

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0313-03
Bill No.: HCS for HB 220
Subject: Taxation and Revenue - General
Type: Original
Date: February 25, 2019

Bill Summary: This proposal modifies provisions relating to the taxation of property involved in producing wind energy.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Blind Pension (0621)	\$0 to Unknown or (Unknown)	\$0 to Unknown or (Unknown)	\$0 to Unknown or (Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 to Unknown or (Unknown)	\$0 to Unknown or (Unknown)	\$0 to Unknown or (Unknown)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Local Government	\$0 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)	\$0 or Unknown to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this proposal may impact Total State Revenue and the calculation under Article X, Section 18(e).

Section 153.030.6

This section states that if any public utility company has ownership of any property used to generate electricity from wind, that property shall be taxed under Chapter 137. Beginning January 1, 2020, any public utility company assessed under Chapter 153 that has a wind energy project shall be assessed using the following methodology:

- Wind turbines shall be assessed a tax of \$5,900 per megawatt which shall be paid to the local assessor.
- Land and buildings shall be assessed under Section 137.076.
- All other business or personal property shall be assessed using Section 137.122.

B&P notes that currently, public utilities are assessed property taxes under Chapter 153. In the event that a public utility were to purchase or build wind turbines they would instead be assessed under Chapter 137. B&P further notes that the two methods are not identical and may have a significant positive or negative impact on local revenues depending on the physical location of the public utility's property. Further, if the assessed value for property (other than wind turbines) of such public utility were to increase or decrease when changing from the assessment method in Chapter 153 to Chapter 137, there would be a corresponding increase or decrease to the Blind Pension Trust Fund. Therefore, B&P estimates that this section could have an unknown impact to the Blind Pension Trust Fund (0621).

Section 153.034.3

This proposal would require any real or tangible personal property associated with the production of wind energy to be valued and taxed under the provisions of Chapter 137 and not under Section 153.030.2.

This section defines wind farms as "local property". B&P notes that currently all wind farms are assessed and taxed as local property. Therefore, B&P estimates that this section will not impact Total State Revenue or the Blind Pension Trust Fund.

Officials at the **State Tax Commission (STC)** assume under current law, property of electric companies (centrally assessed) are categorized as "local property" or "distributable property" for ad valorem purposes. The value of all distributable property is apportioned to the local taxing

ASSUMPTION (continued)

districts according to the number of miles of line in the counties and districts. All taxing districts with miles of line in a county that a centrally assessed company serves, shares the ad valorem valuation of all distributable property. In contrast, the value of local property stays with the local taxing districts in which the property is located. Distributable property currently includes property used in the generation and distribution of electric power.

This proposal would provide a methodology of valuation of the entire public utility and does not limit the valuation to the wind farm facility. The bill specifies a tax liability amount of \$5,900 per megawatt. Depending on the current tax liability some wind farm facilities could be taxed at a higher tax liability if owned by a public utility. The bill would propose that all windfarms would be assessed locally and would therefore benefit local political subdivisions in which the property is located, and those taxing jurisdictions would receive an unknown potential positive fiscal impact.

School and other taxing jurisdictions that may have miles of line within their district that currently receive valuation as part of their tax base would potentially lose valuation. The STC has reviewed this proposal and determined an unknown fiscal impact, in part because some of the proposed changes made in §153.030 subsection 6 does not define which assessment authority values the entirety of a public utility company and who is responsible for allocating the valuation of the public utility throughout the entire state. Under this proposal a local assessment authority (County Assessor) would be responsible for assessing ALL the assets of a public utility, even assets not associated with the wind farm in their county, if a public utility owns a wind farm facility.

The State Tax Commission stated there are currently four counties that have privately held wind farms. They are Atchison, DeKalb, Gentry and Nodaway counties. Currently, there are no publicly held wind farms. Those 6 privately held wind farms have 630 turbines. The wind farms are assessed based on the number of turbines they own.

Officials at the **Department of Revenue** and the **Office of the State Auditor** each assume there is no fiscal impact from this proposal.

Oversight notes that the Department of Revenue and the Office of the State Auditor have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for them.

ASSUMPTION (continued)

Officials at the **Grundy County Assessor's Office** stated this would be a loss to all taxing jurisdictions in the County. Real property and state assessed railroad and utilities combine for a loss of \$9,622,270.

