



TESTIMONY

June 13, 2023

ST. LOUIS COUNTY COUNCIL BILL 114

By David Stokes

Testimony Before the St. Louis County Council

TO THE HONORABLE MEMBERS OF THIS COUNCIL

Thank you for the opportunity to testify. My name is David Stokes, and I am director of municipal policy at the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well-researched, free-market solutions to state and local policy issues. The ideas presented here are my own and are offered in consideration of proposals that will address the assessment and taxation of real and personal property in St. Louis County and all of Missouri.

According to Missouri law, residential property is one of three subclasses of real property and is defined as follows¹:

“Residential property”, all real property improved by a structure which is used or intended to be used for residential living by

human occupants, vacant land in connection with an airport, land used as a golf course, manufactured home parks, bed and breakfast inns in which the owner resides and uses as a primary residence with six or fewer rooms for rent, and time-share units as defined in section 407.600, except to the extent such units are actually rented and subject to sales tax under subdivision (6) of subsection 1 of section 144.020, but residential property shall not include other similar facilities used primarily for transient housing

In practical terms, this means that you pay annual property taxes on the house, apartment, or condominium you reside in. You may pay the tax at the end of the year directly to the county collector. You may pay it directly each month as part of your mortgage payment. Or, you may pay it indirectly each month as part of your rent to a landlord.

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Every two years, the value of all real property in Missouri is reassessed, and the value of your residence is supposed to be set at the market value of the land and buildings. A 19 percent assessment ratio is then applied to the market value, and your taxes are based on that final assessed value depending, of course, on the combined tax rate where you live or own property.

To calculate taxes owed on a \$100,000 home at an \$8.00 total combined tax rate per \$100 of assessed valuation:

1. $100,000 \times 0.19$ (19%) = \$19,000
2. $19,000 / 100 \times 8.00$ = \$1,520 owed in taxes

Bill 114 allows changes in St. Louis County property tax rules to freeze the real property taxes of the primary homes for senior citizens once they hit the eligibility rules. It does this by granting a tax credit to those seniors according to the rules set out in the bill. I do not doubt this bill is well-intended to help senior citizens stay in their homes as they age, but there are several major problems with this proposal and others like it, including similar proposals that were before the state legislature that would have frozen the assessed valuations of homes for senior citizens instead of the property taxes. For all of these strategies, the end results are similar and generally negative.

First, this proposal is harmful simply because it reduces the property tax base. Unless local governments cut services in response to the enactment of this plan and the granting of substantial property tax credits, it will almost certainly lead to higher tax rates on those properties that are not subject to the property freeze. This bill is every bit as much of a tax increase on non-senior citizens as it is tax relief for some senior citizens.

This plan is problematic because it favors older homeowners at the expense of new, younger homeowners. People who live in similarly valued homes with similar public services should pay similar property taxes. The young couple who has lived in their home for a year should not pay higher property taxes than their neighbor just because their neighbor has lived there for two decades. Similarly, this bill will lead to the troubling issue of people voting on property tax increases that they themselves are not subject to. The single best aspect of property taxation is that it focuses the costs of local services on the people

who pay for those services, unlike sales or earnings taxes that are exported in part to visitors, commuters, etc. Instituting a system where people vote on property taxes they won't pay breaks that beneficial connection.

There are several difficult questions about the enabling state legislation. What does it mean to be eligible for social security? Does that include social security spousal benefits?² Are teachers not eligible for this program? Many Missouri teachers are not in the social security program.³ The authorizing state legislation was done hastily and with limited public input. These are just two examples of flaws in the legislation.

California provides us with an example of the harms of these types of property tax subsidies with the famous Proposition 13, passed in 1970s, that limited the increases in property assessments and taxes. Proposition 13 has certainly had its intended effect of making it easier for California residents to stay in their own homes. However, it has also reduced mobility,⁴ dramatically increased alternative taxes,⁵ limited homeownership opportunities,⁶ and caused substantial tax disparities⁷ for similar properties receiving similar services. This is not what we need for St. Louis County.

While the changes enacted in California with Proposition 13 went further than Bill 114 authorizes for St. Louis County, Bill 114 would institute a very complex program for St. Louis County officials to administer, as evidenced by the difficulties that officials in Chicago had in administering a similar program there.⁸ While Bill 114 might ultimately help some St. Louis County senior citizens remain in their homes longer, it would alter our property tax and assessment system in a myriad of harmful and biased ways. Working with the state government to fully fund the existing property tax "circuit breaker" program to help low-income seniors stay in their homes through targeted tax refunds is a better way to achieve this goal.

Our property tax system works best when the assessments are accurate, the base is wide, and the rates are low. Bill 114 does not move us in that direction.

NOTES

1. RSMO 137.016(1)
2. U.S. Social Security Administration. Benefits for Spouses; <https://www.ssa.gov/oact/quickcalc/spouse.html>
3. Caplinger, Dan. “Why Does Social Security Leave Out Teachers in These 15 States?” *The Motley Fool*, October 8, 2018; <https://www.fool.com/retirement/2018/10/07/why-does-social-security-leave-out-teachers-in-the.aspx>.
4. Picker, Les. “The Lock-in Effect of California’s Proposition 13.” *NBER Digest* No. 4, April 2005; <https://www.nber.org/digest/apr05/lock-effect-californias-proposition-13#:~:text=Proposition%2013%2C%20adopted%20by%20California,year%20until%20the%20next%20sale>.
5. Friedersdorf, Conor. “After 40 years, Proposition 13’s failures are evident,” *Los Angeles Times*, June 4, 2018.
6. Editors, “Proposition 13 Protects Elderly Homeowners, but Hurts Young Families,” *The Times of San Diego*, May 26, 2018; <https://timesofsandiego.com/politics/2018/05/26/proposition-13-protects-elderly-homeowners-but-hurts-young-families>.
7. Legislative Analyst’s Office, “California’s Tax System: A Visual Guide,” page 23; <https://lao.ca.gov/reports/2018/3805/ca-tax-system-041218.pdf#page=23>.
8. Novak, Tim, et al, ‘Senior freeze’ tax program riddled with errors, lax oversight, *Sun-Times* finds,” *Chicago Sun-Times*, June 25, 2021; <https://chicago.suntimes.com/2021/6/25/22549463/senior-freeze-homestead-exemption-tax-program-errors-fritz-kaegi-barbara-kaplan-martin-israel>.



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