

State Tax Commission Annual Report – 2006

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

The Joint Committee on Tax Policy, chaired and vice-chaired by Representative Sutherland and Senator Gibbons, issued its findings on the assessment process and property taxation on June 30, 2006. The compilation was a result of eleven months of testimony and research culminating with a list of recommendations to improve the quality and efficiency of the property tax program in the State of Missouri. The committee issued nine recommendations of which eight have either been implemented or will appear in legislation formulated for the 2007 legislative session. The only recommendation not implemented or incorporated in legislation is included in recommendation number two pertaining to a statewide computer appraisal system. Included in the recommendations that have been implemented are the contracting with outside professional consultants to review the studies being conducted by the State Tax Commission to measure the quality and level of assessments in each county; and, contracting with the University of Missouri School of Agriculture to develop a revised agricultural land use value formula, which will accurately depict a true net operating income and appropriate capitalization rate to determine productive capability of agricultural land. These recommendations will be completed by the spring of 2007. During the 2007 legislative session, Senator Gibbons and Representative Sutherland will introduce legislation which would facilitate the implementation of additional recommendations made by the Joint Committee on Tax Policy and the State Tax Commission urges the General Assembly to adopt these legislative changes to improve Missouri's property tax system. The Commission looks forward to continuing to work closely with the Joint Committee on Tax Policy in the development of a comprehensive property tax policy.

Property tax continues to be a stable and reliable source of revenue for the public schools and local governments bringing in over \$5.5 billion in 2006, of which 65% goes to support the local public school system. New construction of real property continued to be strong in 2006, adding \$1.8 billion in assessed valuation of new real property to the tax rolls. This is the second consecutive year that new construction exceeded the \$1.8 billion mark providing an additional \$120 million in revenue.

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. According to a 2003 survey

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published by the International Association of Assessing Officers, there are thirty-six states that have some form of sales disclosure codified in their state statutes and only six states, including Missouri, do not have either a sales disclosure or transfer taxes from which sales prices may be derived. 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.

In its review of State Tax Commission ratio study procedures, the International Association of Assessing Officers (IAAO) recommends that the Commission and the Missouri Assessors' Association work with the General Assembly toward the implementation of the state mandated sales price disclosure in all counties. The IAAO study points out that the American Bar Association's Tax Section has also issued a recommendation on disclosure of essential data concerning real property transfers. The IAAO cites the IAAO Standard on Ratio Studies which states that assessing officers in jurisdictions without laws mandating full disclosure work under a severe handicap and should seek legislation providing for such disclosure.

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. The State Tax Commission has experienced budget cuts over the past few years resulting 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.

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.

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 twenty-five different vendors providing software for assessments and taxes and there are eighteen vendors that provide automated cost approach software. Currently, counties throughout Missouri use nine different cost appraisal systems; consequently, State Tax Commission personnel must develop an expertise of these different appraisal systems to assist counties as well as ensure that properties are assessed according to their true value in money as required by the Missouri Constitution.

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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. A statewide standardized appraisal system would ensure uniformity and efficiencies in the assessment process. The State Tax Commission respectfully recommends, as did the Joint Committee on Tax Policy, that the General Assembly provide resources for the development and implementation of a statewide CAMA system.

3. Assessors Education: The Joint Committee on Tax Policy recommended in their 2006 report that an educational curriculum be established under the purview of the State Tax Commission for the purpose of realizing a mass appraisal accreditation for assessors and their staff. Surrounding states have developed such programs and have reported that it enhances the professionalism and the expertise of assessment personnel in their states. Senator Gibbons will introduce legislation in 2007 to provide for an accreditation program for assessors in the State of Missouri. Implementation would require resources necessary for the hiring of a statewide education coordinator whose responsibility would be to develop an educational curriculum for assessors for the completion of a professional designation. The commission respectfully requests that the General Assembly adopt Senator Gibbon's legislation to provide education opportunities and professional designation to the assessors of this state.
4. Archaic Statutory Language: Portions of the existing property tax statutes are in need of revision and updating. There are provisions that are contradictory and/or archaic. There are sections that address many different subjects in subsections that could be divided into new sections. Some of the changes that should be made are not substantive changes, but would provide for more clarity in the statutes. Other changes would be substantive changes to the extent that existing procedures would be altered. The Joint Committee on Tax Policy included this recommendation in their findings published in 2006. Representative Sutherland will be offering legislation to clean up archaic language currently found in statutes. The Commission respectfully requests that the General Assembly adopt Representative Sutherland's legislation regarding the outdated language found in the statutes relating to property assessment and taxation.

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
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