

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 0313-09  
Bill No.: Truly Agreed To and Finally Passed SS for SCS for HCS for HB 220  
Subject: Taxation and Revenue - Property; Utilities  
Type: Original  
Date: June 6, 2019

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Bill Summary: This proposal modifies provisions relating to the taxation of companies regulated by the public service commission and telecommunication taxes.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue	(Unknown greater than \$2,400)	\$0 or (Unknown)	\$0 or (Unknown)
<b>Total Estimated Net Effect on General Revenue</b>	<b>(Unknown greater than \$2,400)</b>	<b>\$0 or (Unknown)</b>	<b>\$0 or (Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
School District Trust (0688)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Conservation Commission (0609)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Parks, Soil & Water (0613 & 0614)	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>\$0 or (Unknown)</b>	<b>\$0 or (Unknown)</b>	<b>\$0 or (Unknown)</b>

Numbers within parentheses: ( ) indicate costs or losses. This fiscal note contains 15 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>
<b>Local Government</b>	<b>\$0 or Unknown to (Unknown)</b>	<b>\$0 or Unknown to (Unknown)</b>	<b>\$0 or Unknown to (Unknown)</b>

## FISCAL ANALYSIS

### ASSUMPTION

#### §144.020 Telecommunication Billing

Officials at the **Department of Revenue (DOR)** assume that currently, §144.020 imposes a tax in an amount equal to 4% on the basic rate paid or charged on all sales of local and long distance telecommunications service to telecommunications subscribers and to others through equipment of telecommunications subscribers for the transmission of messages and conversations and upon the sale, rental or leasing of all equipment or services pertaining or incidental thereto; except that, the payment made by telecommunications subscribers or others, pursuant to §144.060, and any amounts paid for access to the internet or interactive computer services shall not be considered as amounts paid for telecommunications services.

The proposed legislation adds to §144.020 the following language, "If local and long distance telecommunications services subject to tax under this subdivision are aggregated with and not separately stated from charges for telecommunications service or other services not subject to tax under this subdivision, including, but not limited to, interstate or international telecommunications services, then the charges for nontaxable services may be subject to taxation unless the telecommunications provider can identify by reasonable and verifiable standards such portion of the charges not subject to such tax from its books and records that are kept in the regular course of business for other purposes, including, but not limited to, financial statement, general ledgers, invoice and billing systems and reports, and reports for regulatory tariffs and other regulatory matters;..."

While the statutory change in §144.020 is new, without audits the Department is unable to determine, based on the data we have, what, if any, impact the statutory change may have. The impact will be \$0 – (Unknown).

Officials at the **Office of Administration Division of Budget and Planning (B&P)** assume this section would require sales taxes to be applied to nontaxable telecommunications services if they are bundled with taxable telecommunications services, unless the provider can identify and verify the portion of the bundle that originated from nontaxable services. B&P notes that telecommunications providers may already be doing this. Therefore, B&P estimates that this amendment may have a \$0 to unknown impact on Total State Revenue. B&P defers to DOR for more detailed information.

This may impact the calculation under Article X, Section 18(e).

ASSUMPTION (continued)

Officials at the **Department of Conservation** assume an unknown fiscal impact but greater than \$100,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. Any increase in sales and use tax collected would increase revenue to the Conservation Sales Tax funds. However, the initiative is very complex and may require adjustments to Missouri sales tax law which could cause some downside risk to the Conservation Sales Tax. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials at the **Department of Natural Resources** assume the Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Any increase in sales tax collected could increase revenue to the Parks and Soils Sales Tax Funds. The Department assumes any increase in revenue to the Parks and Soils Sales Tax fund would be used for the purposes established in Article IV Section 47(a) of the Missouri Constitution.

The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

**Oversight** notes that Article IV, Section 47 of the Missouri Constitution, allows revenue received from an additional sales tax of one-tenth (1/10) of percent (1%) to be used for the conservation and management of the soil and water resources of Missouri and for the proper management of the state parks. The Parks Sales Tax Fund (0613) and the Soil and Water Sales Tax Fund (0614) each are to receive 50% of this additional sales tax funding.

Officials at the **Public Service Commission** assume there is no fiscal impact from this proposal.

Officials at the **City of Kansas City** assume this may have a positive impact on the City to the extent a telecommunications provider can't identify charges that aren't covered in customer's bills.

