

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4198S.01I
Bill No.: SB 944
Subject: Taxation and Revenue - Property
Type: Original
Date: February 22, 2022

Bill Summary: This proposal modifies provisions relating to the classification of certain property.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Blind Pension Fund	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** have reviewed the proposal and determined the 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 an 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 Total State Revenues and the Blind Pension Trust Fund.

Officials from the **Department of Commerce and Insurance, Office of the State Auditor, Department of Revenue** and the **Department of Social Services** 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.

In response to a similar proposal, HB 2208 (2022), officials from the **City of Kansas City** stated this legislation would have a negative fiscal impact of an indeterminable amount on Kansas City.

Officials from the **City of Springfield** anticipate a negative fiscal impact from this bill but cannot determine the amount of impact because the City does not receive detail of the classes of real property.

In response to a similar proposal, SB 785 (2020), officials from the **Department of Commerce and Insurance** stated changes in the amount of property taxes payable by natural gas utilities due to this reclassification may have an impact on customer rates of an unknown magnitude.

Oversight assumes any impact to utility rates as a result of property tax adjustments would be considered an indirect impact.

In response to a similar proposal, HB 757 (2021), officials from the **Boone County Assessor's Office** stated changing the definition of all stationary property used for the transportation of natural gas, water and sewage from real to personal property will cost the taxing entities of Boone County \$2 million annually. Tangible personal property includes things like automobiles and farm implements which are not permanently attached to the land. Natural gas lines, sewer and water lines are permanently attached to the land. Easement for Ameren and Missouri American Water Supply to deliver natural gas, water and treat waste water from our homes are part of the fee simple interest in real property. The value of these easement has increased in value over time similar to the value our homes. This proposal would shift the tax burden from monopolies to residential home owners.

In response to a similar proposal, HB 757 (2021), officials from the **Ste. Genevieve County Assessor's Office** stated Ste. Genevieve is one of 10 counties plus the City of St Louis that has gas pipe line assets for the MO Natural Gas/Laclede/Spire Company on the eastern side of the State of MO. Approximately .0745% of the Company's assets are in Ste. Genevieve County. The proposed language would shift a burden of \$18,300 annually to other County taxpayers. While that amount might not seem significant, please consider the impact what this could do to the other counties. They estimate a total loss for these 10 counties plus the City of St Louis could be approximately \$24,564,000.

This is an estimate for only one of the six Natural Gas Distribution Companies in the State of MO. This does not take into consideration Private Water Companies.

They have also calculated the impact this proposed language would have on the reclassification of Underground Tanks that store gas at local gas stations in Ste. Genevieve County. That loss in revenue/shift of burden to others would be approximately \$25,000 annually.

In response to a similar proposal, HB 1907 (2020), officials from **St. Louis County** assumed this legislation would have a negative fiscal impact. It would impact the way that Missouri American

Water and Spire/Laclede Gas report their non-parcel real estate. In the past two years, that has been as follows:

MAWC	TAXES:	SURCHARGE:
2018	\$13,360,021.05	\$2,062,162.56
2019	\$14,583,931.32	\$2,314,595.90
SPIRE		
2018	\$7,637,913.03	\$1,172,518.90
2019	\$7,034,256.97	\$1,124,358.75

The foregoing would now all be assessed as "personal property" and would be depreciated using the MACRS Table, which is either a seven or fifteen year depreciation schedule. In the long term, this could have an important impact on revenue to St. Louis County and other counties.

Oversight assumes this proposal reclassifies certain property from real property to tangible personal property that is now subject to a depreciation schedule. This proposal also removes capital overhead expenses from the definition of original cost. Oversight assumes this proposal could lower assessed values and subsequent tax revenues. In addition, some counties indicated that personal property was not subject to a surtax which would also result in lower 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 (2019 Assessed Value)
Electric Companies	\$2,732,804,915
Fluid Pipeline Companies	\$556,064,044
Natural Gas Pipeline Companies	\$188,139,697

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, 2022 with impacted revenues occurring in FY 2023 (December 2022).

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.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
BLIND PENSION FUND			
<u>Revenue (Loss)</u> - 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 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISION			
<u>Revenue (Loss)</u> - 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, 2022, 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).

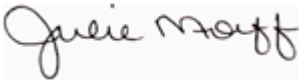
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

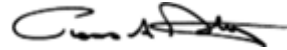
State Tax Commission
 Office of Administration - Budget and Planning
 Department of Commerce and Insurance
 Department of Social Services
 Office of the State Auditor

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City of Kansas City
City of Springfield
Boone County Assessor's Office
Ste. Genevieve County Assessor's Office
St. Louis County



Julie Morff
Director
February 22, 2022



Ross Strobe
Assistant Director
February 22, 2022