

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1135-01
Bill No.: HJR 23
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Constitutional Amendments
Type: Original
Date: February 22, 2019

Bill Summary: This proposal amends the Constitution of Missouri relating to personal property taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	\$0 or (\$7,800,000)	\$0	\$0
Total Estimated Net Effect on General Revenue	\$0 or (\$7,800,000)	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Blind Pension	\$0	\$0 or (\$6,323,018)	\$0 or (\$6,323,018)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 or (\$6,323,018)	\$0 or (\$6,323,018)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0	\$0 or Up to (\$1,500,000,000)	\$0 or Up to (\$1,500,000,000)

FISCAL ANALYSIS

ASSUMPTION

Election Impact

Officials at the **Office of the Secretary of State (SOS)** assume that 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, §115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be \$7.8 million based on the cost of the 2016 Presidential Preference Primary.

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.

In FY 2019, over 5.8 million was spent to publish the full text of the measures for the August and November elections. The SOS estimates \$65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

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, we reserve the right to request funding to meet the cost of our 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 2020. 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 2020 and the next scheduled general election is in November 2020

ASSUMPTION (continued)

(both FY 2021). 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. Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2020.

Property Tax Not Taxable

Officials at the **State Tax Commission (STC)** estimates a range of \$1.3 to \$1.5 billion in personal property taxes annually. The State Tax Commission provides the following information:

- Total Personal Property Tax 2017
1. \$897 million motor vehicles
 2. \$483 million other personal property
 3. \$72 million state assessed
- TOTAL \$1.452 Billion

This proposal eliminates the collection of personal property taxes, which would result in the loss of \$1.3 to \$1.5 billion to political subdivisions (school districts, cities, counties and other taxing jurisdictions). The State has over 2,800 taxing jurisdictions which would be fiscally impacted by the loss of \$1.3 to \$1.5 billion in annual revenue.

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal would end property tax on tangible personal property. For the purpose of this fiscal note, B&P assumes that if this proposal were approved by voters at the November 2020 election, it would end the property tax beginning January 1, 2021 and begin impacting revenues during the state fiscal year 2022.

Based on information provided by the State Tax Commission, B&P estimates that from 2013-2017 the average total assessed value of taxable personal property within Missouri was \$20.153 billion. In addition, taxable personal property valuations accounted for approximately 19.8% of all taxable property valuations over that time period.

B&P notes that the Blind Pension Fund receives \$0.03 per \$100 valuation on all taxable property. Further, the 5-year average collections to the Blind Pension Fund were \$31.1 million from SFY14-SFY17. Therefore, B&P estimates that if personal property were no longer taxable, revenues to the Blind Pension Fund would decrease by \$6.0 million annually (\$20.153 billion x \$0.03/\$100), beginning in SFY 2022.

B&P also notes that this proposal could have a significant negative impact to local revenues in counties dependent on property taxes.

ASSUMPTION (continued)

Officials at the **Department of Revenue (DOR)** assume per the "State Tax Commission Annual Report - 2017," the total assessed valuation for tax year 2017 for Personal Property Tax equals \$20,226,071,288. The State Tax Commission states that once an item has been calculated to its "Assessed Value" that the amount can be multiplied by the applicable tax rate (which would be based on location) in order to calculate the amount of tax levied or owed. Tax-rates.org believes that Missouri's counties collect, on average, 0.91% of a property's assessed fair market value as property tax.

The Department multiplied the total assessed valuation for tax year 2017 for Personal Property Tax by the average percent assessed in Missouri on property to estimate the total decrease to revenues of Missouri's localities. The Department estimates that the revenues of Missouri local jurisdictions could decrease by \$184,057,248 each fiscal year, beginning in FY 2021.

Missouri's Blind Pension Fund could recognize a decrease in revenues as well. The Department estimates that the Blind Pension Fund's revenues could decrease by \$6,323,018 each fiscal year.

The amount collected from Property Tax in Fiscal Year 2017 was \$31,614,445, as reported in the Missouri Department of Revenue's Financial and Statistical Report - Fiscal Year 2017. Missouri Tax Commission reports that approximately 18.79% of the Total Assessed Valuation of Property for Tax Year 2017 is attributed to Tangible Personal Property. Therefore, the Department has multiplied the potential deposits into the Blind Pension Fund in Fiscal Year 2020 by the applicable rate of tangible personal property. The Department estimates that the Blind Pension Fund could decrease by \$6,323,018 each fiscal year.

Officials at the **Department of Social Services (DSS)** assume if passed by voters, this constitutional amendment prohibits counties and other political subdivisions from levying or collecting a tax on tangible personal property (TPP). The proposed legislation would impact the Blind Pension (BP) fund as all taxable property is assessed with BP funded at 0.03% of each \$100 valuation.

