COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0120S.03I
Bill No.: SB 4
Subject: Federal - State Relations; Public Service Commission; Tax Credits; Utilities
Type: Original
Date: January 21, 2025

Bill Summary: This proposal modifies and creates new provisions relating to utilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue*	Less than ($712,978)	Less than ($854,496)	Less than ($870,323)
Total Estimated Net Effect on General Revenue	**Less than ($712,978)**	**Less than ($854,496)**	**Less than ($870,323)**

*This bill could change utility costs to state departments and local governments if rate changes are made as a result of these new standards.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Public Service Commission Fund (0607)	($310,819)	($363,448)	($369,770)
Blind Pension Fund (0621)*	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	**Could exceed ($310,819)**	**Could exceed ($363,448)**	**Could exceed ($369,770)**

***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.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on All 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)	4 FTE	4 FTE	4 FTE
Public Service Commission Fund (PSC)	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	**7 FTE**	**7 FTE**	**7 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**	**(Unknown)**	**(Unknown)**

*Oversight assumes the revenue loss from the reduction in assessed value would exceed the revenue gain from fines and penalties.

FISCAL ANALYSIS

ASSUMPTION

Section 137.122 - Stationary Property Used for Transportation of Liquid & Gaseous Products

Officials from the **State Tax Commission** have reviewed SB 4 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, and school districts who rely on property taxes as revenue. The act requires information relating to original cost for the purpose of assessing the lines be provided to the assessor. This will not have a fiscal impact on the State Tax commission.

Officials from **Office of Administration - Budget and Planning** assume this proposal would require the use of the tangible personal property depreciation table when determining the value of real property that is stationary and used to transport liquids or gases. This proposal would not apply to property used to transport or store propane, LP gas, or petroleum. This proposal would impact all other property including those used to transport and store water, sewage, and natural gas.

B&P notes that this proposal does not change the classification of such property - therefore, this proposal will not impact the assessment percentage. However, this proposal could impact the estimated market value (to which the assessment percentage is then applied). B&P further notes that the Blind Pension Trust fund levies a statewide property tax of $0.03 per $100 value on all property located within Missouri. Therefore, B&P estimates that this proposal could impact revenues to the Blind Pension Trust Fund if this proposal changes the estimated market value of qualifying property. This proposal may also impact local property tax revenues.

Officials from the **Cape Girardeau County Assessors Office** state that the proposed 137.122 (7. 1-3) 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 of 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 $33,000,000 and $46,000,000 in market value, or between $10,500,000 and $15,000,000 in assessed valuation. This range is to account for those assets which could be replaced as early as 10 years or go to the full 20-year life span. This translates to an estimate of taxes lost, per this legislation to be between $600,000 and $1,000,000 annually. The fiscal impact to the local taxing jurisdictions across the State of Missouri could be in the tens of millions, or more.

As stated, the true replacement schedules in place by Gas Distribution companies is unknown in this and so a 20-year recovery period is arbitrary in this scenario.

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 in a loss to the Blind Pension Fund that could exceed $250,000.

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 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.

Section 386.572 - Civil penalty for Violating Federally Mandated Natural Gas Safety Standards

Oversight assumes this proposal may increase the penalty for any person who violates federally mandated natural gas safety standards. According to the Department of Commerce and Insurance - Public Service Commission, there are typically 1-2 incidents each year. Secured penalties from these cases are distributed annually to the schools in Missouri.

Oversight notes that violations of section 386.572 could result in fines or penalties. Oversight also notes per Article IX Section 7 of the Missouri Constitution fines and penalties collected by counties are distributed to school districts. Fines varies widely from year to year and are distributed to the school district where the violation occurred. Oversight will reflect a positive fiscal impact of $0 to Unknown to local school districts. For simplicity, Oversight will not reflect the possibility that fine revenue paid to school districts may act as a subtraction in the foundation formula.

Oversight notes current maximums (Section 386.572) are not greater than $15,000 for each violation with a maximum not to exceed $150,000 for continuing violation. This proposal changes that to an amount not to exceed 49 CFR Part 190.223(a), which states:

§ 190.223 Maximum penalties.
Any person found to have violated a provision of 49 U.S.C. 60101, et seq., or any regulation in 49 CFR parts 190 through 199, or order issued pursuant to 49 U.S.C. 60101, et seq. or 49 CFR part 190, is subject to an administrative civil penalty not to exceed $272,926 for each violation for each day the violation continues, with a maximum administrative civil penalty not to exceed $2,729,245 for any related series of violations.

