

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2264H.02I
Bill No.: HB 1059
Subject: Utilities; Energy; Taxation and Revenue - General; Taxation and Revenue - Sales and Use; Public Service Commission; Department of Revenue
Type: Original
Date: March 4, 2025

Bill Summary: This proposal modifies provisions relating to utilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue*	Could exceed (\$576,815)	Could exceed (\$692,380)	Could exceed (\$705,280)
Total Estimated Net Effect on General Revenue	Could exceed (\$576,815)	Could exceed (\$692,380)	Could exceed (\$705,280)

*This proposal could increase utility costs to state departments and local governments if rate changes are made as a result of these new provisions. However, Oversight assumes this would be an indirect impact and therefore will not show the impact in the fiscal note.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Public Service Commission Fund (0607)	\$0 or up to (\$509,284)	\$0 or up to (\$595,040)	\$0 or up to (\$605,361)
Blind Pension Fund (0621)*	\$0	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 or up to (\$509,284)	Could exceed (\$595,040)	Could exceed (\$605,361)

***Oversight** assumes the application of the depreciation schedule to certain real property could result in a loss that could exceed \$250,000 based upon current assessed value amounts.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund (OPC)	3 FTE	3 FTE	3 FTE
Public Service Commission Fund (PSC)	5 FTE	5 FTE	5 FTE
Total Estimated Net Effect on FTE	8 FTE	8 FTE	8 FTE

☒ 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 2026	FY 2027	FY 2028
Local Government*	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

*This proposal could increase utility costs to state departments and local governments if rate changes are made as a result of these new provisions. However, Oversight assumes this would be an indirect impact and therefore will not show the impact in the fiscal note.

FISCAL ANALYSIS

ASSUMPTION

Section 137.077 - Assessment of Solar Energy Property

Officials from the **State Tax Commission** assume the proposed HB has an unknown fiscal impact. Since the Missouri State Supreme Court ruling removing the property tax exemption for solar systems not for resale, solar systems will be assessed under current statute. This bill would grandfather in current solar systems with an assessment that is de minimis and a capped tax liability of \$500 per megawatt for the land and equipment. The amount would be less than assessing the property under current statute.

In response to a similar proposal HB 1746 (2024), officials from the **Cape Girardeau County Assessor** assume Proposed 137.077 (2) would reduce the tax liability owed on a solar energy project to not exceed \$500 per megawatt. It is estimated, Cape Girardeau County could lose as much as \$12,000,000 in revenue over a 30-year period or \$400,000 annually, not including the commercial increment, that would otherwise have gone to the local political subdivisions. The fiscal impact to the local taxing jurisdictions within the State of Missouri could be tens of millions.

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

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum and some are at a fixed rate. 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 an actual loss of revenue.

Oversight notes this proposal would change the assessment method for all real and tangible personal property associated with a project that uses solar energy directly to generate electricity. Oversight assumes this provision could reduce the assessed value of solar energy properties relative to current law. Oversight doesn't have enough information to estimate a fiscal impact to the Blind Pension Fund or to local political subdivisions from these changes. Therefore, Oversight will show an unknown loss in property tax revenue beginning in FY 2027.

Section 137.122 - Depreciation of Real Property

Officials from the **State Tax Commission** have reviewed the proposed HB and determined the act retains stationary property used for transportation or storage of liquid and gaseous products, including petroleum products, natural gas, water and sewage as real property but applies the depreciation schedule from 137.122. This will have a minimal fiscal impact on counties, cities,

school districts who rely on property taxes as revenue. The act requires information relating to original cost for the purposes of assessing the lines be provided to the assessor. This will not have a fiscal impact on the State Tax commission.

In response to a similar proposal HB 1746 (2024), officials from the **Cape Girardeau County Assessor** assume Proposed 137.122 (7) would “apply depreciation tables used to assess tangible personal property to all stationary real property used for the transportation or storage of liquid and gaseous products. This would include water, sewage, and natural gas that is not propane or LP gas, but not including petroleum products.” After an analysis of the current gas distribution accounts, it is estimated Cape Girardeau County could lose between \$32,000,000 and \$44,000,000 in market value, or between \$10,000,000 and \$14,000,000 in assessed valuation. This range is to account for those assets which would be replaced as early as 10 years or go to the 20-year life span; this number does not account for assets whose lifespan would exceed the 20-year recovery period, or the true replacement schedules in place by Gas Distribution companies which is unknown in this scenario. This translates to an estimate of taxes lost, per this legislation to be between \$500,000 and \$750,000 annually. The fiscal impact to the local taxing jurisdictions across the State of Missouri could be in the tens of millions, or more.

Oversight assumes this proposal applies a depreciation schedule to real property. 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 \$8,333,333. Based on information from the State Tax Commission’s Annual [Report](#), Oversight notes the following assessed values by category:

Category	Commercial Real Property (2023 Assessed Value)
Electric Companies	\$3,248,159,360
Fluid Pipeline Companies	\$691,897,503
Natural Gas Pipeline Companies	\$ 189,046,007

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 the application of the depreciation schedule to real property could result in a loss to the Blind Pension Fund that could exceed \$250,000.

