COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4160S.01I
Bill No.: SB 733
Subject: Taxation and Revenue - Property; Political Subdivisions
Type: Original
Date: January 12, 2024

Bill Summary: This proposal modifies provisions relating to personal property taxes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	Fully Implemented (FY 2074)
General Revenue	$0	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
Total Estimated Net Effect on General Revenue	**$0**	**$0 or (Unknown)**	**$0 or (Unknown)**	**$0 or (Unknown)**

*Oversight assumes the state reimbursement to political subdivisions authorized in 137.115.1(5) would exceed the $250,000 threshold. This reimbursement is subject to state appropriation.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2025	FY 2026	FY 2027	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 2025	FY 2026	FY 2027	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 2025	FY 2026	FY 2027	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 2025	FY 2026	FY 2027	Fully Implemented (FY 2074)
Local Government	**$0**	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Section 137.115 Reduction in the Assessment Percentage of Personal Property

Officials from the **Department of Revenue (DOR)** note current law requires that personal property be assessed at 33.3% of its true value in money as of January 1st of each calendar year. This proposal would require the assessor use a different formula for determining personal property tax. Starting January 1, 2025, the assessor would need to annually reduce the percentage of true value in money by the revenue generated from taxes levied on such personal property. The reduction should be substantially equal to one hundred percent of the growth in revenue generated by the real property assessment growth.

This reduction in the rate is to continue through December 31, 2073, at which time the rate will remain the same for each year going forward. Additionally, if a political subdivision receives less tax revenues for a calendar year, they can seek reimbursement from the state.

Property tax assessments are handled by county assessors and the State Tax Commission. This provision does not impact the Department and DOR defers to the State Tax Commission and the counties for their estimated fiscal impact to the State.

This proposal does say that in order for the assessors to calculate the amount owed to the constitutionally created Blind Pension Fund they are to use the 33.3% rate. Therefore, this will not have a fiscal impact on the Blind Pension Fund.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would reduce the assessment percentage for personal property each year, starting with tax year 2025 and ending tax year 2073. B&P notes that the assessment percentage for personal property is currently 33.33%. 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.

Subdivision (5) would allow political subdivisions to receive reimbursement from the state, subject to appropriation, if the reduction in the personal property tax assessment rate results in lower total property tax collections within that political subdivision than the constitutionally allowable amount.

Officials from the **State Tax Commission** assume the proposed SB 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. SB 733 clearly requires the assessor to determine the true market value and assessed value for real and personal property. The bill also requires the approximately 3,000 political subdivisions to adjust the assessment percentage used to calculate the assessed value of personal property based on the amount of tax collected the previous year for real property. The political subdivisions are responsible for adjusting levies to comply with the Hancock amendment based on the assessments provided by the assessor so it is unclear how the percentage reduction in assessed value is to be calculated. It is unknown if the reduction in the percentage is to happen before or after the levy rollback. It is also unclear whether the adjustment is to be based on taxes collected or taxes billed by the collector. There are several counties and political subdivisions that see very little growth in real property assessments each year, so the effect of this bill would be minimal while counties with large growth could see large reductions in personal property tax collections.

Officials from the **City of Kansas City** assume this legislation is project to a significant negative fiscal impact to the City. The legislation proposes to levy taxes on personal property to generate 100% of growth in revenue generated by real property assessment growth. Last year this was approximately 2.64% and revenues generated by real growth was very minimal. The City would lose most of its personal property revenues of approximately $35M.

Officials from the **City of Richmond Heights** assume these revenues would be lost:

General Purpose - $121,832
Pension - $134,056
Library - $89,047

Officials from the **Branson Police Dept** assume this has the potential to reduce the tax revenue available for emergency services.

Officials from the **Jefferson County Assessor** assume it is impossible to calculate the true fiscal impact on political subdivisions in Jefferson County due to the fact that real property assessment growth is determined within each tax year and certified on or before June 30th of each tax year

(RSMo 137.243). Without studying the real estate market conditions and determining whether or not assessed values need to be adjusted in a reassessment year, the financial impact that will result if this bill is passed cannot be accurately determined.

Officials from the **Lincoln County Assessor** assume this will cause a major tax burden shift placed on real estate owners by slowly eliminating personal property - it will stagnate any growth in counties because any growth shown in real property will be reduced on the personal property totals, therefore remaining flat in overall value for each county. This will have an unfunded mandate for Assessors across the state to implement software updates to their systems to account for the deductions to be made each year on the personal property values. This will impact the CERF program (County Employee Retirement Fund) by eliminating value on personal property and therefore reducing the late fees associated with the program - late fees generate a substantial revenue source for the retirement fund each calendar year. The question of mobile home values needs to be addressed since they will decrease in value on the personal property level but will not have any adjustments made to the real property level - eventually the personal property mobile homes will not be assessed at all if this should pass and be enacted. $2.7 billion dollars statewide in tax revenue will be shifted to the real property owners due to the loss of personal property.

