Legislative Fiscal Bureau

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Terminal Tax Payments for Oil Pipeline Terminal Facilities (General Fund Taxes -- Utility and Miscellaneous Taxes)

[LFB 2005-07 Budget Summary: Page 216, #1]

CURRENT LAW

Public utilities in Wisconsin are subject to state taxation in lieu of local general property taxation. Gas and oil pipeline companies have been subject to state assessment and taxation, rather than local taxation, since they began operating in Wisconsin in 1950. The state tax on pipeline companies is an "ad-valorem" tax that is based on the state assessed value of the company property multiplied by the statewide average property tax rate. All proceeds from the tax are deposited to the general fund. In 2003-04, the utility tax on pipeline companies generated $10.6 million in state general fund tax revenues.

Current law also imposes an ad valorem tax on railroad companies. The tax revenue from railroad companies, which was $11.9 million in 2003-04, is collected as segregated transportation fund revenue. Currently, taxes paid by any railroad company derived from, or apportionable to, repair facilities, docks, ore yards, piers, wharves, grain elevators, or other railroad terminal facilities are distributed annually from the transportation fund to the towns, villages, and cities in which these facilities are located. The amounts are calculated and certified by the Department of Revenue (DOR) on or before August 15 of each year. Railroad terminal tax distributions in 2003-04 were $1.2 million.

GOVERNOR

Create a GPR sum sufficient appropriation to distribute oil pipeline terminal taxes to towns, villages, and cities. Require DOR to calculate the value of the ad valorem tax paid by a pipeline company derived from, or apportionable to, oil pipeline terminal facilities and to certify the amount annually no later than November 1. Provide that the amount certified would be distributed annually from the sum sufficient appropriation for this purpose. Specify that these provisions would take effect on January 1, 2006. However, limit the distribution in fiscal year 2006-07 to a maximum of $652,100 (which the administration estimates to be approximately 50% of the full annualized amount that would otherwise be distributed in the first year).

Provide that if the state were compelled to refund in whole or in part any of the proposed oil pipeline terminal tax that had been distributed to municipalities under these provisions, the municipalities would be required to repay the state such amounts for deposit to the general fund. The Department of Administration would be required to certify the amounts to be repaid to the state to county clerks of the counties in which the municipalities were located for levy and collection from municipalities as other state taxes were levied and collected.

With the exception of the limit on the size of the distribution in 2006-07, the provisions related to the oil pipeline terminal tax distribution mirror those under current law with respect to railroad company terminal tax distributions.

DISCUSSION POINTS

1. As described above, public utilities are subject to state taxation in lieu of local general property taxation. As a result, local governments that incur costs in providing services to public utilities are unable to directly recoup such costs through property taxes. The state currently makes three types of aid payments to local governments to compensate for costs incurred in providing services to specific types of utility property. The current aid payments are described below.

2. Through the utility aid component of the shared revenue program, the state compensates local governments for costs incurred in providing services to qualifying properties owned by light, heat, and power companies. The aid payments are determined under formulas that are based either on the value of the qualifying property or the generating capacity of qualifying production plants.

3. Starting in 2005, the state makes aid payments to local governments related to high-voltage transmission lines. Companies that receive a certificate of convenience and necessity (CPCN) to construct a high-voltage electric transmission line designed for operation at a nominal voltage of 345 kilovolts or more are required to pay an annual impact fee equal to 0.3% of the cost of the line. Such companies are also required to pay a one-time environmental impact fee equal to 5% of the cost of the high-voltage transmission line, as determined by the Public Service Commission. The fees from high-voltage transmission lines are apportioned between municipalities based on the investment in each municipality, and each municipality's payment is shared with the overlying county.

4. Finally, as described above under "Current Law," the state also currently distributes taxes paid by any railroad company derived from, or apportionable to, repair facilities, docks, ore yards, piers, wharves, grain elevators, or other railroad terminal facilities from the transportation

fund to the towns, villages, and cities in which these facilities are located. For 2003, railroad terminal tax distributions were made to 11 municipalities, with the largest payment going to the City of Superior.

5. The bill would create a sum sufficient appropriation to distribute oil pipeline terminal tax payments to local governments under provisions similar to those in place for the railroad terminal tax payments. As with the other utility aid programs, the purpose would be to compensate local governments for services provided to a particular type of utility property. Currently, it is expected that the City of Superior would be the only local government to receive a distribution from the proposed appropriation related to oil terminal tax payments. In the absence of the addition of oil pipeline terminal facilities in the future, the annualized cost of the proposal is estimated at approximately $1.3 million (in 2006-07 dollars). However, as provided under the bill, distributions in 2006-07 would be capped at $652,100.

6. The proposed cap on distributions in 2006-07 is intended to reduce the first-year cost of the proposal. Another option would be to eliminate the cap so that distributions would be based on the full value of the ad valorem tax paid by a pipeline company derived from, or apportionable to, oil pipeline terminal facilities. Under this option, funding for the sum sufficient appropriation would be estimated at $1.3 million in 2006-07, which would be $647,900 more than would be provided under the bill.

ALTERNATIVES

1. Approve the Governor's proposal.

2. Approve the Governor's proposal with a modification to eliminate the cap on distributions in 2006-07. Increase estimated funding in 2006-07 for the proposed sum sufficient appropriation to $1.3 million. Compared to the bill, estimated funding would be increased by $647,900.

Alternative 2	GPR
2005-07 FUNDING (Change to Bill)	$647,900

3. Maintain current law. Eliminate the proposed sum sufficient appropriation for oil terminal tax distributions and decrease estimated expenditures by $652,100 in 2006-07.

Alternative 3	GPR
2005-07 FUNDING (Change to Bill)	**-** $652,100

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