Oversight assumes this proposal could impact property tax levies.

Oversight notes while this provision begins January 1, 2026, property taxes are due December 31st of each tax year. Therefore, this provision will not impact revenues until FY27.

Sections 204.300 & 204.610 - Board Of Trustees Compensation

Oversight will show a range of \$0 (no additional compensation paid) to an unknown negative amount to local political subdivision for additional compensation paid to members as defined in these provisions.

Section 393.320 - Acquisitions of Small Water Utilities

Officials from the **Department of Commerce and Insurance – Public Service Commission (PSC)** note this will only allow six months for the Public Service Commission to make a decision on the application submitted by the public utility company. Currently, depending on the level of detail and the size of the acquisition, it can take nine to twelve months, or longer in some cases, to make a decision. This does not include the potential of having to go to hearing. The Public Service Commission assumes this legislation will require an additional 5 FTE to process the applications in a six-month time frame.

The **Office of Public Counsel (OPC)** anticipates it would need an increase in resources to respond to these changes in utility regulation. The changes proposed to 393.320.5(2) and the addition of a new 393.320.5(3), that would limit the PSC's ability to process an acquisition case to six months, with the potential for one additional 30-day extension, creates and expedited review and hearing schedule. This abbreviated timeframe would put a strain on the OPC's resources and threaten the OPC's ability to represent the public. In addition, the change to 393.1506 would make Confluence Rivers eligible for a new surcharge and would cause additional single-issue rate cases. These additional and frequent cases, where large sums are included in rates, require substantial time to review. Accordingly, the proposed changes to 393.320 and 393.1506 will result in a reduction in public representation absent an increase in OPC resources.

Oversight does not have any information to the contrary. Oversight assumes the PSC could absorb some of the costs related to this proposal as this is procedure the PSC already has in place, or there may not be many large water public utility companies that acquire smaller companies; therefore, Oversight will reflect the FTE cost as \$0 or Up To 5 FTE to the Public Service Commission Fund for the PSC and as \$0 or Up To 3 FTE to the General Revenue Fund for the OPC.

Oversight assumes this proposal modifies the definition of a “large water public utility” to include any public utility that regularly provides water service, sewer service or a combination of either to more than 8,000 customer connections and also specifies that a large water public utility may file with the PSC for a water and sewer infrastructure rate adjustment.

According to the PSC “FY 2023 PSC Annual Report”, this legislation would allow one current additional combination water and sewer company (Confluence Rivers Utility Operating Co.) to be defined as a “large water public utility”. Oversight assumes this newly defined company could file for a water and sewer infrastructure rate adjustment which could increase utility cost to local political subdivisions in which this company serves.

Oversight will reflect a range from \$0 (no utility will increase rates) to an unknown cost to local political subdivisions for potential higher utility costs.

Section 393.1030 - Renewable Energy Standards

Oversight assumes PSC could absorb the costs related to this provision. If multiple bills pass which require additional staffing and duties at substantial costs, PSC could request funding through the assessment process. Therefore, Oversight will reflect a zero impact in the fiscal note On the PSC for this section of the proposal

Section 393.1400 - Deferrals by Electrical Corporations

Oversight assumes this proposal could potentially increase utility costs for the Office of Administration as well as other state agencies and local governments. Oversight assumes this would be an indirect impact and therefore will not show the impact in the fiscal note.

Section 393.1506 - Water & Sewer Infrastructure Rate Adjustment (WSIRA)

Oversight assumes this proposal could potentially increase utility costs for local governments. Oversight assumes this would be an indirect impact and therefore will not show the impact in the fiscal note.

Section 393.1645 - Gas Customer Discounts

Officials from the **Office of Administration - Missouri Facilities Management Design & Construction (FMDC)** assume there would be a fiscal impact to the State's utility costs. However, without more information FMDC is unable to calculate the impact this would have on statewide utility costs for consolidated facilities managed by FMDC. FMDC estimates \$0 to positive unknown impact.

Oversight assumes this proposal could potentially reduce utility costs for the Office of Administration as well as other state agencies and local governments. Oversight assumes this would be an indirect impact and therefore will not show the impact in the fiscal note.

Section 393.1700 - Contracting Authority of The Public Service Commission

Oversight assumes the PSC could absorb the costs related to this provision. Therefore, Oversight will reflect a zero impact in the fiscal note.

Responses regarding the proposed legislation as a whole

Officials from the **Callaway County SB 40 Board** assume a reduction in funding from personal property and/or real property taxes would have significant consequences on critical supports for individuals with intellectual and developmental disabilities (IDD), limiting access to critical supports for those who rely on them. Senate Bill 40 organizations such as Callaway County Special Services, Callaway County, assess local needs and nurture a strong network of high-quality services that are essential to over 201 people with IDD and their families. These services, supported by personal property and/or real property taxes, include employment opportunities, inclusive community programs, and vital resources for families. Beyond supporting individuals with IDD, these programs enrich lives and strengthen the overall fabric of the community, fostering a more equitable and inclusive society.

