



February 11, 2008

Missouri Real Property Tax: Important Information about a Critical Local Funding Source

Tom Kruckemeyer, Chief Economist
Gerald Holden, Policy Analyst Intern
Amy Blouin, Executive Director

Recent increases in local Property Tax Assessments in several Missouri Counties have prompted a series of bills to be filed in the Missouri Legislature this session. The bills range from creating uniform assessment procedures to placing new caps or restrictions on property tax revenue growth. As property taxes are a primary funder of local school districts and an array of county services, the discussion is likely to become one of the most significant issues undertaken by the Missouri General Assembly in 2008.

The following brief provides background information on Missouri's property tax system, compares recent trends in Missouri with historical data on the property tax, and **offers guidelines for prudent property tax policies.**

How the Real Property Tax System in Missouri Works

Missouri counties assess property tax on *real property* (including residential housing, agriculture land, etc.) as well as a *personal property tax* (*most commonly on cars*). The current legislative debate focuses on the *real property tax*.

The assessment process for determining real property tax liability varies somewhat among counties; however, generally the following occurs:

Every odd year (2003, 2005, 2007) the value of residential property is reassessed by a County Assessor who is either elected or appointed to the position. The process for determining the value of residential property varies widely in Missouri but generally the assessors depend on one or more factors to determine the value of residential property including:

- Actual residential sales figures,
- Appraisals, or

- Comparable property values.¹

The assessment process is used to determine the property tax liability, based on the approved local property tax rate. In addition, each jurisdiction has a tax ceiling that is based on the highest tax rate utilized in the county since 1980. This tax ceiling can be adjusted based on a vote of the people.²

Determining the Tax Rate and “Rollback” Requirements

In addition to restricting and/or requiring voter-approval of tax rate ceilings, Missouri Statutes and the Hancock Amendment of Missouri’s State Constitution further restrict the growth of property tax revenue.³ By law, annual growth in Missouri property tax revenue can not increase by more than the general inflation rate (based on the Consumer Price Index, averaging 2.5 percent) or by 5 percent, whichever is lower. The limitation does not apply to new construction, property improvements or bonded indebtedness.⁴

In reassessment years, when overall growth in property tax revenues exceeds this cap, counties are required to “rollback” their tax rates to an amount that falls under the lid. However, there is one primary exception: when the local tax rate falls under the local tax ceiling, the rollback is not required.⁵

What Caused the Recent Property Tax Increases in Some of Missouri’s Counties?

Sparking the debate on property tax in Missouri, and nationally, are the steep increases in home values brought about by the housing boom of 1998-2006. The housing boom resulted in historically atypical housing appreciation, perhaps the largest average annual home appreciation on record in the United States.⁶ Housing values grew at 6 percent per year, *after* inflation.⁷ Missouri was not immune to the housing boom. For example, data indicate that housing values in St. Louis rose by 34.4 percent from 1999-2004.⁸

The significant increases in housing values resulted in considerable property tax assessment increases, particularly between 2005 and 2007. Although the housing market began to decline by 2007, the reassessment process (on a two-year cycle) had not yet aligned with the home value increases. According to the Public Policy Research Center, in 2004 St. Louis County assessments

¹ Missouri General Assembly, Joint Committee on Tax Policy, Property Assessment and Taxation Final Report” June 2006, available at: <http://www.senate.mo.gov/taxpolicy/>

² Missouri Statute Citation: RSM 137-073 <http://www.moga.mo.gov/statutes/C100-199/1370000073.HTM>

³ Missouri State Constitution, Article X, Section 22

⁴ Center on Budget & Policy Priorities, “The problems with Property Tax Revenue Caps”, Karen Lyons and Iris Lav, June 21, 2007

⁵ Saint Louis County Department of Revenue, “Frequently Asked Questions Regarding Property Tax Bills”, available at <http://www.co.st-louis.mo.us/index.cfm?ViewMe=7313>

⁶ Federal Reserve Bank of Cleveland, “What’s Really Happening in Housing Markets?”, Morris Davis, Francois Ortalo-Magne and Peter Rupert, July 2007

⁷ IBID

⁸ Morris Davis and Michael Palumbo, “The Price of Residential Land Value in Large US Cities”, revised February 2007.

had reached just 80 percent of the actual value of the housing.⁹ **In some cases, assessments continued to increase, even after the housing value had stabilized, in order to synchronize with housing value increases from previous years.**

However, assessment increases varied greatly throughout the state. Ray County actually decreased in value by (-8.77 percent), while McDonald County increased by 80 percent between 2005 and 2007.¹⁰ Overall, one-third of Missouri's counties either decreased in value during this period or increased no more than the general inflationary rate:

- 3 counties declined in value;
- 30 counties increased between 0-5 percent;
- 49 counties increased between 5-10 percent; and
- 33 counties increased by more than 10 percent.¹¹

These disparate numbers reflect that not every county faced the same situation.

Comparing Missouri with other States and Historical Trends

When compared to other states, Missouri ranks relatively low on the amount of property tax collected per capita, at 37th in the nation.¹² According to the U.S. Census Bureau, Missouri's property tax averages \$748 per capita, while the national average in property tax collections per capita is \$1,048.¹³ The typical Missouri family is paying 31 percent less in property taxes than the average U.S. homeowner.

