COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3331-01
Bill No.: HB 1350
Subject: Housing; State Tax Commission; Taxation and Revenue - Property
Type: Original
Date: February 15, 2010

Bill Summary: Would change several provisions regarding assessed valuation of residential real property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Blind Pension	$0	($376,000 to $1,486,000)	($376,000) to $1,646,000)
Total Estimated Net Effect on Other State Funds	**$0**	**($376,000 to $1,486,000)**	**($376,000 to $1,646,000)**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 20121	FY 2013
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☐ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	**$0**	**(More than $75,200,000 to More than $297,200,000)**	**(More than $75,200,000 to More than $328,200,000)**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Auditor** assume this proposal would have no fiscal impact on their organization.

Officials from the **Office of Administration**, **Division of Budget and Planning** (BAP) assume this proposal would have no fiscal impact on their organization. BAP officials stated that this proposal would make changes to the initial assessed value of residential property, and limit the increase in assessed valuation to the lower of 2% or the percentage of increase in CPI. This proposal would have no impact on the General Revenue Fund but could slow the growth of the Blind Pension Fund.

Officials from the **Department of Elementary and Secondary Education** assume this proposal would limit the amount of growth that property used as residences can increase through reassessment to 2% or the CPI whichever is less. This would not have a fiscal impact on the state but could have an impact on political subdivisions by limiting the growth of assessed valuation.

Officials from the **Department of Revenue** (DOR) assume this proposal would have no fiscal impact on their organization. DOR officials stated that limiting increases in assessed valuation, if the proposal is enacted, could reduce the number of Homestead Preservation Tax Credit applications over time. Since the same DOR staff process Property Tax Credits and Homestead Preservation Tax Credits DOR does not anticipate a reduction in staff.

Officials from the **State Tax Commission** (TAX) assume that this proposal would not impact their organization. Tax officials assume this proposal would impact the administrative duties of the County Assessors and could result in a loss of revenue to the local political subdivisions.

This legislation would become effective with the assessment year beginning on January 1, 2011. Residential property is reassessed in odd-numbered years. Calendar year 2009 was a reassessment year. There is minimal assessed valuation change to residential property the following year 2010. January 1, 2011 will be the next reassessment year.

According to the 2000 census information, 70.3% of the housing units are owner-occupied with 22.4% of the householders 65 years of age or older. TAX does not have any information available on the number of householders who are sixty years of age or older.

ASSUMPTION (continued)

Beginning January 1, 2011, a real property owner would have three methods for determining the true value in money for any residential real property that is used as a property owner's principal residence. This would allow the property owner to choose the lowest possible value for their property and could result in a disparity of property values within the same class of property. Beginning January 1, 2011 upon the sale or transfer of such property, the true value in money would be the purchase price. This would result in the need for a type of form to be developed (certificate of value form) and provided to the assessor.

Furthermore, this proposal provides that the percentage of increase for such real property could not exceed the lesser of two percent or the percentage of increase over the previous year in the Consumer Price Index for All Urban Consumers as prepared by the United States Bureau of Labor Statistics. In December 2008, the Consumer Price Index was 0.1%

The 2009 assessed valuation for residential property was approximately $51 billion dollars. $50,998,335,901 X 70.3% (residential property owner-occupied) = $35,851,844,198 residential owner-occupied property. The 2009 average state wide tax rate was $6.16 per $100 of assessed valuation.

In the next reassessment year of 2011, we do not believe there will be any increase in the assessed valuation of residential property that is owner occupied.

Officials from **Linn State Technical College** assume this proposal would have no fiscal impact on their organization.

Officials from the **Metropolitan Community Colleges** assume this proposal would cost their organization approximately $285,000 to $300,000 each reassessment year, and that those losses would be compounded and permanently lost under current levy setting requirements.

Officials from **St. Louis County** estimated that these provisions would create a significant revenue loss for taxing entities. County officials estimated that the county could lose $9.7 million over the next ten years, and all jurisdictions in the county could lose $125.3 million.

County officials anticipated that this proposal would create a need for a software upgrade to track nonmarket property valuations at a cost of $50,000. County officials estimated that two additional clerical staff, one additional supervisor, and five additional appraisers would be required to administer these provisions at a cost of $460,916 for salaries and benefits.

