

# **SOUTH DAKOTA LEGISLATIVE RESEARCH COUNCIL**

## **FISCAL NOTE, 2010 LEGISLATIVE SESSION**

### **FISCAL NOTE 2010-SB58A**

SB 58 revise certain real property taxes for small renewable energy facilities.

SB58 would revise the real property taxes for small renewable energy facilities and would exempt from the real property tax the first fifty thousand dollars of the assessed value of the renewable energy property or seventy percent of the assessed value of the renewable energy property, whichever is greater. This exemption is for renewable energy facilities with less than five megawatts of nameplate capacity.

#### **Assumptions:**

According to PUC, there are currently around 150 (total installed cost of about \$1.9M) small renewable energy systems installed in the state. In 2009, PUC would conservatively estimate that less than 50 (2009 installed cost of about \$1M) systems were installed. Most of these systems were split fairly evenly between wind used as the source of energy to produce electricity and solar used as the source of energy to produce electricity. A couple of projects were quite large, at over \$150,000, but the rest were typically between \$5,000 and \$25,000. Based on historical evidence, PUC makes the assumption that going forward, they would see:

1. Annually, 50 projects totaling \$1M worth of small renewable energy systems will be installed. By number, half will be wind, and half will be other renewables.
2. 40% or \$400,000 will be larger projects, greater than \$100,000 each - assuming \$200,000 wind and \$200,000 solar/other.
3. 60% or \$600,000 will be smaller projects - assuming \$480,000 wind and \$120,000 solar/other.

With these assumptions, PUC estimates the following installs

1. 1 - \$200,000 wind
2. 2 - \$100,000 solar/other
3. 24 - \$20,000 wind
4. 24 - \$5,000 solar/other

#### **Current Taxes:**

Without any changes, the property taxes would be assessed differently depending on which county the facility is in. According to PUC some assessors are ignoring small wind and solar, some are using the wrong statutes, and some are doing it correctly. There is also a 3 year exemption followed by a 3 year partial exemption, but it's so complicated that almost no one is using it. If done correctly, after year 6, the table below calculates the property tax based on

current statutes assuming a 1.6% property tax rate. PUC provided this rate as a statewide average and with the assumption that most would be installed in rural areas making this a conservative estimate.

**Proposed SB58 Exemption:**

Under the proposed exemption in SB 58, the table below calculates the property tax based on proposed SB 58 exemption assuming a 1.6% property tax rate (same as mentioned above).

It should be noted that the estimate of property tax based on current statutes which was calculated for the larger wind projects valued over \$200,000, exempted from real property the cost of the turbine and blades (estimated at \$140,000). However, they were not exempted from the real property in the estimate based on proposed SB 58. There are varying opinions whether the turbine and blades are considered real property or not with the repeal of SDCL 10-4-36 in SB 58. Therefore, to be conservative the full installed cost of all components was used in the property tax estimate based on proposed SB 58.

**FY 2011 Fiscal Impact:**

It is estimated that the total FY 2011 fiscal impact is a decrease of \$11,840 in property tax revenue statewide. Please see the table below for the calculation.

	Estimated	Total	Property Tax Based on a 1.6% Rate	
	Number	Real	Estimated	Property Tax Est.
	Built per	Property	Property Tax Based	Based on Proposed
	Year	Value	on Current Statutes	SB 58 Exemption
Wind energy facilities built valued over \$200K	1	\$200,000	\$960	\$960
Solar/other facilities build valued over \$100K	2	\$200,000	\$3,200	\$960
Wind energy facilities built valued over \$20K	24	\$480,000	\$7,680	\$0
Solar/other facilities build valued over \$5K	24	\$120,000	\$1,920	\$0
Total	51	\$1,000,000	\$13,760	\$1,920
Total Estimated Impact Fiscal Year 2011				\$ (11,840)

This fiscal note was prepared in consultation with the Bureau of Finance and Management, pursuant to Chapter 6C of the Joint Rules of the Legislature.

APPROVED BY: Signed by Mr. James Fry DATE: 2/2/2010