

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1418S.01I
Bill No.: SB 294
Subject: Taxation and Revenue - Property; Political Subdivisions
Type: Original
Date: March 4, 2025

Bill Summary: This proposal modifies provisions relating to personal property taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2075)
General Revenue	\$0	\$0	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2075)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2026	FY 2027	FY 2028	Fully Implemented (FY 2075)
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 2026	FY 2027	FY 2028	Fully Implemented (FY 2075)
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 2026	FY 2027	FY 2028	Fully Implemented (FY 2075)
Local Government	\$0	\$0	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Section 137.115 Reduction in the Assessment Percentage of Personal Property

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would reduce the assessment percentage for personal property each year, starting with tax year 2026 and ending tax year 2074. B&P notes that the assessment percentage for personal property is currently 33.33%. The reduction in the assessment percentage will be by an amount that would offset increases in assessed valuation of real property each tax year. In other words, the revenues generated under the personal property tax would be reduced by an amount to offset any revenue gains from increased real property values.

B&P notes that the reduction in the assessment percentage must only offset the increase in the real property assessed value, up to the consumer price index (inflation) between the two years. Therefore, if housing prices increased by 7%, but CPI only increased by 2%, the reduction in personal property would offset the 2% inflation limit.

B&P further notes that Section 137.115.1(4) states that the state assessment under Article III, Section 38(b) of the Missouri Constitution shall remain at 33.3%. Article III, Section 38(b) of the Missouri Constitution applies to the Blind Pension Trust Fund and the state property tax levy of \$0.03 per \$100 valuation. Therefore, this proposal will not impact TSR or the Blind Pension Trust Fund.

B&P notes that under this proposal county assessors would have to maintain two sets of calculations for personal property. One for the reductions on local assessments as required under this proposal and another for the Blind Pension Trust Fund state assessment. B&P defers to local jurisdictions for more specific impacts.

Subdivision (5) would allow political subdivisions to receive reimbursement from the state, subject to appropriation, if the reduction in the personal property tax assessment rate results in lower total property tax collections within that political subdivision than the constitutionally allowable amount.

Officials from the **State Tax Commission** assume the proposed SB has an unknown fiscal impact. Assessment reductions will impact negatively the revenue for school districts, counties, cities and other taxing jurisdiction who are supported by property taxes. SB 244 clearly requires the assessor to determine the true market value and assessed value for real and personal property. The bill also requires the approximately 3000 political subdivisions to adjust the assessment percentage used to calculate the assessed value of personal property based on the amount of tax collected the previous year for real property. The political subdivisions are responsible for adjusting levies to comply with the Hancock amendment based on the assessments provided by the assessor so it is unclear how the percentage reduction in assessed value is to be calculated. It

is unknown if the reduction in the percentage is to happen before or after the levy rollback. It is also unclear whether the adjustment is to be based on taxes collected or taxes billed by the collector. There are several counties and political subdivisions that see very little growth in real property assessments each year, so the effect of this bill would be minimal while counties with large growth could see large reductions in personal property tax collections.

Officials from the **City of Liberty** note the proposed bill will have a negative fiscal impact on the City of Liberty, locking taxing jurisdictions into "revenue neutral" for personal property tax. This legislation undermines the Missouri Constitution's Hancock Amendment, which outlines reasonable property tax increases that local governments can make in order to maintain service levels. Limited growth in revenue for personal property tax would force local governments to consider tax increases for other revenue sources like sales or real property, or the elimination of critical programs and services.

Officials from the **Callaway County SB 40 Board** assume this may have an impact on the Callaway County SB 40 board. However, the full impact is unknown at this time.

Officials from the **Mid-Continent Public Library** assume there is insufficient data to provide a calculation of revenue loss.

Officials from the **Joint Committee on Public Employee Retirement (JCPER)** note the JCPER's review of SB 294 indicates that its provisions may constitute a "substantial proposed change" in future plan benefits as defined in section 105.660(10). It is impossible to accurately determine the fiscal impact of this legislation without an actuarial cost statement prepared in accordance with section 105.665. Pursuant to section 105.670, an actuarial cost statement must be filed with the Chief Clerk of the House of Representatives, the Secretary of the Senate, and the Joint Committee on Public Employee Retirement as public information for at least five legislative days prior to final passage.

Officials from the **County Employees' Retirement Fund (CERF)** have reviewed SB 294 (1418S.01I). CERF's review of SB 294 would indicate it 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. SB 294, by reducing the assessment percentage of personal property, would reduce the moneys that fund CERF.

In FY2023, CERF received the following amounts received were tied to the collection of property taxes:

Collector Late Property Tax Fees: \$18,626,343

Assessor Late Assessment Penalties: \$14,078,888

CERF notes that the amount of these revenues fluctuates from year to year. There is insufficient information to quantify the exact impact on CERF's revenues but CERF assumes the impact would be negative.

CERF works with an independent actuarial firm. The actuary has reviewed SB 294 and stated that although the actuary cannot quantify its impact, SB 294 has serious implications for CERF's funding because a significant portion of the current contribution stream could ultimately be materially reduced or lost entirely. Unless the revenues are replaced with other sources of revenue, there would be severe implications for CERF's sustainability including a deterioration of CERF's funding over time and the possibility that the plan assets might be depleted, which would impair the ability of the Plan to pay benefits when due to retirees and beneficiaries.