Currently, some telecommunications companies bundle their taxable and nontaxable services together and therefore, collect tax on the total cost of bundled services even if some of the services may have been nontaxable. This proposal establishes a way for telecommunications companies to separate the taxable and nontaxable services and to only collect taxes on the taxable services. **Oversight** is unable to determine how many companies are currently collecting and may continue to collect taxes on bundled services; as well as how many will choose to separate their services and reduce the tax they collect. Oversight will show the impact as \$0 to

ASSUMPTION (continued)

Unknown loss to the state sales tax funds as well as local funds.

§153.030 and §153.034 Wind Farm Assessment

Officials at the **B&P** assume this proposal 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 related to wind energy projects shall be assessed under Chapter 137.
- All other business or personal property related to wind energy projects 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 its property associated with wind 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.

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 and 153.034.1.

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 remove wind farm facilities owned and operated by electric utility companies from distributable property and include it in local property. Currently windfarms not owned and operated by a public utility company are locally assessed. School and other taxing districts where the wind farm is located would realize an unknown positive fiscal impact with the inclusion of the entire value of the wind farm as part of their tax base. School and other taxing districts that may have miles of line within their district, but not the wind farm, would lose that valuation in their tax base. The fiscal impact would be unknown in both circumstances as it would be dependent on the number, size and scope of such projects.

ASSUMPTION (continued)

The State Tax Commission notes 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.

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 impact on their agencies from this part of the proposal.

ASSUMPTION (continued)

**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 for this part of the proposal.

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.

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.

ASSUMPTION (continued)

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 **Gentry County** collected \$543,660 in FY 2018 from wind farms.

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

Officials at **St. Genevieve County** stated they do not have any wind farms.

Officials at the **City of Springfield** assume there is no fiscal impact from this proposal.

Officials at the **City of Kansas City** assume the wind energy projects in sections 153.030 and 153.034 of this legislation, currently the state tax commission assess utility property and they use a formula to distribute the tax revenue based on things like miles of service lines and such. These sections could have a positive or negative impact on local revenues depending on the physical location of the utility's property and if/how the "related to the wind energy project" language is interpreted. Therefore, this legislation in sections 153.030 and 153.034 could have a positive or negative impact on Kansas City.

**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 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.



ASSUMPTION (continued)

<b>Electric Company</b>	<b>Number of Counties Located In</b>	<b>Total Assessed Value of those Company in those Counties</b>
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
<b>Total</b>		<b>\$2,640,303,932</b>

Source: State Tax Commission Annual Report for 2018

**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.

Ameren publicly announced on May 10, 2019 that it plans to buy wind farms in Missouri.

**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](http://www.legislativeoversight.mo.gov).

ASSUMPTION (continued)

§393.1073 Task Force on Wind Energy

Officials at the **B&P** assume this section creates the "Task Force on Wind Energy". The tax force shall submit a report, including any recommended legislation, by December 31, 2019. The task force shall terminate on December 31, 2019. This section will not impact Total State Revenue or the calculation under Article X, Section 18(e).

Officials at the **Missouri Senate** anticipate a negative impact to the Joint Contingent appropriation to attend meetings of the Task Force on Wind Energy. The cost to reimburse travel for 6 members of the General Assembly to attend committee meetings is approximately \$600 per meeting.

Officials at the **State Tax Commission** assume no impact from this portion of the proposal.

**Oversight** notes this proposal creates a Task Force on Wind Energy that is made up of 3 members of the Missouri House of Representatives and 3 members of the Senate as well as 2 members of county governments, whose purpose is to develop a report on the benefits of wind turbines to the state and local communities. The members are to serve without compensation and can be reimbursed for expenses. This task force is to deliver their report by December 31, 2019 (FY 2020).

