

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5237H.02I
 Bill No.: HB 2651
 Subject: Utilities; Property, Real and Personal; Taxation and Revenue - Property; State Tax Commission; Public Service Commission; Counties
 Type: Original
 Date: February 27, 2024

Bill Summary: This proposal modifies and creates new provisions relating to electric utilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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

***Oversight** assumes the proposed assessment process for centrally assessed properties and locally assessed properties could result in a different assessed value than is currently assessed. Oversight is unable to determine the change in assessed value as a result of this proposal. Oversight assumes the fiscal impact *may* reach the \$250,000 threshold.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2025	FY 2026	FY 2027
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 2025	FY 2026	FY 2027
Local Government	\$0	(Unknown) to Unknown	(Unknown) to Unknown

FISCAL ANALYSIS

ASSUMPTION

Section 137.124 - Solar Energy Property Depreciated Original Cost

Officials from the **Office of Administration - Budget and Planning (B&P)** note 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. Land shall be assessed at the commercial rate.

Oversight notes this provision 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.

Sections 153.030 & 153.034 - Local Assessment of Public Utilities Utilizing Solar Energy

Officials from the **Office of Administration - Budget and Planning (B&P)** note Sections 153.030 and 153.034 require 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.

B&P notes that if these sections change how solar property is assessed, these provisions may impact revenues to the Blind Pension Trust Fund (statewide property tax levy of \$0.03 per \$100 value) and revenues to local property tax districts.

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.

Section 393.1120 - Solar Energy Project Restrictions

Officials from the **Office of Administration - Budget and Planning (B&P)** note Section 393.1120 would limit solar energy projects to 2% of cropland per county and requires that at

least 75% of the solar property be made or sourced within the U.S. This section will not impact TSR or the calculation under Article X, Section 18(e).

Officials from the **Office of Administration - Budget and Planning** assume this provision will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Responses regarding the proposed legislation as a whole

Officials from the **State Tax Commission (STC)** have reviewed this proposal and determined it will have an unknown negative 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 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 **Morgan County PWS #2** assume a fiscal impact but did not provide additional information.

Officials from the **Howell County Assessor** note it is difficult to estimate, but at the typical cost to build a moderate size facility the loss of local revenue could be in excess of \$1,000,000.

It seems contradictory to state the true value in money of any property is 37.5% of cost related to the construction of the facility and then allow the project to receive an abatement under the Enhanced Enterprise Zone law which requires the property to be valued at full market value. This type of legislation is adding to the tax burden on homeowners by allowing them to receive preferential status in the property tax code.

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 **Department of Commerce and Insurance, Department of Social Services, Office of the State Auditor, Metropolitan St. Louis Sewer District - 7B Sewer, South River Drainage District - 7D Levee, City of Kansas City, City of O'Fallon, and the St. Charles County Pwsd #2 - 7A Water** 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.

<u>FISCAL IMPACT – State Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
BLIND PENSION FUND			
<u>Revenue Loss</u> - §137.124 - Real or personal property assessed at market value associated with a solar energy project subject to a depreciated original cost valuation	\$0	(Unknown)	(Unknown)
<u>Revenue (Gain or Loss)</u> - §153.030 - Property owned by public utilities and associated with solar energy project is locally assessed	\$0	(Unknown) to Unknown	(Unknown) to Unknown
<u>Revenue (Gain or Loss)</u> - §153.034 - Property owned by a public utility used for the integration of solar generation is locally assessed	\$0	(Unknown) to Unknown	(Unknown) to Unknown
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	<u>\$0</u>	(Unknown) to Unknown	(Unknown) to Unknown

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Loss</u> - §137.124 - Real or personal property assessed at market value associated with a solar energy project subject to a depreciated original cost valuation	\$0	(Unknown)	(Unknown)
<u>Revenue (Gain or Loss)</u> - §153.030 - Property owned by public utilities and associated with solar energy project is locally assessed	\$0	(Unknown) to Unknown	(Unknown) to Unknown

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
Revenue (Gain or Loss) - §153.034 - Property owned by a public utility used for the integration of solar generation is locally assessed	\$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/taxes are adjusted relative to changes in assessed value. Oversight assumes there could be an impact to small businesses if utility rates are adjusted for changes in assessed values.

FISCAL DESCRIPTION

Beginning January 1, 2025, 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 will be the true property value beginning the year immediately following the year of construction of the property. All land associated with the project that used solar energy will be assessed as commercial property.

As specified in this bill, if any public utility company has ownership of any real or personal property associated with a project which uses solar energy directly to generate electricity, such solar energy project property will be valued and taxed by any local authorities having jurisdiction.

Beginning January 1, 2025, 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 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 assessed using the methodology as specified in the bill.

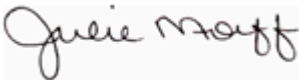
The total amount of real property associated with all solar energy projects in any county may not exceed 2% of all cropland in the county. Any resident of the county has standing to bring suit if he or she believes that the cap on cropland has been met.

At least 75% of all real and tangible personal property solar equipment associated with a project that uses solar energy to generate electricity must be made in or sources from the United States.

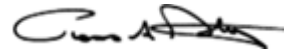
This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

State Tax Commission
Office of Administration - Budget and Planning
Department of Commerce and Insurance
Department of Social Services
Office of the State Auditor
Metropolitan St. Louis Sewer District - 7B Sewer
South River Drainage District - 7D Levee
City of Kansas City
City of O'Fallon
St. Charles County Pwsd #2 - 7A Water
Morgan County Pwsd #2
Howell County Assessor



Julie Morff
Director
February 27, 2024



Ross Strope
Assistant Director
February 27, 2024