Officials from the **Howell County Assessor** note the fiscal impact is impossible to accurately determine with the bill language just as the assessment rates will be with the provisions of this bill. Each political subdivision is affected differently by reassessment and is reflected in their levy if they adjust or not due to the change in value. If passed this may cause a single property owner to have up to 8 different assessment rates on a single property in Howell County.

Officials from the **St Louis City Office for Developmental Disability Resources** note statewide, approximately 20% of property taxes collected are for personal property. Therefore, the elimination of personal property taxes would reduce funding by over $1.3 Million directly impacting the health and welfare of people with intellectual and developmental disabilities. This would result in significant cuts to services. The cut would come at a time when service delivery is already diminished because of increasing costs due to staffing shortages, capacity limits, and Medicaid reimbursement rates below market value.

Local communities would be forced to discontinue or significantly reduce services to individuals with IDD and potentially destabilize the safety net of locally provided services. These services are critical to the well-being of individuals and support the maintenance of their community and family life.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

Officials from the **Office of the State Auditor** and the **Department of Social Services** each assume the proposal will 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.

Officials from the **Newton County Health Department**, **Phelps County Sheriff**, **Kansas City Police Dept.**, and the **St. Louis County Police Dept** each assume the proposal will 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.

Oversight assumes this proposal reduces the percentage at which personal property is assessed effectively reducing the assessed value of personal property over time.

Oversight notes approximately $1,923,908,514 in personal property taxes were collected in Missouri in 2022. One percent would equate to $19.2 million.

Oversight notes this reduction could also reduce the calculation used to determine the maximum allowed revenue.

<u>**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</u>. 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 and some 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.

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 local political subdivisions.

Oversight notes the next assessment cycle would not occur until calendar year 2025 with impacted revenues occurring in FY 2026 (due in December 2025). Oversight will show the impact to local political subdivisions beginning in FY 2026.

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.

Oversight notes section 137.115.1(5) would allow political subdivisions to receive reimbursement from the state, subject to appropriation, if the reduction in the personal property tax assessment rate results in lower total property tax collections within that political subdivision than the constitutionally allowable amount. Oversight is unable to determine the quantity of local political subdivisions for which this could occur or the amounts that would be reimbursed, therefore, Oversight will show an unknown negative impact to the general revenue fund beginning in FY 2026.

Ultimately, **Oversight** is uncertain how language of the proposal would be applied but assumes counties could incur additional costs administering these adjustments (i.e. computer programming changes or additional staff). 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.

FISCAL IMPACT – State Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2074)
GENERAL REVENUE FUND				
Cost – §137.115.1(5) - Potential cost for reimbursement to local taxing entities	$0	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**$0**	**$0 or (Unknown)**	**$0 or (Unknown)**	**$0 or (Unknown)**

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2074)
LOCAL POLITICAL SUBDIVISIONS				
Costs – §137.115.1(4) - Local taxing entities – to administer the changes in assessment	$0	(Unknown)	(Unknown)	(Unknown)
Loss – §137.115.1(4) - Loss of property tax revenues from reduction in personal property assessed value	$0	$0 or (Unknown)	$0 or (Unknown)	$0 or (Unknown)

FISCAL IMPACT – Local Government	FY 2025 (10 Mo.)	FY 2026	FY 2027	Fully Implemented (FY 2074)
Revenue Increase - §137.115.1(5) - Potential reimbursement to local taxing entities from the state	$0	$0 or Unknown	$0 or Unknown	$0 or Unknown
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**(Unknown)**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

Current law requires that personal property be assessed at 33.3% of its true value in money. This act requires political subdivisions 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 December 31, 2073.

Subject to appropriations, a political subdivision that receives less than the allowable amount of total real and personal property tax revenues shall be eligible for reimbursement from the state in an amount equal to the amount by which such revenues are below the allowable amount.

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

Department of Revenue (DOR)
Office of Administration - Budget and Planning (B&P)
State Tax Commission
Office of the State Auditor
Department of Social Services

KLP:LR:OD

City of Kansas City
City of Richmond Heights
Branson Police Dept
Jefferson County Assessor
Lincoln County Assessor
Howell County Assessor
St Louis City Office for Developmental Disability Resources
Newton County Health Department
Phelps County Sheriff
Kansas City Police Dept.
St. Louis County Police Dept

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