced by 1% every two years. Beginning with calendar year 2031, personal property is to be assessed at 15% of its true value.

B&P 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.

Based on data published by the State Tax Commission (STC), the assessed value for class (1) property was $70,946,826,909 for tax year 2022. Using the 2022 property tax levy audit report, B&P estimated 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 estimates that this proposal could reduce revenues to the Blind Pension Trust Fund by $1,061,180 and local property tax collections by $243,482,297 in FY26. Once fully implemented in FY32, this proposal could reduce revenues to the Blind Pension Trust Fund by $4,244,721 and local property tax collections by $973,929,188. Table 1 shows the estimated impact per year.

Table 1:
Estimated Impact per Year

Tax Year / Fiscal Year	Assessment Percentage	Estimated Loss to Blind Pension Fund	Estimated Local Loss
TY25 / FY26	18%	($1,061,180)	($243,482,297)
TY26 / FY27	18%	($1,061,180)	($243,482,297)
TY27/ FY28	17%	($2,122,360)	($486,964,594)
TY28/ FY29	17%	($2,122,360)	($486,964,594)
TY29/ FY30	16%	($3,183,541)	($730,446,891)
TY30/ FY31	16%	($3,183,541)	($730,446,891)
TY31/ FY32	15%	($4,244,721)	($973,929,188)

PTC Claims

B&P notes that this proposal may also impact redemptions for the senior property tax credit (PTC). In tax year 2022, 56,453 homeowners claimed the PTC for a total of $33,425,647. However, most 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 $181,008 in FY26. Once fully implemented, this proposal could increase GR by $2,566,282 annually. Table 2 shows the estimated impact per year.

Table 2: Estimated impact to GR by Year

Tax Year / Fiscal Year	GR Gain
TY25 / FY26	$181,008
TY26 / FY27	$181,008
TY27/ FY28	$791,674
TY28/ FY29	$791,674
TY29/ FY30	$1,584,655
TY30/ FY31	$1,584,655
TY31/ FY32	$2,566,282

Summary

B&P estimates that this provision could reduce state revenues by $880,172 and local revenues by $243,482,297 in FY26. Once fully implemented, this proposal could decrease state revenues by $1,678,439 and local revenues by $973,929,188 annually. Table 3 shows the estimated net state impact.

Table 3: Net State and Local Impact

Tax Year / Fiscal Year	Blind Pension Trust Fund	General Revenue	Net State Impact	Net Local Impact
TY25 / FY26	($1,061,180)	$181,008	($880,172)	($243,482,297)
TY26 / FY27	($1,061,180)	$181,008	($880,172)	($243,482,297)
TY27/ FY28	($2,122,360)	$791,674	($1,330,686)	($486,964,594)
TY28/ FY29	($2,122,360)	$791,674	($1,330,686)	($486,964,594)
TY29/ FY30	($3,183,541)	$1,584,655	($1,598,886)	($730,446,891)
TY30/ FY31	($3,183,541)	$1,584,655	($1,598,886)	($730,446,891)
TY31/ FY32	($4,244,721)	$2,566,282	($1,678,439)	($973,929,188)

Officials from the **Department of Revenue (DOR)** note currently residential property is assessed at a rate of 19% of appraised value, to determine its assessed value, which is used to calculate how much property tax is owed. This proposal starting January 1, 2025, would lower that rate 1% every two years until January 1, 2031, when it would be 15% and remain there into the future. The rate would be:

Calendar Year	Percentage Rate
2024 (current)	19%
2025	18%
2026	18%
2027	17%
2028	17%
2029	16%
2030	16%
2031+	15%

This would ultimately result in a reduction of the assessed value of the property by about 20%. This would result in less property tax being owed by taxpayers. The County Assessors and the

State Tax Commission handle the assessment of real 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 to the Blind Pension Fund.

The Department of Revenue administers the Senior Property tax credit (PTC) 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.

Here is the amount claimed each of the last three years.

Tax Year	Number of Filers	Amount Claimed
2020	142,947	$82,894,597
2021	131,235	$79,049,535
2022	120,672	$70,079,033

If the assessment rate on the property goes down, then the amount of property tax paid goes down and the amount of the Senior Property Tax Credit that can be claimed would go down.

Since the renter's credit is based on the total amount of rent paid, and this proposal does not require rents to decrease, DOR assumes this will not impact the renters claiming the credit. 63,364 renters claimed $36,106,983 of the total credits handed out in 2022.

This proposal is assumed to mostly impact the homeowners. When the homeowner's residential property tax is reduced as outlined by this proposal, this would result in a reduction of the amount of credits being issued. DOR notes the PTC credit is not only based on the amount of property tax paid but also the income of the taxpayer. Due to how the credit is awarded, DOR is not able to determine exactly how much this will reduce what can be claimed due to the income limits on the tax credits. In FY 2022, 56,457 homeowners claimed $33,428,661 in 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 by homeowners, DOR could potentially see a savings up to $6,685,732 annually on the proposal is fully implemented.

