COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 4165S.02I
Bill No.: SJR 53
Subject: Appropriations; Constitutional Amendments
Type: Original
Date: April 3, 2024

Bill Summary: This proposal modifies provisions relating to taxation.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2025 | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
| General Revenue | $0 or (More than $8,000,000) | $0 or ($481,691,689) | $0 or ($963,383,378) | $0 or ($1,926,766,756) |
| **Total Estimated Net Effect on General Revenue** | **$0 or (More than $8,000,000)*** | **$0 or ($481,691,689)** | **$0 or ($963,383,378)** | **$0 or ($1,926,766,756)** |

*The potential fiscal impact of "(More than $8,000,000)" in FY 2025 would be realized only if a special election were called by the Governor to submit this joint resolution to voters. Impacts in subsequent years is dependent upon voter approval.

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2025 | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
| Blind Pension Fund | $0 | $0 or ($2,099,379) | $0 or ($4,198,759) | $0 or ($8,397,517) |
| Personal Property Reimbursement | $0 | $0* | $0* | $0* |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **$0 or ($2,099,379)** | **$0 or ($4,198,759)** | **$0 or ($8,397,517)** |

*Potential costs and state reimbursements net to zero.
Numbers within parentheses: () indicate costs or losses.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | | |
|---|---|---|---|---|
| FUND AFFECTED | FY 2025 | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
| | | | | |
| | | | | |
| **Total Estimated Net Effect on All 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 2029) |
| | | | | |
| | | | | |
| **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 2029) |
| | | | | |
| **Local Government**** | **$0*** | **$0** | **$0** | **$0** |

*Potential costs and state reimbursements net to zero in FY 2025 if a special election is called.
****Oversight** notes currently some taxing authorities are able to increase the levy to make up for the loss of personal property tax revenue resulting from this proposal. Oversight is uncertain how this proposal will impact the rate setting process. Therefore, Oversight is uncertain if these taxing entities will be able to make up the tax revenue through the rate setting process in addition to receiving reimbursement from General revenue.

# FISCAL ANALYSIS

## ASSUMPTION

Officials from the **Office of Administration - Budget and Planning** did not respond to **Oversight's** request for fiscal impact for this proposal.

Officials from the **Department of Revenue (DOR)** note this is a constitutional amendment that would go to the voters in November 2024. If adopted this would eventually eliminate tangible personal property tax in the state.

The assessment of all real and personal property in Missouri is handled by the County Assessors and the money raised is used to pay for services at the local government level. The assessment of property begins with classifying all property per Section 137.015 into the following categories.

| | |
|---|---|
| Class one: | real property |
| Class two: | tangible personal property |
| Class three: | intangible personal property |

Once the property is classified into one of these categories the county assessor can determine the appraised value of the property. Once the appraised value is determined it is multiplied by the levy to determine the amount of property tax owed. This proposal would phase out and eventually eliminate the property tax owed on class 2 property (tangible personal property). DOR notes that the only statewide property tax that is levied is for the Blind Pension Fund per Article III, Section 38(b) of the Missouri Constitution. It is to receive $0.03 per $100 valuation on **all** taxable property. A reduction in any of the assessment values could result in a loss of revenue to the Blind Pension Fund.

Starting in calendar year 2025, this proposal reduces the base assessment revenue annually of local taxing jurisdictions. The base assessment amount is defined as the amount of revenue collected by a taxing jurisdiction in calendar year 2024 on all tangible personal property. In 2025, taxing jurisdictions should receive no more than 75% of their 2024 revenue. In 2026, they shall receive no more than 50% of the 2024 revenue and in 2027, they should receive no more than 25% of the revenue. Beginning with calendar year 2028, tax will be eliminated on tangible personal property.

Property tax assessment is done during the summer months of a year and the payment of the tax is owed no later than December 31st of that year which impacts the following fiscal year's revenue. Reductions in the rate owed as of December 31, 2025, will impact the FY 2026 collections.

The State Tax Commission notes that in tax year 2022 (the most complete data available), the local assessed value of class 2 property was $28,437,262,805 and the centrally assessed class 2 property was $1,111,624,363. Using data pulled from the 2022 property tax levy audit report, DOR was able to estimate a revenue weighted statewide local property tax levy. Using all this data DOR was able to estimate the impact of this proposal.

Table 1: Estimated Impact by Year

| Calendar Year | Fiscal Year | Revenue Reduction | Blind Pension Fund | Local Funds |
|---|---|---|---|---|
| CY 2025 | FY 2026 | 25% | $0 or ($2,099,379) | ($481,691,689) |
| CY 2026 | FY 2027 | 50% | $0 or ($4,198,759) | ($963,383,378) |
| CY 2027 | FY 2028 | 75% | $0 or ($6,298,138) | ($1,445,075,067) |
| CY 2028 | FY 2029 | 100% | ($8,397,517) | ($1,926,766,756) |

DOR notes that this proposal requires the use of the calendar year 2024 assessed values for determining impact. However, at the time of the preparation of the fiscal note the 2024 assessed values are not known. Assessed values have been increasing across the state in the last several years. Therefore, given when this fiscal note has to be completed and the rise in assessed values, the estimates provided could be understated.

