COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5317H.01I
Bill No.: HJR 126
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property, Real and Personal; Elderly
Type: Original
Date: April 20, 2022

Bill Summary: This resolution proposes an amendment to the Constitution of Missouri relating to property tax.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue	$0 or More Than ($7,000,000)*	$0 or Could exceed $30,401,458	$0 or Could exceed $30,401,458
Total Estimated Net Effect on General Revenue	**$0 or More Than ($7,000,000)***	**$0 or Could exceed $30,401,458**	**$0 or Could exceed $30,401,458**

*The potential fiscal impact of "(More than $7,000,000)" in FY 2023 would be realized only if a special election were called by the Governor to submit this joint resolution to voters.
The "$0" potential fiscal impact in subsequent years represents the joint resolution not being approved by voters.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Blind Pension Fund ** (0621)	$0	$0 or (Unknown, Could exceed $5,067,064)	$0 or (Unknown, Could exceed $5,067,064)
Total Estimated Net Effect on Other State Funds	**$0**	**$0 or (Unknown, Could exceed $5,067,064)**	**$0 or (Unknown, Could exceed $5,067,064)**

**Oversight is unsure if the blind pension fund levy ($0.03) is considered a "local property tax" liability.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on FTE	**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
Local Government	**$0**	**$0 or (Unknown, Could exceed $812,986,468)**	**$0 or (Unknown, Could exceed $812,986,468)**

FISCAL ANALYSIS

ASSUMPTION

Officials from **Office of the Secretary of State** assume, each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be $7 million based on the cost of the 2020 Presidential Preference Primary.

The Secretary of State's office is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In FY 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

For the FY22 petitions cycle, the SOS estimates publication costs at $70,000 per page. This amount is subject to change based on number of petitions received, length of those petitions and rates charged by newspaper publishers.

The Secretary of State's office will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, the SOS reserves the right to request funding to meet the cost of the publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight has reflected, in this fiscal note, the state potentially reimbursing local political subdivisions the cost of having this joint resolution voted on during a special election in fiscal year 2023. This reflects the decision made by the Joint Committee on Legislative Research that the cost of the elections should be shown in the fiscal note. The next scheduled statewide primary election is in August 2022 and the next scheduled general election is in November 2022 (both in FY 2023). It is assumed the subject within this proposal could be on one of these ballots;

however, it could also be on a special election called for by the Governor (a different date). Therefore, Oversight will reflect a potential election cost reimbursement to local political subdivisions in FY 2023.

Officials from **Office of Administration - Budget and Planning (B&P)** state this proposal would go to public vote in November 2022. If voter approved, the tax exemption would begin January 1, 2023. Since property taxes are not due until December, this proposal would begin affecting state and local funds in FY24.

This proposal would create a property tax exemption for taxpayers who are age 65 or older and have lived in their home for at least two years. Taxpayers would be exempt from 20% of local real property taxes paid in the first year they qualify for the credit. The percentage of local real property taxes paid covered by the exemption increases yearly, until the credit covers 100% of paid property taxes in the fifth year that an individual qualifies.

This proposal requires taxpayers age 65 years or older to reside in their home for two years before they may claim this property tax credit. B&P notes that this proposal does not make exceptions for individuals who previously qualified, but move to a new residence. Therefore, it is possible that an individual could qualify for the tax exemption, move to a new home, and then not qualify for two years until the residency requirement has once again been met.

B&P notes that while the exemption would not begin until January 1, 2023 the exemption percentage allowed would be retroactive to the year after such individual reached the age eligible to receive full social security retirement benefits. For example: A qualified individual who reached the required age in 2018 would be eligible for a 100% exemption beginning January 1, 2023. Therefore, B&P will show the full estimated loss from this proposal during the first tax year the exemption would be available.

Using data provided by the United States Census Bureau, the average median real estate taxes paid on owner-occupied housing was $1,526 in Missouri during 2019. In addition, approximately 504,078 homeowners in Missouri were age 65 or older in 2019. Based on the above information, B&P estimates that approximately $769.2 million in real estate taxes paid could be offset by this tax exemption.

B&P notes that this proposal would only exempt local real property taxes paid. B&P further notes that the Blind Pension Trust Fund levies a property tax of $0.03 per $100 valuation. Based on data provided by the United States Census Bureau, the median value of a home in Missouri was $157,200 in 2019. B&P notes, however, that based on Section 137.115, RSMo, the assessed value for real property is 19% of the market value. Therefore, based on a market value of $157,200, B&P estimates that the assessed value would be $29,868. Using the number of qualified homeowners, B&P estimates that the total assessed value of qualifying homes was $15.1 billion in 2019. Using the Blind Pension property tax levy and the median assessed value of homes, B&P estimates that approximately $4.5 million in property taxes would still be owed to the Blind Pension Trust Fund under this proposal. Therefore, B&P estimates that this proposal would exempt $764.7 million in local property taxes.