According to the Missouri Department of Revenue State Tax Commission Annual Report 2017, \$20,226,071,288 of the \$107,634,108,198 Total Assessed Valuation for the State of Missouri comes from TPP. Therefore, TPP comprises about 18.8% ($\$20,226,071,288 / \$107,634,108,198 = 18.79$ rounded up) of total taxable property in Missouri. Because funding for the Blind Pension program is based on a percentage of total taxable property, the Family Support Division expects a decrease in program funding proportionate to the decrease in countable taxable property, or approximately 18.8%.

ASSUMPTION (continued)

Property Tax income for the Blind Pension fund (BP) in SFY 2018 was \$33,390,653, or approximately \$33.4 million (rounded up). Based on the expected 18.8% decrease in funding, BP fund income will reduce by approximately \$6.3 million ($\$33,390,653 \times 18.8\%$, rounded up) to approximately \$27.1 million ($\$33.4 \text{ million} - \6.3 million). In SFY 2018, an average of 3,876 Blind Pension recipients received a cash grant from the Blind Pension fund. The Blind Pension cash grant amount for SFY 2019 is \$750 per person per month. The Family Support Division assumes that this amount will decrease by approximately \$135 to \$615 per month ($\$6.3 \text{ million} / 3,876 / 12 = \135 . $\$750 - \$135 = \$615$), or the additional amount needed for the BP fund will have to be funded by General Revenue or a designated revenue stream. Until the FY 2020 budget is finalized, the Department of Social Services cannot identify specific funding sources. Therefore, the fiscal impact to the Family Support Division is \$6.3 million.

Officials at the **Office of the Secretary of State (SOS)** assume that the Missouri public libraries reported to the State Library via the Public Library Survey, income from local taxes of \$239,826,149 in 2017. The Missouri State Tax Commission web page indicates that 11.81 % of property taxes derive from the personal property tax on motor vehicles, while 6.36 % comes from other personal property taxes income. That means approximately 18%, or an estimated \$43,168,707 of library local income comes from the tax on personal property.

The Secretary of State reserves the right to offset or request additional resources for estimated fiscal note impacts during the budget process.

Oversight notes that the loss to local libraries is included in the information provided by the STC and the counties.

Oversight requested the County Assessor's provide information on the amount of loss their county and political subdivisions in the county would have based on the language of the proposal. The following chart outlines each County's loss.

County Assessor	# of Political Subdivisions in County Losing Funding	Amount of Funding Lost per Proposal
Adair	not provided	\$3,810,000
Barton*	not provided	\$47,812,950
Benton	not provided	\$3,733,138
Bollinger*	24	\$1,671,347
Boone*	not provided	\$36,000,000
Caldwell*	not provided	\$2,020,000
Christian*	not provided	\$16,104,000
Clark	not provided	\$1,402,165
Clay	not provided	\$100,000,000
Daviess*	26	\$2,260,483
DeKalb	not provided	\$2,090,000
Dent*	not provided	\$1,784,770
Franklin	58	\$25,919,415
Gasconade	not provided	\$3,809,981
Gentry	not provided	\$2,475,000
Greene*	not provided	\$48,874,000
Grundy	not provided	\$2,650,000
Holt	not provided	\$2,100,000
Howell	not provided	\$5,157,807
Jackson	not provided	\$173,000,000
Laclede*	not provided	\$7,212,000
Lewis	8	\$2,300,000
Lincoln *	not provided	\$12,300,000

County Assessor	# of Political Subdivisions in County Losing Funding	Amount of Funding Lost per Proposal
Macon	not provided	\$4,263,826
Madison	not provided	\$1,900,000
Maries	not provided	\$2,211,990
Marion*	County only- didn't calculate	\$495,000
Mercer	not provided	\$2,436,809
Mississippi*	not provided	\$1,635,450
Moniteau*	not provided	\$2,765,816
Monroe	not provided	\$2,019,013
New Madrid	not provided	\$5,000,000
Osage	14	\$2,529,129
Ozark	not provided	\$1,200,000
Pulaski	not provided	\$3,600,000
Randolph	35	\$6,725,714
Ray	not provided	\$5,000,000
Reynolds	not provided	\$2,000,000
Saline	not provided	\$4,745,586
Scott	not provided	\$83,500,000
Shannon	not provided	\$1,200,000
Shelby	9	\$2,334,517
St. Francois	20	\$10,227,554
Ste. Genevieve	not provided	\$4,425,000
St. Louis City	not provided	\$20,600,000

County Assessor	# of Political Subdivisions in County Losing Funding	Amount of Funding Lost per Proposal
Stoddard	42	\$6,441,282
Sullivan	not provided	\$2,250,000
Taney	not provided	\$8,575,000
Vernon	not provided	\$3,500,000
Worth*	11	\$817,837
TOTAL		\$696,886,579

* Counties responded to SJR 5.

Oversight notes that the local political subdivisions impacted include ambulance districts, fire protection districts, library districts, county health and mental health districts, nursing home districts, sheltered workshops, road and bridge districts, cities, towns, villages, community colleges, schools, and others. Additionally, the State Library and Blind Pension Fund receive personal property tax and would be impacted.

