COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

# FISCAL NOTE

L.R. No.: 4435-02
Bill No.: HB 1914
Subject: Taxation and Revenue - General; Energy; Department of Revenue; Taxation and Revenue - Property; Property, Real and Personal
Type: Original
Date: February 4, 2020

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Bill Summary: This proposal modifies provisions relating to taxation of certain energy-producing property.

## FISCAL SUMMARY

| ESTIMATED NET EFFECT ON GENERAL REVENUE FUND | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2021 | FY 2022 | FY 2023 |
| | | | |
| **Total Estimated Net Effect on General Revenue** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON OTHER STATE FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2021 | FY 2022 | FY 2023 |
| Blind Pension Fund (0621) | $0 | (Unknown) to Unknown | (Unknown) to Unknown |
| | | | |
| **Total Estimated Net Effect on Other State Funds** | **$0** | **(Unknown) to Unknown** | **(Unknown) to Unknown** |

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 12 pages.

| ESTIMATED NET EFFECT ON FEDERAL FUNDS | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2021 | FY 2022 | FY 2023 |
| | | | |
| | | | |
| **Total Estimated Net Effect on All Federal Funds** | **$0** | **$0** | **$0** |

| ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE) | | | |
|---|---|---|---|
| FUND AFFECTED | FY 2021 | FY 2022 | FY 2023 |
| | | | |
| | | | |
| **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 2021 | FY 2022 | FY 2023 |
| **Local Government** | **$0** | **(Unknown) to Unknown** | **(Unknown) to Unknown** |

## FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission** have reviewed this proposal and determined an unknown positive fiscal impact on taxing jurisdictions that receive revenue from property taxes such as school districts, counties, cities, fire districts in which a solar energy producing property has tax situs. Currently, said energy producing property is exempt, the legislation proposes a system of taxation for this property with a depreciation schedule. The positive fiscal impact for local taxing jurisdictions would be dependent on the size and location of the solar energy producing property.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume this proposal will increase TSR by an unknown amount. This proposal will impact the calculation under Article X, Section 18(e).

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

Upon further inquiry, officials from **Department of Commerce and Insurance** assume this proposal, if it becomes law, could increase utility customer rates because the additional property tax expense levied on solar energy systems owned by a utility will normally be included in customer rates. The amount of the rate impact is dependent upon whether the electric utility in question owns any solar generation resources and, if so, in what quantity.

**Oversight** notes the Ameren O'Fallon Renewable Energy Center is the largest investor owned universal solar facility in Missouri with a generation capacity of 5.7 megawatts.

**Oversight** assumes this proposal could increase utility costs for the Office of Administration as well as other state agencies and for local governments. 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.

ASSUMPTION (continued)

Sections 137.100 Solar Energy Exemption Removed

Officials from **B&P** assume section 137.100 would remove the property tax exemption for solar energy projects which are not held for resale. B&P notes that the Blind Pension Trust Fund levies $0.03 per $100 valuation property tax. Assuming such property does exist, this provision will increase TSR and the Blind Pension Trust Fund. This provision will also increase local taxes in jurisdictions with solar energy projects.

Officials from the **City of Springfield** assume there is likely to be a positive fiscal impact to the City of Springfield, MO due to taxation of solar energy systems, but the impact is unquantifiable without knowledge of the number and value of solar energy systems in the City.

Officials from **Warren County Assessor's Office** assume current statutes and case law set out by the Missouri State Tax Commission exempt all Solar Farms in the State of Missouri, which is unconstitutional. This provision would correct the constitutionality.

In Warren County alone, there is a new Solar Farm slated to start development in 2020, assuming the project is completed by the end of 2020, the new solar energy project will be on the Assessment tax rolls in 2021. The Solar Farm is the largest of its kind to date in the State of Missouri with 3,000 plus acres. Under this proposed legislation, the owner/developer will pay property taxes on the standardized formula set out within the provision. In 2021, alone this is over $300,000,000 in ASSESSED VALUE increase added to the local tax rolls under this provision, which will generate about $21 million in property tax dollars for the local school, fire, ambulance, library, county, road and bridge, and state for 2021.

Officials from **St. Francois County** state the county has one Solar Farm located on 22.14 acres. The county attempted to assess the equipment as personal property with an assessed value of $657,810 in 2017. This value would have been an additional $34,529.76 for local school, city, jr College, county, road and bridge, state, handicapped service, and senior center. However, an appeal with the State Tax Commission resulted in a decision that the Solar Farm is exempt from ad valorem taxation.