This proposal also creates a process by which a local political subdivision can request reimbursement of the difference between what they are allowed to collect and what they did collect from the state's newly created Personal Property Reimbursement Fund. This proposal requires that in any fiscal year in which net general revenue collections exceed state general revenue appropriations by more than 1%, the excess amount over the 1% must be transferred to the Personal Property Reimbursement Fund. This Fund is then used to reimburse the local governments. Should there not be enough funds to reimburse all local governments then General Revenue will be required to make the payments.

DOR notes the language of the proposal is unclear as to whether the Blind Pension Fund is eligible for reimbursement under the Personal Property Reimbursement Fund. For fiscal note purposes, DOR <u>will not show them being eligible</u>.

This proposal would result in the following impact:

Table 2: Estimated Impact by Fund

| **State Fund** | FY26 | FY27 | FY28 | FY29 |
|---|---|---|---|---|
| General Revenue | ($481,691,689) | ($963,383,378) | ($1,445,075,067) | ($1,926,766,756) |
| Blind Pension Trust Fund | $0 or ($2,099,379) | $0 or ($4,198,759) | $0 or ($6,298,138) | ($8,397,517) |
| Personal Property Reimbursement Fund | | | | |
| Transfer from GR | $481,691,689 | $963,383,378 | $1,445,075,067 | $1,926,766,756 |
| Transfer to Locals | ($481,691,689) | ($963,383,378) | ($1,445,075,067) | ($1,926,766,756) |
| Net Impact PPRF | $0 | $0 | $0 | $0 |
| **Total State Impact** | ($481,691,689) or ($483,791,068) | ($963,383,378) or ($967,582,137) | ($1,445,075,067) or ($1,451,373,205) | ($1,935,164,273) |
| **Local Funds** | | | | |
| Local Property Tax | ($481,691,689) | ($963,383,378) | ($1,445,075,067) | ($1,926,766,756) |
| Local Reimbursement | $481,691,689 | $963,383,378 | $1,445,075,067 | $1,926,766,756 |
| **Net Local Impact** | **$0** | **$0** | **$0** | **$0** |

The County Assessors handled property tax assessment and collections. Therefore, this proposal would not fiscally impact DOR.

**Oversight** notes this proposal is contingent on a voter approved amendment to the Constitution.

Officials at the **State Tax Commission** assume that this proposal has an unknown negative fiscal impact on the state. Beginning in 2025, the base revenue from personal property taxes will be reduced by 25% per year until the property taxes produced by personal property are totally eliminated in 2028. The resolution creates a funding mechanism where any monies collected over the appropriations limit established in the resolution goes into the fund.

The resolution also requires the state to reimburse each taxing jurisdictions for any revenue lost due to the phase out of the personal property tax. Based on the 2023 numbers from the STC the total assessed value of personal property was $28,985,222,330 ($149,871,883,818*19.34%) and accounted for $1,910,124,084 ($10,230,980,631*18.67%) in taxes. Lowering the taxes collected from the base assessment of personal property by 25% each year until it is eliminated is $477,531,021 ($1,910,124,084*.25) in 2025, $955,062,042 ($1,910,124,084*.5) in 2026 and $1,432,593,063 ($1,910,124,084*.75) until it is totally eliminated in 2028.

According to the House Budget Book, $15,221,017,356 of general revenue was appropriated in 2023. The state would have to collect 3.14% above inflation to cover the taxing jurisdictions loss of revenues each year.

Officials from the **Department of Social Services** assume the proposal would not fiscally impact their department.

Officials from the **Office of Administration** defer to the **Office of Administration - Budget and Planning** for the potential fiscal impact of this proposal.

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.

| FISCAL IMPACT – State Government | FY 2025 (10 Mo.) | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
|---|---|---|---|---|
| | | | | |
| **GENERAL REVENUE** | | | | |
| | | | | |
| Transfer Out - SOS - reimbursement of local election authority election costs **if** a special election is called by the Governor | $0 or (More than $8,000,000) | $0 | $0 | $0 |
| | | | | |
| Potential Transfer Out - To local political subdivisions **if** approved by voters | $0 | $0 or up to ($481,691,689) | $0 or up to ($963,383,378) | $0 or up to ($1,926,766,756) |
| | | | | |
| Potential Transfer Out - To Personal Property Reimbursement Fund **if** approved by voters (excess net general revenue) | $0 | $0 or (Unknown) | $0 or (Unknown) | $0 or (Unknown) |
| | | | | |
| **ESTIMATED NET EFFECT ON GENERAL REVENUE** | **$0 or (More than $8,000,000)** | **$0 or ($481,691,689)** | **$0 or ($963,383,378)** | **$0 or ($1,926,766,756)** |
| | | | | |
| | | | | |
| | | | | |
| **BLIND PENSION FUND** | | | | |
| | | | | |
| Potential Loss of Revenue - Reduction of personal property tax revenue | $0 | $0 or ($2,099,379) | $0 or ($4,198,759) | $0 or ($8,397,517) |
| | | | | |
| **ESTIMATED NET EFFECT ON BLIND PENSION FUND** | **$0** | **$0 or ($2,099,379)** | **$0 or ($4,198,759)** | **$0 or ($8,397,517)** |

