

State Tax Commission Annual Report – 2005

RECOMMENDATIONS TO THE MISSOURI LEGISLATURE SECTION 138.380(4), RSMO

Economic activity in the State of Missouri has been expanding since the end of the recession in late 2001; however, it was not until 2003 that sustained rapid growth was evident. The years 2004 and 2005 have reflected a strong economic period in Missouri. Economic fundamentals, such as low interest rates, healthy demand, low unemployment and strong consumer confidence have established a foundation for a strong real estate market as reflected in the assessment rolls in 2005. During the reassessment of 2005, assessed valuations for all classes of property increased by over 10% with residential properties leading the way, increasing by approximately 15%. A strong economy was reflected in a record amount of new construction being placed on the assessment rolls this past year. Over \$1.8 billion of new construction in real property resulted in an additional \$120 million being placed on the tax rolls. The Commission anticipates that the real estate market will remain generally strong in 2006 and in 2007 the market will be somewhat stabilized.

Property tax is a stable and reliable source of revenue for the public schools and local governments, bringing in over \$5.3 billion in 2005, approximately \$3.5 billion of which directly supports the public school system. If assessments are not maintained and the local tax base is eroded, the State would be pressured to make up the shortfall. The need for adequate school funding dictates a strong local financial foundation. It is essential that the tax base be maintained in order to provide a sufficient and reliable stream of revenue for all taxing entities, which in turn will alleviate the need for more state funding. The General Assembly, being cognizant of the importance of property taxes, directed the Joint Committee on Tax Policy to review the assessment process and to make recommendations to improve the efficiency and effectiveness of the system. The State Tax Commission and the Assessors' Association have been working closely with the Committee on Tax Policy and the Committee's recommendation is scheduled to be released by June 2006. The Commission applauds the General Assembly in recognizing the vital role property tax plays in the development of a comprehensive tax policy.

The General Assembly, during the 2005 session, passed legislation sponsored by Senator Greishiemer and Representative Sutherland addressing the assessment of tangible taxable business personal property. The General Assembly and Governor Blunt enacted this legislation, which provides uniform and equitable treatment of business personal property throughout the State.

Pursuant to Section 138.380(4), the State Tax Commission respectfully submits to the General Assembly recommendations designed to improve the assessment program in the State of Missouri.

1. **Certificate of Value:** The State Tax Commission cannot over-emphasize the need for sales disclosure in this State. We renew our appeal to the General Assembly to develop statutory language mandating the use of statewide certificates of value. Unequivocally the most important tool for the assessor is the ability to secure critical market data accurately reflecting market behavior. Sales information is the cornerstone of an assessment program designed to provide uniform and equitable assessments. Currently, 36 to 38 states have some form of mandatory sales disclosure. In the State of Missouri, the political subdivisions of St. Louis City, St. Louis County, Jackson County and St. Charles County have passed, through local ordinances, certificates of value. The certificates of value used in these jurisdictions represent roughly 50% of locally assessed real estate in the State of Missouri. Counties that do not possess certificate of value only receive a return of 15-25% on sales letters submitted and this low return is woefully inadequate to measure market behavior.

Assessment uniformity cannot be achieved on a consistent basis without the benefit of having accessibility to accurate sales data. The absence of certificate of value severely thwarts the attempt by assessors to facilitate uniform and equitable assessments throughout the State. Legislation regarding certificate of value has been introduced in the House of Representatives for the 2006 legislative session. The Commission respectfully requests that the General Assembly reconsider this issue and provide assessing officials of this State with an invaluable instrument to help preserve the integrity of the assessment program.

The State Tax Commission has experienced severe budget cuts over the past few years. The reductions have resulted in a significant decrease in field staffing. Passage of statewide certificate of value will provide critical sales data, which will pave the way for the implementation of a sales/appraisal ratio study that requires fewer personnel.

2. **Statewide Computer Assisted Mass Appraisal (CAMA) System:** The inception of mandated statewide reassessment in 1985 did not provide for a standard appraisal system to be utilized throughout the State. Consequently, a myriad of cost systems, market systems and supporting computer systems have been spawned in Missouri. There are 25 different vendors providing software for assessments and taxes and there are 18 vendors that provide automated cost approach software.

The Commission envisions a statewide, centrally located web-based CAMA system. This would provide the assessors access to a cost and market system which would reflect data indigenous to their county. This system would provide the technical and analytical support necessary for assessors to make sound appraisal conclusions. The State Tax Commission respectfully recommends that the General Assembly provide resources for the development and implementation of a statewide CAMA

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system.

3. Revised Agricultural Land Use Value Formula: The Missouri Constitution provides that agricultural and horticultural property in this State shall be assessed for tax purposes based on its productive capability. State statutes provide that the State Tax Commission shall promulgate rules establishing the productive value of the various grades of soils found in the State of Missouri. To perform this task, the Commission has been utilizing a formula for capitalizing agricultural income that was developed through the University of Missouri in 1982. This formula was based upon yields, expenses and technology which existed some twenty-five years ago. Several assumptions, which are incorporated in this formula, are no longer valid in current agricultural practices and methodologies.

The Commission is respectfully requesting the General Assembly provide resources to contract with the University of Missouri to revise the current formula or develop an entirely new formula which will accurately depict a true net operating income and appropriate capitalization rate to determine productive capability of agricultural land in this State.

4. Additional Resources: During the past four years, the State Tax Commission's operating budget has seen a reduction of 27% in its staffing complement and a 65% reduction in expense and equipment monies for an overall decrease of 30%. The remaining staffing complement and supporting operational monies makes it difficult to effectively monitor and provide oversight and assistance required to ensure uniformity and equity in this State. The State Tax Commission is respectfully requesting additional funding be provided to this agency to support the development of audit teams responsible for providing in-depth analysis to the Commission and assessors; provide resources for the hiring of a statewide education coordinator whose responsibility would be to develop an educational curriculum for assessors and their staffs for the completion of a professional designation; and, provide funds for a statistician who would provide statistical data and inferences measuring the quality and level of the assessment program.

The Commission is acutely aware of funding constraints facing Missouri. However, we are also aware that the State is enjoying a booming real estate market fueling dynamic market changes. As a result, it is more critical than ever that assessments be fair and accurate, that the positive points of the current program are maintained and that innovative ways to improve the system be implemented. The Commission believes that providing additional resources to this agency will be a significant step toward achieving these goals.

The State Tax Commission stands ready to provide assistance to the General Assembly in improving the ad valorem taxation policies of this State.

Respectfully submitted,
STATE TAX COMMISSION OF MISSOURI
Bruce E. Davis, Chairman
Sam D. Leake, Commissioner
Jennifer Tidwell, Commissioner