

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3805H.011
 Bill No.: HB 1997
 Subject: Taxation and Revenue - General; Taxation and Revenue - Property; Energy
 Type: Original
 Date: February 14, 2022

Bill Summary: This proposal establishes depreciation tables and modifies provisions relating to the taxation of property involved in producing solar energy.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Blind Pension Fund (0621)	\$0	(Unknown) to Unknown	(Unknown) to Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	(Unknown) to Unknown	(Unknown) to Unknown

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
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 2023	FY 2024	FY 2025
Local Government	\$0	(Unknown) to Unknown	(Unknown) to Unknown

FISCAL ANALYSIS

ASSUMPTION

Officials from the **State Tax Commission (STC)** have reviewed this proposal and determined an unknown fiscal impact on school districts and other local taxing jurisdictions (cities, counties and fire districts) who rely on property tax as a source of revenue which solar energy projects owned by a public utility has tax situs. The bill removes a solar exemption and establishes that solar energy projects (all real and personal property excluding land) will be assessed using a depreciation methodology (37 1/2 %) of the original cost in year one, provided in Section 137.124. Solar systems installed on personal property will be assessed at the discretion of the assessor. The fiscal impact for those taxing jurisdictions in which a solar energy facility has tax situs will be determined by the size, number and scope of the solar energy projects.

Officials from the **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. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Upon further inquiry, officials from **Department of Commerce and Insurance** assumed 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.

Officials from the **Cape Girardeau County Assessor's Office** state the current and future impact of this proposed statute is unknowable at the present time, but could eventually reach hundreds of thousands, or even millions of dollars, depending on future solar installations currently being planned in Cape Girardeau County. Furthermore, "thirty-seven and one-half percent of the 5 original costs shall be the true value in money of such property" is an arbitrary valuation method that creates an unconstitutional subclass of property that is discriminatory to all other commercial real properties in the State of Missouri.

Officials from the **City of Claycomo, City of Kansas City, City of Springfield** and **Gasconade County Assessor's Office** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these entities.

Section 137.100 Solar Energy Exemption

Officials from **Office of Administration - Budget and Planning (B&P)** state, per Section 137.100.1(10), all solar energy systems are exempt from property tax, as long as the system is not going to be resold.

Section 137.100.2 would instead create a narrower exemption for solar energy systems constructed for use on a single property. This exemption would only be granted at the discretion of a county assessor.

B&P notes that the term "single property" is not defined. It is unclear whether this would be limited to a single building or if it would include multiple buildings located on a single plot of land owned by an individual(s) or entity.

Therefore, B&P estimates that this provision would no longer exempt solar energy systems owned by utility companies as well as any solar energy systems owned by other persons or businesses that are used to power multiple properties (for example a community solar project).

Summary

B&P notes that the repeal of the property tax exemption would occur August 28, 2022. While the new method of assessing property taxes on solar systems would not begin until January 1, 2023.

B&P further notes that assessments are levied on property owned on January 1st of a given year. Therefore, B&P assumes that no property tax will be levied on solar properties between August 28, 2022 and December 31, 2022.

B&P also notes that while property taxes are levied as of January 1st (FY23), the taxes are not due until December 31st (FY24). Therefore, B&P estimates that this proposal will not impact state or local funds until FY24.

B&P estimates that this provision will increase revenues to the Blind Pension Trust fund, as well as local revenues, by an unknown amount beginning FY24.

Officials from the **Macon County Assessor's Office** state this proposal appears to tax solar electrical generating facilities. Using Macon R-1 school levy of 3.4515%, the impact would be \$12,425 added tax dollars to the school.

In response to a similar proposal, HB 1914 (2020), officials from **Warren County Assessor's Office** assumed 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.

In response to a similar proposal, HB 1914 (2020), officials from **St. Francois County** stated 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, Community 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.

In response to a similar proposal, HB 1914 (2020), officials from **Ste Genevieve County Assessor's Office** assumed there shouldn't be any change in valuation for Ste Genevieve County. They have one Solar Farm on the current Real Estate tax rolls at 93% of projected construction costs.

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 137.124 Depreciated Original Cost

Officials from **B&P** state Section 137.124 would require all real and tangible personal property, except land, associated with a solar energy project to be assessed at 37.5% of the original costs, starting the year after the solar project was constructed. In addition, solar energy projects may still utilize tax credits or abatements.

In response to a similar proposal, HB 1914 (2020), officials from the **City of St. Louis** assumed 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
- losses to Collector of Revenue: \$23,150.28
- losses to the Assessment Fund: \$9,645.95

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

The City of St. Louis does not have a comprehensive listing that shows properties with solar panels or systems; it is not a searchable item in the City's 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.