<u>Section 393.150 – Test Year for Rate Proceedings for Certain Utilities</u>

Officials from the **Department of Commerce and Insurance – Office of Public Council (OPC)** anticipates it would need an increase in resources to respond to these changes in utility regulation. Requiring the OPC to have the skill set to project future test year costs and expenses would require additional time and additional skill sets not present at the OPC. OPC anticipates it would need four additional full-time employees to process these abbreviated cases. The disciplines necessary to process these applications would require, at a minimum, that the OPC hire two auditors and engineers.

Oversight does not have any information to the contrary. Therefore, Oversight will show the fiscal impact (4 FTE) as estimated by the OPC to the General Revenue Fund.

Officials from **Department of Commerce and Insurance – Public Service Commission (PSC)** will need additional FTE to evaluate the projections used in calculating future test year expenses and plant. Utilities may apply an index such as the consumer price index or other indices to the historical costs incurred to predict the future test year costs. Currently Staff reviews historical costs only. The review of the projections will be an additional scope to Staff's audit that is not currently occurring and will take additional man-hours to complete. Staff will not only need to evaluate the appropriateness of using such index but will still need to review the historical costs.

Oversight does not have any information to the contrary. Therefore, Oversight will the show the fiscal impact (3 FTE) as estimated by the PSC to the Public Service Commission Fund (0607).

Section 393.1645 – Discounts by Gas Corporations

In response to similar legislation, SB 896 (2024), officials from the **Office of Administration - Missouri Facilities Management Design & Construction (FMDC)** assumed 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 does not have any information to the contrary. Therefore, Oversight will reflect a $0 to unknown savings in the fiscal note.

Bill as a whole

Officials from the **Office of Attorney General (AGO)** assume any potential litigation costs arising from this proposal can be absorbed with existing resources. The AGO may seek additional appropriations if the proposal results in a significant increase in litigation or investigation costs.

Oversight does not have any information to the contrary. Therefore, Oversight assumes the AGO will be able to perform any additional duties required by this proposal with current staff and resources and will reflect no fiscal impact to the AGO for fiscal note purposes.

Officials from the **Department of Natural Resources**, the **Department of Transportation**, and the **Office of Administration** each assume the proposal will have no fiscal impact on their respective organizations.

In response to similar legislation, SB 5 (2025), officials from the **Missouri Department of Conservation** assumed the proposal will have no fiscal impact on their organization.

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

Officials from **Metropolitan St. Louis Sewer District (MSD)** assume the proposed legislation will impact MSD to the extent it changes the ad valorem tax revenue they are able to collect.

Officials from the **Morgan County PWSD #2** assume this proposed legislation will have a fiscal impact.

Officials from the **South River Drainage District** and the **Wayne County PWSD** both assume the proposal will have no fiscal impact on their respective organizations.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political agencies 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.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State (SOS)** note 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 $5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with its core budget. Therefore, the SOS reserves 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.

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND			
Savings - §393.1645 - Office of Administration - Potential impact on electric utility costs - p. 6	$0 to Unknown	$0 to Unknown	$0 to Unknown
Cost – OPC §393.150 - p. 5			
Personal Service	($308,333)	($377,400)	($384,948)
Fringe Benefits	($176,220)	($214,430)	($217,455)
Equipment and Expense	($228,425)	($262,666)	($267,920)
Total Cost – OPC	($712,978)	($854,496)	($870,323)
FTE Change – OPC	4 FTE	4 FTE	4 FTE
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	**Less than ($712,978)**	**Less than ($854,496)**	**Less than ($870,323)**

