

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5414-01
Bill No.: HB 1913
Subject: Taxation and Revenue - General
Type: Original
Date: March 7, 2016

Bill Summary: This proposal eliminates a provision allowing for property tax levy adjustments for inflation and modifies standing for Hancock Amendment challenges.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
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 2017	FY 2018	FY 2019
Local Government	(Less than \$266,297,345)	(Less than \$266,297,345)	(Less than \$266,297,345)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration's Division of Budget and Planning** assume §137.073, Subsections 2 and 5(2), eliminates the future inflationary assessment growth factor for political subdivision levies. If this results in lower property taxes, the amount going to the Blind Pension Fund could be reduced, therefore decreasing Total State Revenues (TSR). This could also decrease funding that goes to local school districts.

Officials from the **City of St. Louis** assume the passage of this legislation to remove inflationary increases in property taxes would be a detriment to the City of St Louis' tax revenues and to the Assessor's Office. The City would lose at least \$3 million in revenue and the Assessor's Office would lose approximately \$22,000 in additional funding for each 1% in foregone inflationary adjustments.

This legislation removes any inflationary increase in property taxes. Currently, the inflationary limit is 5% or the consumer price index (CPI), whichever is less. To remove the inflationary limit would affect both the Assessor and the overall city budget. The budget for 2015 is predicted to be a 1%-3% growth in assessed value. If this is the case, the property taxes would be allowed to grow by the same amount, as long as it is less than or equal to the CPI or 5%.

The City receives approximately \$310 million to \$345 million in property taxes. Assuming a conservative \$325 million in property tax collections, every 1% of inflation results in \$3.25 million in additional taxes. If this legislation passes, the City would lose the additional revenue of at least \$3.25 million. The Assessor receives approximately \$2.2 million from property taxes each year. Every 1% of inflation growth results in \$22,000 of additional funding. If this legislation passes, the Assessor's Office would lose the additional \$22,000. In addition, the passage of this legislation would remove the ability to receive inflationary increases due to voter approval of higher rates. The only increase in property tax revenue would come from new construction

Officials from the **City of Kansas City** assume an annual revenue of approximately \$117 million in property taxes. If there is no inflationary adjustment, for each 1% in inflation, the City loses \$1,170,000, while the costs have increased by 1%.

Officials from **St. Louis County** assume the proposal would result in a revenue loss of approximately \$630,000 per year. Further, the proposal would make it easier for a taxpayer to sue for violation of the Hancock Amendment by a taxing jurisdiction. This could potentially lead to more suits, which would be costly, but it is difficult to know how many more suits could be filed.

ASSUMPTION (continued)

Officials from **Callaway County** assume an unknown fiscal impact

In response to similar legislation filed this year, SB 642, officials from the **Office of the Secretary of State (SOS)** assume Sections 137.073.2 and Sections 137.073.5(2) of this proposal attempt to eliminate the allowance for inflationary increases to assessed valuations for purposes of levying taxes as provided for in Article X Section 22 of the Missouri State Constitution. The result would be lost revenue to taxing districts from the adjustments to assessed valuation due to the reassessment process that currently fall within the allowed percentage increase, i.e., increases below the general price level of the previous year. The actual amount of the potential lost revenue for each taxing district is unknown. The long range implication for the affected taxing districts is to further limit potential growth in tax revenue, even more than is currently prescribed by Article X Section 22 of the Missouri Constitution. This would affect libraries, schools and other entities.

Officials from the **Department of Revenue, the State Tax Commission, the Office of the State Auditor, the Department of Economic Development, Public Service Commission and Office of Public Counsel, and the Office of the State Courts Administrator** each assume no fiscal impact to their respective agencies from this proposal

Oversight assumes the 2014 Statewide Assessed Valuations Totaled \$97,224,295,340. The tax value would then be \$972,242,953. The most recent statewide average tax rate without surtax is \$5.4785. The statewide average tax rate without surtax can have up to a 5% inflationary adjustment or \$5.7524. The following is a calculation of the potential maximum loss to political subdivisions from this proposal:

2014 Assessed Value	\$97,224,295,340
Divided by \$100 per assessed value	\$972,242,953
at the tax rate of \$5.4785	\$5,326,433,018
at the adjusted tax rate of \$5.7524	<u>\$5,592,730,363</u>
The maximum potential loss	<u>(\$266,297,345)</u>

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss -Local Political Subdivisions</u> revenues from inflationary adjustments resulting in lower property taxes (§137.073)	(Less than <u>\$266,297,345</u>)	(Less than <u>\$266,297,345</u>)	(Less than <u>\$266,297,345</u>)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	(Less than <u>\$266,297,345</u>)	(Less than <u>\$266,297,345</u>)	(Less than <u>\$266,297,345</u>)

FISCAL IMPACT - Small Business

A direct fiscal impact to small businesses could be expected as a result of this proposal.

FISCAL DESCRIPTION

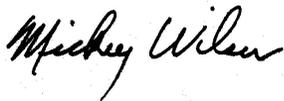
The proposal clarifies that the tax rate ceiling for real and personal property cannot exceed the voter-approved rate, and removes the adjustment requirements when voters approve an increase in the rate and the rate adjustment provision for inflationary assessment growth.

Whenever a taxpayer has cause to believe a taxing authority has not complied with the Hancock Amendment in Article X of the Missouri Constitution, the bill allows a taxpayer standing to bring suit, without first paying his or her taxes under protest, within one year from the date the taxes were due, in a court of competent jurisdiction to enforce the provisions of the amendment and to institute a class action, if applicable.

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
 Division of Budget and Planning
City of St. Louis
City of Kansas City
St. Louis County
Callaway County
Office of the Secretary of State
Department of Revenue
State Tax Commission
Office of the State Auditor
Department of Economic Development
 Public Service Commission
 Office of Public Counsel
Office of the State Courts Administrator



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