

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0329-02
Bill No.: Truly Agreed To and Finally Passed SS for SB 55
Subject: Agriculture and Animals; Property, Real and Personal; Taxation and Revenue -
 Property
Type: Original
Date: June 9, 2011

Bill Summary: This proposal would classify certain sawmills and planing mills as agricultural and horticultural property rather than commercial property, for property taxation purposes.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Blind Pension	\$0	\$0 to (\$20,143)	\$0 to (\$20,143)
Total Estimated Net Effect on Other State Funds	\$0	\$0 to (\$20,143)	\$0 to (\$20,143)

Numbers within parentheses: () indicate costs or losses.
 This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	\$0	\$0 to (\$4,028,600)	\$0 to (\$4,028,600)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume there would be no added cost to their organization as a result of this proposal.

This proposal would reclassify sawmills and planing mills as agricultural property instead of commercial property. This change would lower the assessed valuation on these properties from 32% to 12% of total value.

According to the US Census Bureau, County Business Patterns, there were 201 sawmills in Missouri in 2008, for a total of 0.13% of all firms.

BAP has no data on the value of sawmill properties. However, BAP notes that sawmills are a very small percentage of firms, and therefore of commercial property in Missouri. If levies remain unchanged, this proposal could lower local government and Blind Pension Fund revenues.

Officials from the **Office of the State Auditor**, the **Department of Conservation**, and the **Department of Revenue** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Department of Elementary and Secondary Education** (DESE) stated that this proposal would include saw mills and planing mills as agricultural property. DESE officials assume they are currently assessed as industrial and commercial, and this being the case there would be a reduction in the amount of property taxes paid by the owners of these mills since agriculture is assessed at 12% and commercial and industrial at 33.3%. This could have a negative fiscal impact on schools and other taxing authorities but it would be impossible to calculate.

Officials from the **State Tax Commission** assume this proposal would have no fiscal impact on their organization but could reduce local government revenues.

Officials from **St. Louis County** assume that the loss would not be great but could not provide an estimate of the fiscal impact since they cannot define their tax revenue to that level of detail.

ASSUMPTION (continued)

In response to a similar proposal in the previous session (HCS/HB 1204, LR 3244-02, 2010) officials from the **Department of Conservation** provided information which indicated there are approximately 450 sawmills in Missouri with an aggregate value of \$327 million.

Oversight does not have information regarding the current appraised or assessed valuation for sawmill properties, and will use the information provided by MDC. Oversight has calculated an estimated maximum fiscal impact for the implementation of this proposal as follows.

- A. Assessed valuation of sawmills at current 32% ratio -
($\$327,000,000 \times .32$) = \$104,640,000.
- B. Assessed valuation of sawmills at proposed 12% ratio -
($\$327,000,000 \times .12$) = \$39,240,000.
- C. Reduction of assessed valuation -
($\$104,640,000 - \$39,240,000$) = \$65,400,000.
- D. Reduction of local government tax revenue -
($\$65,400,000 / \$100 \times \$6.16$ per \$100 average tax rate) = \$4,028,600.

Oversight notes that the maximum calculated impact would occur only if local governments are unable to increase their tax levy rate to recover the loss of assessed valuation associated with the reclassification of these properties from commercial to agricultural. If local governments are able to increase their tax levy rate to recover the losses, this proposal would likely shift the property tax burden from sawmill owners to other commercial property owners, and to agricultural and residential property owners.

ASSUMPTION (continued)

Oversight has also reviewed the available information as to current levies and maximum authorized levies for local governments, and we noted that certain local governments have the ability to increase their levy rates beyond their current level. Oversight does not have any information as to which local governments would have sawmills or planing mills, nor do we have the information that would be required to determine which local governments would be able to increase their levy rates to recover the loss of assessed valuation associated with the change in classification of the sawmills and planing mills. For the purposes of this fiscal note, Oversight will indicate a range of fiscal impact from \$0 to the maximum calculated impact of \$4,028,600.

Oversight assumes that revenue for the Blind Pension Fund would be reduced by about one-half of one percent of the reduction in local government revenues, or a range from \$0 to \$20,143.

Finally, Oversight assumes this proposal would become effective in August 2011 after the completion of 2011 assessments and would become effective with assessments for 2012 property taxes due in December 2012 (FY 2013), resulting in a loss of revenue starting with FY 2013.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
 BLIND PENSION FUND			
<u>Revenue reduction - change in classification of properties</u>	<u>\$0</u>	<u>\$0 to (\$20,143)</u>	<u>\$0 to (\$20,143)</u>
 ESTIMATED NET EFFECT ON BLIND PENSION FUND	 <u>\$0</u>	 <u>\$0 to (\$20,143)</u>	 <u>\$0 to (\$20,143)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
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LOCAL GOVERNMENTS

<u>Revenue reduction</u> - change in classification of properties	<u>\$0</u>	<u>\$0 to</u> <u>(\$4,028,600)</u>	<u>\$0 to</u> <u>(\$4,028,600)</u>
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ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>\$0</u>	<u>\$0 to</u> <u>(\$4,028,600)</u>	<u>\$0 to</u> <u>(\$4,028,600)</u>
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FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to small businesses which own or operate sawmills or planing mills.

FISCAL DESCRIPTION

This proposal would change the assessment classification of sawmills and planing mills from commercial to agricultural, and reduce the assessed value of those properties from thirty-two percent of appraised value to twelve percent of appraised value.

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

Office of the State Auditor
Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Elementary and Secondary Education
Department of Revenue
State Tax Commission
St. Louis County



Mickey Wilson, CPA
Director
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