

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4516-02  
Bill No.: HCS for HB 1907  
Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property, Real and Personal  
Type: Original  
Date: February 27, 2020

---

Bill Summary: This proposal modifies provisions relating to property tax.

**FISCAL SUMMARY**

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
<b>Total Estimated Net Effect on General Revenue</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Blind Pension Fund	\$0	(Unknown, Could exceed \$100,000)	(Unknown, Could exceed \$100,000)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>(Unknown, Could exceed \$100,000)</b>	<b>(Unknown, Could exceed \$100,000)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 8 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
<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 2021	FY 2022	FY 2023
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
<b>Local Government</b>	<b>\$0</b>	<b>(Unknown, Could exceed \$100,000)</b>	<b>(Unknown, Could exceed \$100,000)</b>

## **FISCAL ANALYSIS**

### **ASSUMPTION**

Officials from **State Tax Commission** assume this proposal reclassifies stationary property used for transportation or storage of liquid and gaseous products, including petroleum products, natural gas, water and sewage from real to tangible personal property ("only" propane and LP gas equipment are retained in 137.010(4) real property) and the provisions of law relating to depreciable tangible personal property would be applied to the above mentioned. This will have an unknown fiscal impact on counties, cities, school districts who rely on property taxes as revenue, as real property does not depreciate in the same manner as tangible personal property.

The act modifies the definition of original cost for the purposes of depreciable tangible personal property and places this property under a depreciation schedule provided in 137.122. This may result in unknown lower assessments and revenue for those counties, school districts etc with a tax situs for said property and equipment.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal may impact total state revenues (TSR). This proposal may impact the calculation under Article X, Section 18(e).

Section 137.010 would move stationary property used for the transportation or storage of liquid and gaseous products, except propane or LP gas equipment, from the classification of "real property" to the classification of "tangible personal property".

Section 137.122 details the depreciation schedule for business tangible personal property. In addition, this section would require that capitalized overhead expenses be removed from the "original cost" of personal property.

Subsection 137.122.5 would require all stationary property used for the transportation or storage of liquid and gaseous products, even such property put into place prior to January 2, 2006, to be assessed as provided under Section 137.122 beginning on January 1, 2021.

ASSUMPTION (continued)

If these provisions impact the assessed value of stationary property used for the transportation or storage of liquid and gaseous products, then this proposal may impact the Blind Pension Trust Fund as well as local property tax funds. Therefore, B&P estimates that this proposal may impact TSR and the Blind Pension Trust Fund.

Officials from the **Department of Revenue** and the **Department of Commerce and Insurance** each assume the proposal will have no fiscal impact on their respective organizations.

In response to a similar proposal, SB 785 (2020), officials from the **Department of Commerce and Insurance** stated changes in the amount of property taxes payable by natural gas utilities due to this reclassification may have an impact on customer rates of an unknown magnitude.

In response to a previous version, officials from the **Department of Social Services** and the **Office of the State Auditor** each assumed the proposal would have no fiscal impact on their respective organizations.

In response to a previous version, officials from **St. Louis County** assumed this legislation would have a negative fiscal impact. It would impact the way that Missouri American Water and Spire/Laclede Gas report their non-parcel real estate. In the past two years, that has been as follows:

MAWC	TAXES:	SURCHARGE:
2018	\$13,360,021.05	\$2,062,162.56
2019	\$14,583,931.32	\$2,314,595.90
SPIRE		
2018	\$7,637,913.03	\$1,172,518.90
2019	\$7,034,256.97	\$1,124,358.75

The foregoing would now all be assessed as "personal property", and would be depreciated using the MACRS Table, which is either a seven or fifteen year depreciation schedule. In the long term, this could have an important impact on revenue to St. Louis County and other counties.

In response to a previous version, officials from **Boone County** assumed this proposal would cost the taxing entities of Boone County, Missouri \$1,600,000 annually. The 2019 assessed value of Ameren's natural gas distribution system in Boone County defined as real property is \$43,317,691. If these assets had been classified as personal property, the assessed value would have been \$20,677,481. Real property is subject to a 0.61 surtax in Boone County. Personal

ASSUMPTION (continued)

property is not subject to the 0.61 surtax per one hundred dollars of assessed valuation.

In response to a previous version, officials from **Clay County** assumed this proposal would cost the county of Clay about  $\frac{1}{2}$  of the value for personal property or about \$194,500,000 of assessed value with the verbiage of Capital expenditures.

In response to a previous version, officials from the **St. Francis County Assessor's Office** stated that any kind of tank we have assessed as real estate could be changed to personal property. Some of the tanks we have date back to 1960. I feel it would be a hardship to the taxpayer for us to request the information needed to add them to personal property using the MACRS tables.

