FISCAL NOTE

Bill #:	SB0515	**Title:**	Revise transition period for customer choice
Primary Sponsor:	Mike Taylor	**Status:**	As Introduced

____ Sponsor signature Date

____ Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2002 Difference	**FY2003 Difference**
Expenditures:		
General Fund	$358,000	$358,000
State Special Revenue	$230,000	$230,000
Other – Debt Service	0	68,901,893
Revenue:		
General Fund	$7,886	($69,021)
State Special Revenue	$230,000	$230,000
Net Impact on General Fund Balance:	**($350,114)**	**($427,021)**

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:

Department of Natural Resources and Conservation

1. The power authority will contract for all its services.
2. DNRC will provide contract oversight for the power authority and its projects.

3. DNRC will use all allowable revenue deposited in the state special revenue fund to provide staff support and pay for administrative costs in support of the Montana power authority.
4. DNRC will need the following 9.00 FTE to provide technical and administrative assistance to the power authority: 1 attorney, 1 electrical engineer, 1 structural engineer, 1 transmission specialist, 1 marketing specialist, 2 resource specialists, 1 accountant, and 1 administrative support position.

Department of Administration

5. All bonds will be issued May 2002. Debt service costs for general obligation bonds are currently estimated at $81,061.05 per million per year issued.
6. The bonds will be retired by revenues generated from the sale of electrical energy produced from the electric generating facilities. These funds would be collected and deposited in the debt service fund by DNRC. In the event these funds are unavailable or less than expected, the general fund would pay the debt service, since these are general obligation bonds
7. The bonds will have a 20-year term.
8. The debt service for the 2003 biennium was calculated using a 5.12% interest rate. This assumes no economic downturns or reduction in the current bond rating with issuance of these bonds.

Department of Revenue

9. Under this proposal, the Montana power authority shall use the proceeds from the bonds authorized in Section 6 of this bill to purchase the electrical generation facilities and associated water rights for those facilities or to build new state-owned electrical energy or natural gas transmission or distribution systems.
10. Under this proposal, a sufficient amount of revenue derived from the wholesale energy transaction tax, not to exceed $230,000, must be deposited annually in the Montana power authority special revenue account with the remaining revenue to be deposited in the state general fund. The analysis done in this fiscal note assumes the Montana power authority will use all $230,000 in this account.
11. Under this proposal, the wholesale energy transaction (WET) tax rate is increased from 0.015 cent per kilowatt hour to 0.016 cent per kilowatt hour of electricity transmitted by the transmission services provider in the state. Electricity delivered to a distribution services provider that is the Montana power authority, is exempt from the wholesale energy transaction tax. The Department of Environmental Quality has estimated a conservative average of 500 megawatts annually will fall into this category of exemptions under this proposal. The analysis done in this fiscal note assumes the Montana power authority will begin to purchase and sell electricity starting in FY 2003, a one year lag from when this bill will be effective on passage and approval, due to current contracts and the ability to perform their powers and duties. Under this proposal, total collections from the WET tax will increase by $237,886 in FY 2002 and $160,979 in FY 2003. The Montana power authority will receive $230,000 annually in FY 2002 and FY 2003. Revenue going to the state general fund will *increase* by $7,886 in FY 2002 and decrease by $69,021 in FY 2003. Table 1 shows current law and proposed law impacts from the tax rate increase to 0.016 cent per kilowatt hour.

Table 1
Current Law and Proposed Law Impact Calculations
FY2002 and FY2003

Description	FY2002 Current Law	FY2002 Proposed Law	FY2002 Change	FY2003 Current Law	FY2003 Proposed Law	FY2003 Change
Taxable Kwh	23,788,606,000	23,788,606,000	0	24,097,858,000	24,097,858,000	0
Minus MT Power Authority Exempt Kwh	0	0	0	0	(500,000,000)	(500,000,000)
Net Taxable Kwh	23,788,606,000	23,788,606,000	0	24,097,858,000	23,597,858,000	(500,000,000)
Multiplied by Tax Rate	$0.00015	$0.00016	$0.00001	$0.00015	$0.00016	$0.00001
Tax Paid	$3,568,291	$3,806,177	**$237,886**	$3,614,679	$3,775,657	**$160,979**
State Authority Share	$0	**$230,000**	$230,000	$0	**$230,000**	$230,000
State General Fund Share	$3,568,291	$3,576,177	**$7,886**	$3,614,679	$3,545,657	**($69,021)**

