

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4529-01
Bill No.: HB 1860
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property Real and Personal; County Government; County Officials; Constitutional Amendments
Type: Original
Date: January 14, 2020

Bill Summary: This proposal modifies provisions relating to property tax increases.

FISCAL SUMMARY

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

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Blind Pension Fund (0621)	\$0	\$0 or (Unknown, Could exceed \$100,000)	\$0 or (Unknown, Could exceed \$100,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0 or (Unknown, Could exceed \$100,000)	\$0 or (Unknown, Could exceed \$100,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
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 2021	FY 2022	FY 2023
Local Government	\$0	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Section 137.115 Cap on Assessed Values

Officials from **State Tax Commission** assume this legislation proposes residential real property be valued at the most recent assessed value, or the fair market value for said property be determined at the most recent sale. HB 1860 also proposes that the increase of real residential property is the Consumer Price Index percentage rate of increase. HB 1860 has an unknown fiscal impact on the State Tax Commission, however the limitation on assessment growth may negatively impact revenues for school districts, counties, cities, fire districts and other local taxing jurisdictions supported by property tax revenues. Additionally, restrictions on assessment growth may create disparities and inequities over time among residential properties and categories of homeowners, potentially shifting a greater share of the tax burden from one class of homeowner to another. A newer home's true market value used for assessment may increase far more than an older home or visa versa depending on market conditions. An assessment limit may impact assessment growth and over time potentially create a large disparity.

Officials from **Office of Administration - Budget and Planning** assume this proposal will not impact TSR. This proposal will not impact the calculation under Article X, Section 18(e).

Upon the effective date of section 137.115, the true value of a home shall be either it's previously assessed value or the value at which it was sold. For each assessment thereafter, the growth in assessed value shall not exceed the rate of inflation, as measured by the consumer price index (CPI), between each assessment. Subdivision 137.115.18(2) states that nothing in subsection 18 shall prevent a county assessor from reducing the assessed value of residential real property.

B&P notes that the growth in housing values (as measured by the Case-Shiller index) do not typically align with growth in the consumer price index. For example, the five year average growth in housing prices from 2014 - 2018 was 4.1% higher than the CPI inflation rate. On the other hand, during the 1990-1991, 2001, and 2008-2009 recessions the CPI inflation rate was 5.1% higher, on average, than the Case-Shiller housing inflation rate.

However, after analyzing both the consumer price index inflation rates and the Case-Shiller inflation rates, B&P notes that in no year since 1987 was growth in the CPI negative at the same time that growth in the Case-Shiller Index positive. Therefore, it is less likely that the assessed valuations of residential housing would be adjusted downward based on CPI growth at the same time that housing prices were increasing based on the Case-Shiller index. Therefore, while this section could constrain future growth in assessed values, it would not reduce current revenues.

ASSUMPTION (continued)

B&P assumes Section B states that this proposal would not become effective until an amendment allowing for a statutory limit on the growth of residential real property to the Missouri Constitution has been voter approved. B&P notes that the earliest this could occur would be during the November 2020 election, with a start date of January 1, 2021. B&P further notes that this proposal does not contain such enabling language. Therefore, B&P estimates that this proposal will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Office of the State Auditor** assume the proposal will have no fiscal impact on their organization. Any impact can be absorbed through current appropriations.

Officials from the **Department of Revenue** assume the proposal will have no fiscal impact on their organization.

Officials from the **City of Columbia** assume the biggest increases to property assessments are new construction and improvements. Thus, this does not appear to have a significant impact on the City of Columbia as we would not expect normal assessments to change that much.

Officials from the **City of Kansas City** assume this proposal has no fiscal impact to the City of Kansas City, Missouri. The levy calculation for property taxes already limits revenue growth. Currently the permitted reassessed revenue growth is based on the lower of the percentage of actual assessed value growth, the CPI or 5%.

Officials from **Warren County Assessor's Office** assume this proposal could result in costs to the office for implementation and computer programming changes estimated at \$5,000 to \$10,000.

Officials from **Sullivan County** assume this proposal will result in revenue losses of \$173,490 annually.

Officials from the **Cooper County Public Health Center** are unable to calculate and the loss of revenue is unknown. Unable to put a price tag on it due to each county health agency operates on taxes and each county has a different tax rate and property values, commercial and residential properties.

Oversight assumes this proposal limits increases in the assessed values of individual residential property to the change in CPI per year (estimated at 1.9% for the 2018 year end). Under the proposed legislation, Oversight assumed the assessed value would be 19% of the market value or

ASSUMPTION (continued)

the prior year assessed value plus 1.9% growth whichever is lower. For fiscal note purposes, Oversight used a two property example to demonstrate the potential changes to the assessed values as a result of this proposal.

