

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3601-01  
Bill No.: HB 1710  
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property, Real and Personal  
Type: Original  
Date: January 14, 2020

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Bill Summary: This proposal modifies provisions relating to taxation of property.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Blind Pension Fund (0621)	(Unknown, Could exceed \$100,000)	(Unknown, Could exceed \$100,000)	(Unknown, Could exceed \$100,000)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>(Unknown, Could exceed \$100,000)</b>	<b>(Unknown, Could exceed \$100,000)</b>	<b>(Unknown, Could exceed \$100,000)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 13 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
<b>Local Government</b>	<b>(Unknown)</b>	<b>(Unknown)</b>	<b>(Unknown)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### Section 53.010 - St. Louis City Assessor Elected

Officials from **Office of Administration - Budget and Planning (B&P)** assume this section would require that the St. Louis City Assessor be elected.

Officials from **State Tax Commission (STC)** assume the election of the assessor of the City of St Louis and the Jackson County would have no fiscal impact on the STC, however may have an unknown fiscal impact on the two jurisdictions affected.

Officials from the **City of St. Louis** assume there is no fiscal impact other than possibly salary implications.

**Oversight** assumes there could be costs associated with an election for the assessor. Oversight will show a range of impact from \$0 to an unknown cost.

#### Section 137.115.1 Burden of Proof for Hearing and Appeals

Officials from **B&P** assume this section changes the jurisdictions in which the assessor has the burden of proof.

Officials from the **STC** assume the change in Section 137.115 places a higher burden of proof requirement on the assessor at any hearing or appeal of any first class county and removes language regarding computer assisted methods of assessment, may have an unknown fiscal impact on first class counties. Counties of the first classification include Boone, Buchanan, Camden, Cape Girardeau, Cass, Christian, Clay, Cole, Franklin, Greene, Jackson, Jasper, Jefferson, Platte, St Charles, St Francois, St Louis, and Taney. In current law only charter counties have the requirement. This requirement may have an unknown fiscal impact on the affected assessment authorities.

Officials from the **City of St. Louis** assume section 137.115 adds all counties to burden of proof for assessments. This language and section of the Statute already applies to the city of St. Louis so this would not affect the City of St. Louis Assessor's Office.

**Oversight** assumes this provision could result in costs to local assessment authorities. Oversight will show a range of impact of \$0 to an unknown cost.

ASSUMPTION (continued)

Section 137.115.10-12 Physical Inspection and Notification

Officials from **B&P** assume this section also requires assessors to complete a physical inspection when the assessed valuation of real property is increased by more than 10%. This change includes increases due to new construction or improvements.

Officials from the **STC** assume Section 137.115. (10) (13) requires a physical inspection and notification requirements of the property owner when any parcel of real property of subclass(1) increases by 10% (current law 15%). The notification requirements and physical inspection requirements including an interior inspection if requested by the owner in (11)(12) in current law apply only to St. Louis County, the act would extend this requirement to all counties and the city of St. Louis. This may have an unknown fiscal impact on those assessment authorities in order to comply with the act.

Officials from the **City of St. Louis** assume Section 137.115.10 -12 require the assessor to inspect any residential property that increases by 10% or more during reassessment (existing language is 15%). Requires the assessor to notify the property owner in writing about owner's rights relating to the inspection. Allows 30 days for property owner to notify assessor.

The Assessor's office was not able to get +/- 28,000 or 15% reviews completed on time in the 2019 reassessment which set back time for taxpayers to appeal. If the 10% review would have been in place, the Assessor's office would have needed to inspect +/- 41,500 properties (an additional 13,500 parcels). With the additional requirement to get the work done in time to allow 30 days for taxpayers to request inspections and then to be able to accomplish all inspections in the legal time limit, additional personnel will be necessary. The following costs are estimated:

- 1 to 2 real estate appraisers, \$57,600 to \$115,200 (annually)
- Mailing of 40,000 to 45,000 notices to taxpayers = \$19,000 to \$22,000 (biennially and subject to postage rate increases). For these changes in the law, the costs to the Assessor's office would be \$76,600 to \$137,200

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**Oversight** assumes this provision could result in costs to local assessment authorities. Oversight will show a range of impact of \$0 to an unknown cost.

ASSUMPTION (continued)

Section 137.115.18 Cap on Growth in Assessed Values

Officials from **B&P** assume subsection 137.115.18 limits growth in assessed value for residential property to 10% over the prior assessment. B&P notes that while this subsection will not have a direct impact to the Blind Pension Trust Fund or local revenues, this may have a negative indirect impact over time.

