



TESTIMONY

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BOARD BILL 141

By David Stokes

Testimony Before the City of St. Louis Board of Aldermen

TO THE HONORABLE MEMBERS OF THIS BOARD

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 property in the City of St. Louis 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.

Board Bill 141 (BB 141) allows changes in City of St. Louis property tax rules to freeze the real property taxes of the primary homes for senior citizens once they meet the eligibility requirements. 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

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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.

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 for seniors, 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 bill is also flawed because by reducing the property tax base, it will make the City of St. Louis' government more dependent on the earnings tax for revenue. Most cities do not have local income taxes like the earnings tax. Even though St. Louis' one-percent tax rate may be lower than some other cities that do have them, St. Louis—perhaps surprisingly—is more dependent on the earnings tax as a source of tax revenue than almost any other large city. That is not a fiscally healthy position to be in. According to Mayor Jones herself:²

... the earnings tax's share of the revenue pie was "just unsustainable" and that "we need to see how we can diversify our sources of funds to make us not so dependent on the earnings tax should the voters ever decide that they don't want to pay it anymore."

Local income taxes are harmful for cities.³ They encourage movement of population, labor, and capital away from the cities that impose them to surrounding communities that do not levy such taxes.⁴ This effect has been documented by numerous studies.⁵ The earnings tax in general places a burden on businesses and workers and can contribute to business decisions to locate outside of the City of St. Louis.⁶

Furthermore, 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. It dramatically alters the voter calculation if seniors are voting on property tax increases they are immune to.

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 impeded economic growth by disincentivizing people from moving,⁷ dramatically increased alternative taxes,⁸ limited homeownership opportunities,⁹ and caused substantial tax disparities¹⁰ for similar properties receiving similar services. This is not what we need for the City of St. Louis.

While the changes enacted in California with Proposition 13 went further than BB 141 authorizes for the City of St. Louis, BB 141 would institute a very complex program for city officials to administer, as evidenced by the difficulties that officials in Chicago had in administering a similar program there.¹¹ While BB 141 might ultimately help some St. Louis 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. BB 141 does not move us in that direction. Furthermore, this bill increases the city's dependency on the earnings tax for revenue, when city officials should be doing all you can to move St. Louis in the opposite direction.

NOTES

1. RSMO 137.016(1)
2. Haslag, Joseph, “How an Earnings Tax Harms Cities Like St. Louis and Kansas City,” Show-Me Institute Policy Study No. 1, March 2006.
3. Phillips, Nicholas, “The City of St. Louis’ 1% earnings tax is at risk, but alternatives exist,” *St. Louis Magazine*, October 3, 2023.
4. Wall, Howard, “Updated Estimates of the Effects of Earnings Taxes on City Growth,” Show-Me Institute Essay, September 2014.
5. Glaeser, Edward, “Triumph of the City,” Penguin Books, 2011, p. 59.
6. Corianna Baier. “Local Income Taxes.” Show-Me Institute, 2020.
7. 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>.
8. Friedersdorf, Conor. “After 40 years, Proposition 13’s failures are evident,” *Los Angeles Times*, June 4, 2018.
9. 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>.
10. 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>.
11. 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>.



5297 Washington Place · Saint Louis, MO 63108 · 314-454-0647
1520 Clay Street · Suite B-6 · North Kansas City, MO 64116 · 816-561-1777

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