

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1797-02
Bill No.: Perfected HB 737
Subject: Energy; Taxation and Revenue - Property
Type: Original
Date: April 6, 2011

Bill Summary: Would classify certain turbine generators as tangible personal property for property tax purposes and provide an assessment ratio of one percent of value. Would also change the method of calculating revised tax levy rates.

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	(Unknown)	(Unknown)	(Unknown)
Total Estimated Net Effect on <u>Other</u> State Funds	(Unknown)	(Unknown)	(Unknown)

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	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration, Division of Budget and Planning** (BAP) assume this proposal would not result in additional costs or savings to their organization.

BAP officials stated that this proposal would classify certain turbines as tangible personal property, and lower the assessed valuation on such properties to 1% of their true value. If municipal governments are unable to adjust their levies, this may lower property tax receipts, including for schools. This proposal would also reduce Blind Pension Fund receipts. BAP officials also stated that they do not have data to estimate any losses.

Officials from the **Department of Economic Development, Office of Public Counsel, and Public Service Commission**, the **Department of Revenue**, the **Department of Natural Resources**, and **St. Louis County** assume this proposal would have no fiscal impact on their organizations.

Officials from the **Department of Elementary and Secondary Education** (DESE) assume the equipment is currently assessed as industrial and commercial. This being the case, there would be a reduction from 33.3% to 1% in the amount of property taxes paid. This will result in a significant loss of revenue for certain schools and local taxing authorities. For many districts that contain these types of power plants, the company that owns the plant is one of the largest taxpayers in the district. The proposal would have no impact on the state, unless the reduction in assessed valuation falls below the 2004-05 amount. In which case, additional state aid would be required to make up for the reduction in local effort.

Officials from the **State Tax Commission** (TAX) assume this proposal would have no fiscal impact on their organization. TAX officials also stated that they do not have data to estimate any potential losses.

Officials from the **City of Kansas City** assume this proposal would have a negative impact on their organization but that impact is impossible to quantify.

Officials from the **City of Raytown** assume there is no impact to their organization from this proposal that they can easily identify.

ASSUMPTION (continued)

Oversight was not able to determine if any turbine generators are currently installed which would qualify for the proposed classification and valuation process. To the extent that such equipment is currently installed or would be installed in the future, this proposal would reduce the assessed valuation of such property from the percentage specified in current provisions to one percent of value. That reduction in assessed valuation would in turn reduce the property tax that would otherwise be due on such property.

Oversight assumes that this property would be owned by electric companies and would be assessed by the State Tax Commission as distributable property; accordingly the tax reduction would impact local governments and the state Blind Pension Fund. For fiscal note purposes, Oversight will indicate an unknown amount of revenue reduction for local governments and for the state Blind Pension Fund.

Amendment 1

This amendment would change the method of calculation for revised tax levy rates.

In response to similar provisions in HCS for HB 2373 LR 5399-02 (2010) officials from the **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the Governor.

Officials from the **Department of Revenue**, the **State Tax Commission**, the **City of Centralia**, and **Parkway School District** assumed that similar provisions in HCS for HB 2373 LR 5399-02 (2010) would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from the **City of Kansas City** assumed that similar provisions in HCS for HB 2373 LR 5399-02 (2010) could have a negative impact on their organization of an indeterminate amount.

Officials from the **Office of the State Auditor** (SAO) assumed that similar provisions in HCS for HB 2373 LR 5399-02 (2010) would require their organization to revise the current tax rate forms and educate taxing authorities on the changes, and would generate calls in regards to the change. SAO officials estimated that the additional duties in relation to this proposal would require 2.0 FTE Staff Auditor I in the Tax Rate section.

SAO officials provided an estimate of the cost to implement this proposal including two additional employees and the related equipment and expenditures totaling \$103,922 for FY 2011, \$126,361 for FY 2012, and \$130,153 for FY 2013.

Officials from the **Office of Administration, Division of Budget and Planning**, assumed there would be no added cost to their organization as a result of assumed that similar provisions in HB 2373 LR 5399-01 (2010) . This proposal would modify certain provisions governing the calculation of local tax rates. This proposal would not impact general and total state revenues.

Officials from the **Special School District of St. Louis County** assumed that similar provisions in HB 2373 LR 5399-01 (2010) would have no fiscal impact on their organization.

Oversight is not able to determine whether the provisions in this amendment would result in any increase or decrease in a local government tax rate, and will indicate a fiscal impact from unknown positive to unknown negative for local governments and for the state Blind Pension Fund.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
BLIND PENSION FUND			
<u>Revenue reduction</u> - valuation reduction for turbine generators	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON BLIND PENSION FUND	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
LOCAL GOVERNMENTS			
<u>Revised tax rate limit calculation</u>	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>
<u>Revenue reduction - valuation reduction for turbine generators</u>	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>

FISCAL IMPACT - Small Business

This proposal would have a direct fiscal impact to any small business which owned or operated qualifying turbine generator equipment.

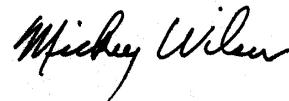
FISCAL DESCRIPTION

The proposed legislation would classify certain turbine generators as tangible personal property for property tax purposes, and provide an assessment ratio of one percent of value. In addition, the proposal would change the method of calculating revised tax levy rates.

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 Administration
 Division of Budget and Planning
Department of Economic Development
 Office of Public Counsel
 Public Service Commission
Department of Elementary and Secondary Education
Department of Natural Resources
Department of Revenue
State Tax Commission
St. Louis County
City of Kansas City
City of Raytown



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Director
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