BILL # HB 2676 **TITLE:** energy park authority

SPONSOR: Nichols **STATUS:** House Engrossed

PREPARED BY: Eric Billings

FISCAL ANALYSIS

Description

This bill creates the Energy Park Authority which provides financing for the development of electric generation facilities and the expansion of transmission facilities and related infrastructure. The Authority would operate as a public improvement district separate from the state and as such would be exempted from taxation. Additionally, the property of all qualified electric generation facilities would be assessed under a new Class 10 assessment ratio. The assessment ratio of Class 10 property will be the same as for Class 1 property through FY 2013. The Class 10 assessment ratio in subsequent years, however, would depend on when the first non-carbon based generation facility located in an energy park produces and transmits electricity to the grid. As long as this condition remains unfulfilled, the assessment ratio for Class 10 would be the same as for Class 1. However, as soon as the condition is met, the Class 10 assessment ratio would be determined based on a formula provided in the bill, but no earlier than FY 2014. In addition, HB 2676 establishes a fund to provide monies for the operations of the Energy Park Authority.

Estimated Impact

Based on net assessed valuation (NAV) data from the Department of Revenue (DOR), this bill could result in a General Fund cost of $59.7 million beginning as soon as FY 2014. The proposal would reduce NAV, which would result in an increase of the state's K-12 education formula cost. However, the fiscal impact resulting from the NAV loss could be offset by reducing the cost of automatic school tax rate adjustments under the state's Truth in Taxation (TNT) provision. The net General Fund cost, if the TNT savings are incorporated, would be an estimated $8.8 million beginning no sooner than FY 2014.

The bill requires DOR to levy a tax on the property assessed under Class 10. Of the total Class 10 property tax levies, 20% would be distributed to the Energy Park Authority and 80% to local taxing jurisdictions. Based on data provided by DOR, it is estimated that this tax would generate about $8 million in revenues for the Authority.

While the bill will likely result in higher General Fund costs for K-12 school funding, this impact may be mitigated to the extent that new facilities, created as a result of this bill, will serve to offset some of the valuation losses resulting from the proposed valuation method.

Analysis

Under the bill, the value of electric generation facilities in Class 10 would be equal to 20% of the depreciated cost of such property. This would be the same valuation method as currently used for renewable energy equipment. By way of comparison, non-renewable electric generation facilities (those fired by coal and natural gas) are valued under a different statutory method, which generally results in higher property valuations. According to DOR, the valuation method under Class 10 would result in a statewide reduction in the NAV of $(1.8) billion. This estimate is based on the assumption that the bill will apply to existing and new qualified generators.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated by local property taxes. The state also pays a percentage (40% in FY 2014) of residential school property taxes through the Department of Education's Homeowner's Rebate program. By reducing primary NAV by $(1.8) billion, the bill will result in a direct increase of the state share of K-12 funding by $59.7 million in FY 2014. This estimate includes the net impact on both Basic State Aid and the Homeowner's Rebate.

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The NAV reduction under the proposal will also generate savings through the state's TNT program. TNT changes the Qualifying Tax Rate (QTR) each year to offset the annual statewide appreciation or depreciation of existing property. This rate change (either increase or decrease) occurs automatically unless the Legislature decides to forego the TNT adjustment. Due to a projected increase in existing property values in FY 2014, the school tax rate is expected to be reduced by 3¢ under existing statutes. However, the NAV loss under the bill would result in a tax rate increase of 4.5¢ as opposed to a rate reduction of 3¢ under current law, which generates a TNT savings of $(50.9) million.

As noted above, the fiscal impact of the proposal depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund, beginning in FY 2014, will be about $59.7 million. However, if the QTR is adjusted to account for TNT, the bill's General Fund cost would be limited to $8.8 million.

Under the provisions of this bill, all personal property and improvements to electric generation facilities and on-site administrative and operational improvements that are part of the generation and transmission process (except those owned by a multi-county water conservation district, such as the Central Arizona Project (CAP)) are subject to the Class 10 property tax Classification for up to 20 years. The assessment ratio for Class 10 property would be same as for Class 1 property (20% of full cash value) through FY 2013. However, starting as soon as FY 2014, the Class 10 assessment ratio would be calculated each year based on a formula provided in the bill. According to Legislative Council, the intent of the assessment ratio formula is to lower the taxable valuation of all generation facilities as new generation property is added to the tax rolls by keeping the pooled cumulative valuation somewhat constant. The impact of this new variable assessment ratio for Class 10 property is not reflected in the estimated NAV loss of $(1.8) billion.

Under the bill, DOR would be required to levy a tax against the assessed valuation of Class 10 property. The tax rate would be equal to the combined average primary and secondary tax rate levied by all taxing jurisdictions in the state. The Energy Park Authority would receive 20% of the Class 10 property tax revenues through 2039. The remaining 80% of Class 10 property tax revenues would be divided amongst the taxing jurisdictions where the facilities are located, in proportion to their respective tax levies. The state General Fund would not receive any of these tax levies. Based on data furnished by DOR, it is estimated that the Authority would receive an estimated $8 million in tax levies. Beginning in 2040, all of the tax levies on Class 10 property would be distributed to local taxing jurisdictions.

The bill also provides that the tax levied on Class 10 property would be in lieu of any property taxes imposed by local jurisdictions, such as counties, cities, community colleges and school districts. This property tax would be in addition to local tax levies on properties other than those designated to Class 10. The new tax could result in some local taxing jurisdictions raising their tax rates to compensate for the loss of new Class 10 property. These rate increases could raise the state General Fund cost for the constitutional 1% cap provision. Under this provision, a homeowner's combined primary property tax is never allowed to exceed 1% of the property's limited value. Thus, to the extent that the potentially higher primary tax rates would exceed this limit, the state would have to bear this cost in the form of additional state aid to school districts. This potential cost increase cannot be determined in advance.

In order for a project to be considered for financing by the Authority it must agree that 51% of new full-time employees be compensated at 125% of the median annual wage, provide health insurance to all new full-time employees, and meet other performance metrics.

Local Government Impact

Local governments will face total primary tax losses and/or shifts to other classes of property of an estimated $(110.3) million in FY 2014. Secondary tax shifts to other classes of property are estimated to total $(55.3) million in FY 2014.