Oversight notes some counties indicated this proposal would potentially make real or tangible personal property associated with generating electricity with solar energy subject to 37.5% of the original costs which could potentially 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 valuation of 37.5% of the original costs.

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

Officials from **B&P** state section 153.030 requires that solar energy projects be assessed at the county level. B&P notes that typically, the State Tax Commission assesses public utility companies and property tax collections are distributed to all local jurisdictions by the miles of line contained in their area. Therefore, this provision would limit local tax collections to only the jurisdictions containing the actual solar energy property.

In response to a similar proposal, HB 1914 (2020), officials from **Sullivan County** stated they have a proposed solar farm coming into the county and it would greatly benefit them to be able to put it on the local assessed RR&U books.

In response to a similar proposal, HB 1914 (2020), officials from the **City of Kansas City** assumed this legislation could have a positive or negative impact on local revenues depending on the physical location of the utility's taxable property. They are unable to estimate the financial impact.

In response to a similar proposal, HB 1914 (2020), officials from **Warren County Assessor's Office** state, in addition, this proposal would 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 would 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 distributed 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 than is currently assessed. Oversight assumes this proposal could result in an unknown positive impact to an unknown negative impact.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
BLIND PENSION FUND			
<u>Revenue Gain</u> - property associated with solar energy projects are no longer automatically exempt from property tax - §137.100	\$0	Unknown	Unknown
<u>Revenue Loss</u> - real or personal property assessed at market value associated with a solar energy project subject to a depreciated original cost valuation - §137.124	\$0	(Unknown)	(Unknown)
<u>Revenue (Gain or Loss)</u> - property owned by public utilities and associated with solar energy project is locally assessed §153.030	\$0	(Unknown) to Unknown	(Unknown) to Unknown
<u>Revenue (Gain or Loss)</u> - property owned by a public utility used for the integration of solar generation is locally assessed §153.034	<u>\$0</u>	(Unknown) to <u>Unknown</u>	(Unknown) to <u>Unknown</u>
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	<u>\$0</u>	(Unknown) to <u>Unknown</u>	(Unknown) to <u>Unknown</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Gain</u> - property associated with solar energy projects are no longer exempt from property tax - §137.100	\$0	Unknown	Unknown
<u>Revenue Loss</u> - real or personal property assessed at market value associated with a solar energy project subject to a depreciated original cost valuation - §137.124	\$0	(Unknown)	(Unknown)
<u>Revenue (Gain or Loss)</u> - property owned by public utilities and associated with solar energy project is locally assessed - §153.030	\$0	(Unknown) to Unknown	(Unknown) to Unknown
<u>Revenue (Gain or Loss)</u> - property owned by a public utility used for the integration of solar generation is locally assessed §153.034	\$0	(Unknown) to <u>Unknown</u>	(Unknown) to <u>Unknown</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	(Unknown) to <u>Unknown</u>	(Unknown) to <u>Unknown</u>

FISCAL IMPACT – Small Business

Oversight assumes there could be a fiscal impact to small businesses if tax rates/taxes are adjusted relative to changes in assessed value. Oversight assumes there could be an impact small businesses if utility rates are adjusted for changes in assessed values.

FISCAL DESCRIPTION

This bill repeals a property tax exemption for solar energy systems not held for resale and provides that solar energy systems constructed for exclusive use of a single property may be exempt at the discretion of the assessor (Section 137.100, RSMo).

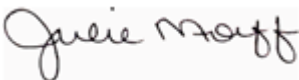
Beginning January 1, 2023, for purposes of assessing all real property, excluding land, or tangible personal property associated with a project that uses solar energy directly to generate electricity, 37.5% of the original costs shall be the true property value beginning the year immediately following the year of construction of the property (Section 137.124).

Beginning January 1, 2023, for any public utility company which has a solar energy project, such solar energy project shall be assessed with any solar energy property of such company shall be assessed upon the county assessor's local tax rolls, and all other real property, excluding land, or personal property related to the solar energy project shall be assessed using the methodology provided in the bill (Sections 153.030 and 153.034).

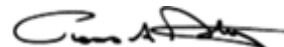
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Social Services
Department of Commerce and Insurance - Public Service Commission
Office of the State Auditor
City of Springfield
City of Kansas City
City of St. Louis
Gasconade County Assessor's Office
Cape Girardeau County Assessor's Office
Macon County Assessor's Office
Warren County Assessor's Office
Ste Genevieve County Assessor's Office
Sullivan County
St. Francois County



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