

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1797-03
Bill No.: Truly Agreed To and Finally Passed SCS for HB 737
Subject: Cities, Town, and Villages; Counties; Energy; Taxation and Revenue - Property
Type: Original
Date: June 3, 2011

Bill Summary: Would classify certain hydroelectric power generating equipment as real property for property tax purposes, and would allow renewable energy generation zones to be designated as enhanced enterprise zones.

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 Other State Funds	(Unknown)	(Unknown)	(Unknown)

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 6 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)	(Unknown)	(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 real property, which may impact their assessed valuation. The State Tax Commission may be able to provide more details of the impact of this change on municipal revenues, including school districts.

The proposal would also extend the definition of blighted areas under the Enhanced Enterprise Zone Program, and would make other changes. To the extent this increases participation in the program, this may reduce General and Total State Revenues. Other economic activity may result from this proposal but BAP can not estimate the induced revenues.

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

Officials from the **Department of Elementary and Secondary Education** (DESE) that 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 would 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 **Parkway School District** assume the fiscal impact of this proposal on their organization is unknown.

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. 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.

<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>Revenue reduction</u> - valuation reduction for turbine generators	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(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

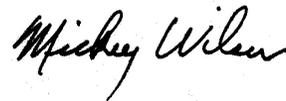
This proposal would make several changes with respect to the taxation of hydroelectric power generation facilities.

1. The proposal would allow a renewable energy generation zone to be designated as an enhanced enterprise zone if the zone is found to be blighted and contains land, improvements, or a lock and dam site which is not being used or is being underutilized for the production of electrical energy from a renewable energy resource;
2. would specify that improvements made to real property which are locally assessed and in a renewable energy generation zone designated as an enhanced enterprise zone may, upon approval of the governing authority, be exempt from assessment and payment of ad valorem taxes of one or more affected political subdivisions; and
3. would revise the definition of “real property” as it relates to property taxation to include hydroelectric power generating equipment.

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
City of Kansas City
Parkway School District



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