

## Fiscal Estimate - 2003 Session

Original     
  Updated     
  Corrected     
  Supplemental

|                                    |  |
|------------------------------------|--|
| <b>LRB Number</b> <b>03-3944/1</b> | <b>Introduction Number</b> <b>AB-774</b> |
|------------------------------------|--|

**Subject**  
 Public utility aid payments and taxation

**Fiscal Effect**

**State:**

|  |  |  |
|--|--|--|
| <input type="checkbox"/> No State Fiscal Effect                      | <input type="checkbox"/> Increase Existing Revenues            | <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget<br><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| <input type="checkbox"/> Indeterminate                               | <input checked="" type="checkbox"/> Decrease Existing Revenues |  |
| <input type="checkbox"/> Increase Existing Appropriations            | <input type="checkbox"/> Decrease Existing Revenues            | <input type="checkbox"/> Decrease Costs  |
| <input checked="" type="checkbox"/> Decrease Existing Appropriations |  |  |
| <input type="checkbox"/> Create New Appropriations                   |  |  |

**Local:**

|  |   |  |
|--|---|--|
| <input type="checkbox"/> No Local Government Costs                     |   |  |
| <input type="checkbox"/> Indeterminate                                 |   |  |
| 1. <input type="checkbox"/> Increase Costs                             | 3. <input checked="" type="checkbox"/> Increase Revenue                           | <b>5. Types of Local Government Units Affected</b><br><input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities<br><input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>all sewer and lake districts</u><br><input checked="" type="checkbox"/> School Districts <input checked="" type="checkbox"/> WTCS Districts |
| <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory |  |
| 2. <input type="checkbox"/> Decrease Costs                             | 4. <input checked="" type="checkbox"/> Decrease Revenue                           |  |
| <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory | <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory |  |

|   |                                       |
|---|---------------------------------------|
| <b>Fund Sources Affected</b>  | <b>Affected Ch. 20 Appropriations</b> |
| <input checked="" type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS | 20.835 (1) (d) and (dm)               |

|  |  |                         |
|--|--|-------------------------|
| <b>Agency/Prepared By</b><br>DOR/ Daniel Huegel (608) 266-5705 | <b>Authorized Signature</b><br>Dennis Collier (608) 266-5773 | <b>Date</b><br>2/9/2004 |
|--|--|-------------------------|

## Fiscal Estimate Narratives

DOR 2/9/2004

|  |           |                     |        |               |          |
|--|-----------|---------------------|--------|---------------|----------|
| LRB Number                               | 03-3944/1 | Introduction Number | AB-774 | Estimate Type | Original |
| <b>Subject</b>                           |           |                     |        |               |          |
| Public utility aid payments and taxation |           |                     |        |               |          |

### Assumptions Used in Arriving at Fiscal Estimate

The bill makes several changes to state laws on utility gross revenues taxes and shared revenue utility payments. These changes and their fiscal effect are discussed below.

#### Ash Disposal Facilities

Under current law, the net book value of ash disposal facilities operated by an electric cooperative association value prior to July 30, 2003, is multiplied by two for purposes of calculating shared revenue utility payments. Under the bill, this provision is repealed. Shared revenue utility payments for such facilities would therefore be based on their net book value.

There is one known ash disposal facility that qualifies for the doubling of its net book value. The net book value of the facility on December 31, 2002 was about \$1.3 million. The repeal of the doubling of this facility's value will reduce utility shared revenues by \$11,700 (allocated \$7,800 to Buffalo County and \$3,900 to the Town of Belvidere).

#### High-Voltage Transmission Lines

Under current law, the owner of a high voltage transmission line, defined as a line designed to operate at a capacity of 345 kilovolts (KV) or more, is required to pay an annual impact fee equal to 0.3% of the cost of the line. The fee is payable on all new high voltage transmission lines approved by the Public Service Commission (PSC), which is required to forward the proceeds to municipalities on the basis of investment in each municipality. Under the bill, this annual fee would be 0.3% of net book value (original cost less depreciation) of the transmission line.