**Oversight** notes this proposal did not indicate who would reimburse the eight members of the task force. Oversight notes that House and Senate members are generally reimbursed out of Joint Contingent Fund (which is General Revenue funded) for the purpose of task forces/committees. Using the Missouri Senate's estimate of \$100 per member per meeting, Oversight will assume a cost to the General Revenue Fund of \$2,400 (eight task force members x \$100 x 3 meetings) in FY 2020.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
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**GENERAL REVENUE**

<u>Revenue Reduction</u> - §144.020 reduction in sales tax collected if telecommunication companies are allowed to separate services p. 4	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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Cost - Task Force on Wind Energy - reimbursed expenses §393.1073 p. 10	(\$2,400)	\$0	\$0
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<b>ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND</b>	<b><u>(Unknown greater than \$2,400)</u></b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>
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**SCHOOL DISTRICT TRUST FUND**

Revenue Reduction - §144.020 reduction in sales tax collected if telecommunication companies are allowed to separate services p. 4	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
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<b>ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>
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<u>FISCAL IMPACT - State Government</u> (continued)	FY 2020 (10 Mo.)	FY 2021	FY 2022
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**CONSERVATION COMMISSION  
 FUND**

Revenue Reduction -§144.020 reduction  
 in sales tax collected if  
 telecommunication companies are  
 allowed to separate services p. 4

<u>\$0 or</u> (Unknown)	<u>\$0 or</u> (Unknown)	<u>\$0 or</u> (Unknown)
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**ESTIMATED NET EFFECT ON  
 CONSERVATION COMMISSION**

<u>\$0 or</u> (Unknown)	<u>\$0 or</u> (Unknown)	<u>\$0 or</u> (Unknown)
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**PARKS, SOIL & WATER FUND**

Revenue Reduction -§144.020 reduction  
 in sales tax collected if  
 telecommunication companies are  
 allowed to separate services p. 4

<u>\$0 or</u> (Unknown)	<u>\$0 or</u> (Unknown)	<u>\$0 or</u> (Unknown)
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**ESTIMATED NET EFFECT ON  
 PARKS, SOIL & WATER FUND**

<u>\$0 or</u> (Unknown)	<u>\$0 or</u> (Unknown)	<u>\$0 or</u> (Unknown)
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<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Revenue Reduction</u> - §144.020 reduction in sales tax collected if telecommunication companies are allowed to separate services p. 4	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
<u>Revenue</u> - Locally Assessed Political Subdivisions from change to wind farm assessments §153.034 p. 8	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Loss</u> - Centrally Assessed Political Subdivisions from change to wind farm assessments §153.034 p. 8	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISION</b>	<b><u>\$0 or Unknown to (Unknown)</u></b>	<b><u>\$0 or Unknown to (Unknown)</u></b>	<b><u>\$0 or Unknown to (Unknown)</u></b>

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 that if local and long distance telecommunications services subject to sales tax are aggregated with and not separately from charges for telecommunications service or other services not subject to the tax, then charges for nontaxable services may be subject to taxation unless the telecommunications provider can identify by reasonable and verifiable standards the portion of the charges not subject to the tax (§144.020).

Beginning January 1, 2020 any public utility company which has ownership of any real or personal property associated with a project that directly uses wind energy to generate electricity will be taxed using a standardized methodology of:

- (1) Any wind energy property will be assessed on the county assessor's local tax rolls;
- (2) Any property consisting of land and buildings related to the wind energy project will be assessed under Section 137.076; and

FISCAL DESCRIPTION (continued)

(3) All other business or personal property of a public utility company that owns property associated with a wind energy project will be assessed under Section 137.122 (§153.030).

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

The bill also establishes the "Task Force on Wind Energy." The task force will be comprised of six members including three members from the House of Representatives, three members from the Senate, and two members from county government with experience in wind energy valuations. The task force must conduct public hearings, research, and compile a report for the General Assembly by December 31, 2019 regarding the economic benefits and drawbacks of wind turbines, statewide assessment and taxation of wind turbines and their connected equipment at the county level, compliance with state and federal programs and regulations, and potential legislation that would provide a uniform assessment and taxation methodology for wind turbines (§393.1073).

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  
City of Kansas City  
City of Springfield  
Department of Conservation  
Department of Natural Resources  
Department of Revenue  
Fairfax R-III School District  
Gentry County  
Harrison County Assessor  
Missouri Senate  
Monroe County Assessor  
Office of Administration  
    Division of Budget and Planning  
Office of the State Auditor  
Public Service Commission

SOURCES OF INFORMATION (continued)

Rock Port R-II School District  
State Tax Commission  
Ste. Genevieve County  
Tarkio R-I School District



Kyle Rieman  
Director  
June 6, 2019

Ross Strobe  
Assistant Director  
June 6, 2019