Given this proposal starts on January 1, 2025, the first assessment period at the lower rate would be in December of 2025 and the first time the PTC credits would be claimed for that period is January 2026. Therefore, this will not result in an impact to general revenue until FY 2026.

DOR notes the PTC credit is not only based on the amount of property tax paid but also the income of the taxpayer. Due to how the credit is awarded, DOR is not able to determine exactly how much this will reduce what can be claimed due to the income limits on the tax credits. However, since the new assessment rate will eventually be approximately 20% less than the current, assuming a same 20% decrease in use of the PTC program DOR could potentially see a savings of $14 million annually in 2031 and beyond. DOR will show the impact as could exceed $14 million annually starting in FY 2032 and will show a saving of could exceed $1 million from 2026 through 2031.

Given this proposal starts on January 1, 2025, the first assessment period at the lower rate would be in December of 2025 and the first time the PTC credits would be claimed for that period is January 2026. Therefore, this will not result in an impact to general revenue until FY 2026.

Officials from the **State Tax Commission** assume this 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 1009, the percentage of true market value for residential properties in class 1 is reduced by 1% every two years until the assessed value is 15% of the true market value.

Using values for 2022 published on the State Tax Commission website, the residential assessed values accounts for 52.5% of the total assessment which would equal $70,953,063,714. If the assessment percentage is reduced by 1%, the new assessed value for residential would be $67,218,691,939. The loss in assessed value would correlate to a loss in taxes collected of $252,645,987. It is not possible to calculate values for the following 8 years of reductions due to changes in assessment of residential properties and tax levy increases or rollbacks.

Officials from the **Newton County Health Department** assume this will create a negative fiscal impact to the Newton County Health Department as, over time, property tax rates decrease causing a decrease in the amount of property tax collected.

Officials from the **City of Kansas City** assume this legislation has a negative fiscal impact of an indeterminate amount.

Officials from the **Branson Police Department** assume there is the potential for this to negatively impact revenues for first responder agencies.

Officials from the **Paris R-II School District** assume because the fiscal impact of the bill is difficult to determine, the district has decided to provide a range of possible harm. If SB 1009 results in a 10% reduction in personal property tax revenue for the school district, it would mean that the district would lose $65,387. This loss would potentially require the district to cut 1 teacher and 1 paraprofessional.

If SB 1009 results in a 20% reduction in personal property tax revenue for the school district, it would mean that the district would lose $130,775. This loss would potentially require the district to cut 3 teachers.

If SB 1009 results in a 30% reduction in personal property tax revenue for the school district, it would mean that the district would lose $196,162. This loss would potentially require the district to cut 4 teachers and 1 paraprofessional.

Officials from the **Daviess County Assessor** assume this bill will cause a loss for Daviess County. In the first year, the county would face an estimated loss of $675,690 assessed and local tax dollars of around $49,000.

The schools made up a majority of this money, but they will be able to recapture that through levy manipulation as they do currently. In Daviess County, majority of the county's levies, (Fire, Ambulance, SB 40, Senior Center, Library, Townships, County, Road & Bridge, Water Shed, Health Department) all face a capped or near capped levy. Cutting this Assessed evaluation will only create funding issues for these services that everyone in the county uses or has access to.

Officials from the **Lincoln County Assessor** assume using a static starting number of appraised value for residential property in the county - these are the results:

$3,623,012,542.00 - starting appraised number

$688,372,383.00 - current assessed at 19%

$652,142,258.00 - assessed at 18%

$615,912,132.00 - assessed at 17%

$579,682,006.00 - assessed at 16%

$543,451,881.00 - assessed at 15%

The county notes, granted the starting number will more than likely increase each calendar year with higher increases during reassessment years - so the overall increase in value may offset the assessment ratio change(s) - this could cause some counties classifications to change if they fall below AV thresholds

All in all, the county assumes this could cause revenue shortfalls to taxing entities hence allowing them to raise tax levies to offset the losses.

Officials from the **St Genevieve County Assessor** assume the revised loss of revenue for Ste Genevieve County is broken down per future reassessment cycles as follows, and is based on the 2023 residential values submitted on Form 11a and using the average tax rate of the county. Please disregard the original anticipated revenue loss number.

2025 cycle - revenue loss $660,407

2027 cycle - revenue loss $1,320,815

2029 cycle - revenue loss $1,981,223

2031 cycle - revenue loss $2,641,630

Officials from the **Greene County Assessor** note the enactment of this legislation will precipitate a local revenue shortfall of $1,139,151 in Greene County during its initial fiscal year. Although this figure may initially seem negligible, it is imperative to recognize that most of this deficit pertains to educational institutions, which retain the authority to adjust their levies within statutory constraints, thereby mitigating the financial ramifications through action by the school board.