Officials from the **East Buchanan Co. C-1 School District** note districts rely on growth in assessed valuation over time. This growth allows for districts to meet rising costs associated with inflation and annual raises for staff. Districts that utilize lease-purchase financing also depend on this growth to meet debt obligations. This bill would require districts to make massive cuts over time and run the risk of defaulting on debt and becoming financially insolvent. My district, East Buchanan C-1, is likely to have approximately 3% growth in real property this reevaluation cycle. This percentage already represents an amount below what the district would realize with the Hancock restrictions. If the district had to give this growth back through property tax reduction, the district would lose over \$130,000 in anticipated revenues. These losses will be cumulative and grow over time.

Officials from the **St. Louis County SB 40 Productive Living Board** note if the county is interpreting this legislation correctly and it proposed that personal property tax revenue is reduced by 100% of the Real Property Revenue Increase, then this bill will significantly reduce PLB's revenue, with a compounding effect each year. This reduction would impact critical supports for individuals with intellectual and developmental disabilities (IDD), limiting access to critical supports for those who rely on them. Senate Bill 40 organizations such as Productive Living Board assess local needs and nurture a strong network of high-quality services that are essential to over 4,600 people with IDD and their families.

These services, supported by personal property taxes include employment opportunities, independent living supports, and other vital resources for families. Beyond supporting individuals with IDD, these programs enrich lives and strengthen the overall fabric of the community, fostering a more equitable and inclusive society.

Oversight assumes this proposal reduces the percentage at which personal property is assessed effectively reducing the assessed value of personal property over time.

Oversight notes approximately \$1,910,124,084 in personal property taxes were collected in Missouri in 2022. One percent would equate to \$19.1 million.

Oversight notes this reduction could also reduce the calculation used to determine the maximum allowed 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 (as personal property assessed values decrease).

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum and some 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 will show a range of impact of \$0 (the tax burden is shifted to real property owners or no growth in real property) to an unknown loss in property tax revenue for local political subdivisions.

Oversight notes the next assessment cycle would not occur until calendar year 2027 with impacted revenues occurring in FY 2028 (due in December 2027). Oversight will show the impact to local political subdivisions beginning in FY 2028.

Oversight notes section 137.115.1(4) requires assessors to continue to assess personal property at 33.3% for purposes of Article III, Section 38(b) of the Missouri Constitution. Therefore, Oversight assumes this proposal will not impact the Blind Pension Fund.

Oversight notes section 137.115.1(5) would allow political subdivisions to receive reimbursement from the state, subject to appropriation, if the reduction in the personal property tax assessment rate results in lower total property tax collections within that political subdivision than the constitutionally allowable amount. Oversight is unable to determine the quantity of local political subdivisions for which this could occur or the amounts that would be reimbursed, therefore, Oversight will show an unknown negative impact to the general revenue fund beginning in FY 2028.

Ultimately, **Oversight** is uncertain how language of the proposal would be applied but assumes counties could incur additional costs administering these adjustments (i.e. computer programming changes or additional staff). In addition, Oversight received a limited number of responses from taxing entities 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 approval to publish a new fiscal note.

Officials from the **Department of Social Services, City of Kansas City, Newton County Health Department, Phelps County Sheriff, Kansas City Police Dept., Branson Police Dept,** and the **St. Louis County Police Dept** 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.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2075)
GENERAL REVENUE FUND				
<u>Cost</u> – §137.115.1(5) - Potential cost for reimbursement to local taxing entities	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028	Fully Implemented (FY 2075)
LOCAL POLITICAL SUBDIVISIONS				
<u>Costs</u> – §137.115.1(4) - Local taxing entities – to administer the changes in assessment	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<u>Loss</u> – §137.115.1(4) - Loss of property tax revenues from reduction in personal property assessed value	<u>\$0</u>	<u>\$0</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
<u>Revenue Increase</u> - §137.115.1(5) - Potential reimbursement to local taxing entities from the state	<u>\$0</u>	<u>\$0</u>	<u>\$0 or Unknown</u>	<u>\$0 or Unknown</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Current law requires that personal property be assessed at 33.3% of its true value in money. This act requires political subdivisions to annually reduce such percentage such that the amount by which the revenue generated by taxes levied on such personal property is reduced is substantially equal to one hundred percent of the growth in revenue generated by real property assessment growth, as defined in the act. Annual reductions shall be made until December 31, 2074. Thereafter, the percentage of true value in money at which personal property is assessed shall be equal to the percentage in effect on December 31, 2074.

Subject to appropriations, a political subdivision that receives less than the allowable amount of total real and personal property tax revenues shall be eligible for reimbursement from the state in an amount equal to the amount by which such revenues are below the allowable amount.

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
Joint Committee on Public Employee Retirement
County Employees Retirement Fund (CERF)
City of Liberty
Callaway County SB 40 Board
Mid-Continent Public Library
City of Kansas City
Newton County Health Department
Phelps County Sheriff
Kansas City Police Dept.
St. Louis County Police Dept

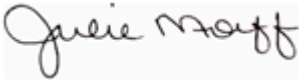
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Branson Police Dept
East Buchanan Co. C-1 School District
St. Louis County SB 40 Productive Living Board

A handwritten signature in black ink that reads "Julie Morff". The signature is written in a cursive style with a large initial "J" and a clear "Morff" at the end.

Julie Morff
Director
March 4, 2025

A handwritten signature in black ink that reads "Jessica Harris". The signature is written in a cursive style with a large initial "J" and a clear "Harris" at the end.

Jessica Harris
Assistant Director
March 4, 2025