FISCAL NOTE

Bill #: HB643

Title: Tax exemption for electricity generated on reservation

Primary Sponsor: Carol Juneau

Status: Second Reading

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Sponsor signature Date

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Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	FY2003 Difference
Net Impact on General Fund Balance:	**0**	**0**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. This bill is designed to provide incentives to foster the development of wind energy generation and transmission facilities for taxpayers who invest in commercial systems 5 megawatts or larger on Montana Indian reservations, and who sign employment agreements with the tribal government providing for training and employment of tribal members in the construction, operation, and maintenance of the system.
2. Exemptions to the WET tax apply to facilities constructed after April of 2001.
3. *Under current law*, an individual, corporation, partnership, or small business corporation that invests $5,000 or more in commercial wind energy generation property is allowed a credit against individual or corporate income tax equal to 35% of the eligible costs; the credit may be carried forward 7 years. Current law also provides that whenever any federal credit is allowed, the state credit must be reduced by the amount of the federal credit so that the effective credit does not exceed 60% of the eligible costs.
3. This bill would eliminate the requirement that state credits be reduced by any federal credits provided; and would extend the credit carryover period to 15 years for wind energy facilities constructed pursuant to the conditions in assumption 1.
4. This bill also provides that electricity produced in the state within the exterior boundaries of a Montana Indian reservation for delivery out of state is exempt from the wholesale energy transaction tax.
5. Finally, the bill provides that electric energy generation facilities are included in the definition of "project" under economic development bond laws to allow these facilities to be financed under these laws.
6. It is not known if a facility qualifying for the incentives provided for in this bill will be developed and placed into service in a timely manner to provide any fiscal impacts in the 2003 biennium. This fiscal note assumes there will not be. It is known that there is the potential for development of a wind energy

generation facility on the Blackfeet reservation at some point in coming years. See the section on long-term impacts for potential fiscal impacts from this facility.

7. There are no administrative impacts from this bill.

FISCAL IMPACT:

Net Impact to fund balance	FY2002 Difference	FY2003 Difference
General Fund	0	0

LONG-RANGE IMPACTS:

Long-range impacts will depend on the number and size of new facilities built in Montana on Indian reservations. This section discusses the fiscal implications of the wind energy generation facility contemplated to be built on the Blackfeet Reservation in the next couple of years. It is assumed that the facility, by the time it is completed, will have a maximum capacity of 25 megawatts, and provide energy at 30% of this capacity over the course of a year. The facility will cost $25 million to build.

A 25-megawatt facility at 30% capacity represents about 65.7 million kilowatt-hours of generation per year (25 megawatts X 30% X 8,760 hours in a year = 65.7 million Kwh). At the current law tax rate of $0.00015 per Kwh, this facility would generate $9,855 in wholesale energy transaction tax per year assuming that all of the generation would be subject to the tax. Under this bill, this generation would be exempt from the WET tax, so there would be foregone general fund revenue of this amount annually.

The impact that this facility will have on income taxes will depend greatly on the profitability of the operation net of initial start up costs and depreciation. At an initial cost of $25 million, there is the potential for $8.75 million in credit over the course of the next 15 years. How much of this will actually occur will depend on profitability of operation in each year, the impact of reducing state credits for federal credits to maintain total credits at 60% of cost, continuation of federal credits, etc.