

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3288S.02I
Bill No.: SB 881
Subject: Taxation and Revenue - Sales and Use; Energy
Type: Original
Date: February 28, 2022

Bill Summary: This proposal authorizes a sales tax exemption for the purchase of certain solar energy systems.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue*	\$0 or Could exceed (\$492,000 to \$816,000)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0 or Could exceed (\$492,000 to \$816,000)	\$0 or (Unknown)	\$0 or (Unknown)

*The loss of sales tax revenue is based on the estimated cost of one (1) twenty megawatt solar farm developed in Missouri (with an estimated cost of between \$16.4 million and \$27.2 million).

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Conservation Commission Fund (0609)	\$0 or Could exceed (\$20,500 to \$34,000)	\$0 or (Unknown)	\$0 or (Unknown)
Park & Soil (613, 614)	\$0 or Could exceed (\$16,400 to \$27,200)	\$0 or (Unknown)	\$0 or (Unknown)
Education Trust Fund	\$0 or Could exceed (\$164,000 to \$272,000)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on Other State Funds	\$0 or Could exceed (\$200,900 to \$333,200)	\$0 or (Unknown)	\$0 or (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 or (\$660,920 to \$1,096,160)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** state this proposal creates a new state and local sales and use tax exemption for Missouri companies that purchase a solar photovoltaic energy distributed generation system and the supplies need to support it. This is expected to go into effect August 28, 2022.

DOR notes this exemption would be available to a Missouri company that employs at least three people who purchases a utility scale project that generates at least 20 megawatts. The O'Fallon Renewable Energy Center completed in 2014 is a 5.7 megawatt utility scale project. Ameren is constructing a 65 megawatt utility scale project. At this time the Department is not aware of any additional large scale projects that may qualify.

DOR notes that the Solar Energy Industries Association (SEIA) states that only 4% of all energy comes from a solar source. While this may not have much impact during the fiscal note period, proposed federal policies could increase the use of solar and the purchase of these systems in the future. Based on data by SEIA the average installation cost for a utility scale solar project is \$0.85 to \$1.36 per watt, with a one Megawatt solar farm costing between \$820,000 and \$1,360,000. Therefore a 20 megawatt project could cost between \$16.4 million and \$27.2 million.

The state sales tax is 4.225% and is distributed as shown below. For fiscal note purposes, DOR will use a 4.03% weighted average for the local sales tax rate.

General Revenue is 3%

School District Trust Fund is 1% (Section 144.701)

Conservation Commission Fund is .125% (Article IV, Section 43(a))

Parks, Soil & Water Funds .1% (Article IV, Section 47(a))

Local 4.03%

If just one 20 megawatt project was to be purchased, DOR would assume the following impact:

GR	0.03	(\$492,000)	(\$816,000)
Education	0.01	(\$164,000)	(\$272,000)
Conservation	0.00125	(\$20,500)	(\$34,000)
DNR	0.001	(\$16,400)	(\$27,200)
TSR		(\$692,900)	(\$1,149,200)
Local Loss	0.0403	(\$660,920)	(\$1,096,160)

Given the size of these projects, DOR will reflect a \$0 (no projects qualify) or greater than the estimated impact should multiple projects qualify.

ASSUMPTION (continued)

This proposal would require that the Department modify its Exemption Certificate (Form 149), website and computer system. These changes are estimated to cost \$3,596.

Additionally, DOR would need FTE if the number of refund claims generated from this exemption exceed 1,500 refund requests. 1 Associate Customer Service Representative for every 1,500 refund request

Oversight assumes the Department of Revenue is provided with core funding to handle a certain amount of activity each year. Oversight assumes DOR could absorb the costs for computer upgrades related to this proposal. Oversight also notes the small number of projects which would qualify for the credit and assumes DOR would not need additional FTE. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

Officials from the **Office of Administration - Budget and Planning (BAP)** note this proposal will impact the calculation under Article X, Section 18(e).

BAP notes this proposal would grant a sales tax exemption for the purchase of the supplies and equipment for utility scale solar energy farms. Qualifying utility scale projects must generate more than 20 megawatts (MW). Qualifying companies must be located in Missouri and employ at least three Missouri residents in full-time positions.

B&P is unaware of any such large-scale utility projects that may qualify for this exemption. B&P notes that the largest Ameren related utility scale project is 6.5 MW¹. In addition, the O'Fallon Renewable Energy Center (completed in 2014) is a 5.7 MW² utility scale project.

Based on data published by the Solar Energy Industries Association (SEIA), the average installation cost for a utility scale solar project was \$0.82 to \$1.36 per watt, with a one MW solar

¹ <https://www.burnsmcd.com/insightsnews/in-the-news/2021/06/ameren-community-solar-project-missouri>

² <https://www.seia.org/state-solar-policy/missouri-solar>

farm costing between \$820,000 and \$1,360,000. Therefore, B&P estimates that a 20 MW utility scale project could have installation costs between \$16.4 million to \$27.2 million.

