



TESTIMONY

October 2, 2024

BOARD BILL NO. 74

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 the 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 taxes for senior citizens in the City of St. Louis. **The senior property tax freeze in the city is harmful to the overall tax and revenue system for the city. This program should be ended.**

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 (in this case, the city 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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The state legislature passed SB 190 in 2023, allowing counties and the City of St. Louis to enact a property tax freeze for senior citizens who met the eligibility requirements if the local governments chose to. That legislation was harmful simply because it reduced the property tax base in the locations that enacted it. The City of St. Louis enacted this tax freeze in late 2023, and it went into effect in early 2024.

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 tax freeze. The choice to enact a senior citizen property tax freeze was every bit as much of a tax increase on non-senior citizens as it was a tax relief for some senior citizens.

This tax freeze is also problematic because this freeze favors older homeowners at the expense of 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 that won't affect them.

Finally, this property tax freeze will be especially harmful for the City of St. Louis because it will make the city more dependent on the earnings tax, not less. Even many who support the earnings tax can agree that the city's dependency on that one source of revenue is not ideal. City government should be seeking ways to reduce dependence on the earnings tax; not increasing it by limiting the tax base of better alternatives such as the property tax.

The City of St. Louis did make several changes to the property tax freeze that were, in a small way, beneficial. It

limited the value of the property eligible for the tax freeze to \$500,000, which would focus the purported benefits on lower-income residents. The city also went further and limited the eligible taxes in the program to those owed to the city itself. The city deserves credit for limiting the program to its own tax money and not trying to control the taxes owed to independent taxing districts such as the school district and the zoo-museum district.

In the most recent legislative session, state government passed SB 756, which made changes to last year's SB 190. SB 756 made several clarifications to the prior statutory language in SB 190 involving the age of eligibility, the treatment of new construction and improvements for homes with their taxes previously frozen, municipal annexations, and notification dates for taxing entities. Those clarifications were understandable, and BB 74 currently before the Board of Aldermen largely adopts these revisions. However, SB 756 also eliminated the allowance for the City of St. Louis and other counties to enact a limit on the value of the eligible property and to limit the freeze to city funds only. As much as I may have thought those changes were beneficial, they are no longer allowed by state law. BB 74 does not make those changes to the city's senior property tax freeze plan and is thus highly likely to be challenged in court.

California provides us with an example of the harm these types of property tax subsidies cause with the famous Proposition 13, passed in the 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,² dramatically increased alternative taxes (including, in this case, dependence on the earnings tax),³ limited homeownership opportunities,⁴ and caused substantial tax disparities⁵ for similar properties receiving similar services. This is not what we need for the City of St. Louis.

Our property tax system works best when the assessments are accurate, the base is wide, and the rates are low. The existing senior property tax program does not move the City of St. Louis in this direction. The attempts made by the city to limit the impact of the freeze to lower-income seniors and city revenues only were praiseworthy, but they are now disallowed. **Instead of accepting the state's**

dictate and expanding the senior tax freeze program, the city should end the entire senior property tax freeze program in St. Louis.

NOTES

1. RSMO 137.016(1)
2. 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>.
3. Friedersdorf, Conor. “After 40 years, Proposition 13’s failures are evident,” *Los Angeles Times*, June 4, 2018.
4. 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>.
5. 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>.



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