

## WIND ENERGY TAX AND EDUCATION FUNDING

**ISSUE:** The allocation of wind energy tax in regard to education funding

**OVERVIEW:** Prior to the changes to education funding passed by the legislature in 2016, certain funding sources including taxes from wind farms, the bank franchise tax, traffic fines, and the gross receipts tax on utilities, went directly to the school districts where they were collected. These funds were not included in the overall formula for funding for the school district, meaning that those funds were allocated to the school on top of the state and local funding. Part of the deal that was reached in 2016 to change funding for schools and increase teacher pay also changed how these funding sources, including the wind energy tax, were allocated. It was felt that these funding sources contained the character of state taxes and provided a windfall for some school districts and an inequity for other districts. Today, those funds are to some degree built into the local effort portion of the education formula. Specifically for the wind energy tax, 100% of the tax collected from any project producing power before July 1, 2016 is counted as local effort. For newer projects, funds are slowly built into the formula over the first ten years of production.

Since passage of this change in education funding, there have been conversations about bringing legislation to exclude wind energy taxes from the formula, thereby returning things to the way they were prior to 2016.

**PRO:**

1. Keeping the wind energy tax outside of the funding formula may add an extra incentive to locals when considering whether they would like a wind energy project in their area. When outside the formula, this funding is allocated to schools on top of what they get from the formula. Wind energy development is good economic development for many rural

communities throughout the state. SDFB has policy supporting wind energy.

**CON:**

1. Removing the wind energy tax from the formula shifts the tax burden that makes up the local effort for school districts from that tax to other taxes, namely property taxes. Increasing property taxes was one of the main drivers for SDFB's involvement in the education funding discussion in 2016. SDFB supported the changes made to education funding in 2016 as a whole, and specifically supported including the wind energy tax in the local effort portion of the funding formula.
2. The opportunity for wind is not equal across the state. Some areas have a significant advantage in developing wind farms and some areas, and their school districts, will most likely never have a wind farm in their school district. This creates inequities among school districts. The South Dakota Constitution calls for a uniform system of free public schools. It is the duty of the legislature to establish and maintain a general and uniform system of free public schools. Prior to the 2016 change in the wind energy tax distribution, there were school districts right next to each other where the district with a wind farm had \$1,000 or even as much as \$2,000 more money per student, because the wind energy tax was not included in the overall education formula.

**SDFB POLICY:** SDFB does not have specific policy related to wind tax allocation.

**DISCUSSION:**

1. Should SDFB support efforts to open the education funding formula back up and remove the wind energy tax from local effort?
2. Would such legislation lead to other changes in the way education is funded in South Dakota? If the legislature permits schools with wind farms to keep additional dollars, will other districts that have highway weight scales or large amounts of bank franchise tax revenues want to change the formula to their advantage?
3. What kind of impact would such a change have on property taxes, specifically on agricultural land?