However, governmental entities such as the County, Cities, Fire Districts, Library District, and others will be unable to recoup this deficit in funding, resulting in constricted budgets, service reductions, and potential compromises to public safety.

In Greene County specifically, even a modest increase simulated to reflect the reassessment process, utilizing a 5% increment per cycle, coupled with the reduction in assessed value mandated by this legislation, would amplify the loss of local revenue with each reassessment iteration. The following hypothetical scenario demonstrates the impact:

2025 (18% Assessment Rate) Loss in Revenue: $1,139,151
2027 (17% Assessment Rate) Loss in Revenue: $1,784,128
2029 (16% Assessment Rate) Loss in Revenue: $2,497,779
2031 (15% Assessment Rate) Loss in Revenue: $3,278,335

It is important to note that the above figures are simulated and subject to the unpredictable fluctuations of the real estate market. However, even with a simplistic increase model, the disparity between assessment rates of 19% and 15%, inclusive of the simulated value increments, could result in a revenue loss exceeding $3.5 million.

Officials from the **Shelby County Assessor** note this legislation in its first year of 2025 would have an assessed valuation loss to Shelby County of 1,748,102 with an estimated revenue loss to the taxing entities of $104,886. In year 2031, the assessed valuation estimated to be lost would be 7,392,406 and loss of revenue to the taxing entities would be estimated at $443,544. These numbers are based off 2023 values and are estimates only.

Officials from the **Rolling Hills Consolidated Library** note any reduction in the way property tax is assessed and at what rate would significantly impact the operations of the library and would result in fewer hours and less services. Taxing away 1% at a time every other year during an eight year span is still a cut to all entities that use property tax funding. <u>It is anticipated that over 20 years this could mean a loss of more than $1,680,000 to the library district.</u>

Officials from the **County Employee Retirement Fund (CERF)** indicate this proposal would have a negative fiscal impact to the County Employees' Retirement Fund. A certain portion of the moneys that are used to fund the County Employees' Retirement Fund are tied to the collection of property taxes. The proposed changes in SB 1009 would be expected to result in a deterioration of CERF's funding over time compared to the current revenue structure. This would result in a much slower improvement in the funded ratio over time if other changes are not made to provide an alternate revenue source.

Officials from the **Howell County Assessor** note this bill will cause a loss of local revenue in Howell County of $113,783 in the first year. While that does not seem like much, 90% of that is for schools who will manipulate their levies as the statutes allow them, so they will recover that funding by action of the school board. But cities, counties, fire districts, ambulance districts, health departments, sheltered workshops and others will not be able to recover this loss of funding creating tighter budgets and causing the loss of services and potentially posing a public safety risk.

Officials from the **Phelps County Sheriff**, **Kansas City Police Dept.**, and the **St. Louis County Police Dept** each assume the proposal will have no fiscal impact on their respective organizations.

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.

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.

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.

Oversight notes the **Office of Administration - Budget and Planning (B&P)** assumes this proposal could reduce revenues to the Blind Pension Trust Fund and local property tax collections beginning in FY 2026. 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.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2032)
GENERAL REVENUE				
Revenue Savings - §137.115 - Reduced Property Tax Credit Claims	$0	$181,008	$181,008	$2,566,282
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0**	**$181,008**	**$181,008**	**$2,566,282**
BLIND PENSION FUND				
Revenue Reduction - §137.115 - Reduced Real Residential Property Taxes	$0	($1,061,180)	($1,061,180)	($4,244,721)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**($1,061,180)**	**($1,061,180)**	**($4,244,721)**

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2032)
LOCAL POLITICAL SUBDIVISIONS				
Revenue Reduction - §137.115 - Reduced Real Residential Property Taxes	$0	Up to ($243,482,297)	Up to ($243,482,297)	Up to ($973,929,188)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**Up to ($243,482,297)**	**Up to ($243,482,297)**	**Up to ($973,929,188)**

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 every two years through the 2030 calendar year. Beginning with the 2031 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 Social Services
State Tax Commission
Department of Revenue
Newton County Health Department
City of Kansas City
Phelps County Sheriff
Kansas City Police Dept.
St. Louis County Police Dept
Branson Police Department

KLP:LR:OD

Paris R-Ii School District
Daviess County Assessor
Lincoln County Assessor
St Genevieve County Assessor
Greene County Assessor
Shelby County Assessor
Rolling Hills Consolidated Library
County Employee Retirement Fund
Howell County Assessor

Julie Morff
Director
March 4, 2024

Ross Strope
Assistant Director
March 4, 2024

KLP:LR:OD