Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2005 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **05-3679/1**	Introduction Number **AB-818**

Description
Public utility aid payments, imposing local general property taxes on production plant general structures and substations, and creating a credit against license fees imposed on light, heat, and power companies and electric cooperatives

Fiscal Effect

State:
☐ No State Fiscal Effect
☐ Indeterminate
☐ Increase Existing Appropriations
☐ Decrease Existing Appropriations
☐ Create New Appropriations
☐ Increase Existing Revenues
☒ Decrease Existing Revenues
☒ Increase Costs - May be possible to absorb within agency's budget ☐ Yes ☒ No
☐ Decrease Costs

Local:
☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☒ Increase Revenue ☐ Permissive ☒ Mandatory
4. ☒ Decrease Revenue ☐ Permissive ☒ Mandatory

5. Types of Local Government Units Affected
☒ Towns ☒ Village ☒ Cities
☒ Counties ☒ Others lake, sanitary, metro sewer
☒ School Districts ☒ WTCS Districts

Fund Sources Affected
☒ GPR ☐ FED ☒ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations
20.566 (2) (a) and (gb), 20.835 (1) (d)

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 12/20/2005

LRB Number **05-3679/1**	Introduction Number **AB-818**	Estimate Type **Original**
Description Public utility aid payments, imposing local general property taxes on production plant general structures and substations, and creating a credit against license fees imposed on light, heat, and power companies and electric cooperatives		

Assumptions Used in Arriving at Fiscal Estimate

The bill makes several changes to current law concerning the taxation of public utilities and utility shared revenue payments.

STATUTORY CHANGES

Electric generation plants: For plants in operation on January 1, 2004, the current utility shared revenue payment is 9 mills on the net book value (original cost less depreciation) of the plant. Under the bill, beginning in 2007 (FY08), the utility shared revenue payment for such plants would be the greater of (a) 9 mills on net book value or (b) the sum of $2,000 per megawatt (MW) of name-plate capacity plus $2,000 per MW of name-plate capacity for plants that use an alternative (renewable) fuel. Once a plant's payments are made on the basis of its MW capacity, all future payments are to be paid on the same basis.

Value guarantee: The net book value used to calculate utility shared revenues may currently not be less than the value used to determine payments in 1991, adjusted for the value of any property that has been removed from service. Under the bill, the value guarantee would not be used beginning with utility shared revenue payments in 2007 (FY08).

General structures: Under the bill, the current property tax exemption for public utility general structures would be repealed effective with the January 1, 2007 assessment. In addition, the current utility shared revenue payment of 9 mills on the net book value of general structures would be discontinued beginning in 2008 (FY09). These provisions do not apply to general structures owned by an electric cooperative.

Non-transmission substations: Under the bill, the current property tax exemption for public utility substations would be repealed effective with the January 1, 2008 assessment. In addition, the current utility shared revenue payment of 9 mills on the net book value of substations would be discontinued beginning in 2009 (FY10). Transmission substations would continue to be tax exempt and qualify for utility shared revenue payments. These provisions do not apply to substations owned by an electric cooperative.

Electric cooperatives: Under the bill, beginning in 2008, electric cooperatives are permitted to make in-lieu of tax payments to local governments where their general structures are located. Similar payments on behalf of electric cooperative non-transmission substations would be permitted beginning in 2009. Utility shared revenue payments would be discontinued for any property on which such in-lieu of tax payments are made.

State gross revenues tax: Public utilities currently are subject to a state gross revenues tax imposed at a rate of 0.97% on natural gas revenues, 1.59% on wholesale electric revenues, and 3.19% on all other revenue. Under the bill, utilities could credit any property taxes paid against their state gross revenues tax liability. Electric cooperatives could credit any in-lieu of tax payments they made, but the deduction could not exceed the amount of property taxes that would have been paid had the property been subject to taxation. If the credit for property taxes paid exceeds the utility's gross revenues tax liability, the unused portion of the credit can be carried forward and credited against future years' gross revenues tax liability for 15 years.

Distribution property: Utility distribution property would continue to be exempt from property taxes. However, the Department of Revenue (DOR) would be required to convene a study group to assess the feasibility and desirability of imposing property taxes or their equivalent on such property. The study group would be required to report its findings and recommendations to the legislature no later than May 1, 2006. (Utility shared revenues would not be affected since distribution property does not qualify for such payments.)

Transmission line payment: Owners of transmission lines that operate at 345 kilovolts or more and approved by the Public Service Commission of Wisconsin (PSCW) after October 29, 1999 currently pay an annual fee equal to 0.30% of the original cost of the line. This fee is distributed to the counties and municipalities where the power lines are located. Under the bill, this payment would equal 0.30% of the net book value of such transmission lines.

Mitigation payment: A mitigation payment is defined as a payment from a utility company to a municipality in which the utility has property. Under the bill, any mitigation payment for which the PSCW was notified before June 10, 2003 and which was not found unreasonable before November 11, 2003, would be recoverable in utility rates.

Property assessment: The bill requires that all utility property placed on the property tax roll be assessed by DOR in the same manner as manufacturing property is assessed. DOR assesses manufacturing property on the basis of its full value (market value at highest and best use). Utility property would be similarly valued. DOR currently recovers 50% of the cost of assessing manufacturing property from fees assessed on the municipalities where such property is located, and could similarly recover 50% of the cost of assessing utility property.

