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Details:

(FORM UPDATED: 07/12/2010)

**WISCONSIN STATE LEGISLATURE ...
PUBLIC HEARING - COMMITTEE RECORDS**

2007-08

(session year)

Senate

(Assembly, Senate or Joint)

**Committee on ... Commerce, Utilities and Rail
(SC-CUR)**

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INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

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- Miscellaneous ... **Misc**



Legislative Fiscal Bureau

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February 11, 2008

TO: Representative Donna Seidel
Room 7 North, State Capitol

FROM: Rick Olin, Fiscal Analyst

SUBJECT: Proposal Regarding 1990 Hold Harmless and Act 20 Change to Utility Aid

At your request, this memorandum provides information on the calculation of utility aid payments under a provision in 2007 Wisconsin Act 20 (the 2007-09 biennial budget) for municipalities with payments currently affected by the 1990 hold harmless provision. Also, the memorandum describes your proposal (LRB 3988/P2) to restore the 1990 hold harmless, which was repealed by Act 20 effective with payments in 2009.

Municipalities and counties containing production plants, substations, and general structures owned by public utilities receive aid payments because that property is subject to state taxation in lieu of local property taxes. For production plants that began operating before 2004, substations, and general structures, aid equals the property's net book value multiplied by a rate of nine mills (0.009). If the production plant is located in a village or city, a rate of six mills is used to calculate the municipality's payment, and the county's payment is calculated at a rate of three mills. If the production plant is located in a town, a rate of three mills is used to calculate the municipality's payment, and the county's payment is calculated at a rate of six mills. Each municipality and county is guaranteed that the aidable value used in the calculation will be no less than the aidable value used to calculate its payment in 1990, adjusted to reflect any property retired from service.

For production plants that began operating in 2004 or later, payments are based on the production plant's generating capacity. A basic payment of \$2,000 per megawatt of capacity is paid for each plant. If the production plant is located in a village or city, the municipality receives two-thirds of the payment, and the county receives the balance. If the production plant is located in a town, the town receives one-third of the payment, and the county receives the balance. Also, additional payments for plants that began operating in 2004 or later may result for the municipality or county where the plants are located. These payments are called "incentive payments" and are made for baseload plants, plants built on brownfields, cogeneration plants, and plants powered by alternative energy resources. For plants using alternative energy resources, payments equal \$1,000

per megawatt of capacity, both for the municipality and the county. For production plants that are located in more than one municipality, the aid payment is divided among the municipalities based on the plant's net book value in each municipality.

In Act 20, the Legislature enacted three changes to the utility aid payment program, beginning with payments in 2009. First, aid for production plants that began operating before 2004 will equal the greater of the aid under the mill rate formula or under the capacity formula for basic aid (\$2,000 per megawatt) and for plants powered by alternative energy resources (\$2,000 per megawatt). Once payments are based on a plant's generating capacity, aid for the plant cannot be based on the mill rate formula thereafter. Second, the 1990 hold harmless guarantee was repealed. This was necessary because the Department of Revenue does not maintain the 1990 database by type of aidable value, that is, the Department's database reflects the combined values of plants, substations, and general structures in 1990. If the value of production plants in 1990 was known, the 1990 value could have been incorporated in the Act 20 law change comparing payments under the mill rate formula and the capacity formula, described above. Finally, Act 20 increases the per capita payment limit for municipalities from \$300 to \$425 and for counties from \$100 to \$125.

There are 11 municipalities containing production plants that began operating before 2004 where 2007 payments were affected by the 1990 hold harmless provision. The attached table displays the aid calculations for these municipalities under the mill rate formula and their estimated aid payments under the Act 20 law changes. Act 20 will result in higher estimated payments for seven of the municipalities, but aid payments for four municipalities are estimated to be lower due to the loss of the 1990 hold harmless. These municipalities include the City of Menomonie (Dunn), Town of Anson (Chippewa), the Town of Wilson (Sheboygan), and the Village of Rothschild (Marathon) and are reported first on the attachment.

Because payments to counties are calculated on a municipality-by-municipality basis, reductions to municipal payments will generally result in reductions to county payments. (Dunn County is an exception.) However, all of the counties containing municipalities where payment reductions are estimated also contain production plants in other municipalities. County payment increases attributable to plants in the latter municipalities are estimated to offset payment decreases attributable to plants in municipalities where the 1990 hold harmless is currently applied. Consequently, payment increases are estimated for Chippewa, Marathon, and Sheboygan counties.

