

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0860-01  
Bill No.: HB 287  
Subject: Agriculture and Animals; Property, Real and Personal; State Tax Commission;  
Taxation and Revenue - Property  
Type: Original  
Date: February 2, 2009

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Bill Summary: Would classify sawmills and planing mills as agricultural and horticultural property.

**FISCAL SUMMARY**

| <b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>                   |            |            |            |
|---|------------|------------|------------|
| FUND AFFECTED   | FY 2010    | FY 2011    | FY 2012    |
|   |            |            |            |
|   |            |            |            |
| <b>Total Estimated<br/>Net Effect on<br/>General Revenue<br/>Fund</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

| <b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>                      |            |                          |                          |
|---|------------|--------------------------|--------------------------|
| FUND AFFECTED   | FY 2010    | FY 2011                  | FY 2012                  |
| Blind Pension   | \$0        | (\$0 to \$20,313)        | (\$0 to \$20,313)        |
|   |            |                          |                          |
| <b>Total Estimated<br/>Net Effect on <u>Other</u><br/>State Funds</b> | <b>\$0</b> | <b>(\$0 to \$20,313)</b> | <b>(\$0 to \$20,313)</b> |

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

| <b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>                  |            |            |            |
|---|------------|------------|------------|
| FUND AFFECTED   | FY 2010    | FY 2011    | FY 2012    |
|   |            |            |            |
|   |            |            |            |
| <b>Total Estimated Net Effect on <u>All</u> Federal Funds</b> | <b>\$0</b> | <b>\$0</b> | <b>\$0</b> |

| <b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b> |          |          |          |
|---|----------|----------|----------|
| FUND AFFECTED   | FY 2010  | FY 2011  | FY 2012  |
|   |          |          |          |
|   |          |          |          |
| <b>Total Estimated Net Effect on FTE</b>                  | <b>0</b> | <b>0</b> | <b>0</b> |

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

| <b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b> |            |                             |                             |
|--|------------|-----------------------------|-----------------------------|
| FUND AFFECTED                              | FY 2010    | FY 2011                     | FY 2012                     |
| <b>Local Government</b>                    | <b>\$0</b> | <b>(\$0 to \$4,062,500)</b> | <b>(\$0 to \$4,062,500)</b> |

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## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume there would be no added cost to their organization as a result of this proposal. This proposal would reclassify sawmills and planing mills as agricultural property instead of commercial property. That would lower the assessed valuation on these properties from 32% to 12% of total value.

According to the US Census Bureau, County Business Patterns, there were 217 sawmills in Missouri in 2006, a total of 0.14% of all firms. BAP has no data on the value of sawmill properties. However, BAP notes that sawmills are a very small percentage of firms, and therefore of commercial property in Missouri. This proposal may lower local government and Blind Pension Fund revenues a small amount.

Officials from the **Department of Agriculture** assume this proposal would have no fiscal impact on their organization.

Officials from the **Department of Elementary and Secondary Education (DESE)** noted that this proposal would include saw mills and planing mills as agricultural property. DESE officials assume that they are currently assessed as industrial and commercial. This being the case there would be a reduction in the amount of property taxes paid by the owners of these mills. Agriculture being assessed at 12% and commercial and industrial at 33.3%. This could have a negative fiscal impact on schools and other taxing authorities but it would be impossible to calculate.

Officials from the **State Tax Commission (TAX)** assume this proposal would change the classification of sawmills and planing mills as defined in the U.S. Department of Labor's Standard Industrial Classification Manual from commercial property to agricultural property. Commercial property is assessed at 32 percent of its market value; whereas agricultural property is assessed at 12 percent of its agricultural production value. This classification change would result in a decrease of revenue for the local political subdivisions. The State Tax Commission is unable to project what the potential revenue loss would be as we do not know the number of properties that would qualify for this classification change or their respective values.

Officials from the **Office of the Secretary of State** and the **Department of Revenue** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from **Cass County**, **St. Louis County**, the **City of Centralia**, the **City of West Plains**, and the **Metropolitan Community Colleges** assume this proposal would have no fiscal impact on their organizations.

Officials from the **City of Cape Girardeau** provided a response to our request for information but did not include an estimate of the potential fiscal impact.

Officials from **Clinton County** stated that the proposal could generate additional revenue due to the establishment of new businesses; however, they also stated that there could be some legal challenges which could lead to legal costs up to \$1,000.

