

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1931H.01I  
Bill No.: HB 1078  
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property, Real and Personal; Counties; Department of Revenue; State Tax Commission  
Type: Original  
Date: February 22, 2023

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Bill Summary: This proposal modifies provisions relating to the assessed valuation of real property.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<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>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
Blind Pension Fund*	\$0	\$0	\$0 or (Unknown) to Unknown
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0 or (Unknown) to Unknown</b>

\* **Oversight** assumes the unknown fiscal impact to the Blind Pension Fund depending on prevailing market conditions could exceed the \$250,000 threshold relative to what it would have received under current law.

Numbers within parentheses: () indicate costs or losses.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</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 2024</b>	<b>FY 2025</b>	<b>FY 2026</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 \$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.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2024</b>	<b>FY 2025</b>	<b>FY 2026</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0 or (Unknown) to Unknown</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

#### **Section 137.115.1 Property Tax Assessment**

Officials from the **Department of Revenue (DOR)** assume the current law requires that personal property be assessed at 33.3% of its true value in money as of January 1<sup>st</sup> of each calendar year. Section 137.115.17 would starting January 1, 2024, would lock in the assessed value of taxpayers unless they made improvements to their homes.

This provision is silent on how to handle the collection of the constitutionally created Blind Pension Fund. Per the Constitution the calculation is based on the 33.3% rate. Therefore, this could potentially have a negative fiscal impact on the Blind Pension Fund in forgone future revenue if this results in less tax collected.

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.

Officials from the **State Tax Commission (STC)** has determined that this bill proposes 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. This bill also proposes that the increase of real residential property only occurs when the property is sold or an improvement occurs that is equal to or greater than 50% of the property value.

STC assumes this proposal 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 vice versa depending on market conditions. An assessment limit may impact assessment growth and over time potentially create a large disparity.

Officials from the **Office of Administration - Budget and Planning (B&P)** note beginning with calendar year 2024, this provision would hold the market value of all real property at the market value determined during the 2023 reassessment cycle. The market value will remain at the 2023 amount until the property is sold/transferred or enough new construction/improvements has occurred to trigger a reassessment. B&P notes that this proposal would apply to all real property, not just residential real property.

B&P notes that this proposal would allow the market value to increase if new construction and/or improvements have added 50% to the value of the real property. B&P further notes that in 2021, the median market value for residential real property was \$171,000. Therefore, it would take at least \$85,500 in new construction or improvements before a reassessment is triggered. This proposal requires owners to inform the county assessor when new construction or improvements have been made so that the assessor can reassess the property.

This proposal also allows assessors to appeal a sales price, if the assessor believes the price does not accurately reflect the true market value of real property. In addition, an owner of real property may opt out of this proposal and continue to be assessed under the current assessment method.

B&P notes that the Blind Pension Trust Fund levies a \$0.03 per \$100 value property tax on all property in Missouri. B&P further notes that while this proposal will not result in a direct loss of revenue, it could result in significant forgone revenue in the future.

**Oversight** notes this proposal would set the true value of a property (that has been sold since its most recent assessment) at the total fair market value of the compensation received by the seller. Oversight assumes if the compensation received by the seller is substantially different from the value as determined by the county assessor, this proposal could impact property tax revenues for the Blind Pension Fund and local political subdivisions. Oversight notes the STC conducts a biennial [ratio study](#) which compares a sample of the values set by the county assessors to the recent sale price or value estimated by an independent appraisal. Most county ratios studies indicate the assessed values are below (in some cases substantially below) the market value proxy.

Additionally, for properties that have not sold since their most recent assessment, **Oversight** assumes this proposal would limit increases in the assessed values of real property. Property values would stay fixed in time until the property is transferred or sold (or extensively improved). Oversight is unable to calculate this change as it would depend on the market conditions within each taxing entities boundaries. For purposes of this fiscal note, Oversight will illustrate the potential impact assuming different scenarios in the chart below.

Per the State Tax Commission's Annual Report, the current assessed value of real property is \$100,357,805,420. If the limit in increases to assessed value caused the following overall reductions.

Foregone Increase	Foregone Assessed Value	Forgone Tax Revenue Blind Pension	Foregone Tax Revenue Local Political Subdivisions*
0.25%	\$250,894,514	\$75,268	\$14,129,375
0.50%	\$501,789,027	\$150,537	\$28,258,751
1.00%	\$1,003,578,054	\$301,073	\$56,517,502

\* Oversight notes property tax levies differ based on the location of the property and the varying taxing entities. Oversight estimated the impact to local political subdivisions using the tax levy experienced by a property in the City of Springfield at \$5.6316 (not counting the .03 collected for the Blind Pension Fund).

**Oversight** notes property tax revenues are designed to be relatively 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. Currently, growth in assessed values allows the tax rate to fall over time. Under the proposed legislation, the tax rate would fall at a slower rate than under the current law (or rise). (This in turn could shift a higher burden of taxation to personal property.)