Your proposal would restore the 1990 hold harmless for municipalities and counties. Because the proposed hold harmless would be administered like the one that Act 20 would sunset in 2009, it would increase payments to three counties even though total aid payments to those three counties are estimated to increase under the Act 20 law changes. The proposed hold harmless would increase 2009 payments (2009-10) by an estimated \$139,110 to four municipalities and by an estimated \$238,021 to three counties:

City of Menomonie	\$413	Dunn County	\$0
Town of Anson	99,317	Chippewa County	198,634
Town of Wilson	13,132	Sheboygan County	26,263
Village of Rothschild	26,248	Marathon County	13,124

The preceding estimates are based on municipalities and counties containing production plants. The proposed hold harmless would also extend to municipalities where only substation property and general structures are located. Therefore, the cost of extending the hold harmless will be higher than the \$377,131 reported above. Relative to 2007 aid payments, substations and general structures represent 38% of the net book value of aidable utility value. Since the aid increase would first apply to payments made in 2009-10, the proposal would not have a fiscal effect in the current biennium.

If you have any questions on this information, please let me know.

RO/mb
Attachment

ATTACHMENT

Comparison of Utility Aid Payments – Mill Rate Formula and Capacity Formula in Act 20

Municipalities with Estimated Payment Reductions

	<u>Production Plant</u>	<u>Substations</u>	<u>General Structures</u>	<u>Initial Total</u>	<u>1990 Hold Harmless</u>	<u>Change in Aid</u>
C. Menomonie (Dunn)						
<u>2007 Actual Aid</u>						
- Net Value	\$1,130,208	\$2,711,391	\$709,355	\$4,550,954	\$5,589,602	
- Aid at 6 mills	6,781	16,268	4,256	27,306	33,538	
<u>Act 20 Est. Aid</u>						
- MW Capacity	5.4					
- \$ per MW	\$4,000					
- Total Aid	\$21,600					
- Municipal Share	12,600					
- Maximum	12,600	16,268	4,256	33,124		-\$413
T. Anson (Chippewa)						
<u>2007 Actual Aid</u>						
- Net Value	\$61,420,841	\$2,855,825	\$0	\$64,276,666	\$97,382,277	
- Aid at 3 mills	184,263	8,567	0	192,380	292,147	
<u>Act 20 Est. Aid</u>						
- MW Capacity	86.0					
- \$ per MW	\$4,000					
- Total Aid	\$344,000					
- Municipal Share	143,333					
- Maximum	184,263	8,567	0	192,830		-\$99,317
T. Wilson (Sheboygan)						
<u>2007 Actual Aid</u>						
- Net Value	\$8,589,970	\$666,245	\$0	\$9,256,215	\$15,713,296	
- Aid at 3 mills	25,770	1,999	0	27,769	47,140	
<u>Act 20 Est. Aid</u>						
- MW Capacity	770.0					
- \$ per MW	\$2,000					
- Total Aid	\$1,540,000					
- Municipal Share*	32,009					
- Maximum	32,009	1,999	0	34,008		-\$13,132
V. Rothschild (Marathon)						
<u>2007 Actual Aid</u>						
- Net Value	\$48,451,352	\$8,113,442	\$0	\$56,564,794	\$89,845,154	
- Aid at 6 mills	290,708	48,681	0	339,389	539,071	
<u>Act 20 Est. Aid</u>						
- MW Capacity	529.1					
- \$ per MW	\$2,000					
- Total Aid	\$1,058,200					
- Municipal Share*	464,143					
- Maximum	464,143	48,681	0	512,823		-\$26,248

Municipalities with Estimated Payment Increases

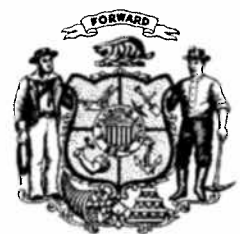
	<u>Production Plant</u>	<u>Substations</u>	<u>General Structures</u>	<u>Initial Total</u>	<u>1990 Hold Harmless</u>	<u>Change in Aid</u>
C. Alma (Buffalo)						
<u>2007 Actual Aid</u>						
- Net Value	\$97,896,813	\$9,044,172	\$341,965	\$107,282,950	\$123,525,599	
- Aid at 6 mills	587,381	54,265	2,052	643,698	741,154	
- Per Capita Limit					282,900	
<u>Act 20 Est. Aid</u>						
- MW Capacity	568.0					
- \$ per MW	\$2,000					
- Total Aid	\$1,136,000					
- Municipal Share	757,333					
- Maximum	757,333	54,265	2,052	813,650		
- Per Capita Limit				400,775		\$117,875
C. Cornell (Chippewa)						
<u>2007 Actual Aid</u>						
- Net Value	\$7,766,379	\$63,246	\$212,554	\$8,042,359	\$10,323,205	
- Aid at 6 mills	46,598	381	1,275	48,254	61,939	
<u>Act 20 Est. Aid</u>						
- MW Capacity	30.8					
- \$ per MW	\$4,000					
- Total Aid	\$123,200					
- Municipal Share	71,867					
- Maximum	71,867	381	1,275	73,523		\$11,583
C. La Crosse (La Crosse)						
<u>2007 Actual Aid</u>						
- Net Value	\$15,028,600	\$12,190,912	\$12,317,994	\$39,537,506	\$49,040,402	
- Aid at 6 mills	90,172	73,145	73,908	237,225	294,242	
<u>Act 20 Est. Aid</u>						
- MW Capacity	220.2					
- \$ per MW	\$2,000					
- Total Aid	\$440,400					
- Municipal Share	293,600					
- Maximum	293,600	73,145	73,908	440,653		\$146,411
C. Oak Creek (Milwaukee)						
<u>2007 Actual Aid</u>						
- Net Value	\$20,590,041	\$17,380,057	\$974,973	\$38,945,071	\$115,752,127	
- Aid at 6 mills	123,540	104,280	5,850	233,670	694,513	
<u>Act 20 Est. Aid</u>						
- MW Capacity	1,211.2					
- \$ per MW	\$2,000					
- Total Aid	\$2,422,400					
- Municipal Share*	1,490,473					
- Maximum	1,490,473	104,280	5,850	1,600,604		\$906,091