**Oversight** assumes that any legal challenges to the proposal would be insignificant and could be absorbed with existing resources.

Information provided by officials from the **Department of Conservation** (MDC) indicates there are approximately 450 sawmills in Missouri with an aggregate value of \$327 million.

**Oversight** is not able to determine the current appraised or assessed valuation for these properties and will use the estimated value information from MDC. Oversight has calculated an estimated maximum fiscal impact for the implementation of this proposal as follows.

- A. Assessed valuation of sawmills at current 32% ratio -  
 $(\$327,000,000 \times .32) = \$104,640,000.$
- B. Assessed valuation of sawmills at proposed 12% ratio -  
 $(\$327,000,000 \times .12) = \$39,240,000.$
- C. Reduction of assessed valuation -  
 $(\$104,640,000 - \$39,240,000) = \$65,400,000.$
- D. Reduction of local government tax revenue -  
 $(\$65,400,000 / \$100 \times \$6.25 \text{ per } \$100 \text{ average tax rate}) = \underline{\underline{\$4,062,500.}}$

ASSUMPTION (continued)

**Oversight** notes that the maximum impact we calculated would occur only if local governments are unable to increase their tax levy rate to recover the loss of assessed valuation associated with the reclassification of these properties from commercial to agricultural. Oversight has also reviewed the available information as to current levies and maximum authorized levies, and has noted that certain local governments would have the ability to increase their levy rates beyond their current level. Oversight does not have any information as to which local governments would have sawmills or planing mills, nor do we have the information that would be required to determine which local governments would be able to increase their levy rates to recover the loss of assessed valuation associated with the change in classification of the sawmills and planing mills. For the purposes of this fiscal note, Oversight will indicate a range of fiscal impact from \$0 to \$4,062,500. Oversight assumes that revenue for the Blind Pension Fund would be reduced by about one-half of one percent of the reduction in local government revenues, or a range from \$0 to \$20,313.

**Oversight** assumes this proposal would become effective in August 2009 after the completion of 2009 assessments and would become effective for 2010 assessments, resulting in a loss of revenue starting with FY 2011.

| <u>FISCAL IMPACT - State Government</u>                               | FY 2010<br>(10 Mo.) | FY 2011                  | FY 2012                  |
|---|---------------------|--------------------------|--------------------------|
| <b>BLIND PENSION FUND</b>   |                     |                          |                          |
| <u>Revenue reduction - change in<br/>classification of properties</u> | \$0                 | (\$0 to \$20,313)        | (\$0 to \$20,313)        |
| <b>ESTIMATED NET EFFECT ON<br/>BLIND PENSION FUND</b>                 | <u>\$0</u>          | <u>(\$0 to \$20,313)</u> | <u>(\$0 to \$20,313)</u> |

| <u>FISCAL IMPACT - Local Government</u>                              | FY 2010<br>(10 Mo.) | FY 2011                                | FY 2012                                |
|--|---------------------|--|--|
| <b>LOCAL GOVERNMENTS</b>   |                     |  |  |
| <u>Revenue reduction</u> - change in<br>classification of properties | <u>\$0</u>          | <u>(\$0 to<br/>\$4,062,500)</u>        | <u>(\$0 to<br/>\$4,062,500)</u>        |
| <b>ESTIMATED NET EFFECT ON<br/>LOCAL GOVERNMENTS</b>                 | <b><u>\$0</u></b>   | <b><u>(\$0 to<br/>\$4,062,500)</u></b> | <b><u>(\$0 to<br/>\$4,062,500)</u></b> |

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which operate sawmills and/or planing mills.

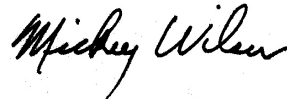
FISCAL DESCRIPTION

This proposal would change the assessment classification of sawmills and planing mills from commercial to agricultural, and reduce the assessed value of those properties from thirty-two percent of appraised value to twelve percent of appraised value.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State  
Office of Administration  
    Division of Budget and Planning  
Department of Agriculture  
Department of Conservation  
Department of Elementary and Secondary Education  
Department of Revenue  
State Tax Commission  
Cass County  
Clinton County  
St. Louis County  
City of Cape Girardeau  
City of Centralia  
City of West Plains  
Metropolitan Community Colleges



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Director  
February 2, 2009