Upon further inquiry, **B&P** indicated the proposal would maintain current levels of funding relative to the prior year. The funding level would not decrease from current levels. The future funding levels under the proposed law could be less relative to funding levels under current law (barring a recession/declining property values). B&P considers the constraint of future revenues to be an indirect effect.

Officials from the **STC** assume this proposal in Section 137.115 (18) places a 10% cap on the assessed valuation of any real property. This may have an unknown fiscal impact on local taxing jurisdictions such as school districts, counties, cities, etc. as it may limit assessment growth for those jurisdictions who rely on property tax revenues, and may over time create disparity among different properties as some properties may increase more than the cap or decrease as market conditions fluctuate.

Officials from the **City of St. Louis** assume Section 137.115.18 limits the growth in assessments to 10%. It appears the intent is to not cause the assessor to have to do any inspections. Per 137.115.11-13 by capping assessments at 10% increases, however the language in section 18 is unconstitutional as it does not conform to Section X, Article 3 of the MO Constitution as it would cause for non-uniform assessments in the same subclass of property. Those properties that are appreciating at a faster rate would be taxed at a lesser percentage of value than those properties that are stagnant or decreasing in value. Accordingly costs have been included for inspections in sections 11, 12 and 13, if section 18 is found to be unconstitutional.

**Oversight** assumes this proposal limits increases in the assessed values of individual residential property to 10% per year. Under the proposed legislation, Oversight assumed the assessed value would be 19% of the market value or the prior year assessed value plus ten percent growth whichever is lower. For fiscal note purposes, Oversight used a two property example to demonstrate the potential changes as a result of this proposal.

ASSUMPTION (continued)

Table I: Assessed Values

	Prior Year Market Value	Prior Year Assessed Value (19%)	Current Year Market Value (Assumed)*	Assessed Value Current (19%)	Assessed Value Proposed**
Property 1	\$100,000	\$19,000	\$115,000	\$21,850	<b>\$20,900</b>
Property 2	\$100,000	\$19,000	\$100,000	\$19,000	<b>\$19,000</b>
Total	\$200,000	\$38,000	\$215,000	\$40,850	<b>\$39,900</b>

\*For purposes of this example, Oversight assumed a 15% increase in the market value of property 1 and no change in the market value of property 2.

\*\*Oversight assumed the assessed value would be either the market value times 19% or the prior year assessed value plus a 10% increase whichever is lower.

**Oversight** notes property tax revenues are designed to be revenue neutral from year to year. The tax levy is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Below is the basic formula for the tax rate-setting calculation:

Tax Rate Calculation

Revenues Authorized Previous Year	\$1,900
Times the Growth Factor*	* 1.9%
Authorized Revenue Growth	\$36
Previous Year Authorized Revenues	\$1,900
Plus Authorized Revenue Growth	+ \$36
Current Year Authorized Revenues	\$1,936
Total Current Assessed Value	\$40,850
Less New Construction	- \$0
Adjusted Total Current Assessed Value	\$40,850
Current Year Authorized Revenues	\$1,936
Divided by Adjusted Total Current Assessed Value	/ \$40,850
	0.04739
	* 100
<u>Maximum Authorized Levy</u>	<u>\$4.739</u>

ASSUMPTION (continued)

Growth Factor Calculation

Current Year Adjusted Total Current Assessed Value	\$40,850
Less Previous Year Adjusted Total Assessed Value	<u>- \$38,000</u>
	\$2,850
Divided by Previous Year Adjusted Total Assessed Value	<u>/ \$38,000</u>
	0.75
Times 100	<u>* 100</u>
Actual Growth Factor	7.5%

Using the basic tax rate formula above and the [Property Tax Rate Calculator](#) (Single Rate Method) provided on the Missouri State Auditor’s website, **Oversight** estimated the potential changes in the tax rate from this proposal in the table below using the two-property example.

Table II: Tax Rates

	Total Assessed Values	Growth Factor*	Maximum Allowed Revenue (Prior Year Revenue plus Growth Factor)	Tax Rate Ceiling (Maximum Revenue/ Assessed Value)*100
Prior Year (Assumed)	\$38,000	N/A	\$1,900.00	5.0000
Current Year Current Law	\$40,850	1.9%	\$1,936.00	4.7393
<b>Current Year Proposed Law</b>	<b>\$39,900</b>	<b>1.9%</b>	<b>\$1,936.00</b>	<b>4.8521</b>

\*The growth factor used in the tax levy calculation is either actual growth in assessed valuation as calculated below (7.5%), inflation based on CPI (1.9%) or 5% whichever is lower. In this example actual growth exceeds inflation, therefore the growth factor used in the tax levy calculation is capped at inflation (1.9%).

