

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4946-01
Bill No.: Truly Agreed To and Finally Passed SB 768
Subject: Taxation and Revenue - Property; Utilities
Type: Original
Date: June 13, 2018

Bill Summary: This proposal modifies provisions relating to taxation of telecommunication companies.

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 <u>Other</u> State Funds	\$0	(Up to \$91,235)	(Up to \$91,235)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 8 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

§138.445

This section 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).

§144.030 and §144.054 Sales Tax Exemption

Officials at the **B&P** assume this section would add telecommunications to the manufacturing sales tax exemption. B&P notes that this exemption was originally granted by the Missouri Supreme Court beginning in 2002. While the Missouri Supreme Court reversed that decision in the spring of 2016, statutory changes have prevented DOR from sending notice to taxpayers of the exemption change; therefore, DOR is not currently collecting these taxes. B&P estimates that this section will not impact TSR or the calculation under Article X, Section 18(e).

Officials at the **Department of Natural Resources (DNR)** assume Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Therefore, any additional sales and use tax exemptions could result in an unknown loss to the Parks and Soils Sales Tax Funds.

These funds have been used for the acquisition and development, maintenance, and operation of state parks and historic sites and to assist agricultural landowners through voluntary programs.

§153.030

Officials from the **Office of Administration - Budget and Planning (B&P)** assume the following:

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.

Officials at the **University of Missouri's Economic and Policy Analysis Research Center (EPARC)** assume if this proposal is enacted, it would allow telephone companies to select an alternate method of property tax assessment. At this time, the EPARC does not have the reliable

ASSUMPTION (continued)

data to estimate a fiscal impact.

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

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

ASSUMPTION (continued)

proposal.

- 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.

Bill As a Whole

Officials from the **Office of the Secretary of State (SOS)** assume 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 Secretary of State's Office 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations

ASSUMPTION (continued)

related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Elementary and Secondary Education**, the **Department of Revenue**, the **Department of Economic Development**, the **Office of the State Auditor**, the **Department of Transportation**, the **Office of the State Treasurer**, each assume the proposal will have no fiscal impact on their respective organizations.

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 **Kirkville 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.

In response to a previous version, officials from the **Jackson County Board of Election Commissioners**, the **City of Kansas City** and the **St. Louis County Board of Election Commissioners** each assumed the proposal will have no fiscal impact on their respective organizations.

<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. (§153.030)

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. (§138.445)

Sales Tax Exemption for Telecommunications - Beginning January 1, 2019, this bill changes the definitions for the state and local sales and use tax exemption for manufacturing by defining "product" to include telecommunication services and "manufacturing" to include electronic transfer of voices (§144.030 and §144.054).

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 the State Treasurer
Department of Elementary and Secondary Education
Department of Natural Resources
Department of Transportation
Office of the Secretary of State
University of Missouri's Economic and Policy Analysis Research Center
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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