ASSUMPTION (continued)

Officials from the **City of Centralia** assume this proposal would have no fiscal impact on their organization for fiscal years 2010 and 2011; however, it would likely cap increases in property tax revenue in 2012 for an unpredictable net loss of hypothetical taxes. City officials also stated that the proposal would shift relative tax burden among taxpayers after that year.

Officials from the **City of St. Louis** responded that it is their understanding that only if a taxing entity has reached its maximum voter approved rate ceiling would there be a possible loss of revenue. At present, none of the individual district rates are in jeopardy of reaching their maximum level.

The city anticipated that one new clerical position would be required to maintain records of qualifying persons at $36,000 per annum for salary and benefits.

Officials from the **Special School District of St. Louis County** assume the proposal would have an unknown negative impact on property tax revenue.

Oversight notes that the proposal would make several changes to the assessment process for personal residences.

General comment on the impact of valuation limits on local government property tax revenue. This analysis is based on 2008 data since the 2009 report on property tax rates has not been released by the Office of the State Auditor.

Using data provided by the Office of the State Auditor, Oversight calculated an aggregate estimate of the amount of revenue which would be provided to local governments at their current aggregate assessed valuations, if their current levy rates were increased to the maximum authorized levy rates. The calculated amount was $1.1 billion for local governments which levied one overall tax levy rate, and $627 million for local governments which levy individual tax rates by property type. Oversight assumes that these amounts indicate that some local governments would be able to increase their levy rates to compensate for limitations on aggregate assessed valuation. The Oversight calculations that follows are an estimate of the maximum impact for this proposal; if local governments could compensate for the loss of assessed valuation by increasing their levy rates the impact would be reduced below the calculated amount.

ASSUMPTION (continued)

Valuation Choice Provisions

This proposal would become effective for assessments on or after January 1, 2011 and would first impact taxes to be collected in December 2011 (FY 2012). The proposal would allow a property owner to choose the purchase price of a residence for assessment purposes if the property was purchased within the five years preceding the assessment.

Oversight assumes the property owner would choose the purchase price in place of the alternative valuations in the proposal since that valuation would likely be lower than the other options. We assume the fiscal impact of this provision could be calculated as follows.

* Based on information from the United States Census Bureau, approximately 4.2% of Missouri residents move each year.

* The State Tax Commission has reported that the 2009 assessed valuation for residential property was $50,996,107,579. According to United States Census Bureau reports, 70.3% of homes were owner-occupied. Therefore, the 2009 assessed valuation of owner-occupied residences was ($51.0 billion x 70.3%) = $35.9 billion.

* Over the past five years, assessed valuations for residential property as reported by the State Tax Commission have increased an average of 12% from one reassessment (odd-numbered) year to the next reassessment year, and an average of 3% from a reassessment year to the next (even-numbered) year.

ASSUMPTION (continued)

This chart shows the estimated potential loss in assessed valuation from this provision.

Year	Years Elapsed	Percent Moved	Valuation Increase Percentage	Estimate of Lost Valuation ($ millions)
2010	1	4.2	3.00	$45
2009	2	4.2	12.00	$181
2008	3	4.2	15.00	$226
2007	4	4.2	24.00	$362
2006	5	4.2	27.00	$407
Totals				$1,221

The local government tax on this loss of assessed valuation could be calculated as ($1,221 million x $6.16 per $100 assessed valuation) = $75,200,000. A loss of one-half of one percent could be calculated for the state Blind Pension Fund ($75.2 million x .005) = $376,000.

These losses would presumably continue for FY 2013 and subsequent years; however, the losses would be reduced as properties are sold and reassessed.

Assessed Valuation Increase Limits Provisions

The provisions limiting increases in assessed valuation would reduce revenues to local governments and the state Blind pension Fund.

Oversight assumes that the two percent limitation on increases in assessed valuation would apply to even-numbered (non-reassessment) years as well as to reassessment years. **Oversight** will assume for the purposes of this fiscal note that the proposal could take effect in January 2011 for taxes to be collected in December 2011 (FY 2012).

ASSUMPTION (continued)

The assessed valuation for 2009 for owner-occupied residential property would be ($51.0 billion x 70.3%) = $35.9 billion. Based on historic trends, the assessed valuation of that property would be expected to increase 3% from 2009 to 2010, 12% from 2009 to 2011, and 15% from 2009 to 2012.

