TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

HB 3520 – SB 3296

April 9, 2012

SUMMARY OF AMENDMENTS (014193, 016286): Requires property owners to obtain and provide to the Comptroller of the Treasury a copy of the certified green energy production facility certificate, effective January 1 of the year for which valuation of the facility's machinery and equipment is claimed. Merges existing special value provisions for wind power facilities under the certification process for green energy production facilities. Directs that property owners have until July 1, 2012, to claim the valuation for tax year 2012. Requires the valuations to be implemented over a five-year period for property certified as a green energy (solar) production facility. For 2012, the maximum value of such property shall be one-half percent of installed costs; for 2013, the maximum value shall be seven percent of installed costs; for 2014, the maximum value shall be 20 percent of installed costs; for 2015, the maximum value shall be 26 percent of installed costs; and for 2016 and subsequent years, the maximum value shall be one-third of installed costs. Establishes procedures for a property owner to claim the value for tax year 2012.

CORRECTED FISCAL IMPACT OF ORIGINAL BILL:

Increase Local Revenue – Exceeds $50,000

Forgone Local Revenue – Exceeds $100,000

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:

Decrease Local Revenue – Net Impact – Exceeds $52,900/FY12-13
Net Impact – Exceeds $36,800/FY13-14
Net Impact – Exceeds $700/FY14-15

Increase Local Revenue – Net Impact – Exceeds $20,700/FY15-16
Net Impact – Exceeds $48,600/FY16-17 and Subsequent Years

Forgone Local Revenue - $169,900/FY12-13
$178,200/FY13-14
$169,900/FY14-15
$172,500/FY15-16
$169,600/FY16-17 and Subsequent Years

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Assumptions applied to amendments:

Thermal, Hydrogen, and Solar Certified Green Energy Production Facility:

- According to the Comptroller of the Treasury, this bill will not affect any existing property tax assessments because there is currently no facility in Tennessee that meets the definition of a "certified green energy production facility."
- According to the Comptroller, under current law, such facility's real and personal property will be fully appraised, assessed, and taxed.
- As a result of the proposed legislation, at least one facility will become certified and be subject to property taxation. As a result, local governments will realize a corresponding increase in property tax revenue.
- The estimated total installed cost is $5,000,000.
- Local property tax revenue from tax year 2012 will be collected in FY12-13, this collection pattern will continue in subsequent years. The tax rate is assumed to be $3.00 per $100 of value. Under current law, tax collections will be $150,000 [($5,000,000 installed cost / $100) x $3].
- In FY12-13, tax will be collected on one-half percent of the installed costs resulting in revenue of $750 [($5,000,000 value / $100) x $3 x 0.5%]. Therefore, the estimated forgone local revenue exceeds $149,250 ($150,000 current collections - $750) in FY12-13.
- In FY13-14, tax will be collected on seven percent of the installed costs resulting in revenue of $10,500 [($5,000,000 value / $100) x $3 x 7%]. Therefore, the estimated forgone local revenue exceeds $139,500 ($150,000 current collections - $10,500) in FY13-14.
- In FY14 -15, tax will be collected on 20 percent of the installed costs resulting in revenue of $30,000 [($5,000,000 value / $100) x $3 x 20%]. Therefore, the estimated forgone local revenue exceeds $120,000 ($150,000 current collections - $30,000) in FY14-15.
- In FY15-16, tax will be collected on 26 percent of the installed costs resulting in revenue of $39,000 [($5,000,000 value / $100) x $3 x 26%]. Therefore, the estimated forgone local revenue exceeds $111,000 ($150,000 current collections - $39,000) in FY15-16.
- In FY16-17 and subsequent years, tax will be collected on 33 percent of the installed costs resulting in revenue of $49,995 [($5,000,000 value / $100) x $3 x 33.33%]. Therefore, the estimated forgone local revenue exceeds $100,005 ($150,000 current collections- $49,995) in FY16-17 and subsequent years.

Wind Certified Green Energy Production Facility:

- According to the Comptroller of the Treasury, there are currently 168 certificated sites with an average value of $70,000 in Tennessee.
- Approximately one-half of the sites, or 84 sites, are exempt from personal property tax.
- The tax rate is assumed to be $3.00 per $100 of value.
- Based on information provided by the Comptroller of the Treasury, installed cost for the taxed sites is approximately $6,000,000.
- According to the Comptroller, the standard assessment for this category is 30 percent.

