

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0166H.01P
 Bill No.: Perfected HB 349
 Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Property, Real and Personal
 Type: Original
 Date: April 18, 2023

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

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Blind Pension Fund*	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown)	(Unknown)	(Unknown)

***Oversight** assumes the fiscal impact to the Blind Pension Fund could possibly reach the \$250,000 threshold

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Total Estimated Net Effect on FTE	0	0	0

- Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2024	FY 2025	FY 2026
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Sections 137.010 and 137.122 - Stationary Property Used for Transportation of Liquid and Gaseous Products

Officials from the **State Tax Commission (STC)** note this act 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 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. 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 **Office of Administration - Budget and Planning (B&P)** state Section 137.010 would move stationary property used for the transportation or storage of liquid and gaseous products (except petroleum products, propane, or LP gas equipment) from the classification of “real property” to the classification of “tangible personal property”. B&P notes that per Section 137.115, RSMo, real utility and commercial property is assessed at 32% of market value, while personal property is assessed at 33.3% of market value.

Section 137.122 details the depreciation schedule for business tangible personal property.

Subsection 137.122.5 would require all stationary property used for the transportation or storage of liquid and gaseous products (except petroleum products, propane, or LP gas equipment), even such property put into place prior to January 2, 2006, to be assessed as provided under Section 137.122.

If these provisions impact the assessed value of stationary property used for the transportation or storage of liquid and gaseous products (except petroleum products, propane, or LP gas equipment), 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 **City of Kansas City** and the **City of Springfield** each assume this proposal would have a negative fiscal impact on their respective cities of an indeterminate amount.

Officials from the **Boone County Assessor’s Office** state Boone County taxpayers would have to bear the burden of \$2.2 million in tax revenue annually as a result of this proposal. That \$2.2 million revenue shift would result in a tax reduction for two of the largest utility companies in Boone County and the State of Missouri. This bill would give huge tax breaks for these

companies, while at the same time they are constantly before the Public Service Commission asking for rate increases. Once granted, these rate increases put an additional burden of taxpayers of Boone County and the State of Missouri.

Officials from the **Lincoln County Assessor's Office** assume this proposal would result in a considerable loss in tax revenue from taxing entities by shifting the assessment from real estate to personal property class. The assessor was unable to determine a dollar amount for the loss in revenue.

Officials from the **Cape Girardeau County Assessor's Office** state after an analysis of the gas distribution accounts in Cape Girardeau County and the impact of HB 349 on those accounts, it is estimated that Cape Girardeau County could lose as much as \$29,000,000 in market value, or over \$9,000,000 in assessed valuation, should the provision pass that converts the assessment of stationary real property natural gas distribution assets into those assets being assessed as tangible personal property. A rough estimate of taxes lost to Cape Girardeau County, based on average total tax rate of the areas, plus commercial increment, would be \$500,000+ annually. The fiscal impact to the local taxing jurisdictions in the State of Missouri could be in the tens of millions of dollars, or more.

Officials from the **Gasconade County Assessor's Office** assume the proposal will have no fiscal impact on their organization.

Oversight assumes this proposal reclassifies certain property from real property to tangible personal property that is now subject to a depreciation schedule. Oversight assumes this proposal could lower assessed values and subsequently, 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.

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.

Oversight notes to reach a revenue impact of \$250,000 on the Blind Pension Fund would require a change in assessed value of approximately \$830,000,000. Based on information from the State Tax Commission's [Annual Report](#), Oversight notes the following assessed values by category:

Category	Commercial Real Property (2022 Assessed Value)
Electric Companies	\$2,987,597,074
Fluid Pipeline Companies	\$633,979,908
Natural Gas Pipeline Companies	\$190,436,180

Oversight is uncertain what proportion of assessed value would be reclassified under this proposal. In addition, these estimates do not include water or sewer companies. Oversight assumes it is possible the reclassification from real to tangible personal property could result in a loss to the Blind Pension Fund that could exceed \$250,000.

Oversight assumes this proposal would be applied as of January 1, 2023, with impacted revenues occurring in FY 2024 (December 2023).

Additionally, **Oversight** notes property tax revenues are generally 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. Therefore, Oversight assumes this proposal could impact property tax levies.

Oversight received a limited number of responses from local political subdivisions related to the fiscal impact of this proposal. Oversight has presented this fiscal note on the best current information available. Upon the receipt of additional responses, Oversight will review to determine if an updated fiscal note should be prepared and seek the necessary approval to publish a new fiscal note.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political subdivisions were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

Officials from the **Blackwater Reorganized Common Sewer District, Little Blue Valley Sewer District - 7B Sewer, Metropolitan St. Louis Sewer District - 7B Sewer, Metropolitan Sewer District of St. Louis - 7B Sewer, South River Drainage District - 7D Levee, Wayne County Pwsd #2 and the Hancock Street Light District** each assume the proposal will have no fiscal impact on their respective organizations.

Officials from the **Office of Administration, Department of Revenue, Missouri Department of Conservation, Missouri Department of Transportation, Department of Social Services, Department of Commerce and Insurance, Office of the Secretary of State, Joint Committee on Administrative Rules, and the Office of the State Auditor** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
BLIND PENSION FUND			
Revenue (Loss) - loss of tax revenue from real property now assessed as personal property and subject to a depreciation schedule - §137.010 and §137.122	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	(Unknown)	(Unknown)	(Unknown)

<u>FISCAL IMPACT – Local Government</u>	FY 2024 (10 Mo.)	FY 2025	FY 2026
LOCAL POLITICAL SUBDIVISION			
Revenue (Loss) - loss of tax revenue from real property now assessed as personal property and subject to a depreciation schedule - §137.010 and §137.122	(Unknown)	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	(Unknown)	(Unknown)	(Unknown)

FISCAL IMPACT – Small Business

Oversight assumes there could be a fiscal impact to small businesses if tax rates are adjusted relative to changes in assessed value.

FISCAL DESCRIPTION

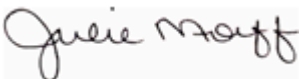
This bill reclassifies stationary property used for transportation or storage of liquid and gaseous products, including, but not limited to, natural gas that is not propane or LP gas, water, and sewage, from real property to tangible personal property (Section 137.010, RSMo).

Beginning January 1, 2023, the provisions of current law relating to depreciable tangible personal property will apply to all stationary property used for transportation or storage of liquid and gaseous products, including, but not limited to, natural gas that is not LP gas, water, and sewage that was or will be placed in service at any time (Section 137.122).

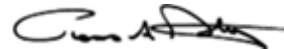
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration
Department of Revenue
Missouri Department of Conservation
Missouri Department of Transportation
Department of Social Services
Department of Commerce and Insurance
Office of the Secretary of State
Joint Committee on Administrative Rules
Office of the State Auditor
Blackwater Reorganized Common Sewer District
Little Blue Valley Sewer District - 7B Sewer
Metropolitan St. Louis Sewer District - 7B Sewer
Metropolitan Sewer District of St. Louis - 7B Sewer
South River Drainage District - 7D Levee
Wayne County Pwsd #2
Hancock Street Light District
City of Kansas City
City of Springfield
Boone County Assessor's Office
Lincoln County Assessor's
Cape Girardeau County Assessor's Office
Gasconade County Assessor's Office



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