

March 19, 2014

The Honorable Les Donovan, Chairperson
Senate Committee on Assessment and Taxation
Statehouse, Room 123-E
Topeka, Kansas 66612

Dear Senator Donovan:

SUBJECT: Fiscal Note for SB 435 by Senate Committee on Assessment and Taxation

In accordance with KSA 75-3715a, the following fiscal note concerning SB 435 is respectfully submitted to your committee.

Current law provides for an ad valorem property tax exemption on property used to produce and generate electricity utilizing renewable energy resources or technologies, including wind, solar, photovoltaic, biomass, hydropower, geothermal, and landfill gas resources or technologies. SB 435 would allow this property tax exemption to be granted for only the ten tax years immediately following the tax year that the property is first used to produce and generate electricity.

Passage of SB 435 would increase property tax revenues by limiting the number of years that a current tax exemption could be claimed. The state funds directly affected by this bill are the two building funds, the Educational Building Fund (EBF) and the State Institutions Building Fund (SIBF). The Department of Revenue estimates that this bill would increase revenues to these two funds by \$2,921 in FY 2015, with \$1,947 going to the EBF and \$974 going to the SIBF. The bill would also have an effect on state expenditures for aid to school districts. To the extent that school districts receive additional property tax revenue through the state's uniform mill levy, the state customarily provides less state aid through the school finance formula. The Department of Revenue estimates the reduced state expenditures for aid to schools to be \$38,940 in FY 2015. The bill would also increase revenues to any local government that levies a property tax. Passage of this bill would gradually put the exempt renewable energy utilities back on the tax rolls. The following table provides the estimated appraised value of property that would gradually be put back on the tax rolls and the additional revenue that would be generated from the 20-mill school levy and 1.5-mill levy for state building funds:

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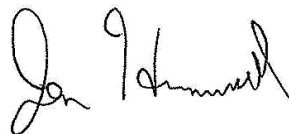
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<u>Fiscal Year</u>	<u>Appraised Value (Non-Exempt)</u>	<u>20-Mill School Levy</u>	<u>1.5-Mill State Building Levy</u>
2015	\$ 5,900,000	\$ 38,940	\$ 2,921
2016	17,700,000	116,820	8,762
2017	23,700,000	156,420	11,732
2018	23,700,000	156,420	11,732
2019	187,700,000	1,238,820	92,912
2020	216,200,000	1,426,920	107,019
2021	295,900,000	1,952,940	146,471
2022	460,900,000	3,041,940	228,146
2023	2,685,900,000	17,726,940	1,329,521
2024	2,985,900,000	19,706,940	1,478,021

To formulate these estimates, the Department of Revenue reviewed data on current and planned renewable energy facilities. The majority of electricity generating facilities utilizing renewable resources or technologies in Kansas are wind farms. Current installed wind powered electricity generating capacity is about 3,000 megawatts. Total appraised value for the current exempt wind farms is about \$2.9 billion as of tax year 2013. Any fiscal effect associated with SB 435 is not reflected in *The FY 2015 Governor's Budget Report*.

The Kansas Association of Counties indicates that the bill would increase property tax revenues in counties where electricity generating facilities utilizing renewable resources or technologies are located. However, the precise fiscal effect cannot be estimated because some counties have agreements with wind energy operators for payments in lieu of taxes (PILOTs) which would be eliminated and replaced with property taxes under the provisions of the bill. The Kansas Association of Counties assumes that the property tax revenue would exceed the amount of revenue from the PILOTs; however, the amount of additional revenues for local governments cannot be estimated.

Sincerely,



Jon Hummell,
Interim Director of the Budget

cc: Steve Neske, Department of Revenue
Melissa Wangemann, Association of Counties
Larry Baer, League of Municipalities
Tom Day, KCC