	<u>Production Plant</u>	<u>Substations</u>	<u>General Structures</u>	<u>Initial Total</u>	<u>1990 Hold Harmless</u>	<u>Change in Aid</u>
C. Wisconsin Dells (Columbia)						
<u>2007 Actual Aid</u>						
- Net Value	\$2,025,904	\$2,745,777	\$0	\$4,771,681	\$5,198,529	
- Aid at 6 mills	12,155	16,475	0	28,630	31,191	
<u>Act 20 Est. Aid</u>						
- MW Capacity	8.2					
- \$ per MW	\$4,000					
- Total Aid	\$32,800					
- Municipal Share	19,133					
- Maximum	19,133	16,475	0	35,608		\$4,417
T. Carlton (Kewaunee)						
<u>2007 Actual Aid</u>						
- Net Value	\$36,556,665	\$2,449,335	\$0	\$39,006,000	\$94,708,152	
- Aid at 3 mills	109,670	7,348	0	117,018	284,1248	
<u>Act 20 Est. Aid</u>						
- MW Capacity	535.0					
- \$ per MW	\$2,000					
- Total Aid	\$1,070,000					
- Municipal Share	356,667					
- Maximum	356,667	7,348	0	364,015		\$79,890
T. Lake Holcombe (Chippewa)						
<u>2007 Actual Aid</u>						
- Net Value	\$2,555,170	\$920,904	\$0	\$3,476,074	\$4,470,151	
- Aid at 3 mills	7,666	2,763	0	10,428	13,410	
<u>Act 20 Est. Aid</u>						
- MW Capacity	33.9					
- \$ per MW	\$4,000					
- Total Aid	\$135,600					
- Municipal Share	56,500					
- Maximum	56,500	2,763	0	59,263		\$45,852

*This production plant is in two municipalities, so the municipal share is divided based on net book value.



WISCONSIN STATE LEGISLATURE



Date: March 5, 2008

To: Committee on Commerce, Utilities and Rail

From: Representative Jeff Wood

Re: Testimony on SB 524, relating to utility aid payments based on a production plant's value in 1990.

Dear committee members:

I will keep this brief, but I wanted to take this opportunity to express my support for Senate Bill 524. As explained to me by the Fiscal Bureau and Rep. Honadel, during the budget bill process, a formula was created to hold all municipalities containing a production power plant harmless from the burden of extra taxes. Unfortunately, the Fiscal Bureau innocently created a formula that did not hold all municipalities harmless. I now ask you on behalf of my hard-working constituency affected by the formula, to support this legislation, which will fix the formula.

There are only a few communities that are hurt from the error, but the community I represent will be hit the hardest if the formula is not corrected. Of the estimated \$150,000 that will be charged in extra taxes, \$99,000 will be assessed in the tiny Town of Anson. The Town of Anson, better known as Jim Falls, is located in Chippewa County, and has approximately 1,900 people. It is the same rural area, where I grew up in when I was younger. Though more importantly, they are humble, hard-working taxpayers that understand the values that make Wisconsin great.

However, under the current formula, this small town would be assessed \$99,317 in taxes, which is approximately an increase of \$53 in taxes per a person or \$150 for a family of three. Comparatively speaking, that is about a 9% increase on their property tax bill every year. I think many of you on the committee can sympathize with the taxpayers in the Town of Anson and understand the tax burden they will face, by comparing the small communities within your own Senate districts, and how difficult it would be for them to pay this extra tax in a slowing economy if they were in the same position.

This bill corrects a simple mistake in the funding formula to solve an unintentional error not foreseen by the Fiscal Bureau during the budget bill process. I hope everybody on

the committee sees the importance of this bill, and agree to pass the bill, so the Town of Anson can continue their lives without the fear of having to pay an extraordinary amount of taxes. Thank you for your time and your willingness to resolve this issue.

Sincerely,

State Representative Jeff Wood