Officials from **Ste Genevieve County** assume there shouldn't be any change in valuation for Ste Genevieve County. We have one Solar Farm on the current Real Estate tax rolls at 93% of projected construction costs.

ASSUMPTION (continued)

**Oversight** notes, based on information from the State Tax Commission's website, there have been several decisions by the State Tax Commission that have determined that property related to a solar energy systems (not held for resale) are currently exempt from taxation.

**Oversight** notes some counties indicated this proposal would increase assessed values and tax revenue as a result of property that was previously determined to be exempt under section 137.100 (10). Oversight will show a positive fiscal impact as a result of this provision.

Section 137.123 Depreciation Schedule

**B&P** states section 137.132 establishes the depreciation schedule that is to be used for the real or tangible personal property within projects that use solar energy directly for electricity generation. The depreciation schedule will begin January 1, 2021; with the first year deprecation allotment to be used during the first year after the solar energy project was constructed.

Officials from the **City of St. Louis** assume the proposed language in Section 137.123 would be negative to the City of St. Louis and cause unfair assessments. The City of St. Louis Assessor taxes solar equipment, panels and systems.

The bill will cause entire properties to be devalued because they have solar systems. Take the IKEA property for example. The IKEA commercial building has the largest solar array of any commercial building in the State of MO. The entire property has a value of $75.7 Million. According to this new law, the value of the property would decrease to $52.99 Million after one year and continue to decrease down to $26.495 Million after 11 years. The tax losses would be as follows:

Loss After 1 Year on IKEA property (one property):
property value loss: $22,710,000
total tax loss: $712,316.41

ASSUMPTION (continued)

| Name | % of total rate | $ amount lost |
|---|---|---|
| St. Louis Public Schools | 61.20% | $ 944,509 |
| St. Louis Community College | 2.43% | $ 37,554 |
| Metropolitan Sewer District | 1.32% | $ 20,365 |
| Sheltered Workshop | 1.64% | $ 25,358 |
| Mental Health | 1.07% | $ 16,451 |
| Children's Services | 2.25% | $ 34,756 |
| Senior Services Fund | 0.60% | $ 9,209 |
| Metropolitan Zoo & Museum | 3.12% | $ 48,200 |
| SLPL | 6.65% | $ 102,565 |
| City of St. Louis | 19.35% | $ 298,713 |
| MO Blind Pension | 0.37% | $ 5,673 |
| **TOTAL** | **100.00%** | **$ 1,543,352** |

losses to Collector of Revenue: $23,150.28
losses to the Assessment Fund: $9,645.95

We do not have a comprehensive listing that shows properties with solar panels or systems; it is not a searchable item in our system. The best estimate is that the total City losses would be anywhere from 5 to 10 times as much as the loss on the IKEA building.

The new language states, "Any real or tangible personal property associated with a project that uses solar energy directly to generate electricity shall continue in subsequent years to have the depreciation percentage last listed in the appropriate column in the table."

This can be interpreted that any real property structure that generates electricity (house, commercial building, garage, etc.) will be valued by a depreciation schedule instead of market value. That will cause loss in value and taxes, conflicting statutes and may be unconstitutional as well.

ASSUMPTION (continued)

Officials from the **St. Louis Metropolitan Sewer District** assume the proposal will have a negative fiscal impact on their organization.

**Oversight** notes some counties indicated this proposal would potentially make real or tangible personal property associated with generating electricity with solar energy subject to a depreciation schedule which would lower the assessed value and tax revenues relative to how the property is currently assessed. Oversight assumes there could be an unknown negative impact if real or tangible personal property assessed at market value is subject to a depreciation schedule.

Section 153.030 and 153.034 Local Assessment of Public Utilities Utilizing Solar Energy

Officials from **B&P** assume section 153.030 states that if any public utility owns solar energy property which is used to generate electricity, then that property shall be assessed and taxed by local assessors, and not by the State Tax Commission.

Beginning January 1, 2021 any public utility company assessed under Chapter 153 that has a solar energy project shall be assessed using the following methodology:

- Solar energy property shall be assessed at the local level, and not by the State Tax Commission.
- Land and buildings related to the solar energy project shall be assessed under Chapter 137.

B&P notes that currently, public utilities are assessed property taxes under Chapter 153. In the event that a public utility was to purchase or build solar equipment their property associated with solar energy generation 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.

B&P assumes section 153.034 would add solar equipment used to support the integration of solar electricity generation into existing electricity systems to the list of real or tangible personal property that is to be valued and taxed under the provisions of Chapter 137 and not under Sections 153.030.2 and 153.034.1.

Officials from **Sullivan County** state we have a proposed solar farm coming into the county and it would greatly benefit us to be able to put it on the local assessed RR&U books. I have nothing to base an increase in revenue on.