The bill would reduce impact fee payments by qualifying transmission line owners. The decrease would be offset by an equal decrease in payments to municipalities. Therefore, there is no net effect on state government, but local governments would see lower impact fee payments. DOR does not administer the fee and cannot estimate the potential loss in local revenues.

#### Shared Revenues for Power Plants

Under current law, the basic shared revenue utility payment for each municipality and county in which a power plant begins operating or is repowered after January 1, 2004 will be \$2,000 per megawatt (MW) of name-plate capacity. Additional incentive payments will also be payable, depending on the characteristics of the plant. Shared revenue utility payments for all other plants are based on net book value.

Under the bill, shared revenue utility payments for all hydroelectric and wind generation plants would be based on net book value. Payments for existing power plants other than hydroelectric and wind generation plants would be set at \$2,000 per MW of name-plate capacity. The payment for plants that begin operating or are repowered after January 1, 2004 would not be affected.

Based on estimates for 2003 shared revenue utility payments by the Legislative Fiscal Bureau (LFB), the bill would increase shared revenue utility payments for 26 plants by a total of \$8.27 million and decrease payments for 12 plants by a total of \$1.96 million, for a net increase of \$6.31 million.

#### General Structures

General structures include office facilities, maintenance facilities, and other buildings that are not used for power generation. Under current law, general structures owned by a utility company are exempt from local property taxes.

Under the bill, shared revenue utility payments for investor-owned light, heat, and power companies' and electric cooperatives' general structures would be discontinued. To compensate for the loss in shared

revenue utility payments, these general structures would be subject to property taxes effective with property assessments on January 1, 2005. The first property tax bills would be issued in December 2005 and due for payment in 2006. The property taxes paid would be allowed as a credit against the utility's state gross revenues license fee. The credit for property taxes due for payment in 2006 would be allowed on revenues earned in 2006 (tax returns filed in 2007).

Based on LFB estimates using data for 2003 shared revenue utility payments, and assuming general structures would be valued at their net book value, utilities would have paid about \$6.57 million in local property taxes had the bill been in effect for the 2002/03 tax year. Shared revenue utility payments on general structures in 2003 were estimated to be about \$2.55 million. Therefore, this part of the bill would have created a revenue loss net of the expenditures decrease to the state of about \$4.02 million, and an equivalent gain in revenue to local governments.

#### Substations

For electric utilities, substations are facilities at which voltages are stepped up for transmission over long distances or stepped down for distribution to end-users. For gas utilities, substations (called city gates) are facilities where interstate gas pipelines deliver gas to local distribution utilities. Under current law, substations owned by a utility company are exempt from local property taxes.

Under the bill, except for substations owned by a transmission company, shared revenue payments for substations owned by investor-owned light, heat, and power companies and electric cooperatives would be discontinued. To compensate for the loss in shared revenue utility payments, these substations would be subject to property taxes effective with property assessments on January 1, 2006. The first property tax bills would be issued in December 2006 and due for payment in 2007. The property taxes paid would be allowed as a credit against the state gross revenues license fee. The credit for taxes due for payment in 2007 would be allowed as a credit on revenues earned in 2007 (tax returns filed in 2008).

Based on LFB estimates using data for 2003 shared revenue utility payments, excluding transmission company substations and assuming substations would be valued at their net book value, utilities would have paid about \$10.93 million in local property taxes had the bill been in effect for the 2002/03 tax year. For 2003, shared revenue utility payments on substations were about \$4.77 million. Therefore, this part of the bill would have created a revenue loss net of the expenditures decrease to the state of about \$6.16 million, and an equivalent gain in revenues for local governments.

#### DOR Utility Tax Proposal

The bill requires the Department of Revenue (DOR) to submit a bill to the legislature regarding the extension of property taxes to utilities' distribution property, transmission property, and production plant not used to generate electricity. Property taxes would not be extended to operating electric generating plants. For property placed on tax rolls, property taxes would be imposed beginning with the January 1, 2007 assessment. The proposal would also apply to the property of electric cooperatives and light, heat, and power companies. Under the definition of light, heat, and power companies, the portion of municipal electric utilities that operate within the municipality that owns the utility would be excluded from the bill. The proposal is to be submitted to the legislature no later than December 31, 2004.