Based on the numbers above, B&P estimates that for every one qualifying utility scale project, total state revenues could be reduced by \$692,900 to \$1,149,200. Using the population weighted local sales tax rate for 2021, B&P estimates that local funds could also be reduced by \$660,920 to \$1,096,160 per qualifying project. Table 1 shows the estimated impact per state and local fund for one qualifying project.

ASSUMPTION (continued)

Table 1: Estimated Revenue Impact per Qualifying Solar Project

<u>State Funds</u>	Low	High
General Revenue	(\$492,000)	(\$816,000)
Education (SDTF)	(\$164,000)	(\$272,000)
Conservation	(\$20,500)	(\$34,000)
DNR	(\$16,400)	(\$27,200)
Total State Revenue		
Loss	(\$692,900)	(\$1,149,200)
<u>Local Funds</u>		
Local Revenue		
Loss	(\$660,920)	(\$1,096,160)

B&P does not have enough information to determine when, or how many, such qualifying projects may occur. Therefore, in any given fiscal year the actual revenue impacts may be \$0 (no qualifying projects) to greater than the estimates shown above (multiple qualifying projects).

Oversight will reflect BAP and DOR's estimated fiscal impacts ranging from \$0 (no qualifying projects) to the maximum amount estimated by BAP and DOR (multiple qualifying projects).

Officials from the **Missouri Department of Conservation** note the proposal would have an unknown fiscal impact but greater than \$250,000. 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 decrease in sales and use tax collected would decrease 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 MDC assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes that the Conservation and Park, Soil, and Water Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) and Article IV Section 47 (a) of the Missouri Constitution thus MDC=s and DNR's sales taxes are constitutional mandates. Therefore, Oversight will reflect the B&P's and DOR's estimates of impact on the fiscal note.

Officials from the **Department of Elementary and Secondary Education** assume this proposed legislation will not impact the Department of Elementary and Secondary Education but will decrease Proposition C revenue sent to the state and distributed to Local Education Agencies in the state of Missouri, as well as, lower the St. Louis City school district sales tax revenue. DESE defers to the Department of Revenue for an estimated impact.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources** defer to the **Department of Revenue** for the potential fiscal impact of this proposal.

Officials from the **Missouri Department of Transportation** and the **City of Springfield** 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.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other cities and counties were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

Oversight will assume more than one such project could be developed in the state. Therefore, Oversight will utilized DOR and B&P's estimated cost, but will reflect a "could exceed" their estimate in FY 2023. Also, Oversight will reflect a \$0 or (Unknown) loss in future years if additional projects are developed.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
GENERAL REVENUE			
Revenue Loss – §144.030 Project exemption for solar systems	\$0 or Could exceed (\$492,00 to \$816,000)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	\$0 or Could exceed (\$492,00 to \$816,000)	\$0 or (Unknown)	\$0 or (Unknown)
<u>FISCAL IMPACT – State Government (continued)</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
CONSERVATION COMMISSION FUND (0609)			
Revenue Loss – §144.030 Project exemption for solar systems	\$0 or Could exceed (\$20,500 to \$34,000)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	\$0 or Could exceed (\$20,500 to \$34,000)	\$0 or (Unknown)	\$0 or (Unknown)
PARKS AND SOILS STATE SALES TAX FUND(S) (0613 & 0614)			
Revenue Loss – §144.030 Project exemption for solar systems	\$0 or Could exceed (\$16,400 to \$27,200)	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON PARKS AND SOILS STATE SALES TAX FUND(S)	\$0 or Could exceed (\$16,400 to \$27,200)	\$0 or (Unknown)	\$0 or (Unknown)
SCHOOL DISTRICT TRUST FUND (0688)			
<u>Revenue Loss</u> – §144.030 Project exemption for solar systems	\$0 or Could exceed (\$164,000 to \$272,000)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	\$0 or Could exceed (\$164,000 to \$272,000)	\$0 or (Unknown)	\$0 or (Unknown)

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (10 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Loss</u> – §144.030 Project exemption for solar systems	\$0 or Could exceed (\$660,920 to \$1,096,160)	\$0 or (Unknown)	\$0 or (Unknown)
NET ESTIMATED EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0 or Could exceed (\$660,920 to \$1,096,160)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL IMPACT – Small Business

Businesses that purchase or sell solar photovoltaic energy distributed generation systems and related supplies may be impacted by the proposal.

FISCAL DESCRIPTION

This act authorizes a sales tax exemption for purchases by a Missouri company, as defined in the act, of solar photovoltaic energy distributed generation systems and all purchases of supplies used directly to make improvements to such systems, provided that such systems allow for energy storage, include advanced or smart meter inverter capacity, or allow for utility scale projects greater than twenty megawatts.

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

Department of Elementary and Secondary Education

Department of Natural Resources

Department of Revenue

Office of Administration - Budget and Planning

Missouri Department of Conservation

Missouri Department of Transportation

City of Springfield



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