- Currently, annual local tax revenue derived from the 84 sites is approximately $54,000 {[($6,000,000 installed cost x 30% assessment) / $100] x $3}.
- In FY12-13, for the current 84 sites, tax will be collected on one-half percent of the installed costs resulting in a decrease in local revenue of $53,730{$54,000 current revenue – [($6,000,000 installed cost x 0.5% x 30% assessment / $100) x $3]}.
- In FY13-14, tax will be collected on seven percent of the installed costs resulting in a decrease in local revenue of $50,220{$54,000 current revenue – [($6,000,000 installed cost x 7% x 30% assessment / $100) x $3]}.
- In FY14-15, tax will be collected on 20 percent of the installed costs resulting in a decrease in local revenue of $43,200{$54,000 current revenue – [($6,000,000 installed cost x 20% x 30% assessment / $100) x $3]}.
- In FY15-16, tax will be collected on 26 percent of the installed costs resulting in a decrease in local revenue of $39,960 {$54,000 current revenue – [($6,000,000 installed cost x 26% x 30% assessment / $100) x $3]}.
- In FY16-17 and subsequent years, tax will be collected on 33.33 percent of the installed costs resulting in a decrease in local revenue of $36,002 {$54,000 current revenue – [($6,000,000 installed cost x 33.33% x 30% assessment / $100) x $3]}.
- Based upon information provided by the Comptroller, 330 new facilities will be constructed by FY16-17, with an average of 66 facilities built per year. These facilities will be constructed in Tennessee as a result of the tax incentive included in this bill.
- The installed cost of the 66 new facilities is $2,310,000 (66 x $70,000 value x ½ of the sites taxed).
- Under current law, tax collections will be $20,790 {($2,310,000 installed cost per 66 facilities x 30%) / $100] x $3} per each 66 additional facilities.
- In FY12-13, tax will be collected on one-half percent of the installed costs resulting in an increase in local revenue of $104 [($2,310,000 value x 0.5% x 30% assessment) / $100) x $3]. Therefore, the estimated forgone local revenue is $20,686 ($20,790 estimated collections - $104) in FY12-13.
- In FY13-14, an additional 66 facilities will be built with total installed cost for 132 facilities of $4,620,000 ($2,310,000 installed cost x 2).
- In FY13-14, tax will be collected on seven percent of the installed costs resulting in an increase in local revenue of $2,911 [($4,620,000 value x 7% x 30% assessment) / $100 x $3]. Therefore, the estimated forgone local revenue is $38,669 ($41,580 estimated collections - $2,911) in FY13-14.
- In FY14-15, an additional 66 facilities will be built with total installed cost for 198 facilities of $6,930,000 ($2,310,000 installed cost x 3).
- In FY14-15, tax will be collected on 20 percent of the installed costs resulting in an increase in local revenue of $12,474 [($6,930,000 value x 20% x 30% assessment) / $100 x $3]. Therefore, the estimated forgone local revenue is $49,896 ($62,370 estimated collections - $12,474) in FY14-15.
- In FY15-16, an additional 66 facilities will be built with total installed cost for 264 facilities of $9,240,000 ($2,310,000 installed cost x 4).
- In FY15-16, tax will be collected on twenty-six percent of the installed costs resulting in an increase in local revenue of $21,622 [($9,240,000 value x 26% x 30% assessment) /

$100 x $3]. Therefore, the estimated forgone local revenue is $61,538 ($83,160 estimated collections - $21,622) in FY15-16.

- In FY16-17 an additional 66 facilities will be built with total installed cost for 330 facilities of $11,550,000 ($2,310,000 installed cost x 5).
- In FY16-17 and subsequent years, tax will be collected on 33.33 percent of the installed costs resulting in an increase in local revenue of $34,647 [($11,550,000 value x 33.33% x 30% assessment) / $100 x $3]. Therefore, the estimated forgone local revenue is $69,603 ($103,950 estimated collections - $34,347) in FY16-17 and subsequent years.

Total Impact:

- The net impact in FY12-13 will be a decrease in local revenue exceeding $52,876 [($750 + 104) - $53,730] and forgone revenue exceeding $169,936 ($20,686 + $149,250).
- The net impact in FY13-14 will be a decrease in local revenue exceeding $36,809 [($10,500 + $2,911) - $50,220] and forgone revenue exceeding $178,169 ($38,669 + $139,500).
- The net impact in FY14-15 will be a decrease in local revenue exceeding $726 [($30,000 + $12,474) - $43,200] and forgone revenue exceeding $169,896 ($49,896 + $120,000).
- The net impact in FY15-16 will be an increase in local revenue exceeding $20,662 [($39,000 + $21,622) - $39,960] and forgone revenue exceeding $172,538 ($61,538 + $111,000).
- The net impact in FY16-17 and subsequent years will be an increase in local revenue exceeding $48,640 [($49,995 + $34,647) - $36,002] and forgone revenue exceeding $169,608 ($69,603 + $100,005).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

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