In addition, when comparing Missouri's property tax with other Midwest states, the Public Policy Research Center (PPRC) found that Missouri ranked 5th of 9 surrounding states. **Illinois, Iowa, Kansas and Nebraska all had higher property tax collections as a percent of income than Missouri.**¹⁴

More significantly, the PPRC analyzed historical data and compared Missouri's current property tax with historical trends. **The PPRC found that Missouri's property tax as a percent of personal income was the same today at 2.5 percent as it was in 1978.**¹⁵ Missouri's property tax has not increased dramatically by historical standards.

What the Property Tax Funds in Missouri Communities:

The property tax comprises nearly 60 percent of local government revenue in Missouri, with sales taxes making up the bulk of the remainder.¹⁶ It is a critical component of funding for an

⁹ Public Finance Initiative of the Public Policy Research Center at the University of Missouri – St. Louis, “Living with Our Property Tax: Facts, Issues, Options Policy Report #1”, October 31, 2007.

¹⁰ Missouri State Auditor, “Review of 2007 Property Tax Rates”, December 2007, Report #2007-91

¹¹ IBID

¹² Morgan Quitno State Rankings

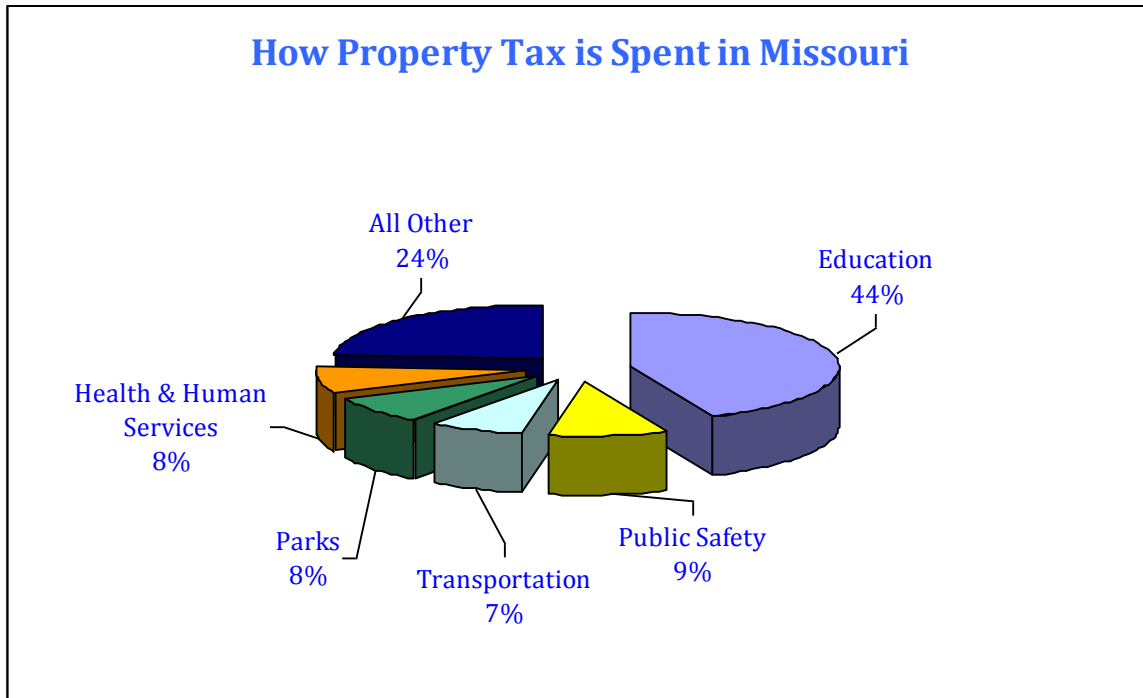
¹³ U.S. Census Bureau, 2004 data.

¹⁴ Public Policy Research Center, University of Missouri St. Louis, “Living with Our Property Tax: Facts, Issues and Options, Policy Report #1”, October 31, 2007.

¹⁵ IBID

¹⁶ US Census Bureau, Census of Governments.

array of local services including K-12 education, public safety, parks, health and human services and transportation. While each county spends their local revenues in varying manners and for varying priorities, the following chart indicates what services property taxes fund statewide:



Source: Missouri Budget Project Analysis of US Census Bureau data.

