

**Legislative Fiscal Bureau**

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March 27, 2000

TO: Representative Timothy Hoven
Room 17 North, State Capitol

FROM: Rick Olin and Faith Russell

SUBJECT: 1999 Assembly Bill 927: Wholesale Sales of Electricity

At your request, this memorandum summarizes Assembly Bill 927, which would reduce the gross revenues license fee on wholesale sales of electricity from 3.19% to 1.59%. In addition, an explanation is provided of LRB 0483/1, which is a proposed substitute amendment to AB 927.

UTILITY TAXES**Current Law**

Under current law, a license fee on gross revenues is imposed in lieu of local property taxation on the following utilities: (a) light, heat and power companies, including qualified wholesale electric companies ["qualified wholesale electric companies" includes wholesale merchant plants as defined under s. 196.491(1)(w)]; (b) electric cooperatives; and (c) car line companies. Light, heat and power companies are generally subject to a 3.19% gross revenues license fee on revenues from electricity sales, as are electric cooperatives. However, if the property of a light, heat and power company other than a qualified wholesale electric company is located within an entire town, village or city, it is subject to local assessment and taxation. For municipal light, heat and power companies subject to the license fee, the gross revenues from operations within the municipality are subtracted from total gross revenues for the purpose of determining the fee.

The gross revenues license fee is paid in semi-annual installments of either 55% of the tax on gross revenues for the prior year or 50% of the estimated tax on gross revenues for the current year on May 10 and November 10. On the following May 10, a final adjustment payment or refund is made to reconcile the two prior installment payments with the actual assessment.

Fiscal Effect

Due to the effective date, the bill would have no effect on state utility tax collections in the 1999-01 biennium. A reduction in general fund tax collections from the lower rate would first occur in 2001-02 (assuming that taxpayers with wholesale sales would reduce their May, 2002, installment payments to 50% of anticipated taxable gross revenues for 2002). However, the full effect would not be felt until 2002-03. It is estimated that the annualized effect of reducing the license fee for all wholesale sales of electricity would be a reduction in utility tax collections of approximately \$8.5 million, in 2000-01 dollars, based on projections for private light, heat and power companies and electric cooperatives currently in operation.

According to the Department of Revenue, 2,000 to 4,000 megawatts (MW) of generating capacity is constructed in the state every 10 years. The gross revenues license fee would be imposed on receipts from the sales of the additional electricity generated, resulting in increased utility tax collections. Based on information from current non-utility generators and proposals for merchant plants, the Department estimates that, for every 1,000 MW of added generating capacity, state utility tax collections under the proposal could be approximately \$3.5 million lower than they would be under current law. Assuming that 3,000 MW of capacity is added in the state and that electricity sales from the added capacity are primarily wholesale sales, it is estimated that foregone state utility tax collections from the reduced license fee for such sales would be approximately \$10.5 million annually. However, foregone revenue would be higher or lower than this estimate to the extent that more or less capacity used for the sale of electricity at wholesale is added in the state during the years that the reduced rate would be in effect. For example, if 4,000 MW of capacity were added and used for wholesale electricity sales, the foregone revenue under the proposal would be an estimated \$14.0 million annually. However, an addition of 2,000 MW of capacity used for wholesale electricity sales would result in estimated foregone revenue of \$7.0 million annually. These amounts would be in addition to the estimated \$8.5 million annual cost associated with existing plants.

The fiscal effect under LRB 4831/1 would be the same as the effect under AB 927. However, under LRB 4831/1, the reduced tax rate would not apply to wholesale electricity sales after June 30, 2007, as opposed to June 30, 2008 under AB 927.

UTILITY AID UNDER THE SHARED REVENUE PROGRAM

Current Law

The shared revenue program provides state aid payments to municipalities and counties under four payment components. These include utility aid, aidable revenues, per capita aid, and minimum and maximum payment limitations. Although funded from a single appropriation, the statutes establish separate funding levels for payments to municipalities and for payments to counties.

For purposes of shared revenue payments, the property of qualified wholesale electric companies (including wholesale merchant plants) is treated like the property of other light, heat and

revenues funding by \$750,000 would decrease the entitlement of each eligible municipality and county. The distribution of the decreases is reported in the following table. The largest decreases would occur for Milwaukee County (\$217,500) and the City of Milwaukee (\$141,200). Reductions would be less than \$50,000 for all other municipalities and counties. Finally, shifts in aidable revenues entitlements would result in additional payment shifts under the shared revenue component establishing minimum and maximum payment limitations.

**Estimated Reductions in 2000 Aidable Revenues Entitlements
Assuming a \$750,000 Decrease in the Municipal and County Distribution Levels**

| <u>Change in Aidable Revenues</u> | <u>Municipalities</u> | <u>Counties</u> |
|-----------------------------------|-----------------------|-----------------|
| Over \$100,000 | 1 | 1 |
| \$10,000 to \$50,000 | 14 | 17 |
| \$1,000 to \$10,000 | 82 | 27 |
| Under \$1,000 | 1,024 | 1 |
| Subtotal | 1,121 | 46 |
| No Aidable Revenues | 729 | 26 |
| Total | 1,850 | 72 |

It is important to note that the impact on shared revenue payments shown in the table would occur if a new generating plant is built in the state, regardless of whether or not the proposed tax reduction for wholesale electricity sales is adopted.

We hope this information is useful. Please let us know if you have additional questions.

FR/ah



Memorandum

March 28, 2000

TO: Members of the State Assembly

FR: Keith Reopelle, Wisconsin's Environmental Decade

RE: Assembly Bill 927

We urge you to support Assembly Bill 927, which would begin to address the issue of double taxation of merchant plants, including environmentally very friendly merchant plants. The Environmental Decade supports AB 927 because:

1. Wisconsin will need additional electric power as the economy continues to grow.
2. The current double taxation would increase electric rates for consumers
3. Taxing the electricity generated by merchant plants twice will discourage further locally sited generation.
4. Removing barriers to the development of relatively clean, natural gas-fired power is likely to be the most cost-effective way to address the numerous and enormous emissions from old, out-dated, inefficient coal-fired power plants.
5. If merchant plants are not built, incumbent utilities would be forced to build more generation exacerbating the concentration of market power.

Thank you for your time and consideration of this important matter.