

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0313-05
Bill No.: SCS for HCS for HB 220
Subject: Taxation and Revenue - Property; Utilities
Type: Original
Date: April 18, 2019

Bill Summary: This proposal modifies provisions relating to the assessment of wind energy property for electric companies.

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
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 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 will not impact Total State Revenue and will not impact the calculation under Article X, Section 18(e).

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 energy property shall be assessed at the local level, and not by the State Tax Commission.
- 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.

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 Fund.

Officials at the **State Tax Commission (STC)** assume this proposal would provide a methodology of valuation of the entire public utility and does not limit the valuation to the wind farm facility in §153.030.6(1) & (2). The bill would propose that all wind farms would be assessed locally and would therefore benefit local political subdivisions in which the property is

ASSUMPTION (continued)

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 in §153.030.6, does not define the 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.

Under the provisions in this proposal, if public utility company B owns a wind farm facility, the proposed language would place the responsibility on the county assessor to value all the assets of public utility company B that are located in the assessor's county. Therefore if utility company B owns a nuclear power plant for example, then valuing the nuclear plant would be the sole responsibility of the local assessor. In reference to the fiscal impact, the bill is silent on whether or not the value of the nuclear plant is distributed throughout the state as provided in current law, or if the significant valuation assessment is retained locally in the county.

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.

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 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.

ASSUMPTION (continued)

Table 1: Showing total assessed valuations for 2017 and 2018 property taxes

Property Type	Total Assessed Valuation for Tax Year 2017			Total Assessed Valuation for Tax Year 2018		
	Real	Personal	Total	Real	Personal	Total
Real Property	82,025,086,772	0	82,025,086,772	83,186,620,371	0	83,186,620,371
Tangible Personal Property	0	20,226,071,288	20,226,071,288	0	20,924,550,116	20,924,550,116
Property of Centrally Assessed Companies	4,319,346,707	1,063,603,431	5,382,950,138	4,227,043,146	1,077,005,667	5,304,048,813
Total Assessed Valuation for the State of Missouri	86,344,433,479	21,289,674,719	107,634,108,198	87,413,663,517	22,001,555,783	109,415,219,300

Source: State Tax Commission

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 organizations. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for them.

In response to a previous version of this proposal, officials at the **Barton County Assessor's Office** stated at the present time we do not have any Wind Turbines in our county, Empire is telling us they will put 140 in a county area Barton, Lawrence, Dade and Jasper. At this time we do not know how many will be in Barton County. We also do not know the Mega watt size of what the towers will be. This proposal used the multiplier of 5900 times the mega watt of the tower to be used as a constant tax amount to be used each year on the tower if it is local assessed. If state assessed, it would go by lines of miles with Empire in which we have 1% but we do not know how the State would tax them.

ASSUMPTION (continued)

In response to a previous version of this proposal, 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.

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

Officials at the **Harrison County Assessor** does not have any wind farms.

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 centrally 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

ASSUMPTION (continued)

political subdivisions will gain revenue while the centrally assessed political subdivisions will lose revenue.

Oversight notes there are 9 centrally assessed electric companies in Missouri. They are Ameren Transmission Company of Illinois, Empire District Electric Company, Entergy Arkansas Inc., ITC Midwest LLC, Kansas City Power & Light Company, KCP&L Greater Missouri Operations Company, Mid American Energy Company, Transource Missouri LLC, and Union Electric Company dba Ameren Missouri. There is only one nuclear plant in Missouri that is owned by Union Electric Company.

Electric Company	Number of Counties Located In	Total Assessed Value of those Company in those Counties
Ameren Transmission Company of Illinois	1	\$16,414,822
Empire District Electric Company	17	\$252,449,652
Energy Arkansas Inc	5	\$2,389,430
ITC Midwest LLC	1	\$862,355
Kansas City Power & Light Company	17	\$517,918,507
KCP&L Greater Missouri Operations Company	32	\$458,405,743
Mid American Energy Company	1	\$972,465
Transource Missouri LLC	10	\$63,918,534
Union Electric Company dba Ameren Missouri	67	\$1,326,972,426
Total		\$2,640,303,932

Source: State Tax Commission Annual Report for 2018

ASSUMPTION (continued)

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 will assume regardless of the assessment method, the state's Blind Pension Trust Fund will not be materially impacted.

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
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
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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
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<u>Loss</u> - Centrally Assessed Political Subdivisions from change to wind farm assessments §153.034	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
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ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION	<u>\$0 or Unknown to (Unknown)</u>	<u>\$0 or Unknown to (Unknown)</u>	<u>\$0 or Unknown to (Unknown)</u>
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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 how any real or tangible personal property associated with a project which uses wind energy will be assessed in the future.

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
Barton County Assessor
Department of Revenue
Fairfax R-III School District
Harrison 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
Tarkio R-I School District



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