ASSUMPTION (continued)

Officials from the **City of Kansas City** assume this legislation could have a positive or negative impact on local revenues depending on the physical location of the utility's taxable property (wind and solar installations). We are unable to estimate the financial impact.

Officials from **Warren County Assessor's Office** state, in addition, the provisions set out within HB 1914, will keep the assets locally assessed where the solar energy systems physical exist, no matter the ownership (even if a public utility were to purchase, after construction). Thus, the tax revenue generated will benefit the local taxing jurisdictions which provide services to the area in which the solar investment exists, and keeps the tax revenue local, and will not disturbed statewide.

**Oversight** assumes that if a public utility has ownership of any real or personal property associated with a project that uses solar energy directly to generate electricity, the property is to be valued and taxed by the local authorities. Oversight assumes the assessment process for centrally assessed properties and locally assessed properties are different and therefore could result in a different assessed value then is currently assessed. Oversight assumes this proposal could result in an unknown positive impact to the an unknown negative impact.

**Oversight** received a limited number of responses from counties 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 that we have received from state agencies and political subdivisions; however, other counties were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

| FISCAL IMPACT - State Government | FY 2021 (10 Mo.) | FY 2022 | FY 2023 |
|---|---|---|---|
| **BLIND PENSION FUND** | | | |
| Revenue Gain - property associated with solar energy projects are no longer exempt from property tax - §137.100 | $0 | Unknown | Unknown |
| Revenue Loss - real property assessed at market value associated a solar energy project is subject to a depreciation schedule - §137.123 | $0 | (Unknown) | (Unknown) |
| Revenue (Gain or Loss) - property owned by public utilities and associated with solar energy project is locally assessed §153.030 | $0 | (Unknown) to Unknown | (Unknown) to Unknown |
| Revenue (Gain or Loss) - property owned by a public utility used for the integration of solar generation is locally assessed §153.034 | $0 | (Unknown) to Unknown | (Unknown) to Unknown |
| **ESTIMATED NET EFFECT ON THE BLIND PENSION FUND** | **$0** | **(Unknown) to Unknown** | **(Unknown) to Unknown** |

| FISCAL IMPACT - Local Government | FY 2021 (10 Mo.) | FY 2022 | FY 2023 |
|---|---|---|---|
| **LOCAL POLITICAL SUBDIVISIONS** | | | |
| Revenue Gain - property associated with solar energy projects are no longer exempt from property tax - §137.100 | $0 | Unknown | Unknown |
| Revenue Loss - real property associated with a solar energy project is subject to a depreciation schedule - §137.123 | $0 | (Unknown) | (Unknown) |
| Revenue (Gain or Loss) - property owned by public utilities and associated with solar energy project is locally assessed - §153.030 | $0 | (Unknown) to Unknown | (Unknown) to Unknown |
| Revenue (Gain or Loss) - property owned by a public utility used for the integration of solar generation is locally assessed §153.034 | $0 | (Unknown) to Unknown | (Unknown) to Unknown |
| **ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS** | **$0** | **(Unknown) to Unknown** | **(Unknown) to 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 modifies several provisions related to property that uses solar energy to generate electricity.

The bill removes solar energy systems not held for resale from properties exempted from taxation (Section 137.100, RSMo).

FISCAL DESCRIPTION (continued)

Additionally, this bill develops a depreciation table, as described in the bill, for the purpose of assessing all real or tangible personal property associated with a project that uses solar energy to generate electricity (Section 137.123).

Beginning January 1, 2021, any public utility company which has ownership of any real or personal property associated with a project that directly uses solar energy to generate electricity will be taxed using a standardized methodology of:

(1) Any solar energy property will be assessed on the county assessor's local tax rolls;

(2) Any real property consisting of land, improvements to the land, improvements attached to the land, and buildings related to the solar energy project will be assessed under Chapter 137 (Section 153.030).

Additionally, this bill specifies that any real or tangible personal property associated with a project which uses solar energy directly to generate electricity will be valued and taxed by any state and local authorities having jurisdiction (Section 153.034).

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
    Public Service Commission
Department of Natural Resources
Department of Revenue
Office of the State Auditor
City of Springfield
City of Kansas City
City of St. Louis
St. Francois County
Warren County Assessor's Office

SOURCES OF INFORMATION (continued)

Ste Genevieve County Assessor's Office
Sullivan County
St. Louis Metropolitan Sewer District

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|---|---|
| Julie Morff | Ross Strope |
| Director | Assistant Director |
| February 4, 2020 | February 4, 2020 |

JLH:LR:OD