#### Net State Fiscal Effect

Based on the above, it is estimated that if all of the provisions of the bill had been in effect for the 2002/03 tax year, there would have been a net decrease in shared revenue expenditures of \$1.02 million and a net decrease in state tax revenues of \$17.50 million. The net change to the state ending balance, equal to the revenue loss net of the expenditure decrease, would have been a decline of \$16.48 million. This net effect is shown in the attached table.

#### Net Local Fiscal Effect

Municipalities and counties would lose a total of \$1.02 million in shared revenues. However, all local governments that can tax property would gain a total of \$17.50 million in property taxes from taxes on affected utility property. The net revenue gain to local governments is \$16.48 million, equal to the net change in the state ending balance. It is not possible to reasonably estimate the distribution of the \$16.48 million among municipalities, counties, school districts, technical colleges, or special districts.

#### Long-Range Fiscal Implications

### Estimated Fiscal Impact of 2003 AB 774 on State Finances

| Item   | Effect on the State (\$ millions) |
|--|-----------------------------------|
| <b>Shared Revenues (GPR Expenditure):</b>        |                                   |
| Ash disposal facilities                          | \$ -0.01                          |
| Power Plants                                     | 6.31                              |
| General structures                               | -2.55                             |
| Substations                                      | -4.77                             |
| Total – shared revenues                          | \$ - 1.02                         |
|  |                                   |
| <b>Gross revenues license fee (GPR Revenue):</b> |                                   |
| General structures property taxes                | \$ -6.57                          |
| Substations property taxes                       | -10.93                            |
| Total – gross revenues license fee               | \$-17.50                          |
|  |                                   |
| Net effect on state                              | \$-16.48                          |

## Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original     
  Updated     
  Corrected     
  Supplemental

|  |  |  |                      |
|--|--|--|----------------------|
| <b>LRB Number</b> 03-3944/1  |  | <b>Introduction Number</b> AB-774              |                      |
| <b>Subject</b>   |  |  |                      |
| Public utility aid payments and taxation   |  |  |                      |
| <b>I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):</b>                                |  |  |                      |
|  |  |  |                      |
| <b>II. Annualized Costs:</b>   |  | <b>Annualized Fiscal Impact on funds from:</b> |                      |
|  |  | Increased Costs                                | Decreased Costs      |
| <b>A. State Costs by Category</b>  |  |  |                      |
| State Operations - Salaries and Fringes  |  | \$   |                      |
| (FTE Position Changes)   |  |  |                      |
| State Operations - Other Costs   |  |  |                      |
| Local Assistance   |  |  | -1,020,000           |
| Aids to Individuals or Organizations   |  |  |                      |
| <b>TOTAL State Costs by Category</b>   |  | <b>\$</b>                                      | <b>\$-1,020,000</b>  |
| <b>B. State Costs by Source of Funds</b>   |  |  |                      |
| GPR  |  |  | -1,020,000           |
| FED  |  |  |                      |
| PRO/PRS  |  |  |                      |
| SEG/SEG-S  |  |  |                      |
| <b>III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)</b> |  |  |                      |
|  |  | Increased Rev                                  | Decreased Rev        |
| GPR Taxes  |  | \$   | \$-17,500,000        |
| GPR Earned   |  |  |                      |
| FED  |  |  |                      |
| PRO/PRS  |  |  |                      |
| SEG/SEG-S  |  |  |                      |
| <b>TOTAL State Revenues</b>  |  | <b>\$</b>                                      | <b>\$-17,500,000</b> |
| <b>NET ANNUALIZED FISCAL IMPACT</b>  |  |  |                      |
|  |  | <u>State</u>                                   | <u>Local</u>         |
| NET CHANGE IN COSTS  |  | \$-1,020,000                                   | \$                   |
| NET CHANGE IN REVENUE  |  | \$-17,500,000                                  | \$16,480,000         |
|  |  |  |                      |
| <b>Agency/Prepared By</b>  |  | <b>Authorized Signature</b>                    | <b>Date</b>          |
| DOR/ Daniel Huegel (608) 266-5705  |  | Dennis Collier (608) 266-5773                  | 2/9/2004             |