| FISCAL IMPACT – State Government | FY 2025 (10 Mo.) | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
|---|---|---|---|---|
| | | | | |
| | | | | |
| | | | | |
| **PERSONAL PROPERTY REIMBURSEMENT FUND** | | | | |
| | | | | |
| Potential Transfer In **-** from the excess net general revenue | $0 | $0 or Unknown | $0 or Unknown | $0 or Unknown |
| | | | | |
| Potential Transfer Out - to Locals | $0 | $0 or (Unknown) | $0 or (Unknown) | $0 or (Unknown) |
| | | | | |
| **ESTIMATED NET EFFECT ON PERSONAL PROPERTY REIMBURSEMENT FUND** | **$0** | **$0** | **$0** | **$0** |

| FISCAL IMPACT – Local Government | FY 2025 (10 Mo.) | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
|---|---|---|---|---|
| | | | | |
| **LOCAL POLITICAL SUBDIVISIONS** | | | | |
| | | | | |
| Transfer In - Local Election Authorities - reimbursement of election costs by the State for a special election | $0 or More than $8,000,000 | $0 | $0 | $0 |
| | | | | |
| Costs - Local Election Authorities - cost of a special election **if** called for by the Governor | $0 or (More than $8,000,000) | $0 | $0 | $0 |
| | | | | |

| FISCAL IMPACT – Local Government | FY 2025 (10 Mo.) | FY 2026 | FY 2027 | Fully Implemented (FY 2029) |
|---|---|---|---|---|
| Potential Loss of Revenue - Reduction of personal property tax revenue* | $0 | $0 or ($481,691,689) | $0 or ($963,383,378) | $0 or ($1,926,766,756) |
| | | | | |
| Potential Transfer In - From General Revenue | $0 | $0 or up to $481,691,689 | $0 or up to $963,383,378 | $0 or up to $1,926,766,756 |
| | | | | |
| Potential Transfer In - State's Personal Property Reimbursement Fund | $0 | $0 or Unknown | $0 or Unknown | $0 or Unknown |
| | | | | |
| **ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS** | **$0** | **$0** | **$0** | **$0** |

***Oversight** notes currently some taxing authorities are able to increase the levy to make up for the loss of personal property tax revenue resulting from this proposal. Oversight is uncertain how this proposal will impact the rate setting process. Therefore, Oversight is uncertain if these taxing entities will be able to make up the tax revenue through the rate setting process in addition to receiving reimbursement from General revenue.

FISCAL IMPACT – Small Business

Small businesses' taxation may be impacted by this proposal (pending voter approval).

FISCAL DESCRIPTION

This constitutional amendment, if approved by the voters, prohibits total state general revenue appropriations for any fiscal year, as defined in the amendment, from exceeding the level from the previous fiscal year, allowing for growth in an amount equal to the annual rate of inflation plus the annual percentage change in state population. Total state general revenue appropriations may exceed the previous fiscal year's amount only under certain conditions, as described in the amendment.

For any fiscal year in which net general revenue collections exceed total state general revenue appropriations by more than one percent of allowable total state general revenue appropriations, an amount equal to such excess revenue shall be deposited in the "Personal Property Reimbursement Fund", which is created by the amendment.

Beginning with the 2025 calendar year, this amendment requires the percentage at which personal property is assessed to be reduced over a period of four years, so as to produce the following total amounts of revenue, aggregated across all taxing jurisdictions:
(a) For the 2025 calendar year, seventy-five percent of the base assessment revenue;
(b) For the 2026 calendar year, fifty percent of the base assessment revenue;
(c) For the 2027 calendar year, twenty-five percent of the base assessment revenue;
(d) For the 2028 and all subsequent calendar years, personal property shall be assessed at zero percent of its true value in money.

The amendment defines "base assessment revenue" as the total revenue generated from taxes levied on personal property using the assessment percentage in effect as of the 2024 calendar year, as determined by the State Tax Commission.

For all fiscal years beginning on or after July 1, 2025, each taxing authority levying a tax on personal property as of January 1, 2024, shall be entitled to a reimbursement for all revenues lost because of reductions made to the base assessment percentage pursuant to this amendment. Reimbursements shall be made from the Personal Property Reimbursement Fund. The amount that a taxing authority shall be entitled to receive shall be equal to the base assessment revenue for the taxing authority minus the actual revenues generated from taxes levied on personal property during the calendar year. If the balance in the Personal Property Reimbursement Fund is insufficient to fully reimburse all taxing jurisdictions, the amount of such insufficiency shall stand appropriated from the General Revenue fund.

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

Department of Revenue
Office of the Secretary of State
Office of Administration
State Tax Commission
Department of Social Services

Julie Morff
Director
April 3, 2024

Ross Strope
Assistant Director
April 3, 2024