

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0786S.02I
Bill No.: SB 196
Subject: Taxation and Revenue - Property
Type: Original
Date: March 2, 2021

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 2022	FY 2023	FY 2024
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Blind Pension Fund	\$0	\$0	(Unknown, Could exceed \$250,000)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	(Unknown, Could exceed \$250,000)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains NumberOfPages pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
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 2022	FY 2023	FY 2024
Local Government	\$0	\$0	(Unknown, Could be substantial)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** have reviewed SB 196 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 the **Office of Administration - Budget and Planning** assume this proposal may impact TSR. This proposal may impact the calculation under Article X, Section 18(e).

Section 137.010 would move stationary property used for the transportation or storage of liquid and gaseous products, except propane or LP gas equipment, from the classification of “real property” to the classification of “tangible personal property”.

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 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 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 TSR and the Blind Pension Trust Fund.

Officials from the **Department of Revenue, Department of Commerce and Insurance, Office of the State Auditor** and the **Department of Social Services** each assume the proposal will have no fiscal impact on their respective organizations.

In response to a similar proposal, SCS for 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.

Officials from the **Ste. Genevieve County Assessor's Office** state Ste. Genevieve County 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. I 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.

I 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.

Officials from the **Bollinger County Assessor's Office** assume the average loss in revenue to be \$15,131 or more due to reductions in valuations. Although Bollinger County is not significant, 3.5% percent of the other 25 counties that have Ameren; the potential lost revenues across the state could be \$4,323,128.

Officials from the **Boone County Assessor's Office** assume changing the definition of all stationary property used for transportation of natural gas 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 and sewer lines are permanently attached to the land. Easements for Ameren and Missouri American Water Supply to treat waste water and deliver natural gas to our homes are part of the fee simple interest in real property. The value of those easements has increased over time just like the land under our homes. It is counter intuitive to define natural gas and sewer lines as personal property. They are not moveable. They are permanently attached to the land. The easements required to provide service increase in value rather than decrease over time.

This legislation would violate the ad valorem principle of taxation. The Missouri State Tax Commission's definition of fair market value follows. True Value in Money is the price the property would bring after a reasonable exposure to the open market when offered for sale by a person who is willing but not obligated to purchase it but not forced to do so. Defining a natural gas distribution system as personal property subject to the MACRS depreciation schedule would not accurately reflect fair market value. Changing the definition from real to personal property would understate the fair market value of natural gas distribution systems and waste water treatment companies.

Monopolies are regulated by the Public Service Commission and they are guaranteed a constant rate of return for their investors. This legislation would result in a windfall of profits for monopolies like Ameren and Missouri American Water Supply.

Officials from **Cape Girardeau County Assessor's Office** state, after an analysis of the gas distribution accounts in Cape Girardeau County and the potential impact of SB 196 on those accounts, it is estimated that Cape Girardeau County could lose as much as \$29,000,000 in market value, or over \$9,000,000 in assessed valuation. A rough estimate of taxes lost based on average total tax rate of the areas, plus commercial surcharge, could be around \$500,000 annually.

Oversight assumes this proposal reclassifies certain property from real property to tangible personal property that is now subject to a depreciation schedule. 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. Alternatively, 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.

Based on information provided by the Office of the State Auditor, **Oversight** notes, in 2020, there were over 2,500 tax entities with 4,000 different tax rates. Of those entities, 2,980 tax rate ceilings were below the entities' statutory or voter approved maximum tax rate and 1,098 tax rate ceilings were at the entities' statutory or voter approved maximum rate. (These numbers do not include entities which use a multi-rate method and calculate a separate tax rate for each subclass of property.)

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. However, Oversight assumes some taxing entities will be able to increase the tax rate levied on other types of property to make-up for the lost revenue.

Oversight assumes this proposal could increase utility rates. However, Oversight assumes this is an indirect effect of this proposal and therefore will not show costs related to potential utility rate increases in this fiscal note.

Although the effective date of this proposal, if passed, would be FY 2022 (August 2021), the next re-assessment cycle would not occur until calendar year 2023; therefore, **Oversight** assumes this proposal would likely take effect calendar year 2023 with impacted revenues occurring in FY 2024 (December 2023).

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
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 & 137.122	\$0	\$0	(Unknown, Could exceed \$250,000)
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	\$0	\$0	(Unknown, Could exceed \$250,000)

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Loss</u> - loss of tax revenue from real property now assessed as personal property and subject to a depreciation schedule §137.010 & 137.122	\$0	\$0	(Unknown, Could be substantial)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0	\$0	(Unknown, Could be substantial)

FISCAL IMPACT – Small Business

Oversight assumes there could be a fiscal impact to small businesses as a result of this proposal.

FISCAL DESCRIPTION

This act reclassifies stationary property used for transportation or storage of liquid and gaseous products, including, but not limited to, petroleum products, natural gas that is not propane or LP gas, water, and sewage, from real property to tangible personal property. (Section 137.010)

Beginning January 1, 2021, the provisions of current law relating to depreciable tangible personal property shall apply to all stationary property used for transportation or storage of liquid

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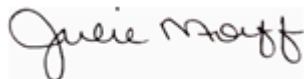
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and gaseous products, including, but not limited to, petroleum products, natural gas that is not LP gas, water, and sewage that was or will be placed in service at any time. (Section 137.122)

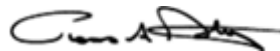
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Revenue
Department of Social Services
Department of Commerce and Insurance
Office of the State Auditor
Bollinger County Assessor's Office
Boone County Assessor's Office
Ste. Genevieve County Assessor's Office



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March 2, 2021



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