FISCAL IMPACT – State Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
Estimated Net FTE Change to the General Revenue Fund	4 FTE	4 FTE	4 FTE
PUBLIC SERVICE COMMISSION (0607)			
Costs - PCS §393.150 - p. 5-6			
Personnel Service	($175,226)	($214,476)	($218,766)
Fringe Benefits	($109,711)	($133,338)	(135,057)
Expense & Equipment	($25,883)	($15,634)	($15,946)
Total Costs – PCS	($310,819)	($363,448)	($369,770)
FTE Change - PCS	3 FTE	3 FTE	3 FTE
ESTIMATED NET EFFECT ON PUBLIC SERVICE COMMISSION (0607)	**($310,819)**	**($363,448)**	**($369,770)**
Estimated Net FTE Change to the Public Service Commission Fund	3 FTE	3 FTE	3 FTE
BLIND PENSION FUND (0621)			
Revenue (Loss) - §137.122 - Loss of tax revenue from real property now assessed as personal property and subject to a depreciation schedule p.3-4	$0	(Unknown)	(Unknown)
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	**$0**	**(Unknown)**	**(Unknown)**

FISCAL IMPACT – Local Government	FY 2026 (10 Mo.)	FY 2027	FY 2028
LOCAL POLITICAL SUBDIVISIONS			
Revenue (Loss) - §137.122 - Loss of tax revenue from real property now assessed as personal property and subject to a depreciation schedule p. 3-4	$0	(Unknown)	(Unknown)
Revenue - School Districts - §386.572 - Increased penalty for violating federally mandated natural gas safety standards p.5	$0 to Unknown	$0 to Unknown	$0 to Unknown
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	**$0 to Unknown**	**(Unknown)**	**(Unknown)**

*Oversight assumes the revenue loss from the reduction in assessed value would exceed the revenue gain from fines and penalties.

FISCAL IMPACT – Small Business

Oversight assumes as a result of Section 137.122 there could be a fiscal impact to small businesses if tax rates are adjusted relative to changes in assessed value. In addition, small businesses could have a change in utility cost as a result of this proposal.

FISCAL DESCRIPTION

TAX ASSESSMENT OF STATIONARY PROPERTY (Section 137.122)

Beginning January 1, 2026, provisions relating to depreciable tangible personal property shall apply to all real property that is stationary and used for transportation or storage of liquid and gaseous products, including water, sewage, and certain natural gas.

To estimate the value of the real property under the act, each assessor shall value such property by applying a 20-year recovery period to the original cost of the property according to the 20-year depreciation schedule. The presumption as to the proper method of determining the assessed value of such property shall apply regardless of when such property was placed in service.

Each taxpayer owning property under the act shall provide to an assessor, no later than May 1st of the applicable tax year, the original cost and year placed in service of such property, as described in the act.

NATURAL GAS SAFETY STANDARDS (Section 386.572)

The act repeals certain provisions relating to maximum penalties for violations of federally mandated natural gas safety standards and provides that the maximum penalties shall not exceed an amount as determined by the Secretary of Transportation of the United States.

This provision has an emergency clause.

TEST YEAR FOR RATE PROCEEDINGS FOR CERTAIN UTILITIES (Section 393.150)

Under the act, beginning July 1, 2026, the test year for rate proceedings, if requested by certain utilities, shall be a future year consisting of the first 12 full calendar months after the operation of law date for schedules stating new base rates filed by the utilities, unless the Public Service Commission makes a determination that using a future test year is detrimental to the public interest. The projected total rate base at the end of the future test year shall be used to establish new base rates. New base rates shall not go into effect before the 1st day of the future test year.

Certain public utilities that elect to utilize a future test year within 45 days of the end of the future test year shall update their base rates as described in the act. The total ending rate base and expense items in the update shall not be greater than the total ending rate base and expense items approved by the Commission in its report and order establishing base rates. The Commission and parties to the case shall have 60 days to review the accuracy of the updated information provided by the utility. The Commission shall order the utility to file new tariff sheets reflecting the update, as described in the act.

Certain utilities that request a test year shall not recover the costs of any plant investments made during the test year period under certain mechanisms described in current law.

For utilities that elected to use a future test year, a reconciliation of the rate base at the end of the future test year shall be provided to the Commission within 45 days of the end of the future test year. If the actual rate base is less than the rate base used to set base rates in the prior general rate proceeding, the portion of the annual revenue requirement reflecting the rate base difference shall be returned to customers. The revenue requirement calculations are described in the act. The difference in revenue requirement shall be placed into a regulatory liability to be returned to customers in the next general rate proceeding with such regulatory liability to accrue carrying costs at the utility's weighted average cost of capital.

