

FISCAL NOTE

Bill #: SB 508

Title: Encourage electrical generation in Montana

Primary

Sponsor: Mack Cole

Status: Final Bill

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
Revenue:		
General Fund	0	(\$265,974)
State Special Revenue (University 6 mill)	0	(\$16,798)
Net Impact on General Fund Balance:	0	(\$265,974)

<u>Yes</u>	<u>No</u>		<u>Yes</u>	<u>No</u>	
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 the exemption of electrical generation facilities for a five or ten-year period following the commencement of construction of the facility. The exemption period for coal-fired steam and water driven turbines is ten years, and the exemption period for generation facilities powered by oil or gas turbines is five-years following construction. In order to qualify for exemption, the owner or operator of the facility must offer to sell 50% of the facility's net generating output to customers at a cost-based rate, including a reasonable rate of return for a period of twenty years from the date of the facility's completion. The proposal also provides for an impact fee for local government units.
2. Currently, there are only three immediate proposals for electric generation facilities in Montana. There is contemplation of a new natural gas turbine generation facility to be located in a tax increment finance district (TIF) in Silver Bow County, a proposed 25MW wind generation facility to be constructed on the Blackfeet reservation, and a new 240MW, \$140 million gas turbine facility proposed by Northwestern Public Service (location is undetermined).
3. For the natural gas turbine generation facility in Silver Bow County, under 7-15-4286 MCA, the only future impacts on revenue will be to the TIF district and the university 6 mill account.

PROPERTY:

4. For demonstrative purposes, this fiscal note will assume that these three proposals will be constructed. It is also assumed that the decision to construct these facilities is independent of the proposal.
5. For the 2003 biennium, there is estimated to be no fiscal impact associated with the contemplated natural gas turbine generation facility located in Silver Bow County because the projected completion date is after June 2003. Under the proposal, wind generation facilities are not included under the definition of an eligible "generation facility", hence there is no estimated fiscal impacts for the 2003 biennium associated with the wind generation facility located on the Blackfeet reservation.
6. Northwest Public Service proposes to have one-third of a plant operational by the end of tax year 2001, and the remaining two-thirds operational before the end of tax year 2002 (Billings Gazette).
7. Assuming that the value of the Northwest Public Service facility is apportioned according to the projected percent operational, the value of the property is estimated to be \$46,662,000 ($\$140,000,000 \times 33.33\%$) in tax year 2002, and \$140,000,000 ($\$140,000,000 \times 100\%$) in tax year 2003.
8. Generation facilities are classified under property class 13 and have a taxable rate of 6%.
9. The Northwest Public Service facility would have an estimated taxable value of \$2,799,720 ($\$46,662,000 \times 6\%$) in tax year 2002.
10. Under current law, the Northwest Public Service facility would generate an estimated \$282,772 ($\$2,799,720 \times 101$ mills) in fiscal year 2003. Of the total \$282,772 generated for state purposes in FY 03, \$16,798 ($\$2,799,720 \times 6$ mills) would be allocated to the university 6 mill account.
11. State government will also lose an undetermined amount of revenue from a change in use of the land and improvements in the location where the new exempt facility would be constructed.

FISCAL IMPACT:

	<u>FY2002 Difference</u>	<u>FY2003 Difference</u>
<u>Revenues:</u>		
General Fund (01)	0	(\$265,974)
State Special Revenue (02) (University 6 mill)		(\$16,798)

Net Impact to Fund Balance (Revenue minus Expenditure):

General Fund (01)	(\$265,974)
State Special Revenue (02) (University 6 mill)	(\$16,798)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. In the 2003 biennium, local governments will lose the amount of revenue that would have been generated under current law for the proposed Northwest Public Service facility. Local governments, like state government will also lose an undetermined amount of revenue from a change in use of the land and improvements in the location where a new exempt facility would be constructed.
2. Northwest Public Service projects that it will have one-third of its plant operational by the end of tax year 2001, and the remaining two-thirds operational before the end of tax year 2002 (Billings Gazette).
3. Assuming that the value of the Northwest Public Service facility is apportioned according to the projected percent operational, the value of the property is estimated to be \$46,662,000 ($\$140,000,000 \times 33.33\%$) in tax year 2002, and \$140,000,000 ($\$140,000,000 \times 100\%$) in tax year 2003 and beyond.
4. Generation facilities are classified under property class 13 and have a taxable rate of 6%.

(continued)

5. The Northwest Public Service facility would have an estimated taxable value of \$2,799,720 ($\$46,662,000 \times 6\%$) in tax year 2002, and \$8,400,000 ($\$140,000,000 \times 6\%$) in tax year 2003.
6. The average mill levy for class 13 property (telecommunication and electric generation property) associated with local government purposes, which includes county, city, school and miscellaneous mill levies in FY 2001 was 218.43.
7. Under current law, the Northwest Public Service facility would generate for local governments an estimated \$611,543 ($\$2,799,720 \times 218.43$ mills) in fiscal year 2003, and \$1,834,812 ($\$8,400,000 \times 218.43$ mills) in fiscal year 2004.
8. 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 0.75% of the total cost of construction in the first two year following completion of the facility. The impact fee for generation facilities not powered by oil or gas turbines in the following four-year period is not to exceed 0.1% of the total cost of construction, and may not exceed 0.08% in the remaining four years. The impact fee for facilities powered by oil or gas turbines in the remaining three years of the property tax exemption may not exceed 0.1% of the total construction cost of the facility.
9. If the aforementioned new natural gas turbine generation facility with a construction value of \$140,000,000 qualifies and opts for the proposed exemption, the local government unit could assess for the first two years a initial impact fee of 0.75% of the total cost of construction, and a 0.1% impact fee each succeeding year the property tax exemption is taken. For this example, the initial impact fee could be as much as \$1,050,000 ($\$140,000,000 \times .0075$) for the first two years, and \$140,000 ($\$140,000,000 \times .001$) for the next three years the exemption is taken.

LONG-RANGE IMPACTS:

1. Assuming that the value of the proposed Northwest Public Service facility is apportioned according to the projected percent operational, the value of the property is estimated to be \$46,662,000 ($\$140,000,000 \times 33.33\%$) in tax year 2002, and \$140,000,000 ($\$140,000,000 \times 100\%$) in tax year 2003.
2. Generation facilities are classified under property class 13 and have a taxable rate of 6%.
3. The Northwest Public Service facility would have an estimated taxable value of \$8,400,000 ($\$140,000,000 \times 6\%$) in tax year 2003 and following years.
4. Under current law, the Northwest Public Service facility would generate an estimated \$798,000 ($\$8,400,000 \times 95$ mills) in property tax revenue in fiscal year 2004 and thereafter.
5. For the natural gas turbine generation facility being considered in Silver Bow County, under 7-15-4286 MCA, the only future impacts on property tax revenue will be to the TIF district.

TECHNICAL NOTES:

1. The exemption is granted to a 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.
2. Sections (1)(a) and (1)(b) seem to be in conflict. Section (1)(a) specifies a contract term of 20-years, and (1)(b) refers to a contract period of 5 years to 20 years.