In response to the previous version, officials at the **Fairfax R-III School District** assumed this would increase revenue by \$638,875 annually. The district is a rural district in Northwest MO that has experienced financial difficulties for the past decade. While our supportive community recently passed a significant tax levy increase, that additional revenue will not cover all of the Board Priorities regarding facilities and fiscal expenditures. In our district, the revenue gleaned from local tax payments of future wind farms will ensure the financial, physical, and educational success and solidity of our district. Without it we will continue to heavily prioritize allowing through necessity, many initiatives which would be good for our students and community, to be placed on a semi-permanent delay. This revenue represents the financial and educational health of our district.

In response to the previous version, officials at **Atchison County** assumed revenue from wind energy has had a huge economic impact on the County. This proposal is estimated to increase revenue by \$1,600,000 annually. Currently all the wind farms in the County are developer owned. When the ownership moves from a developer to a public owned utility the turbines become state assessed which removes over 90% of the revenue from the County.

In response to the previous version, officials at the **Monroe County Assessor Office** assumed this would not impact them as they do not have any tangible personal property in their county associated with wind energy.

In response to the previous version, officials at the **Tarkio R-I School District** assumed this would impact the district by \$36,133 annually from the Brickyard Hill wind project. The Outlaw Wind Project is expected to begin construction in 2019, and the projected financial impact of this project is estimated at \$720,000 per year for the district.

In response to the previous version, officials at the **Rock Port R-II School District** assumed this would increase revenue by \$416,583 annually.

Officials at the **Stoddard County Assessor's Office** do not believe they would be impacted as they have no wind energy assets.

ASSUMPTION (continued)

Oversight notes this proposal outlines how a public utility that owns a wind farm (or farms) will be assessed in the future. Oversight notes that under current law should a public utility purchase or construct a wind farm that wind farm would be centrally assessed just as the public utility is assessed. However, this proposal would allow a publicly owned utility to purchase or construct a wind farm that would be treated like the privately owned wind farms and all their property to be locally assessed. A locally assessed utility and wind farm keeps the property tax in the city, county and school district of the utility or wind farm. A centrally assessed wind farm would distribute property tax to additional cities, counties and school districts in the area of the state the wind farm is located and lines reached. Oversight will show that the locally assessed political subdivisions will gain revenue while the centrally assessed political subdivisions will lose revenue.

Oversight notes that if a public utility were to obtain a wind farm and become locally assessed instead of centrally assessed the Blind Pension Fund may be positively or negatively impacted depending on the tax rate. Oversight will show a \$0 to Unknown positive or negative impact to the Fund.

Oversight notes this proposal is changing the assessment of wind farms that may or may not be constructed or purchased in the future. Therefore, Oversight will show the impact as \$0 (none built or purchased) to Unknown positive or negative depending on the tax rate for local political subdivisions.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other county assessors were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
BLIND PENSION FUND			
<u>Revenue</u> - STC §153.030 change in assessment of public utility that owns a wind farm	<u>\$0 to Unknown</u> or (Unknown)	<u>\$0 to Unknown</u> or (Unknown)	<u>\$0 to Unknown</u> or (Unknown)
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	<u>\$0 to Unknown</u> or (Unknown)	<u>\$0 to Unknown</u> or (Unknown)	<u>\$0 to Unknown</u> or (Unknown)

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue</u> - Locally Assessed Political Subdivisions from change to wind farm assessments §153.034	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Loss</u> - Centrally Assessed Political Subdivisions from change to wind farm assessments §153.034	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION	<u>\$0 or Unknown</u> to (Unknown)	<u>\$0 or Unknown</u> to (Unknown)	<u>\$0 or Unknown</u> to (Unknown)

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

This bill specifies that any real or tangible personal property associated with a project which uses wind energy directly to generate electricity shall continue to be valued and taxed by any state and local authorities having jurisdiction.

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

Atchison County
Department of Revenue
Fairfax R-III School District
Grundy County Assessor
Monroe County Assessor
Office of Administration
 Division of Budget and Planning
Office of the State Auditor
Rock Port R-II School District
State Tax Commission
Stoddard County Assessor
Tarkio R-I School District



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February 25, 2019

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