Total Real Estate Taxes		
Number of Qualifying Seniors		504,078
Median Real Estate Taxes Paid in MO	X	$1,526
Total Estimate Real Estate Taxes		$769,223,028
Blind Pension Trust Fund		
Number of Qualifying Seniors		504,078
Median Assessed Value of Homes in MO	X	$29,868
Estimated Assessed Value of Qualifying Property		15,055,801,704
Blind Pension Trust Fund - Rate	X	0.0003
Taxes owed to Blind Pension Trust Fund		$4,516,741
Local Real Estate Taxes		
Total Estimate Real Estate Taxes		$769,223,028
Estimate Exempt Property Taxes	—	$4,516,741
Estimated Total Local Property Tax Loss		**$764,706,287**

B&P notes that this bill does not allow any taxpayers to claim both this exemption and any other tax exemption, tax credit, or tax incentives with respect to any local real property tax exempted by this proposal. This would prevent individuals claiming the exemption from also claiming the Property Tax Credit. Based on information provided by DOR, there was approximately $29,111,158 in PTC claims paid for tax year 2020 that could also be eligible for the tax exemption in this proposal. Therefore, B&P estimates that this proposal may increase GR by up to $29,111,158.

Therefore, B&P estimates that this proposal may reduce local real property tax revenues by $764,706,287 annually beginning in FY24, depending on voter approval. This proposal may also increase GR by up to $29,111,158 annually beginning in FY24, depending on voter approval.

Officials from **Department of Revenue (DOR)** state this proposed constitutional provision states, for all tax years beginning on or after January 1, 2023, a qualified taxpayer defined as one over the age of 65 and has owned their own primary residence for at least two years, is eligible for an exemption from their local real property tax liabilities according to the provisions of subsection 2.

The first year in which a qualified taxpayer is eligible for the exemption, the exemption shall equal twenty percent of each local real property tax paid on the taxpayer's primary residence, the second year shall equal forty percent, the third year shall equal sixty percent, the fourth year shall equal eighty percent, and the fifth year, the qualified taxpayer shall be fully exempt from any local real property tax.

No individual receiving the exemption authorized under this section shall be eligible for or receive any other tax exemptions, tax credits, or tax incentives with respect to any local real property tax exempted, in whole or in part, by this section.

The State Tax Commission shall promulgate rules to implement the provisions of this section.

Methodology

Per the U.S. Census Bureau, Missouri's population greater than 64, is reported 1,057,943. Additionally per the U.S. Census Bureau there are 2,458,337 total homes in Missouri and 529,142 homes are owned by seniors. Therefore, the Department estimates that 529,142 potential homes could qualify for the property tax exemption pursuant to this proposed legislation.

Per the Missouri State Tax Commission, $4,706,212,043 was paid in residential property tax. Using the State Tax Commission numbers, the average amount of property tax owed is $1,914 ($4,706,212,043 / 2,458,337). When the Department multiplies the average amount of property tax paid by the number of eligible homes the estimated amount of property tax eligible for exemption under this legislation would equal $1,012,983,351 (529,142 * $1,914).

Pursuant to this proposed legislation, the exemption would phase in at twenty percent increments each year. Therefore, the Department estimates the following decreases to local government(s) in an aggregated total per year totaling:

Year 1 – FY 2024	**20% EXEMPTION**	**($202,596,670)**
Year 2 – FY 2025	**40% EXEMPTION**	**($405,913,341)**
Year 3 – FY 2026	**60% EXEMPTION**	**($607,790,011)**
Year 4 – FY 2027	**80% EXEMPTION**	**($810,386,681)**
Year 5 – FY 2028	**100% EXEMPTION**	**($1,012,983,351)**

DOR notes that while this bill appears to phase in over a five year period, upon becoming effective it allows a senior who is already over the age of 65 to begin the exemption based on their age. So a senior who is 65 on the effective date would receive the 100% exemption. DOR is unable to determine of the current seniors how many are over the age of 65 and would be entitled to the full 100% exemption. DOR notes this proposal begins on January 1, 2023 and therefore, the first time the tax returns would be filed claiming the credit would be January 1, 2024 (FY 2024). Therefore, DOR assumes this proposal could be Up to the 100% exemption amount starting in FY 2024.

Additionally the Senior Property Tax Credit (135.010 - 135.035) allows a tax credit for up to $750 in rent constituting real property taxes paid and up to $1,100 in actual real property tax paid for homeowners. This proposal would eventually exempt all real property taxes paid by those reaching the age of 65 that own their home. Therefore, these taxpayers would no longer be eligible for the Senior Property Tax Credit.

