

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4946-01
Bill No.: Perfected SB 768
Subject: Taxation and Revenue - Property; Utilities
Type: Original
Date: March 8, 2018

Bill Summary: This proposal allows telephone companies to select an alternate method of property tax assessment.

FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|--|------------|------------|------------|
| FUND AFFECTED | FY 2019 | FY 2020 | FY 2021 |
| | | | |
| Total Estimated Net Effect on General Revenue | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|--|------------|-------------------------|-------------------------|
| FUND AFFECTED | FY 2019 | FY 2020 | FY 2021 |
| Blind Pension Fund | \$0 | (Up to \$91,235) | (Up to \$91,235) |
| | | | |
| Total Estimated Net Effect on Other State Funds | \$0 | (Up to \$91,235) | (Up to \$91,235) |

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 7 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2019 | FY 2020 | FY 2021 |
| | | | |
| | | | |
| Total Estimated Net Effect on <u>All</u> Federal Funds | \$0 | \$0 | \$0 |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|----------------|----------------|----------------|
| FUND AFFECTED | FY 2019 | FY 2020 | FY 2021 |
| | | | |
| | | | |
| Total Estimated Net Effect on FTE | 0 | 0 | 0 |

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

| ESTIMATED NET EFFECT ON LOCAL FUNDS | | | |
|--|----------------|----------------------------|----------------------------|
| FUND AFFECTED | FY 2019 | FY 2020 | FY 2021 |
| Local Government | \$0 | (Up to \$6,091,762) | (Up to \$6,091,762) |

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission (TAX)** estimate the fiscal impact to local taxing jurisdictions (cities, counties, fire districts, etc) will be \$3,045,880 to \$6,091,762. The proposal has provisions which provide that school districts are held harmless from the reductions in assessed valuations in telecommunications. School districts represent 66% of property tax liability. The State Tax Commission estimate is based on the following:

- Total Assessed Valuation of Telephone Companies valued by TAX: **\$608,233,531**
- Current Tax Dollars Generated (based on average levy of \$6.07): **\$36,919,775**
- Projected Range of Assessed Value if proposed legislation enacted: **\$304,116,765 - \$456,175,148**
- Fiscal Impact (Potential Revenue Loss) to the taxing districts in Missouri: **\$3,045,880- \$6,091,762**
- Fiscal Impact (Potential Revenue Loss) to the Blind Pension Fund (based on a tax levy of \$.03): **\$45,618-\$91,235**

The proposal requires the Commission to conduct a unit valuation methodology as is currently done and it also requires an appraisal utilizing a depreciation table for all properties with the exception of land and buildings. The language will cause additional work for the existing TAX staff of two.

Oversight assumes TAX is provided with core funding to handle a certain amount of activity each year. Oversight assumes TAX could absorb the costs related to this proposal

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal would allow telephone companies to change how their property taxes are assessed. B&P notes that this could negatively impact the Blind Pension fund. B&P defers to the State Tax Commission for more specific information on how funds could be impacted by this proposal.

This proposal will reduce TSR by an unknown negative amount. This proposal will impact the calculation under Article X, Section 18(e).

Senate Amendment 1 would require the State Tax Commission to report the difference in valuations for telephone companies that elect to change how their property taxes are assessed. B&P notes that this provision will not impact TSR or the calculation under Article X, Section 18(e).

ASSUMPTION (continued)

In response to a similar proposal (HCS/HB 1898) from 2015, officials from the **County of Boone** assumed this proposal would cost its taxing entities about \$232,000 annually. As an example, the tax on a single \$5,000,000 aircraft would be reduced from \$110,000 to \$16,500.

In response to a previous version, officials from the **University of Central Missouri, Wellsville-Middletown R-1 Schools, West Plains Public School District, the Kirksville R-III Public School District** and the **Summersville R-2 School District** each assumed the proposal will have a negative unknown fiscal impact on public schools.