FISCAL EFFECT

The changes to utility shared revenue and utility tax law under the bill are phased-in over a three-year period beginning in 2007 (FY 08). Changes in one part of the utility shared revenue formula affect how the rest of the payment is calculated. As a result, the fiscal effects of individual changes are not cumulative. Consequently, the fiscal effect was estimated as if all of the changes in utility shared revenues had taken place for 2005 payments. It was also assumed that electric cooperatives would make in-lieu of tax payments equal to the property taxes they would have paid had their property been taxable.

Since mitigation payments are administered by the PSCW and transmission line payments are administered by the WPSC and the Department of Administration, DOR does not have the information to reasonably estimate how the bill would affect these payments. These provisions are addressed by the fiscal note prepared by the PSCW.

Utility shared revenue: The effects were estimated with a simulation model for utility shared revenue payments in calendar 2005 that compared payments under the bill and under current law for each municipality and county in the state. For municipalities, 49 would have had their payments increase by a total of $4.2 million and 1,007 would have had their payments decrease by a total of $3.5 million, for a net increase in payments to municipalities of $0.7 million. For counties, 19 would have had their payments increase by a total of $3.5 million and 53 would have had their payments decrease by a total of $2.0 million, for a net increase in payments to counties of $1.5 million. The total effect on utility shared revenues is an increase of $2.2 million. Under the bill, utility shared revenue payments would tend to increase for those municipalities and counties which host power plants whose payment would shift from the 9-mill calculation to the MW-based calculation. Utility shared revenue payments would tend to decrease for those municipalities and counties whose payment is primarily due to the presence of general structures and substations. However, these localities' loss in shared revenues would be partially offset by the property taxes that utilities would be required to pay on such property.

Property taxes: DOR would be required to assess utility property at full market value. Recent sales of utility companies or parts thereof indicate that such property is being sold for between 100% and 200% of net book value. The exact percentage can vary with the age of the facilities sold (older facilities sell at a lower percentage), the type of utility property (nuclear facilities sell at a lower percentage), and how regulatory agencies permit the purchasers to account for any premium (excess over net book value) paid. In addition, some utility property, notably general structures, often can be marketed to non-utility companies, which can result in even higher prices for well-maintained facilities.

For purposes of this fiscal note, the market value of utility property that would be placed on the tax roll was estimated at 100% of net book value for substations and 150% of net book value for general structures. Property taxes were calculated by multiplying the estimated market value of taxable utility property in each municipality by that municipality's average net property tax rate for 2004/05. Based on these assumptions, the total property taxes (including in-lieu of tax payments by cooperatives) for 2004/05 would have been $19.6 million. Based on the statewide average breakdown of levies by taxation unit, these property taxes would have accrued as follows: $9.1 million for school districts, $1.5 million for technical colleges, $4.1 million for counties, and $4.9 million for municipalities.

State gross revenues tax: Total tax collections for state FY 05 from the state gross revenues tax on utility companies was $168.7 million. Under the bill, these collections would have been $149.1 million, or $19.6 million less due to the ability of utility companies to credit their property taxes against their state gross revenues tax liability. Since estimated property taxes are expected to be less than the state gross revenues tax for most utilities, the amount utilities would be able to carry-forward as a credit against future years' gross revenues taxes is expected to be minimal.

Administrative cost: Based on discussions with various utility companies, it is estimated that from 3,000 to 5,000 parcels could be subject to property taxation under the bill. In order to assess this property, the DOR would incur one-time costs for assessors' field equipment and computer programming and testing of $43,200. DOR estimates that it would need 5.0 FTE positions, at an annual cost of $275,000, to assess the affected utility parcels.

Net state effect: Based on the above, the total effect on the state general fund once the three-year phase-in of the bill's provisions is completed would be a decrease in the ending general fund balance of $21.938 million (consisting of a $19.6 million decrease in gross revenues utility taxes, a $2.2 million increase in utility shared revenues, and $137,500 for the 50% of administrative costs not charged back to municipalities). The actual effect once the bill takes full effect in 2009 (FY 10) may be somewhat higher than shown here due to continuing investment by the state's utilities in substations in order to improve the reliability of the state's electric grid.

Long-Range Fiscal Implications

Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate Worksheet - 2005 Session

Detailed Estimate of Annual Fiscal Effect

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Description
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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):

The Department would incur one-time costs of $43,200, consisting of $27,200 for computer program development and testing and $16,000 for office equipment and field equipment for assessors.

II. Annualized Costs:	**Annualized Fiscal Impact on funds from:**	
	Increased Costs	Decreased Costs
A. State Costs by Category		
State Operations - Salaries and Fringes	$265,000	
(FTE Position Changes)	(5.0 FTE)	
State Operations - Other Costs	10,000	
Local Assistance	2,200,000	
Aids to Individuals or Organizations		
TOTAL State Costs by Category	**$2,475,000**	**$**
B. State Costs by Source of Funds		
GPR	2,337,500	
FED		
PRO/PRS	137,500	
SEG/SEG-S		

III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)

	Increased Rev	Decreased Rev
GPR Taxes	$	$-19,600,000
GPR Earned		
FED		
PRO/PRS		
SEG/SEG-S		
TOTAL State Revenues	**$**	**$-19,600,000**

NET ANNUALIZED FISCAL IMPACT

	State	Local
NET CHANGE IN COSTS	$2,475,000	$
NET CHANGE IN REVENUE	$-19,600,000	$

Agency/Prepared By	**Authorized Signature**	**Date**
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