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Department of Natural Resources and Conservation		
FTE	9.00	9.00
Expenditures:		
Personal Services	420,000	420,000
Operating Expenses	168,000	168,000
TOTAL	588,000	588,000
Funding:		
General Fund (01)	358,000	358,000
State Special Revenue (02)	230,000	230,000
TOTAL	588,000	588,000
Revenues:		
State Special Revenue (02)	230,000	230,000
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	(358,000)	(358,000)
Department of Revenue		
Revenues:		
General Fund (01)	$7,886	$(69,021)
State Special Revenue (MT Authority) (02)	$230,000	$230,000

FISCAL IMPACT:

	FY2002 Difference	FY2003 Difference
Department of Administration		
Expenditures:		
Other - Debt Service	0	68,901,893
Funding:		
Debt Service Fund (04)	0	68,901,893
Net Impact to Fund Balance (Revenue minus Expenditure):		
Debt Service Fund (04)	0	(68,901,893)
Total Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	($350,114)	($427,021)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Department of Natural Resources and Conservation

1. If properties associated with electrical generation, transmission or distribution were exempt from property tax, revenue to local governments would decrease. Property taxes collected from electrical generating facilities, transmission lines, and distribution systems in the state for tax year 2000 totaled $90.7 million. Local governments received $64.2 million of the total collections. The amount of revenue decrease to local governments depends upon the properties acquired by the state and if those properties will be tax exempt.

Department of Revenue

2. Under this proposal, the Montana power authority may purchase electrical generation facilities, transmission lines (electrical energy or natural gas), or distribution systems (electrical energy or natural gas) in the state. This bill does not state whether or not the state authority is exempt from paying property taxes on any of the properties mentioned above. The amount of revenue decrease to local governments depends upon the properties, which the Montana power authority acquires, and if these properties will be tax exempt.

LONG-RANGE IMPACTS:

Department of Revenue

Under this proposal, revenue going to the state general fund will be less than what would have gone under current law for fiscal years succeeding 2002. The Montana power authority special revenue account will continue to receive greater revenue than under current law.

TECHNICAL NOTES:

Department of Natural Resources and Conservation

1. The definition of "cost-based" (section 3(1)) implies that rates charged by the authority will be sufficient to meet its operating, commodity, and debt costs.
2. Because no party is obligated to buy electricity from the authority, the authority bears the risk that revenue will be insufficient to meet its obligations to make bond payments and pay for other costs. The state may be

fiscally impacted to the extent that it would be unable to recover costs through rates. The determination of such an impact is subject to speculation regarding market conditions and institutional arrangements prevailing in the future.

3. Based on the general resolution governing the issuance of coal severance tax bonds, the state is limited to issuing no more than $48.6 million. House Bill 8 authorizes $18.9 million in new coal severance tax bonds, leaving $28.7 million in bonding capacity. To implement SB 515, HB 8 would need to be amended to increase this amount by $10 million. This would reduce the remaining bonding capacity to $18.7 million.
4. A further concern is that while the general resolution limits additional bonds to $48.6 million, national rating agencies have an even more restrictive standard that is being used to evaluate the bond rating. Based on communications with Moody's Rating Service in the fall, 2000, the rating on coal severance tax bonds is currently AA- (watch). The "watch" status was added this year because the debt service on the outstanding bonds ($6.1 million maximum year) is just over 1/3 of the amount of annual coal severance tax deposits into the bond fund. In other words, the debt service exceeds the "3 times test." Because energy prices are increasing, Moody's did not further down grade these bonds. However, it will be difficult to maintain the current rating when the department issues its next series of bonds, especially if the next bond issue is greater than $10 million. A down grade in these bonds has implications on the rate of interest at which the new bonds are sold and also has implications on the secondary market for outstanding coal severance tax bonds.
5. The legislation should probably state whether or not the property acquired by the Montana power authority will be exempt from property tax or what related provisions may apply.