Currently, growth in assessed values allows the tax rate to fall over time. In this example under the proposed legislation, the tax rate would fall at slower rate than under the current law. **Oversight** notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum. 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 a loss of revenue.

ASSUMPTION (continued)

Based on information provided by the Office of the State Auditor, **Oversight** notes there are over 2,500 tax entities with 4,000 different tax rates. Of those entities, 3,155 tax rate ceilings are below the entities’ statutory or voter approved maximum tax rate and 929 tax rate ceilings are at the entities’ statutory or voter approved maximum rate. (These numbers do not include entities which use a multi-rate method and calculate a separate tax rate for each subclass of property.)

Because the tax levy would fall at a slower rate in this example as noted in Table II, the distribution of tax on individual property owners would change as noted below in Table III.

Table III: Distribution of Individual Property Tax

	Prior Year Tax Burden	Assessed Value Current (Table I)	Tax Burden Current (4.7393)	Assessed Value Proposed (Table I)	<b>Tax Burden Proposed (4.8521)</b>
Property 1	\$950.00	\$21,850	\$1,035.53	\$20,900	<b>\$1,014.10</b>
Property 2	\$950.00	\$19,000	\$900.47	\$19,000	<b>\$921.90</b>
Total	\$1,900.00	\$40,850	\$1,936.00	\$39,900	<b>\$1,936.00</b>

Based on information from the [Federal Housing Finance Agency](#) website, **Oversight** notes there were 452 census tracts in Missouri with an annual change in the House Price Index (HPI) that exceeded 10% combined for the 2017 and 2018 period (based on a two year reassessment cycle). Because this proposal limits the assessed value of individual residential properties to a 10% increase from the previous assessment, this will result in a decrease to total assessed values (relative to current law) as a result of any property that appreciates more than 10% over the two reassessment cycle.

**Oversight** notes the Blind Pension Fund (0621) is calculated as an annual tax of three cents on each one hundred dollars valuation of taxable property  $((\text{Total Assessed Value}/100)*.03)$ . Because this proposal limits the assessed value portion of this equation, the Blind Pension Fund will experience a decrease in revenue relative to what it would have received under current law. Below is an example of how this proposal would impact the Blind Pension Fund using the two property example.



ASSUMPTION (continued)

Table IV: Blind Pension Trust Fund

	Total Assessed Value	Blind Pension Trust Fund (Assessed Value/100)*0.03
Prior Year	\$38,000	\$11.40
Current Year Current Law	\$40,850	\$12.26
<b>Current Year Proposed Law</b>	<b>\$39,900</b>	<b>\$11.97</b>

Per the Auditor's report, Jackson County had an 18.64% increase in adjusted total assessed value (less new construction and improvements) from 2018 to 2019. Using information from the State Tax Commission's Annual Report, **Oversight** estimated total residential assessed value was \$6,005,888,167 in 2018. Applying the growth rate of 18.64%, Oversight estimated residential assessed values would potentially increase to \$7,111,572,179 ( $\$6,005,888,167 * 1.1864$ ) in 2019.

Under this proposal the maximum increase would be capped at 10% which is estimated at \$6,606,476,984 ( $\$6,005,888,167 * 1.10$ ). **Oversight** assumes the 10% cap would decrease the residential assessed value by \$505,095,195 ( $\$7,111,572,179 - \$6,606,476,984$ ). Correspondingly, the Blind Pension Fund would decrease by \$172,627 relative to what would have been received under current law ( $(\$505,095,195/100)*.03$ ).

**Oversight** notes OA-B&P indicated they did not anticipate a reduction in funding relative to what is currently collected because the proposal still allows for some growth in assessed values. However, Oversight will show an unknown negative fiscal impact that could exceed \$100,000 to the Blind Pension Fund relative to what it would have received under current law.

Section 137.385 Deadline for Filing to the Board of Equalization

Officials from **B&P** assume this section changes when appeals must be filed.

Officials from the **STC** assume the date changes in Section 137.385 have no fiscal impact.

Officials from the **City of St. Louis** assume section 137.385 changes the deadline for filing to the Board of Equalization to the 2<sup>nd</sup> Monday in July. This change would have no impact on the City of St. Louis Assessor's office as the existing deadline for the City's Board of Equalization is the 2<sup>nd</sup> Monday in July.