The Commission may consider any change in business risk to the utility resulting from implementation of the adjustment mechanism in setting the utility's allowed return in any rate proceeding, in addition to any other changes in business risk experienced by the utility.

For a utility that elected to use a future test year, a reconciliation of payroll expense, certain employee benefits, and rate case expense at the end of the future test year shall be provided to the Commission within 45 days of the end of the future test year. If the actual amounts are less than the amounts used to calculate the revenue requirement in the prior general rate proceeding, the difference shall be returned to customers. The difference in revenue requirement shall be placed into a regulatory liability to be returned to customers in the next general rate case with such regulatory liability to accrue carrying costs at the utility's weighted average cost of capital.

The act creates definitions for "base rates" and "revenue requirement".

DISCOUNTS BY GAS CORPORATIONS (Section 393.1645)

Under the act, subject to certain limitations, a new or an existing gas corporation account meeting the criteria under the act shall qualify for one of the following discounts:

(1) When the customer is a new customer and the new load is reasonably projected to be at least 270,000 CCF annually, the discount shall equal 25% and shall apply for four years; or

(2) When the customer is an existing customer and the new load is reasonably projected to be at least 135,000 CCF annually, the discount shall equal 25% and shall apply for four years.

To obtain one of the discounts, the customer’s load shall be incremental, net of any offsetting load reductions due to the termination of other accounts of the customer or an affiliate of the customer within twelve months prior to the commencement of service to the new load. The customer shall receive an economic development incentive from a governmental entity, as described in the act, in conjunction with the incremental load. The customer shall meet the criteria set forth in the gas corporation’s economic development rider tariff sheet, as approved by the Public Service Commission, that are not inconsistent with the act.

Unless otherwise provided by the gas corporation's tariff, the applicable discount shall be a percentage applied to all variable base-rate components of the bill. The discount shall be applied to such incremental load from the date when the meter has been permanently set until the date that such incremental load no longer meets the criteria required to qualify for the discount as determined under the act, or a maximum of four years. The gas corporation may include in its tariff additional or alternative terms and conditions relating to the discount, subject to approval of such terms and conditions by the Commission.

The customer, on forms supplied by the gas corporation, shall apply for the applicable discount as described in the act. If the incremental usage is not separately metered, the gas corporation’s determination of the incremental usage shall control. The gas corporation shall verify the customer's annual consumption to determine continued qualification for the discount as

described in the act. If in a subsequent general rate proceeding the Commission determines that application of a discounted rate is not adequate to cover the gas corporation’s variable cost to serve the accounts in question and provide a positive contribution to fixed costs, then the Commission shall reduce the discount for those accounts as necessary.
In each general rate proceeding concluded after August 28, 2025, the difference in revenues with the discounts and the revenues without such discounts shall not be imputed into the gas corporation's revenue requirement. Instead, such revenue requirement shall be set using the revenues by the discounted rates as described in the act. To qualify for discounted rates, customers shall meet the applicable criteria within 24 months of initially receiving discounts based on metering data for calendar months 13-24 and annually thereafter. If such data indicates that the customer did not meet the applicable criteria for any subsequent 12-month period, the customer shall no longer qualify for a discounted rate. Customer usage existing at the time the customer makes application for a discounted rate shall not constitute incremental usage. The discounted rates apply only for variable base-rate components, with charges or credits arising from any rate adjustment mechanism authorized by law to be applied to customers qualifying for discounted rates in the same manner as such rate adjustments would apply in the absence of these provisions. The act creates a definition for "variable base-rate components".

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

<u>SOURCES OF INFORMATION</u>

Attorney General’s Office
Office of Administration - Budget and Planning
Department of Commerce and Insurance
Department of Natural Resources
Missouri Department of Conservation
Missouri Department of Transportation
Office of Administration
Office of the Secretary of State
Joint Committee on Administrative Rules
State Tax Commission
Kansas City

Cape Girardeau County Assessor
Metropolitan St. Louis Sewer District - 7B Sewer
Morgan County PWSD #2
South River Drainage District - 7D Levee
Wayne County PWSD #2

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