For 2011 (FY 2012), the assessed valuation increase would be limited by the proposal, resulting in a potential loss in assessed valuation of (12% - 2%) = 10% and the lost assessed valuation would be the difference between ($35.9 billion x 112%) = $40.2 billion, and ($35.9 billion x 102%0 = $36.6 billion, or ($40.2 billion - $36.6 billion) = $3.6 billion. The reduction in local government revenue would be ($3.6 billion x $6.16 per $100 assessed valuation) = $222 million, and the state Blind Pension Fund would have a FY 2012 revenue reduction of one-half of one percent of the local government revenue reduction or ($222 million x .005) = $1.11 million.

For 2012 (FY 2013), the assessed valuation increase would again be limited by the proposal, resulting in a lost assessed valuation increase of (3% - 2%) = 1%. The cumulative loss in assessed valuation would be the difference between ($40.2 billion x 103%) = $41.4 billion and ($36.6 billion x 102%) = $37.3 billion or ($41.4 billion - $37.3 billion) = $4.1 billion. The local government revenue reduction would be ($4.1 billion x $6.16 per $100) = $253 million and the state Blind Pension Fund would have a FY 2013 revenue reduction of one-half of one percent of the local government revenue reduction or ($253 million x .005) = $1.27 million.

Based on the State Tax Commission's estimate that the 2011 total assessed valuation for residential properties will not increase, and assuming that total assessed valuation for 2010 and 2012 would not increase, this provision would have no fiscal impact to local governments or to the state Blind Pension Fund.

Oversight will indicate a range of local government fiscal impact from $0 to $222 million for FY 2012 and from $0 to $253 million for FY 2013, and a range of fiscal impact for the state Blind Pension Fund from $0 to $1.11 million for FY 2012 and from $0 to $1.27 million for FY 2013.

ASSUMPTION (continued)

Reassessment on Change in Ownership Provisions

Oversight assumes that the provision authorizing a property to be reassessed after a change in ownership would eventually result in a significant increase in the assessed valuation of that property after the assessed valuation was limited due to other provisions in this proposal. However, under current provisions related to property assessment, this provision would not appear to have any fiscal impact.

Assessed Valuation Transfer Provision

Oversight assumes the provision allowing a homeowner over the age of 60 to transfer the assessed valuation of his residence to another residence would result in revenue reductions to local governments and to the state Blind Pension Fund but that fiscal impact would not be significant until after FY 2013.

Administrative cost to local governments.

For the purposes of this fiscal note, **Oversight** will indicate an unknown cost to local governments for the additional cost of maintaining property records on multiple valuation standards and for processing and recording documentation of owner-chosen valuations. **Oversight** assumes the cost to maintain those records would substantially exceed the savings resulting from carrying over assessed valuation information for those eligible properties.

FISCAL IMPACT - State Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
BLIND PENSION FUND			
Revenue reduction - valuation choice provision	$0	($376,000)	($376,000)
Revenue reduction - assessed valuation growth limitation	$0	($0 to $1,110,000)	($0 to $1,270,000)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**($376,000 to $1,486,000)**	**($376,000 to $1,646,000)**

FISCAL IMPACT - Local Government	FY 2011 (10 Mo.)	FY 2012	FY 2013
LOCAL GOVERNMENTS			
Revenue reduction - valuation choice provision	$0	($75,200,000)	($75,200,000)
Revenue reduction - assessed valuation growth limitation	$0	($0 to $222,000,000)	($0 to $253,000,000)
Cost - Additional valuation records.	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**(More than $75,200,000 to More than $297,200,000)**	**(More than $75,200,000 to More than $328,200,000)**

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This proposal would change certain provisions relating to the assessment of residential properties for property tax purposes.

1. A property owner could choose the purchase price of a principal residence as the true value in money for assessment purposes if the property was purchased within the five years preceding the assessment.

2. Increases in assessed valuation for a principal residence would be limited to the lesser of two percent or the percentage increase in the Consumer Price Index.

3. Upon the sale, transfer, or conveyance of a principal residence, the purchase price would be the true value in money for assessment purposes.

4 The owner of a principal residence who is sixty years of age or older and sells a principal residence could choose to apply the assessed valuation of that principal residence to the next principal residence purchased. The transfer of assessed valuation could only be done to the first purchase of a substitute residence after January 1, 2011.

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 the State Auditor
Office of Administration
    Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission
Linn State Technical College
Metropolitan Community Colleges
St. Louis County
City of Centralia
City of St. Louis
Special School District of St. Louis County

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