Tax Year	Returns Filed by Owners	Senior Credit Claimed
2018	56,848	$31,968,826
2019	53,583	$30,500,167
2020	49,996	$28,735,382

DOR is unable to determine of the current seniors how many are over the age of 65 and would be entitled to the full 100% exemption. DOR notes this proposal begins on January 1, 2023 and therefore, the first time the tax returns would be filed claiming the credit would be January 1, 2024 (FY 2024). DOR notes this would be a savings to General Revenue of Up to $30 million annually starting in FY 2024.

Officials from the **Department of Social Services (DSS)** state Section A, Article X of the Missouri Constitution is amended to exempt individuals from real property tax liabilities, who attain sixty-five years of age, incrementally over four years with a full exemption in the fifth year and all years' thereafter on real property that is their primary residence for at least two years.

Blind Pension (BP) is funded from 0.03% of each $100 assessed valuation of taxable property. Exempting individuals based on the provisions of this legislation could impact the BP fund.

According to the Missouri Department of Revenue State Tax Commission Annual Report for 2020, $91,049,111,994 of the $118,918,883,729 Total Assessed Valuation for the State of Missouri comes from Real Property. FSD made the assumption that this constitutional amendment does not govern the assessment percentages of real property assessed by the tax commission (Centrally Assessed Companies). Any funds received for the BP fund from that source were not considered in the calculation of the fiscal impact of this legislation. Therefore, real property comprises 76.56% ($91,049,111,994/$118,918,883,729=76.56%) of the total taxable property in Missouri.

Property Tax income for the BP fund in SFY 2021 was $37,550,966 or approximately $37.6 million (rounded up). 76.56% is real property revenue; therefore, the total real property revenue for BP is $28,749,020 ($37,550,966 * 0.7656 = $28,749,019.57).

The number of individuals age sixty-five or older that own real property that is their primary residence for at least two years is unknown. According to the United States Census Bureau, Missouri's total population was approximately 6,154,913 in 2020. Of those, approximately 1,064,799, or 17.30% (1,064,799/6,154,913 = 17.30%) are age sixty-five or older. FSD estimates that the potential impact to the BP fund, as a result of the provisions outlined in this legislation, is a decrease in the amount collected up to $4,973,580 ($28,749,020 * 0.1730 = $4,973,580.46; rounded down). In SFY 2021, an average of 3,769 BP recipients received a cash grant from the BP fund. The BP cash grant amount for SFY 2022 is $750 per person per month. FSD assumes that this amount will decrease by approximately $0-112 to $638 per month, or the additional amount needed for the BP fund will have to be funded by General Revenue or a designated revenue stream.

Therefore, the fiscal impact to FSD is $0 - $4,973,580 annually beginning in SFY 2024.

Officials from the **Department of Public Safety - Missouri Veterans Commission**, **State Tax Commission** and the **Office of the State Auditor** 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 **City of Kansas City** and the **Kansas City Health Department** state this legislation would have a negative fiscal impact on Kansas City in an indeterminate amount.

Officials from the **City of Springfield** anticipate a negative fiscal impact from this bill. The amount of impact cannot be determined because the City does not have data regarding property that would qualify for the exemption.

Officials from the **Newton County Health Department** state, unless States statute provides replacement funding, this would cause a negative fiscal impact to the Newton County Health Department. The Newton County Health Department receives approximately $475,000 per year from property taxes and this amount would decrease depending on the number of citizens who meet this exemption.

Officials from the **St. Louis County Department of Public** Health state their budget receives its funding from property taxes. Any reduction in property taxes would result in the department having to reduce or eliminate critical health services, such as primary health care, that their residents need and rely upon. The amount of revenue loss for years 2023, 2024 and 2025 is unknown.

Officials from the **Cape Girardeau County Assessor's Office** states the current and future fiscal impact of this proposed statute is unknowable at the present time, but could potentially be millions of dollars, if it were even possible to track and administrate. Recent census data indicates roughly 17% of the population of Cape Girardeau County is age 65 or older. The sheer number of potential parcels that would need to be individually identified, assessed, and tracked, multiple times, would be an impossibility for local assessment staffs. This would lead to inequity and discrimination among taxpayers. Any attempt at this sort of abatement should be administrated through a state income tax rebate program, rather than through manipulating assessed values. Assessment should only provide a market value basis for levy calculation, and manipulating individual properties would be a fiscal disaster that would be felt for many years.

Officials from the **Lincoln County Assessor's Office** and the **Phelps County Collector's Office** state there would be a fiscal impact.

Officials from **St. Charles Community College** state the college would experience a negative fiscal impact. The amount of the impact can't be calculated with the data available to the college.

Officials from **Hazelwood School District** state this could have a long-lasting detrimental financial impact on districts. It is impossible to know what that might be without running multiple scenarios, however it is estimated that more than 25% of properties are owned by constituents in the over 65 category.

Officials from the **City of Claycomo**, **Crawford County 911 Board** and **Pettis County Ambulance District** assume the proposal will have no fiscal impact on their organization.