Based on an average tax levy of \$5.00 plus the additional surtax of 20 cents St. Francois County would collect an estimated \$14,628.12 with tanks assessed as real estate. If tanks are assessed as personal property the estimated collections would be \$3,344.35 based on an average levy of \$5.00 (with no surtax).

In response to a similar proposal, SB 785 (2020), officials from **Warren County Assessor's Office** assumed this proposal would result in a loss of revenues to the taxing jurisdictions of Warren County annually of \$490,000. The change in classification to personal property would result in 70 cents on every \$100 assessed (which equals an additional \$49,000) in lost revenue. There would be additional expense to manage the change of approximately \$5,000 per year in staff time.

**Oversight** assumes this proposal reclassifies certain property from real property to tangible personal property that is now subject to a depreciation schedule. This proposal also removes capital overhead expenses from the definition of original cost. Oversight assumes this proposal could lower assessed values and subsequent tax revenues. In addition, some counties indicated that personal property was not subject to a surtax which would also result in lower tax revenues.

However, **Oversight** notes local property tax revenues are designed to be revenue neutral from year to year. The tax levy is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth.

However, some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate (relative to current law) rather it would result in a loss of revenue.

Based on information provided by the Office of the State Auditor, **Oversight** notes there are over

ASSUMPTION (continued)

2,500 tax entities with 4,000 different tax rates. Of those entities, 3,155 tax rate ceilings are below the entities' statutory or voter approved maximum tax rate and 929 tax rate ceilings are at the entities' statutory or voter approved maximum rate. (These numbers do not include entities which use a multi-rate method and calculate a separate tax rate for each subclass of property.)

**Oversight** assumes this proposal could result in lower assessed values and subsequent tax revenues; therefore, Oversight will show an unknown negative impact to the Blind Pension Fund and local political subdivisions.

Although the effective date of this proposal, if passed, would be FY 2021 (August 2020), this would be midway through the assessment year; therefore, **Oversight** assumes this proposal would likely take effect the following calendar year, 2021, with impacted revenues occurring in FY 2022 (December 2021).

<u>FISCAL IMPACT - State Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<b>BLIND PENSION FUND</b>			
<u>Revenue (Loss)</u> - loss of tax revenue from real property now assessed as personal property and subject to a depreciation schedule §137.010 & 137.122	\$0	(Unknown, Could exceed \$100,000)	(Unknown, Could exceed \$100,000)
<u>Revenue (Loss)</u> - loss of tax revenue from excluding capital expenditures from the definition of original cost - §137.122	<u>\$0</u>	(Unknown, Could exceed <u>\$100,000</u> )	(Unknown, Could exceed <u>\$100,000</u> )
<b>ESTIMATED NET EFFECT ON THE BLIND PENSION FUND</b>	<b><u>\$0</u></b>	<b>(Unknown, Could exceed <u>\$100,000</u>)</b>	<b>(Unknown, Could exceed <u>\$100,000</u>)</b>

<u>FISCAL IMPACT - Local Government</u>	FY 2021 (10 Mo.)	FY 2022	FY 2023
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue (Loss)</u> - loss of tax revenue from real property now assessed as personal property and subject to a depreciation schedule §137.010 & 137.122	\$0	(Unknown, Could exceed \$100,000)	(Unknown, Could exceed \$100,000)
<u>Revenue (Loss)</u> - loss of tax revenue from excluding capital expenditures from the definition of original cost - §137.122	<u>\$0</u>	(Unknown, Could exceed <u>\$100,000</u> )	(Unknown, Could exceed <u>\$100,000</u> )
<b>ESTIMATED NET EFFECT ON THE LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0</u></b>	<b>(Unknown, Could exceed <u>\$100,000</u>)</b>	<b>(Unknown, Could exceed <u>\$100,000</u>)</b>

#### FISCAL IMPACT - Small Business

Oversight assumes there could be a fiscal impact to small businesses as a result of this proposal.

#### FISCAL DESCRIPTION

Currently, stationary property used for transportation or storage of liquid and gaseous products is defined as real property. This bill redefines these items as tangible personal property and their value subject to a standardized depreciation table, as defined in the bill.

Stationary property used for the transportation of Propane and LP gas would remain classified as real property.

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

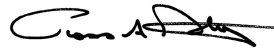
State Tax Commission  
 Office of Administration - Budget and Planning  
 Department of Revenue  
 Department of Social Services

SOURCES OF INFORMATION (continued)

Office of the State Auditor  
Department of Commerce and Insurance - Public Service Commission  
Warren County Assessor's Office  
Boone County Assessor's Office  
St. Francis County Assessor's Office  
Clay County  
St. Louis County



Julie Morff  
Director  
February 27, 2020



Ross Strobe  
Assistant Director  
February 27, 2020