Officials from the **Department of Revenue** assume the proposal will have no fiscal impact on their organization.

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

Officials from the **Jackson County Board of Election Commissioners, the City of Kansas City** and the **St. Louis County Board of Election Commissioners** each assume the proposal will have no fiscal impact on their respective organizations.

Oversight assumes there are many variables that could change the fiscal impact of this proposal, including:

- Not all local political subdivisions' property tax rates are at their ceiling. Therefore, if the assessed valuation of telephone companies is decreased as a result of this proposal, local political subdivisions may be able to increase their tax rate to make up the difference. In this scenario, all other property tax owners in the political subdivision would pay more in property tax to make up the decrease paid by telephone companies.
- If a local political subdivision's tax levy is already at the ceiling allowed, then the local political subdivision will realize a decrease in tax revenue if a telephone company within its political subdivision pays less property taxes as a result of this proposal.

ASSUMPTION (continued)

- If a school district’s tax levy is below its ceiling, but some other political subdivisions (county, library, fire protection, etc.) are already at their ceiling, then the property tax levy could be increased for some political subdivisions, but not for others, resulting in some realizing a loss in property taxes, and others not.
- If a school district is paid less in property tax from a telephone company as a result of this bill, that school district is then allowed to directly bill a fee to the telephone company for the difference, which may result in the school district being held harmless.
- Oversight has no information regarding in what school districts the \$608,233,531 assessed valuation of telephone companies is situated, and subsequently, if the school districts are at (or close to) their property tax levy ceilings. The loss estimate provided by the State Tax Commission is a state aggregate.

Because of the several unknown variables listed above, Oversight, will simply reflect a range of “Up to” the State Tax Commission’s largest estimated loss.

| <u>FISCAL IMPACT - State Government</u> | FY 2019 | FY 2020 | FY 2021 |
|---|-------------------|--------------------------------|--------------------------------|
| | (10 Mo.) | | |
| BLIND PENSION FUND | | | |
| <u>Loss - Reduction of Property Tax Collections</u> | <u>\$0</u> | <u>(Up to \$91,235)</u> | <u>(Up to \$91,235)</u> |
| ESTIMATED NET EFFECT ON THE BLIND PENSION FUND | <u>\$0</u> | <u>(Up to \$91,235)</u> | <u>(Up to \$91,235)</u> |

| <u>FISCAL IMPACT - Local Government</u> | FY 2019 (10 Mo.) | FY 2020 | FY 2021 |
|---|---------------------|---------------------------------------|---------------------------------------|
| LOCAL POLITICAL SUBDIVISIONS | | | |
| <u>Income</u> - School Districts - are allowed to bill telephone companies to recoup loss in property tax revenue resulting from bill | \$0 | \$0 or Unknown | \$0 or Unknown |
| <u>Loss</u> - Reduction of Property Tax Collections Loss | <u>\$0</u> | (Up to <u>\$6,091,762</u>) | (Up to <u>\$6,091,762</u>) |
| ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS | <u>\$0</u> | (Up to <u>\$6,091,762</u>) | (Up to <u>\$6,091,762</u>) |

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

Currently, a telephone company has their tangible personal property assessed in the same manner as a railroad. This bill allows a telephone company to annually elect to have their tangible personal property assessed in accordance with depreciation schedules. The proposal also allows school districts that realize a reduction in property taxes as a result of this change, to bill the telephone company for the reduction.

This proposal would require the State Tax Commission to report the difference in valuations for telephone companies that elect to change how their property taxes are assessed.

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 Economic Development
Department of Revenue
State Tax Commission
Office of the State Auditor
Office of Administration - Budget and Planning
Jackson County Board of Election Commissioners
St. Louis County Board of Election Commissioners
Kirksville R-III Schools
Summersville R-2 School District
West Plains Schools
University of Central Missouri
Wellsville-Middletown R-1 Schools
City of Kansas City

Ross Strope



Acting Director
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