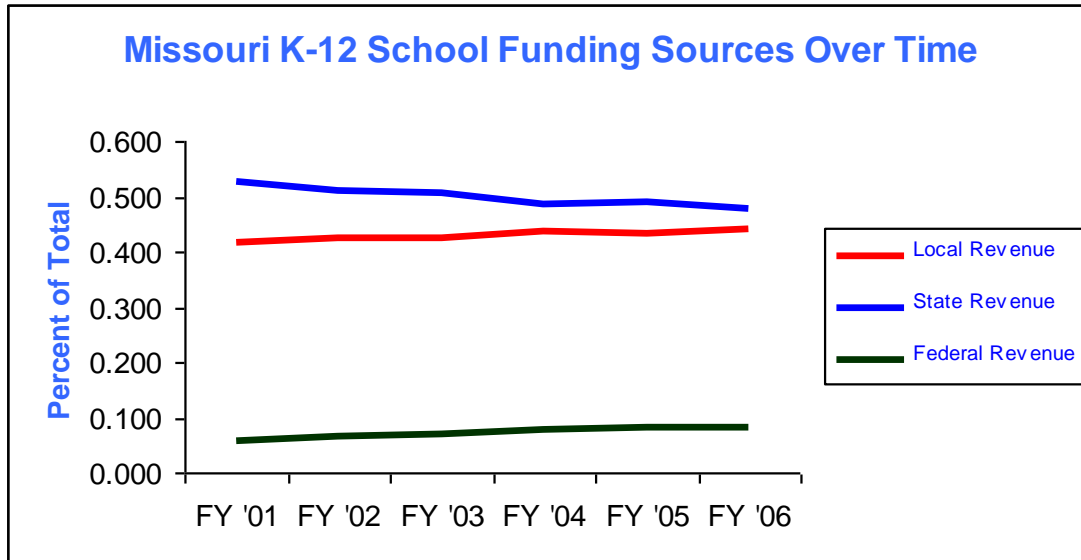
Property taxes play a central role in the ability of local governments to fund education, maintain roads, bridges and airports, provide fire and police protection, enforce building and safety codes, and maintain local parks. K-12 education receives 44 percent of property taxes statewide, benefiting from the largest proportion of the property tax spending in Missouri.

Comparing Property Tax with State Aid over Time:

Property tax is also the largest single local funding stream that contributes to education. The most recent data indicates that 79 percent of local funding available for schools comes from the property tax.¹⁷

As state funding for local school districts has become limited due to the state budget crisis, Missouri’s schools have become increasingly dependent on the local property tax to meet their budgetary needs. The following chart illustrates that the decline in state funds as a percentage of K-12 school funding over time has led to this greater reliance on the property tax.

¹⁷ Missouri National Education Association and the Missouri Department of Elementary and Secondary Education, 2005 data.



Source: Missouri Budget Project analysis of state data.

In 2001, state aid comprised 52.5 percent of K-12 funding. By 2006, this percentage had dropped to 47.8 percent. K-12 school districts have been forced to rely increasingly on locally generated revenues, and a greater use of the real property tax. **As a result, K-12 education is most significantly impacted when changes in the property tax occur.**

Principles for Missouri’s Property Tax Debate:

Due to the recent increases in property tax assessments in certain counties, the Missouri General Assembly is considering a variety of proposals designed to place additional statewide restrictions on property tax revenue growth. **Given the critical importance of the property tax in funding local services, this issue should be prudently considered and care should be taken not to endanger the adequate funding of local services over time.** The following overarching principles can be used to guide debate on this issue, and lead to a policy discussion that can benefit all Missourians:

The Property Tax is a Local Funding Mechanism and a Local Issue: The Missouri General Assembly must take care to acknowledge and respect that Property Tax is a local funding stream. Localities have varying rules regarding assessment procedures and tax rates. Additionally, the Counties have had very different experiences with the most recent property tax assessments. Some counties have declined in assessment valuation, others have increased. The property tax is not a “one size fits all” issue.

The voters in Missouri’s localities have previously approved a tax rate ceiling that is based on their knowledge of the funding levels that their communities need in order to adequately fund their priorities. The General Assembly should take care not to undermine the local control of what is essentially a local tax and revenue issue.

Missouri’s Property Tax is About the Same as it Always Has Been: Despite recent increases, the data indicate that Missouri’s property tax is about the same as a percent of personal income

as it was in 1978. It has remained relatively stable over the last thirty years. Additionally, Missouri's property tax is lower than 36 other states, and significantly below the national average.

Most of the recent increase can be attributed directly to the anomaly in the national housing market, which has had historic increases in the last decade, rather than a structural problem with Missouri's property tax system. As the housing market stabilizes, property values will stabilize as well, leading to stable property taxes. The state must take care not to overreact to an anomaly in housing trends, and not create permanent public policy based on that anomaly.

The Property Tax Funds Critical Services: The property tax is the largest form of local revenue in Missouri. As such, it funds a variety of critical local services from public safety to parks to education to transportation. Over time, these funding needs change as localities change. Locking in a statewide "one size fits all" formula could hamstring the ability of local communities to respond to their changing needs.

Missourians with Fixed and Limited Incomes Can be Protected without Hamstringing Localities: Missouri has the ability to protect low income families with fixed incomes, particularly people with disabilities and seniors during times of housing value fluctuation through the Circuit Breaker and Homestead Preservation Property Tax Credits. Enhancing these credits is one of the easiest and most affordable routes policymakers can utilize to protect those with fixed incomes, and ensure that Missourians can keep their homes.

The Mission of the Missouri Budget Project is to advance public policies that improve economic opportunities for all Missourians, particularly low and middle income families, by providing reliable and objective research, analysis and advocacy.