FISCAL NOTE

Bill #:	HB 646	**Title:**	Encourage development of generation resources
Primary Sponsor:	George Golie	**Status:**	Introduced

____ Sponsor signature Date

____ 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 proposal provides for property tax exemption of electrical generation facilities for a ten-year period following the commencement of construction of the facility. In order to qualify for exemption, the owner or operator of the facility must offer to sell 75% of the facility's net generating output at a cost-based rate, including a reasonable rate of return, to customers for use within Montana for a 20-year period from the date of the facility's completion. The proposal also provides for an impact fee for local government units.
2. It is estimated that it takes three to five years to construct an electric generation facility. Currently, the only planned constructions are a natural gas turbine generation facility located in a tax increment finance district (TIF) in Silver Bow County, and a wind generation facility on the Blackfoot reservation. For purposes of this fiscal note it is assumed that the market value of the natural gas turbine facility will be $330,000,000
3. There is not estimated to be any revenue impacts associated with this bill over the next biennium because the natural gas turbine generation facility is not set to be completed until after June 2003, and it is not known if the wind generation facility will be completed in a timely manner to provide any fiscal impacts in the 2003 biennium.
4. The natural gas turbine generation facility in Silver Bow County, would be taxed under 7-15-4286 MCA. The only future impacts on revenue will be to the TIF district and the university 6 mill account (see local government section).

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Revenues:		
General Fund (01)	0	0
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	0	0

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. Considering this proposal only effects generation facilities constructed after passage, the only current revenue impact will be a loss of revenue from a change in use of the land and improvements in the location where a new exempt facility would be constructed. Local governments, like state government will lose future revenues generated from property taxes on generation facilities that would have been constructed regardless of the proposal.
2. However, the proposal has a provision to allow local governments to assess an infrastructure impact fee on the exempt generation facilities total cost of construction for each year the property tax exemption is taken. The infrastructure impact fee is not to exceed 0.5% of the total cost of construction in the first year following completion of the facility, and not to exceed 0.05% of the total cost of construction in each successive year the property tax exemption is taken.
3. If the aforementioned new natural gas turbine generation facility in Silver Bow County with a construction value of $330,000,000 qualifies and opts for the proposed exemption, the local government unit could assess an impact fee. The impact fee could be as much as $1,650,000 ($330,000,000 x .005) in the first year following construction and $165,000 ($330,000,000 x .00005) each successive year the exemption is taken.
4. For comparison, revenues under current law can be estimated for the same natural gas turbine generation facility in Silver Bow County using the FY 01 consolidated mill levy of the TIF district where the facility is to be located, which is 431.55. Revenues that would be generated from the facilities $330,000,000 value under current law are estimated to be $8,544,690 ($330,000,000 x 6% tax rate x 431.55 mills). 7-15-4286 MCA, allocates all revenue generated on the incremental value of the TIF district to the TIF district, with the exception of the university system 6 mill. In the above example, under 7-15-4286 MCA, $8,425,890 of the total $8,544,690 would go to the TIF district, and $118,800 would go to the university 6 mill account.

LONG-RANGE IMPACTS:

The general fund will lose revenues from change in use of property currently paying taxes on the land and improvements when an exempt facility is constructed. In addition to the loss of current revenues, future revenues from generation facilities that would have been constructed regardless of the proposal will be lost.

For example, if a qualifying $330,000,000 generation facility is constructed outside the borders of a TIF district, and opts for the proposed exemption, an estimated $118,800 ($330,000,000 x 6% tax rate x 6 mills) would be lost in revenue to the university 6 mill, and an estimated $1,881,000 ($330,000,000 x 6% tax rate x 95mills) in revenue would be lost to the state general fund.

TECHNICAL NOTES:

1. The rollback tax computation in Section 2 of the proposal should be clarified. The intention of the language of subsection 2(b) is not clear. The phrase "the annual mill levies that would have been levied had the property exemption pursuant to [section 1] not been applied" can be interpreted two ways. The first would be to assume the mill levies that would have been levied are the mill levies that *actually were* levied. In this case it would be easy to calculate the rollback taxes. A second interpretation would argue not to use the actual mills that were levied and instead to calculate revised mill levies. Under this argument the assumption is that, without the exemption, the property tax bases of the affected taxing jurisdictions would have been much higher and therefore the mills levied by the jurisdictions would have been lower. This would not be an easy calculation and could be subject to argument.
2. The exemption is granted to an owner or operator of a generating facility who "offers contracts" to sell electricity at the prescribed price. Offering to contract is different from actually contracting. An offer is the act of presenting something for acceptance, a contract does not exist until the offer is accepted and an offer can be revoked at anytime prior to acceptance.

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