

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3199-04
Bill No.: SCS for SB 688, 663, 691, 716, 759, 824, & 955
Subject: Taxation & Revenue-Property; Political Subdivisions; State Tax Commission
Type: #Corrected
Date: April 2, 2002
 # to correct Oversight assumption.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
#General Revenue *	(Unknown)	(Unknown)	(Unknown)
#Blind Pension	(Unknown)	(Unknown)	(Unknown)
#Total Estimated Net Effect on <u>All</u> State Funds *	(Unknown)	(Unknown)	(Unknown)

* Expected to exceed \$100,000 per year. Does not include potential Foundation Formula adjustments.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Political Subdivisions*	(Unknown)	(Unknown)	(Unknown)
Local Government*	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.

* Does not include potential Foundation Formula adjustments.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue, Office of Administration, Division of Budget and Planning, City of St. Louis, St. Louis County, City of Kansas City, and Green County**, did not respond to this proposal.

In response to a similar proposal, officials from the **Office of State Courts Administrator** assume no fiscal impact to the courts as a result of this proposal.

Officials from the **State Tax Commission** assume the lowering of the cap requiring physical inspections would increase the number of physical inspections an assessor in a county must make, which could require more staff to accomplish the task. The additional notice, explanation of rights and findings of fact and law would all increase the amount of postage an assessor's office would be required to expend in each cycle. Furthermore, the Homestead Preservation Act, capping the increase in assessed valuation would cost the state additional revenues that would be made up from General Revenue.

Using the estimated property tax collected from the year 2000, of \$3,922,378,077, and 45.9 percent residential, with an owner occupied rate of 70.3%. There would be approximately 1,542, 149 homes that would be capped at no greater increase than 5% increase in assessed valuation. Assuming a 3% increase annually in property values on a two year cycle, with an annual growth of 2%. There is no way to calculate the cost of attorney's fees from the appeals to general revenue, nor is there a way to estimate the increase in local spending due to additional postage.

ASSUMPTION (continued)

The State Tax Commission estimated potential losses of \$27,574,000 for FY2003, \$28,126,000 for FY2004, and \$28,688,000 for FY2005.

State Tax Commission officials also note that they would be required to provide technological and instructional assistance to county officials, but would request additional resources as needed through budget decision items.

#Oversight notes the following related to potential tax revenue losses from this proposal:

#According to the State Tax Commission's annual report, \$3,922,378,000 in property taxes were levied for 2000, and 44% of property tax paid is on residential real estate. Oversight assumes an average increase in assessed valuation for residential property of 11% per 2-year cycle of reassessment, an inflation rate of 3.5%, and 70% of residential property is owner occupied. Further, according to a report from the Sate Auditor's Office, \$392,011,000 in taxes were levied for debt service purposes. These debt service taxes would not be subject to this proposal since they are voter-approved at a rate sufficient to pay for interest and principal on the related debt.

Total property tax paid in 2000	\$	3,922,378,000
#Less debt service levies	\$	392,011,000
#Operating tax levies	\$	3,530,367,000
Percent residential		X .44
#Residential tax for operating levies	\$	1,553,361,000

#Oversight assumes it is not possible to estimate the magnitude of tax losses to political subdivisions. Actual tax collections for any individual political subdivision would be subject to overall changes in total assessed valuation, and to the effects of other statutory revenue restraints. The effects of the other revenue restraints would vary from subdivision to subdivision. This proposal would limit tax increases on individual parcels of residential real estate resulting from reassessment to 5%, by requiring the county or the City of St. Louis to exempt a portion of the parcel's assessed valuation sufficient to reduce the additional tax due to 5%. Reducing the increase in assessed valuation on individual parcels would in turn reduce the tax rate rollback required, primarily shifting this tax burden to other taxpayers. Oversight assumes that losses to political subdivisions from this provision, as compared to current law would be expected to exceed \$100,000 per year.

There would also be losses to the Blind Pension fund of a little more than ½ of 1% of the losses to political subdivisions.

ASSUMPTION (continued)

In response to a similar proposal, **Department of Elementary and Secondary Education** officials noted that the proposal would decrease assessed values compared to current law, which would increase the amount needed to fully fund the Foundation Formula. They also noted that 1) “hold harmless” districts would recoup their losses through state payments, 2) state payments required by this proposal are not included in the Formula, thus allowing other districts a “double dip” consisting of reimbursements from the state and increased payments through a fully funded Formula, and 3) the effects of the proposal on the Formula should disappear after three or so years because reducing the guaranteed tax base reduces the inflationary adjustment in the Formula for districts to fund inflationary increases in expenses.

Oversight assumes the Foundation Formula issues, if any, would be addressed through the appropriation process.

Oversight assumes there would be additional unknown costs to the County Assessor, Clerk, and Collector to administer the proposal. Oversight also assumes that counties may have significant but unknown additional costs to conduct assessment appeals, notify political subdivisions of assessed valuation changes, conduct physical inspections of properties, process credit card payments of taxes, and prepare written board of equalization reports. Oversight assumes there would be unknown revenue reductions from making rate reductions permanent.

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE FUND			
#Cost to General Revenue Fund			
# Reimbursements to political subdivisions*	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
#GENERAL REVENUE FUND*	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
* expected to exceed \$100,000 per year. Excludes potential Foundation Formula adjustment.			

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
---	---------------------	---------	---------

BLIND PENSION FUND

<u>Revenue reduction</u>			
# Reduced tax collections	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

#NET EFFECT ON BLIND PENSION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
--	-------------------------	-------------------------	-------------------------

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
---	---------------------	---------	---------

POLITICAL SUBDIVISIONS

<u>Revenues</u>			
# State reimbursements *	Unknown	Unknown	Unknown

<u>Cost - Additional administrative cost to county assessor, collector, and clerk</u>	(Unknown)	(Unknown)	(Unknown)
---	-----------	-----------	-----------

<u>Revenue reduction</u>			
# Reduced tax collections **	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

NET EFFECT ON POLITICAL SUBDIVISIONS *	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
---	-------------------------	-------------------------	-------------------------

* Does not include potential Foundation Formula adjustments. Expected to exceed \$100,000 per year.

** Expected to exceed \$100,000 per year.

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal would limit increases in assessed valuation of real property and modify reassessment procedures. The proposal would limit residential property tax increases to 5% per assessment period. The proposal would make tax rate rollbacks permanent without voter approval to increase rates. The proposal provides state reimbursement of political subdivision losses, provides for taxpayer reimbursement of costs of successful suit to enforce the provisions of this proposal, and prohibits drive by assessment. The proposal would also place the burden of proof on an assessor to support assessed valuation, and would require written reports from boards of equalization in first class counties.

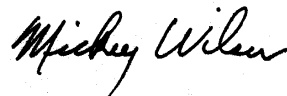
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission

NOT RESPONDING

Department of Revenue
Office of Administration
 Division of Budget and Planning
St. Louis County
City of St. Louis
City of Kansas City
Green County



Mickey Wilson, CPA
Acting Director
April 2, 2002