

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0247-13
Bill No.: HCS for SB 235
Subject: Manufactured Housing; Revenue Dept.; Property, Real and Personal; Liens; Mortgages and Deeds
Type: Original
Date: April 27, 2009

Bill Summary: Would allow for the conversion of manufactured homes from personal property to real property and the reconversion of manufactured homes from real property to personal property. Would classify sawmills and planing mills as agricultural and horticultural property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

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

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

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

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2010	FY 2011	FY 2012
Total Estimated Net Effect on FTE	0	0	0

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).

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

FISCAL ANALYSIS

ASSUMPTION

Conversion of Mobile Home from Personal Property to Real Property and from Real Property to Personal Property.

Officials from the **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

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.

BAP officials stated that this proposal would create a process by which manufactured homes may be converted, for taxation purposes, from personal property to real property, and then to be reconverted to personal property. BAP notes that, according to the State Tax Commission's website, properties are assessed at the following percentage of total value:

Real Property	19%
Personal Property, Mfg. Homes	19%
Personal Property, Motor Vehicles	33.3%

In general, manufactured homes are classified as motor vehicles. This proposal could therefore lower the assessed value of numerous properties across the state. BAP does not have the data to estimate the impact of this proposal on local funds. This proposal would not impact general revenues, but may impact the Blind Pension Fund by an unknown amount.

ASSUMPTION (continued)

In response to a similar proposal in the previous session (HB 1474 LR 3708-02) officials from the **Department of Elementary and Secondary Education** deferred to the Department of Revenue for an estimate of the fiscal impact of the proposal.

Officials from the **Department of Revenue** (DOR) assume this proposal would establish procedures and requirements that must be followed when converting a manufactured home to real property and back again.

DOR would be required to maintain a record of each affidavit of affixation, application for surrender, conformation of conversion, title or MSO, and affidavit of severance that is submitted. So long as the manufactured home is subject to any security interest perfected, DOR could not file an affidavit of affixation, nor cancel the manufacturer's certificate of origin, nor revoke the certificate of title. The validity and priority of any security interest perfected would continue.

DOR would be required to develop a new computer system to record applications for surrender, applications for confirmation of conversion, and applications for title accompanied by affidavit's of severance that are submitted to DOR and to issue the required acknowledgments. Additional data is required than what is required in the current title system, i.e, dimensions of the manufactured home.

DOR would be required to revise related policies and procedures, develop procedures and process an unknown number of applications for surrender of the manufacturer's statement of origin, title, and conformation of conversion (when no title or MSO is available) on manufactured homes converted to real property. DOR would enter the applications into a system, completing record searches, deleting the title record, and provide written acknowledgement of compliance to each party involved. If converted back, a new title must be issued.

DOR did not provide an estimate of the cost to implement this proposal; however, DOR officials stated that depending on volume a request for overtime or FTE and a request for expenses could be necessary.

ASSUMPTION (continued)

Oversight assumes that a limited number of manufactured homes would be converted from personal property to real estate or reconverted from real estate to personal property. Oversight also assumes that additional fees would be minimal and that DOR could implement the proposal with existing resources. If unanticipated expenses are incurred or if multiple proposals are implemented which result in an increased workload, resources could be requested through the budget process.

DOR officials also provided this estimate of the IT cost to implement the proposal.

Officials from the **Office of Administration, Information Technology Services Division** (ITSD/DOR) estimate the IT portion of this request could be implemented using one FTE existing CIT III for two months to develop a new computer system at an estimated cost of \$8,882. ITSD/DOR officials assume this proposal could be implemented with existing resources; however, if priorities shift additional FTE/overtime would be needed.

Officials from **Linn State Technical College**, the **Metropolitan Community Colleges, St. Louis County**, and the **City of Centralia** assume this proposal would have no fiscal impact to their organizations.

Officials from **Cass County** assume this proposal could have a positive fiscal impact to their organization if manufactured homes are converted from personal property to real property.

Oversight assumes this proposal would have no significant fiscal impact to the state or to local governments.

Classification of Sawmills and Planing Mills as Agricultural Property

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assumed there would be no added cost to their organization as a result of a similar proposal (HB 287, LR 860-01). 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.

ASSUMPTION (continued)

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** assumed a similar proposal (HB 287, LR 860-01) would have no fiscal impact on their organization.

Officials from the **Department of Elementary and Secondary Education (DESE)** noted that a similar proposal (HB 287, LR 860-01) 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)** assumed a similar proposal (HB 287, LR 860-01) 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** assumed a similar proposal (HB 287, LR 860-01) would have no fiscal impact on their organizations.

Officials from **Cass County, St. Louis County, the City of Centralia, the City of West Plains, and the Metropolitan Community Colleges** assumed a similar proposal (HB 287, LR 860-01) would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from the **City of Cape Girardeau** provided a response to our request for information regarding a similar proposal (HB 287, LR 860-01) but did not include an estimate of the potential fiscal impact.

Officials from **Clinton County** stated that a similar proposal (HB 287, LR 860-01) 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) for a similar proposal (HB 287, LR 860-01) indicated 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 -
($\$65,400,000 / \$100 \times \$6.25$ per \$100 average tax rate) = \$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	FY 2011	FY 2012
	(10 Mo.)		
BLIND PENSION FUND			
<u>Revenue reduction - change in classification of properties</u>	<u>\$0</u>	<u>\$0 to (\$20,313)</u>	<u>\$0 to (\$20,313)</u>
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>\$0</u>	<u>\$0 to (\$20,313)</u>	<u>\$0 to (\$20,313)</u>

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

FISCAL IMPACT - Small Business

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

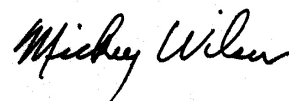
FISCAL DESCRIPTION

This proposal would allow for the conversion of manufactured homes from personal property to real property and the reconversion of manufactured homes from real property to personal property. This proposal would also 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
Linn State Technical College
Metropolitan Community College
Cass County
Clinton County
St. Louis County
City of Cape Girardeau
City of Centralia
City of West Plains



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