**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.

Also, **Oversight** notes improvements to real property under 50% of the value of the property would no longer be included in the assessed value (until sold or transferred). Oversight notes this may also result in foregone revenues for all taxing entities.

**Oversight** notes both impacts are cumulative, which could result in a substantial loss to local political subdivisions over time. Oversight will show an unknown loss in property tax revenue for local political subdivisions.

**Oversight** assumes the magnitude of the impact to the Blind Pension Fund would depend on prevailing market conditions. Oversight will show a potential unknown negative fiscal impact that could exceed \$250,000 to the Blind Pension Fund relative to what it would have received under current law.

**Oversight** assumes there could be costs for implementation and computer programming. Oversight will show an unknown cost to county assessors to implement this proposal beginning in FY 2026.

Officials from the **Lincoln County Assessor** assume this proposal would raise market values on properties that were below market value prior to the sale, possibly creating some inequity of overall values.

Officials from the **Cape Girardeau County Assessor** assume the fiscal impact of this proposed legislation cannot be known for certain, but could result in a tax loss of tens of millions of dollars annually. Additionally, the cost to administrate its provisions could result in significant additional personnel costs in the hundreds of thousands, although it is highly unlikely that it could be as clearly and equitably administered as intended. It could provide disastrous unintended consequence that lead to a very great inequity in individual property tax burdens, whereby neighbors in similar type and age homes may pay wildly different taxes.

Officials from the **Howell County Assessor** assume this proposal may violate Art. X Sec 3 as not all properties in a subclass will not be treated the same. Missouri is a non-disclosure state on sales so the sale prices are not available for the assessor to perform their duties and there is no evidence of a certificate of value in this legislation. This may cause much more work for assessment offices with no compensation for the effort. Estimated costs to implement are difficult to determine but could range between \$10,000 and \$5,000,000 statewide.

Officials from the **City of Kansas City** assume this proposal would have a negative fiscal impact on their respective city of an indeterminate amount.

Officials from the **City of Springfield** do not have sufficient data to determine whether there will be a fiscal impact from this bill, and, if so, whether the impact would be positive or negative. Impact would depend on whether residential properties within the City are presently assessed at a lower value than their market price. Impact would also depend on whether the value of improvements and future sales would result in greater or lower increases in assessed values than the present system.

Officials from the **Cole Camp Ambulance District** assume the proposal will have no fiscal impact on their organization.

Officials from **Newton County** assume the proposal will have no fiscal impact on their organization.

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.

**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.

**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.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>BLIND PENSION FUND</b>			
<u>Revenue Gain</u> - from an unknown impact on assessed values if assessments are based on compensation received	\$0	\$0	\$0 to Unknown
<u>Revenue Loss</u> – from the limitation of assessment growth	<u>\$0</u>	<u>\$0</u>	\$0 or (Unknown)
<b>ESTIMATED NET EFFECT ON THE BLIND PENSION FUND</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0 or (Unknown) to Unknown</u></b>

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Costs</u> - County Assessors - computer programing and administrative costs	\$0	\$0	\$0 or (Unknown)
<u>Revenue Gain</u> - from an unknown impact on assessed values, if assessments are based on compensation received	\$0	\$0	\$0 to Unknown
<u>Revenue Loss</u> – from the limitation of assessment growth	<u>\$0</u>	<u>\$0</u>	\$0 or (Unknown)
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0 or (Unknown) to Unknown</u></b>

### FISCAL IMPACT – Small Business

Oversight assumes there could be a fiscal impact to small businesses if the change in assessed value of residential property resulted in an adjustment in the tax rate for commercial property.

### FISCAL DESCRIPTION

Beginning January 1, 2024, the true value in money of real property for assessment purposes shall be equal to the most recent purchase price of such real property. Such true value in money shall be the true value in money for all subsequent assessments until the next sale of such property.

As specified in the bill, if a homeowner makes additions or improvements to the property, and those additions or improvements increase the value of said property by 50% or more, the homeowner shall notify the assessor. The assessor shall then establish a new assessed valuation, which shall be the true value in money for all subsequent assessments until the next sale of such property.

If the sale of a piece of real estate results in a transaction that is below market value, the assessor shall provide evidence to the Board of Equalization or other equivalent entity that such sale price should not be used as the new true value in money for assessment purposes.

If a homeowner does not want to participate in the assessed valuation provisions under this bill, such owner may opt out by notifying the assessor's office, and the homeowners' real property shall be assessed under the assessment process in existence on or before December 31, 2023.

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

Department of Revenue

Department of Social Services

State Tax Commission

Office of the State Auditor

Lincoln County Assessor

Cape Girardeau County Assessor

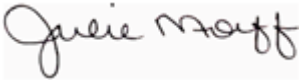
Howell County Assessor

Cole Camp Ambulance District

City of Kansas City

City of Springfield

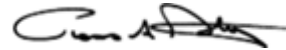
Newton County



Julie Morff

Director

February 22, 2023



Ross Strobe

Assistant Director

February 22, 2023