

FISCAL NOTE

Bill #: HB 600

Title: Tax exemption for energy generating equipment for a business.

Primary

Sponsor: Sylvia Bookout-Reinicke

Status: Final Bill

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY2002</u> <u>Difference</u>	<u>FY2003</u> <u>Difference</u>
Revenue:		
General Fund	\$(10,830)	\$(21,119)
University System	\$(684)	\$(1,334)
Assumption of Welfare (9 mill)	\$(342)	\$(667)
Net Impact on General Fund Balance:	\$(10,830)	\$(21,119)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
	x	Significant Local Gov. Impact		x	Technical Concerns
	x	Included in the Executive Budget		x	Significant Long-Term Impacts
	x	Dedicated Revenue Form Attached		x	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. The proposal, as amended, will exempt from property tax part or all of the value of noncommercial electrical generation machinery and equipment used for the production of electrical energy for use by the owner in the owner's business.
2. The exemption would apply to noncommercial electrical generation machinery and equipment that are currently owned or to equipment that is purchased after the effective date of the proposal.
3. To qualify for the exemption at least 80% of the electrical energy produced must be used by the owner in the owner's business. The amount of value exempted from property tax is based on the portion of electrical energy generated used by the owner in the owner's business. For example, if 85% of the electrical energy generated is used in the business then 85% of value is exempted from property tax.
4. The total value of the electrical generation machinery and equipment that would be impacted by the proposal is a very difficult estimate to make. For demonstration purposes the following assumptions are made:

(continued)

5. It is assumed that the number of pieces of machinery and equipment that would be impacted by the proposal will be 40 in fiscal year 2002 and an additional 40 in fiscal year 2003.
6. It is assumed that the average value of a piece of machinery and equipment impacted by the proposal is \$100,000.
7. It is assumed that the average rate of use of the electricity generated by the machinery and equipment that will be used by the business is 95%.
8. The machinery and equipment impacted by the proposal would be in class eight and therefore subject to the 3% tax rate applied to class eight property.
9. It is assumed the average rate of depreciation for the machinery and equipment is 5% per year.
10. Given assumptions 5 through 9 it is calculated that the amount of market value exempted from property tax is \$3,800,000 in fiscal year 2002 and \$7,410,000 in fiscal year 2003. The calculated amount of taxable value exempted from property tax is \$114,000 in fiscal year 2002 and \$222,300 in fiscal year 2003.
11. It is assumed that the mill levies that would be applied to the property are 95 mills for the state general fund, 6 mills for the university system, 9 mills for state assumption of welfare (applicable to only 33% of the property), and 396 mills total for local governments and local schools.
12. Given the mill levies in assumption 11 it is calculated that the impact to the state general fund will be a reduction of \$10,830 in revenue for fiscal year 2002 and a reduction of \$21,119 in fiscal year 2003.
13. It is calculated that the impact to the university system will be a reduction of \$684 in revenue for fiscal year 2002 and a reduction of \$1,334 in fiscal year 2003.
14. It is calculated that the impact to the state special revenue account for the state assumption of welfare mill levy will be a reduction of \$342 in revenue for fiscal year 2002 and a reduction of \$667 in fiscal year 2003.
15. It is calculated that the impact to the local governments and local school districts will be a reduction of \$45,144 in revenue for fiscal year 2002 and a reduction of \$88,031 in fiscal year 2003.

FISCAL IMPACT:

	<u>FY2002</u>	<u>FY2003</u>
	<u>Difference</u>	<u>Difference</u>
<u>Revenues:</u>		
General Fund	\$(10,830)	\$(21,119)
University System	\$(684)	\$(1,334)
Assumption of Welfare (9 mill)	\$(342)	\$(667)

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund	\$(10,830)	\$(21,119)
University System	\$(684)	\$(1,334)
Assumption of Welfare (9 mill)	\$(342)	\$(667)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

It is calculated that the impact to the local governments and local school districts will be a reduction of \$45,144 in revenue for fiscal year 2002 and a reduction of \$88,031 in fiscal year 2003.

LONG-RANGE IMPACTS:

Due to the termination date included in the proposal, the proposal would impact fiscal years 2002, 2003, 2004, and 2005.