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	\$105,000	\$19,950	\$19,361
Property 2	\$100,000	\$19,000	\$100,000	\$19,000	\$19,000
Total	\$200,000	\$38,000	\$205,000	\$38,950	\$38,361

*For purposes of this example, Oversight assumed a 5% 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 1.9% 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	\$38,950
Less New Construction	- \$0
Adjusted Total Current Assessed Value	\$38,950

ASSUMPTION (continued)

Tax Rate Calculation Continued

Current Year Authorized Revenues	\$1,936
Divided by Adjusted Total Current Assessed Value	<u>/ \$38,950</u>
	0.04971
	* <u>100</u>
<u>Maximum Authorized Levy</u>	<u>\$4.971</u>

Growth Factor Calculation

Current Year Adjusted Total Current Assessed Value	\$38,950
Less Previous Year Adjusted Total Assessed Value	<u>- \$38,000</u>
	\$ 950
Divided by Previous Year Adjusted Total Assessed Value	<u>/ \$38,000</u>
	0.25
Times 100	* <u>100</u>
Actual Growth Factor	2.5%

Using the basic 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

	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	\$39,900	1.90%	\$1,936.00	4.9705
Current Year Proposed Law	\$38,361	0.95%*	\$1,918.00	4.9999

*The growth factor used in the tax levy calculation is either actual growth in assessed valuation, inflation based on CPI (1.9%) or 5% whichever is lower. In this example under the proposed law, actual growth is below inflation, therefore the growth factor used in the tax levy calculation is the actual growth rate of assessed values or 0.95% ((((\$38,361-\$38,000)/\$38,000)*100).

ASSUMPTION (continued)

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 a 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.

Additionally, the growth in total assessed value was less than the percentage change in CPI which reduced the maximum allowed revenue. In order to achieve a maximum growth in revenue of 1.9% (current change in CPI) either all properties would have to increase at 1.9% (or above) or other classes of property would have to increase higher than 1.9% to overcome the net reduction from any properties that increased below 1.9% or decreased in value. Therefore, Oversight assumes this proposal could result in reduction in maximum allowed revenue even for tax entities below their statutory or voter approved rate.

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 that calculate a separate tax rate for each subclass of property.)

Because the tax levy would be higher relative to current law 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 (4.9705)	Assessed Value Proposed (Table I)	Tax Burden Proposed (4.9999)
Property 1	\$950.00	\$19,500	\$991.64	\$19,361	\$968.02
Property 2	\$950.00	\$19,000	\$944.39	\$19,000	\$949.98
Total	\$1,900.00	\$38,950	\$1,936.00	\$38,361	\$1,918.00

ASSUMPTION (continued)

Based on information from the [Federal Housing Finance Agency](#) website, **Oversight** notes there were 818 census tracts in Missouri with a change in the House Price Index (HPI) that exceeded the 1.9% combined for 2017 and 2018 period (based on a two year assessment cycle). Because this proposal limits the assessed value of individual residential properties to the increase in CPI (1.9%) 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 1.9% over the two year 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 $((\text{Total Assessed Value}/100) \cdot .03)$. Because this proposal reduces 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.

Table IV: Blind Pension Trust Fund

	Assessed Value	Blind Pension Trust Fund (Assessed Value/100)*0.03
Prior Year	\$38,000	\$11.40
Current Year Current Law	\$38,950	\$11.69
Current Year Proposed Law	\$38,361	\$11.51

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 $(\$6,005,888,167 \cdot 1.1864)$ in 2019.

Under this proposal the maximum increase would be capped at 1.9% which is estimated at \$6,120,000,042 $(\$6,005,888,167 \cdot 1.019)$. **Oversight** assumes the 1.9% cap would decrease the residential assessed value by \$991,572,136 $(\$7,111,572,179 - \$6,120,000,042)$. Correspondingly, the Blind Pension Fund would decrease by \$297,472 relative to what would have been received under current law $((\$991,572,136/100) \cdot .03)$.

ASSUMPTION (continued)

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.

Oversight notes this proposal is contingent on a voter approved amendment to the Constitution. Oversight will show the impact as either \$0 (Constitutional amendment is not approved by voters) to an unknown loss in revenue to the Blind Pension Fund and local political subdivisions beginning in FY 2022.

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
BLIND PENSION FUND			
<u>Revenue Loss</u> - loss of property tax on property that appreciates more than the change in CPI - §137.115.18	\$0	\$0 or (Unknown, Could exceed <u>\$100,000</u>)	\$0 or (Unknown, Could exceed <u>\$100,000</u>)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	\$0	\$0 or (Unknown, Could exceed <u>\$100,000</u>)	\$0 or (Unknown, Could exceed <u>\$100,000</u>)

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Loss</u> - loss of property tax on property that appreciates more than the change in CPI - §137.115.18	\$0	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL IMPACT - Small Business

Oversight assumes there could be a fiscal impact to small businesses if this proposal resulted in an increase in the tax rate for commercial property.

FISCAL DESCRIPTION

This bill would make the true value of residential real property the previous assessed valuation of the property, indexed for inflation and exclusive of new construction and improvements, or the value of which the property was sold since its most recent assessment. This bill will not affect the ability of any county assessor to decrease the value of any residential real property.

This bill has an effective date contingent on the effective date of an amendment to the Constitution of Missouri allowing for a statutory limitation on the amount by which the assessed value of residential real property may be increased.

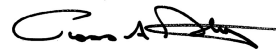
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Revenue
Office of the State Auditor
City of Columbia
City of Kansas City
Warren County Assessor's Office
Sullivan County
Cooper County Public Health Center



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