Oversight notes, per the United States Census Bureau American Community Survey, 529,142 housing units were owned and occupied without a mortgage by someone age 65 and older in Missouri. Per the US Census Bureau, Oversight notes the median value of owner occupied units was $168,000 in 2019. Oversight estimates the median assessed value at $31,920 (19% of $168,000).

Oversight notes that Article III, Section 38(b) of the Missouri Constitution states there is an assessment of up to three cents on every one hundred dollars of valuation of taxable property that is collected for the Blind Pension Fund. Using the median assessed value estimated above, Oversight estimates a potential loss of revenue to the Blind Pension Fund of $5,067,064 (529,142 * ($31,920/100) * .03).

Oversight notes this proposal exempts local real property tax paid for certain taxpayers. Oversight is uncertain if this language would impact the Blind Pension Fund. Therefore, Oversight will show a range of impact from $0 (Blind Pension Fund tax levy is not considered a local property tax) to a loss in revenue of $5,067,064 to the Blind Pension Fund.

Oversight notes per the United States Census Bureau American Community Survey 529,142 housing units were owned and occupied by someone age 65 and older; and, the median real estate taxes paid for owner-occupied units in Missouri was $1,563 in 2019. Using the numbers above, Oversight estimates the loss of revenue to local political subdivisions at approximately $812,986,468 (529,142 * $1,563) - $5,067,064 less the estimated Blind Pension Tax)).

In addition, **Oversight** assumes there could be an unknown cost for implementation and tracking of eligible taxpayers. Oversight will show an unknown cost to local political subdivision.

Oversight notes the Property Tax Credit can be claimed by renters and individuals with encumbrances on their property; therefore, Oversight cannot estimate the number of individuals that would no longer be able to claim the Property Tax Credit and will show the savings to General Revenue as could exceed $30,401,458 (three year average) based on information provided by Department of Revenue.

FISCAL IMPACT – State Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
Transfer Out - Local Election Authorities the cost of the special election **if** called for by the Governor p. 3	$0 or ($7,000,000)	$0	$0
Savings - DOR - veterans no longer claiming the Senior Property Tax Credit p. 7-9	$0	$0 or Could exceed $30,401,458	$0 or Could exceed $30,401,458
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$0 or ($7,000,000)**	**$0 or Could exceed $30,401,458**	**$0 or Could exceed $30,401,458**
BLIND PENSION FUND			
Revenue Loss – DSS - from exempted property tax p. 9	$0	$0 or (Unknown, Could exceed $5,067,064)	$0 or (Unknown, Could exceed $5,067,064)
ESTIMATED NET EFFECT ON BLIND PENSION FUND	**$0**	**$0 or (Unknown, Could exceed $5,067,064)**	**$0 or (Unknown, Could exceed $5,067,064)**

FISCAL IMPACT – Local Government	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
Transfer In - to Local Election Authorities the cost of a special election	$0 or $7,000,000	$0	$0
Cost - Local Election Authorities the cost of the special election **if** called for by the Governor	$0 or ($7,000,000)	$0	$0
Revenue (Loss) - Locals senior taxpayers receiving a property tax exemption p. 9	$0	$0 or (Could exceed $812,986,468)	$0 or (Could exceed $812,986,468)
Costs - Collectors – to administer the changes	$0	$0 or (Unknown)	$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0**	**$0 or (Could exceed $812,986,468)**	**$0 or (Could exceed $812,986,468)**

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.

FISCAL DESCRIPTION

Upon voter approval, this proposed Constitutional amendment authorizes a tax exemption, starting in January 1, 2023, that would be phased-in at 20% increments over five years to equal 100% of the amount of real property tax paid on a senior citizen's primary residence where they have lived for two consecutive years.

To qualify, the senior citizen or his or her spouse must be 65 years of age or older.

If the eligible taxpayer dies, the surviving spouse will be allowed to receive the exemption until they obtain the age required for the exemption, provided they keep the same primary residence. No individual may claim this tax exemption with any other tax exemption, tax credit, or tax incentive with respect to any local property tax exempted.

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

JLH:LR:OD

SOURCES OF INFORMATION

Office of Administration - Budget and Planning
Department of Revenue
Department of Public Safety - Missouri Veterans Commission
Department of Social Services
Office of the Secretary of State
Office of the State Auditor
State Tax Commission
City of Kansas City
City of Springfield
City of Claycomo
Kansas City Health Department
Newton County Health Department
St. Louis County Health Department
Cape Girardeau County Assessor's Office
Lincoln County Assessor's Office
Phelps County Collector's Office
Crawford County 911 Board
Pettis County Ambulance District
Hazelwood School District
St. Charles Community College

Julie Morff
Director
April 20, 2022

Ross Strope
Assistant Director
April 20, 2022