Officials at the **St. Genevieve County Assessor's Office** assume they calculated the average of the personal property revenue collected for 2016-2018 and the amount of lost revenue to all taxing districts in the County and it averages \$4,425,000 annually. This money includes the money going to the Ambulance, Library, County Health & Mental Health Departments, Senior Citizens, School Districts, Hospitals and the MO Blind Pension Fund. Additionally, in tax year 2021 the County will have a \$2,000,000,000 chapter 100 agreement expire and the plant will be added to the ad-valorem valuation. The loss would then easily be twice the average calculated above.

Officials at the **Department of Elementary and Secondary Education (DESE)** assume the proposed changes would not in themselves have any effect on the foundation formula. However, since the net effect would be to reduce local tax revenues to school districts, there may be consideration given to future legislation regarding the local effort deduction in the foundation formula. As to the impact regarding the potential loss of local revenues to local school districts, the extent of such impact is not something the department has the capacity to calculate; but, DESE assumes it would be substantial. Should the proposal proceed, the county assessors would make the changes as outlined and the local school districts would see the result in their assessed valuation.

ASSUMPTION (continued)

Oversight notes this proposal eliminates actual property taxes received by school districts but does not appear to impact the amount calculated for estimating the state aid payment. Local effort as used in the calculation of the state aid payment is a defined calculation based on historical assessed values rather than actual property taxes received (§163.011 (10)).

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other county assessors were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

Along with Oversight’s assumption that the joint resolution could be voted on during a special election in FY 2020, Oversight will reflect the potential loss of personal property tax revenue during calendar year 2020 (FY 2021). Oversight will range the fiscal impact from \$0 (voters do not approve measure) to the estimates provided.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
GENERAL REVENUE			
<u>Transfer Out - Local Election Authorities</u> the cost of the special election if called for by the Governor	<u>\$0 or</u> <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	<u>\$0 or</u> <u>(\$7,800,000)</u>	<u>\$0</u>	<u>\$0</u>
 BLIND PENSION FUND			
<u>Loss - DSS- Elimination of property tax</u> funding	<u>\$0</u>	<u>\$0 or</u> <u>(\$6,323,018)</u>	<u>\$0 or</u> <u>(\$6,323,018)</u>
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	<u>\$0</u>	<u>\$0 or</u> <u>(\$6,323,018)</u>	<u>\$0 or</u> <u>(\$6,323,018)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - to Local Election Authorities the cost of a special election	\$0 or \$7,800,000	\$0	\$0
<u>Cost</u> - Local Election Authorities the cost of the special election if called for by the Governor	\$0 or (\$7,800,000)	\$0	\$0
<u>Revenue Reduction</u> - personal property tax funding to school districts, cities, counties, libraries, county health and mental health districts, fire protection districts, ambulance districts, etc.	\$0	<u>\$0 or Up to (\$1,500,000,000)</u>	<u>\$0 or Up to (\$1,500,000,000)</u>
ESTIMATED NET EFFECT ON LOCAL ELECTION AUTHORITIES	<u>\$0</u>	<u>\$0 or Up to (\$1,500,000,000)</u>	<u>\$0 or Up to (\$1,500,000,000)</u>

FISCAL IMPACT - Small Business

Small businesses may pay less in property taxes as a result of this proposal.

FISCAL DESCRIPTION

Upon voter approval, this proposed Constitutional amendment would prohibit counties and other political subdivisions from levying or collecting a tax on tangible personal property.

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

Adair County Assessor
Barton County Assessor
Benton County Assessor
Bollinger County Assessor
Boone County Assessor
Caldwell County Assessor
Christian County Assessor
Clark County Assessor
Clay County Assessor
Daviness County Assessor
DeKalb County Assessor
Dent County Assessor
Department of Elementary and Secondary Education
Department of Revenue
Franklin County Assessor
Gasconade County Assessor
Greene County Assessor
Grundy County Assessor
Holt County Assessor
Howell County Assessor
Jackson County Assessor
Laclede County Assessor
Lewis County Assessor
Lincoln County Assessor
Macon County Assessor
Madison County Assessor
Maries County Assessor
Marion County Assessor
Mercer County Assessor
Mississippi County Assessor
Moniteau County Assessor
Monroe County Assessor
New Madrid County Assessor
Office of Administration Division of Budget and Planning
Osage County Assessor
Ozark County Assessor
Pulaski County Assessor
Randolph County Assessor

SOURCES OF INFORMATION (continued)

Ray County Assessor
Reynolds County Assessor
Saline County Assessor
Scott County Assessor
Shannon County Assessor
Shelby County Assessor
St. Francois County Assessor
Ste. Genevieve County Assessor
St. Louis City
State Tax Commission
Stoddard County Assessor
Sullivan County Assessor
Taney County Assessor
Vernon County Assessor
Worth County Assessor



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