

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4106S.03C
 Bill No.: SCS for SB 649
 Subject: Taxation and Revenue - Property; Counties
 Type: Original
 Date: January 24, 2022

Bill Summary: This proposal reduces the assessment percentage of personal property in st. Charles county.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2074)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2074)
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2074)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2074)
Total Estimated Net Effect on FTE	0	0	0	\$0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2023	FY 2024	FY 2025	Fully Implemented (FY 2074)
Local Government	\$0	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** assume the proposed SCS has an unknown fiscal impact. Assessment reductions will impact negatively the revenue for school districts, counties, cities and other taxing jurisdiction who are supported by property taxes in county designated by the restriction. This bill reduces the amount of personal property tax revenues equal to the increase in real property tax revenues so this would eliminate an increase in local revenues until the percentage for personal property assessment reaches zero.

In response to the previous version, officials from **Office of Administration - Budget and Planning (B&P)** assumed this proposal would reduce the assessment percentage for personal property each year, starting with tax year 2023 and ending tax year 2073. B&P notes that the assessment percentage for personal property is currently 33.3%. The reduction in the assessment percentage will be by an amount that would offset increases in assessed valuation of real property each tax year. In other words, the revenues generated under the personal property tax would be reduced by an amount to offset any revenue gains from increased real property values.

B&P notes that the reduction in the assessment percentage must only offset the increase in the real property assessed value, up to the consumer price index (inflation) between the two years. Therefore, if housing prices increased by 7%, but CPI only increased by 2%, the reduction in personal property would offset the 2% inflation limit.

B&P further notes that Section 137.115.1(4) states that the state assessment under Article III, Section 38(b) of the Missouri Constitution shall remain at 33.3%. Article III, Section 38(b) of the Missouri Constitution applies to the Blind Pension Trust Fund and the state property tax levy of \$0.03 per \$100 valuation. Therefore, this proposal will not impact TSR or the Blind Pension Trust Fund.

B&P notes that under this proposal county assessors would have to maintain two sets of calculations for personal property. One for the reductions on local assessments as required under this proposal and another for the Blind Pension Trust Fund state assessment. B&P defers to local jurisdictions for more specific impacts.

In response to the previous version, officials from the **Department of Social Services** and **Office of the State Auditor** each assumed the proposal would have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

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Local Political Subdivisions

Oversight assumes this proposal will impact taxing entities in St. Charles County. Oversight assumes his proposal reduces the percentage at which personal property is assessed effectively reducing the assessed value of personal property over time. Oversight notes the revenue growth in property tax is determine by the following method:

Last year’s revenues plus an allowance for growth equal to either:

- Inflation;
- Growth in total assessed value, or;
- 5%, whichever is lower.

Oversight assumes **if** the growth in total assessed value is the lower of the three options, then any reduction in the percentage at which personal property is assessed would reduce the maximum allowed revenue growth (relative to current law). For example:

	Assessed Value Real	Assessed Value PP	Total Assessed Value	Revenue Growth Factor	Maximum Allowed Revenue
Base Year (Assumed)	\$4,250,000,000	\$750,000,000	\$5,000,000,000	-	\$6,240,000
Current Law (Next Year)	\$4,377,500,000	\$772,500,000	\$5,150,000,000	3.0%	\$6,427,200
Next Proposed (Next Year)	\$4,377,500,000	\$702,272,727*	\$5,079,772,727	-1.4%	\$6,240,000

Oversight applied a 3% growth in real and personal property. To calculate the proposed assessed value, Oversight reduced the 33% currently applied to personal property values by the growth in real property (33% - 3% = 30%).

*Using the \$750,000,000 assessed value for personal property, Oversight calculated the full value of personal property:

Full Value of Personal Property $\times .33 = \$750,000,000$
 Full Value of Personal Property = $\$750,000,000 / .33$
 Full Value of Personal Property = $\$2,272,727,273$

Using the full value of personal property, Oversight applied a growth rate of 3% and calculated the different assessed values below.

$\$2,272,727,273 \times 1.03$	\$2,340,909,091	Total PP Value w/Growth
$\$2,340,909,091 \times .33$	\$772,500,000	Assessed Value PP (Current Law)
Or		
$\$2,340,909,091 \times (.33-.03)$	\$702,272,727	Assessed Value PP (Proposed Law)

Oversight notes, in the example above, the proposal functionally eliminates the allowable increase in revenues attributable to growth. Revenues become fixed in time. However, **Oversight** notes the maximum allowed revenue would be lower than what could have been achieved under current law.

Alternatively, **if** inflation or 5% is the lower option for determining the maximum allowed revenue, the calculation of revenue growth may not be limited by the reduction in assessed personal property. However, **Oversight** notes property tax revenues are designed to be revenue neutral from year to year. The tax rate is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth. Therefore, this proposal may result in a higher tax rate relative to current law thus distributing more of the tax burden to real property owners (as personal property assessed values decrease).

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum or are at a fixed rate. 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 an actual loss of revenue.

Based on a very brief review of maximum authorized tax rates in St. Charles County, most taxing entities appear to be below their maximum authorized tax rates.

Oversight will show a range of impact of \$0 (the tax burden is shifted to real property owners or no growth in real property) to an unknown loss in property tax revenue for taxing entities in St. Charles County.

The next assessment cycle would not occur until calendar year 2023 with impacted revenues occurring in FY 2024 (due in December 2023). **Oversight** will show the impact to taxing entities in St. Charles county beginning in FY 2024.

Oversight notes section 137.115.1(4) requires assessors to continue to assess personal property at 33.3% for purposes of Article III, Section 38(b) of the Missouri Constitution. Therefore, **Oversight** assumes this proposal will not impact the Blind Pension Fund.

Ultimately, **Oversight** is uncertain how language of the proposal would be applied, but assumes the county could incur some additional costs administering these adjustments (i.e. computer programming changes). In addition, **Oversight** received a limited number of responses from taxing entities 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 approval to publish a new fiscal note.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2074)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025	Fully Implemented (FY 2074)
LOCAL POLITICAL SUBDIVISIONS				
<u>Costs</u> – St. Charles County – to administer the changes in assessment from this proposal - §137.115	\$0	(Unknown)	(Unknown)	(Unknown)
<u>Revenue Loss</u> - Taxing Entities in St. Charles County - loss of property tax from reduction in personal property assessed value - §137.115	<u>\$0</u>	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT – Small Business

Oversight assumes there could be a fiscal impact to small businesses if this proposal resulted in a higher overall tax rate for commercial property owners. However, small businesses that own personal property could see a reduction in property taxes.

FISCAL DESCRIPTION

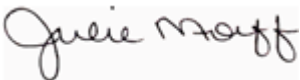
Current law requires that personal property be assessed at 33.3% of its true value in money. This act requires the county assessor of St. Charles County to annually reduce such percentage such that the amount by which the revenue generated by taxes levied on such personal property is reduced is substantially equal to one hundred percent of the growth in revenue generated by real

property assessment growth, as defined in the act. Annual reductions shall be made until December 31, 2073. Thereafter, the percentage of true value in money at which personal property is assessed shall be equal to the percentage in effect on January 1, 2073.

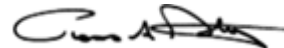
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Social Services
Office of the State Auditor



Julie Morff
Director
January 24, 2022



Ross Strobe
Assistant Director
January 24, 2022