ASSUMPTION (continued)

**Oversight** notes that the entities above have stated the provision would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for this section.

Section 138.060 Burden of Proof before the Board Of Equalization

Officials from **B&P** assume this section changes the local jurisdictions in which the assessor has burden of proof.

Officials from the **STC** assume Section 138.060 extends the assessors burden of proof requirements and proof of physical inspection to all first classification counties (listed above) before the Board of Equalization and in the event the assessor fails to provide sufficient evidence the property owner prevails. This may have an unknown fiscal impact on the counties required to do so.

Officials from the **City of St. Louis** assume Section 138.060 adds first class counties to the Board of Equalization statute. The City of St. Louis is already included in this statute so the change would have no impact on the City of St. Louis Assessor's office.

**Oversight** assumes this provision could result in costs to local assessment authorities. Oversight will show a range of impact of \$0 to an unknown cost.

Section 82.550 - Repealed Appointment of Assessors

Officials from **B&P** assume this proposal repeals the provision allowing the appointment of assessors.

Bill as a Whole

Officials from the **Department of Revenue** and **Office of Administration - Administrative Hearing Commission (AHC)** assume the proposal will have no fiscal impact on their organization.

Officials from the **City of Springfield** and the **City of Kansas City** each assume the proposal will have no fiscal impact on their organization.

**Oversight** received a limited number of responses from local political subdivisions 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 the necessary approval to publish a new fiscal note.

ASSUMPTION (continued)

**Oversight** only reflects the responses that we have received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<b>BLIND PENSION FUND</b>			
<u>Revenue Loss</u> - loss of property tax on property that appreciates more than 10% - §137.115.18	(Unknown, Could exceed <u>\$100,000</u> )	(Unknown, Could exceed <u>\$100,000</u> )	(Unknown, Could exceed <u>\$100,000</u> )
<b>ESTIMATED NET EFFECT ON BLIND PENSION FUND</b>	<b>(Unknown, Could exceed <u>\$100,000</u>)</b>	<b>(Unknown, Could exceed <u>\$100,000</u>)</b>	<b>(Unknown, Could exceed <u>\$100,000</u>)</b>

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Cost</u> - election of assessor in Jackson County & City of St. Louis - §53.010	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Cost</u> - higher burden of proof for hearing or appeal - §137.115.1	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Cost</u> - expansion of physical inspection and notification - §137.115.10 -13	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<u>Loss</u> - cap on assessed values - §137.115.18	(Unknown)	(Unknown)	(Unknown)
<u>Cost</u> - higher burden of proof for before Board of Equalization - §138.060	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>	<b><u>(Unknown)</u></b>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill modifies several provision relating to taxation of property.

**ASSESSOR OF ST. LOUIS CITY**

This bill repeals an exemption that allows the assessor of St. Louis City to not be a resident of St. Louis City. Additionally, this bill requires the assessor to be elected (Sections 53.010 and 82.550, RSMo).

**BURDEN OF PROOF AT ANY HEARING OR APPEAL OF THE ASSESSMENT**

The bill makes it so the burden of proof, supported by clear, convincing evidence to sustain such valuation, will be on the assessor at any hearing or appeal of the valuation of residential real

FISCAL DESCRIPTION (continued)

property in any first class county, charter county, or the City of St. Louis (Sections 137.115 and 138.060)

**LIMITATION ON INCREASES TO THE VALUES OF REAL PROPERTY**

Currently, before any assessor may increase the value of residential real property more than 15% since the last assessment, the assessor must conduct a physical assessment of the property. This bill changes the increase to 10%, as defined in the bill. Additionally, the assessor may not increase the value of any real property by more than 10% from the most recent assessed valuation unless the increase is due to new construction or improvements (Section 137.115).

**APPEALS TO THE BOARD OF EQUALIZATION IN FIRST CLASS COUNTIES**

This bill changes the deadline to appeal valuation of property to the board of equalization in first class counties from the third Monday in June to the second Monday in July (Section 137.385).

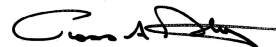
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Budget and Planning  
Office of Administration - Administrative Hearing Commission  
State Tax Commission  
Department of Revenue  
City of St. Louis  
City of Kansas City  
City of Springfield



Julie Morff  
Director  
January 14, 2020



Ross Strobe  
Assistant Director  
January 14, 2020