

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3632H.03C
 Bill No.: HCS for HB 1836
 Subject: Utilities; Taxation and Revenue - General; Taxation and Revenue - Property;
 Energy; State Tax Commission; County Officials
 Type: Original
 Date: April 5, 2024

Bill Summary: This proposal modifies provisions relating to the assessment of solar energy property.

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

***Oversight** notes to reach a revenue impact of \$250,000 in the Blind Pension Fund would require a change in assessed value of approximately \$830,000,000, approximately a 3.0% change in the assessed value of all commercial property. Therefore, Oversight assumes the fiscal impact to the Blind Pension Fund would not 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)	(Unknown)

***Oversight** notes this impact could be substantially reduced if taxing authorities are able to increase the levy to other taxpayers to make up for the loss of property tax revenue resulting from this proposal

FISCAL ANALYSIS

ASSUMPTION

Sections 137.010, 137.080, and 137.115 - Solar Property Assessment

In response to a similar proposal, HCS for HB 1746 (2024), officials from the **Office of Administration - Budget and Planning (B&P)** note Section 137.010 define solar energy equipment at commercial solar energy systems, placed into production before August 9, 2022, as tangible personal property. B&P notes that this proposal does not address whether solar energy equipment at commercial systems placed into production after August 9, 2022 or any other type of solar equipment (such as residential) would also be tangible personal property.

Section 137.080 would create a new subclass of tangible personal property for solar energy equipment at commercial solar energy systems, placed into production before August 9, 2022. Again, B&P notes that all other solar energy equipment would not be included in this new subclass.

Section 137.115 would set the assessment percentage for the newly created subclass. B&P noted that all other solar energy equipment would not be assessed at this lower rate.

This proposal would change how commercial solar energy property is assessed and taxed. This proposal could impact the Blind Pension Trust Fund if this proposal results in a change in the property tax liability on commercial solar energy property. Therefore, this proposal may have an unknown impact to TSR and the Blind Pension Trust Fund.

Oversight notes this proposal would change the assessment method for equipment associated with a project that uses solar energy directly to generate electricity. Oversight assumes this provision could reduce the assessed value of solar energy properties relative to current law.

Oversight doesn't have enough information to estimate a fiscal impact to the Blind Pension Fund or to local political subdivisions from these changes. Therefore, Oversight will show an unknown loss in property tax revenue beginning in FY 2026.

Oversight notes to reach a revenue impact of \$250,000 in the Blind Pension Fund would require a change in assessed value of approximately \$830,000,000. This would be approximately a 3.0% change in the assessed value of all commercial property.

Section 137.077- Solar Property Assessment

Oversight notes this proposal would change the assessment method for all real and tangible personal property associated with a project that uses solar energy directly to generate electricity. Oversight assumes this provision could reduce the assessed value of solar energy properties

relative to current law. Oversight doesn't have enough information to estimate a fiscal impact to the Blind Pension Fund or to local political subdivisions from these changes. Therefore, Oversight will show an unknown loss in property tax revenue beginning in FY 2026.

Oversight notes property tax revenues are designed to be relatively revenue neutral from year to year. The tax rate is adjusted relative to the assessed value to produce roughly the same revenue from the prior year with an allowance for growth.

Oversight notes some taxing entities have tax rate ceilings that are at their statutory or voter approved maximum or are at a fixed rate. For these taxing entities, any decrease in the assessed values would not be offset by a higher tax rate (relative to current law), rather it would result in an actual loss of revenue.

Oversight notes the Blind Pension Fund (0621) is calculated as an annual tax of three cents on each one hundred dollars valuation of taxable property $((\text{Total Assessed Value}/100) \cdot .03)$. Because this proposal limits the assessed value portion of this equation, the Blind Pension Fund will experience a decrease in revenue relative to what it would have received under current law.

Responses regarding the proposed legislation as a whole

Officials from the **State Tax Commission** assume the proposal has an unknown negative fiscal impact. Since the Missouri State Supreme Court ruling removing the property tax exemption for solar systems not for resale, solar systems will be assessed under current statute. This bill would grandfather in solar systems installed prior to August 9, 2022 with an assessment that is de minimis and a capped tax liability of 3%, which translates to a tax of \$300 per megawatt for equipment. Solar systems installed between August 9, 2022 and December 31, 2024 will be capped at \$1,000 per megawatt of production. New solar systems installed January 1, 2025 and after will be capped at \$2,000 per megawatt. All of these caps are less than assessing the property under current statute.

Officials from the **Office of Administration - Budget and Planning (B&P)** note this proposal would change how solar energy property is assessed and taxed. This proposal could impact the Blind Pension Trust Fund if this proposal results in a change in the property tax liability on solar energy property. Therefore, this proposal may have an unknown impact to TSR and the Blind Pension Trust Fund.

Officials from the **City of Kansas City** assume the proposed legislation has a negative fiscal impact of an indeterminate amount.

Officials from the **Metropolitan St. Louis Sewer District - 7B Sewer** assume to the extent that actual assessed values result in a tax liability that would be more than the caps, this bill would reduce MSD property tax revenue.

Officials from the **Morgan County Pwsd #2** assume the proposed legislation has a fiscal impact of an indeterminate amount.

Officials from the **Callaway County SB 40 Board** assume the proposed legislation has a negative fiscal impact of an indeterminate amount.

Officials from the **County Employee Retirement Fund (CERF)** assume the proposed legislation would likely result in reductions in contribution revenue to CERF of an unknown amount annually. A certain portion of the moneys that are used to fund the County Employees' Retirement Fund are tied to the collection of property taxes. Data is not available to quantify how changes to the assessment of solar energy property would impact contribution revenue, but CERF assumes there would be a negative impact.

Officials from the **Department of Social Services, City of Ulrich, Newton County Health Department, Phelps County Sheriff, Kansas City Police Dept., Pulaski County Sewer Dist #1, South River Drainage District - 7D Levee, St. Charles County Pwsd #2 - 7A Water, Ulrich Water/Wastewater, Wayne County Pwsd #2, the Branson Police Department and the St. Louis County Police Dept**, 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 - §§137.010, 137.077, 137.080, & 137.115 - Changes to Solar Property Assessment</u>	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE BLIND PENSION FUND	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
LOCAL POLITICAL SUBDIVISIONS			
<u>Revenue Loss - §§137.010, 137.077, 137.080, & 137.115 - Changes to Solar Property Assessment</u>	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

FISCAL IMPACT – Small Business

Certain utility companies could be impacted by this proposal.

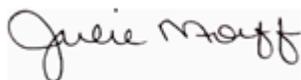
FISCAL DESCRIPTION

The proposed legislation modifies provisions relating to the assessment of solar energy property.

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 - Budget and Planning
 City of Kansas City
 Metropolitan St. Louis Sewer District - 7B Sewer
 Morgan County Pwsd #2
 Callaway County SB 40 Board
 County Employee Retirement Fund
 Department of Social Services
 City of Ulrich
 Newton County Health Department
 Phelps County Sheriff
 Kansas City Police Dept.
 Pulaski County Sewer Dist #1
 South River Drainage District - 7D Levee
 St. Charles County Pwsd #2 - 7A Water
 Ulrich Water/Wastewater
 Wayne County Pwsd #2
 St. Louis County Police Dept



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 April 5, 2024



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