The broader implications for individuals, families, and the community must be carefully considered before any changes to the funding mechanisms are implemented. If reductions in personal property and/or real property taxes are pursued, it is imperative to establish a sustainable and equitable mechanism to replace this funding. Doing so will ensure that Senate Bill 40 organizations can continue fulfilling their critical mission of supporting individuals with IDD and their families, while preserving the broader community benefits these services provide.

Officials from the **City of Kansas City** assume the proposed legislation has a negative fiscal impact of an indeterminate amount.

Officials from the **Metropolitan St. Louis Sewer District - 7B Sewer** assume the proposed legislation will impact MSD to the extent it changes the ad valorem tax revenue the district is able to collect.

Officials from **Department of Economic Development, Department of Social Services, Department of Natural Resources, Department of Revenue, Missouri Department of Transportation, Office of Administration, Missouri Department of Agriculture, Kansas City Police Dept., St. Louis County Police Dept, Morgan County Pwsd #2, South River Drainage District - 7D Levee, St. Charles County Pwsd #2 - 7A Water, Joint Committee on Public Employee Retirement, Mid-Continent Public Library, Osceola Water/Wastewater, Wayne County Pwsd #2, and the Price James Memorial Library** 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.

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.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
<u>Cost - §393.320.5</u>	\$0 or Up to....	\$0 or Up to....	\$0 or Up to....
Personal Service	(\$229,167)	(\$280,500)	(\$286,110)
Fringe Benefits	(\$131,330)	(\$159,800)	(\$162,049)
Equipment and Expense	(\$216,319)	(\$252,080)	(\$257,121)
<u>Total Cost – OPC</u>	(\$576,815)	(\$692,380)	(\$705,280)
FTE Change – OPC	0 or Up to 3 FTE	0 or Up to 3 FTE	0 or Up to 3 FTE
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Could exceed (\$576,815)</u>	<u>Could exceed (\$692,380)</u>	<u>Could exceed (\$705,280)</u>
Estimated Net FTE Change to the General Revenue Fund	0 or Up to 3 FTE	0 or Up to 3 FTE	0 or Up to 3 FTE
PUBLIC SERVICE COMMISSION FUND (0607)			
<u>Cost – PSC §393.320.5</u>	\$0 or Up to....	\$0 or Up to....	\$0 or Up to....
Personal Service	(\$285,798)	(\$349,817)	(\$356,814)
Fringe Benefits	(\$180,348)	(\$219,167)	(\$221,971)
Equipment and Expense	(\$43,138)	(\$26,056)	(\$26,577)
<u>Total Cost – PSC</u>	(\$509,284)	(\$595,040)	(\$605,361)
FTE Change – PSC	0 or Up to 5 FTE	0 or Up to 5 FTE	0 or Up to 5 FTE

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
ESTIMATED NET EFFECT TO THE PUBLIC SERVICE COMMISSION FUND (0607)	<u>\$0 or up to (\$509,284)</u>	<u>\$0 or up to (\$595,040)</u>	<u>\$0 or up to (\$605,361)</u>
Estimated Net FTE Change to the Public Service Commission Fund	0 or Up to 5 FTE	0 or Up to 5 FTE	0 or Up to 5 FTE
BLIND PENSION FUND			
<u>Revenue Loss</u> –§137.077 - change in assessment method for real or personal property associated with a solar energy project	\$0	(Unknown)	(Unknown)
<u>Revenue Loss</u> - §137.122 -loss of tax revenue from real property now assessed as personal property and subject to a depreciation schedule	\$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Reduction</u> –\$137.077 - change in assessment method for real or personal property associated with a solar energy project	\$0	(Unknown)	(Unknown)
<u>Revenue Reduction</u> - \$137.122 - loss of tax revenue from real property now assessed as personal property and subject to a depreciation schedule	\$0	(Unknown)	(Unknown)
<u>Costs</u> - \$204.300, \$204.610 - Potential additional compensation paid	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>	<u>\$0 to (Unknown)</u>

FISCAL IMPACT – Small Business

Certain utility companies could be impacted by this proposal. Some small businesses could have a change in utility costs as a result of this proposal.

FISCAL DESCRIPTION

This bill modifies the laws relating to utilities.

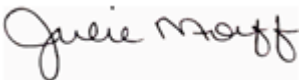
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Commerce and Insurance

Department of Economic Development

Department of Natural Resources
Department of Revenue
Department of Social Services
Missouri Department of Agriculture
Missouri Department of Transportation
Office of Administration
State Tax Commission
Joint Committee on Public Employee Retirement
City of Kansas City
Kansas City Police Dept.
St. Louis County Police Dept
Metropolitan St. Louis Sewer District - 7B Sewer
Morgan County Pwsd #2
South River Drainage District - 7D Levee
St. Charles County Pwsd #2 - 7A Water
Mid-Continent Public Library
Osceola Water/Wastewater
Wayne County Pwsd #2
Price James Memorial Library
Callaway County SB 40 Board



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