

MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 25, 1983

The fifty-fourth meeting of the Taxation Committee was called to order at 8 a.m. by Chairman Pat M. Goodover in Room 415 of the Capitol Building.

ROLL CALL: All members were present except Senator Hager.

CONSIDERATION OF HOUSE BILL 747: Representative Bob Marks, House District 80, said this bill deals with the construction of nontaxable power lines like Bonneville Power Administration (BPA) or Western Energy and taxing the privilege of using tax-exempt property. Here, there are the power lines built by BPA. When the Colstrip 3 and 4 facilities and power lines were planned, application was made under the Major Facilities Siting Act for the plant in Colstrip and in Hot Springs as well. It went through the process and the lines were approved through Townsend. Townsend couldn't use 740 megawatts of electricity. BPA was then requested to build from Townsend to a point on the Continental Divide. This was without precedent. They went to Congress and attached it to an appropriation measure, and that was the only authorization they had to build the power line. Congress passed it, and Montana Power and a consortium involved in Colstrip got the BPA to come in. BPA doesn't have to go through the Major Facilities Siting Act, which raised a lot of dissention. The proposal during the application process was for people to look at the tax base they will get out of this. The power line is not in the corridor it was intended to go through either. It started at the river in Townsend and ran through Jefferson County. It hooks onto the power line in Townsend and then goes through Missoula, etc. It is now completed, and they propose to wheel 500 KV or more of electricity across the county. There is no good purpose served in the counties it crosses; you cannot just take one kilovolt of electricity out of there. It will have an impact on Jefferson and Broadwater Counties. If the privilege tax is applied, it will require additional rulemaking authority to ask for records in order to determine the amount of power.

PROPONENTS

Bob Lawmeyer, Superintendent of Schools in Boulder, said if Montana Power Company was building the line, elementary School District 7 would have a total tax base of \$2 million. They have 250 students to educate, so that is \$8,000 per student. Twenty-seven miles through District 7 would have a taxable value of \$1.7 million, which would double their tax base. The tax is important to Jefferson County--it brings parity to where the government has built lines as if Montana Power had built the line.

Maynard Olson, representing the Office of Public Instruction, submitted a memorandum from Ed Argenbright, attached as Exhibit A.

Tim Stearns, representing the Northern Plains Resource Council, submitted written testimony, attached as Exhibit B.

Gregg Groepper, Property Assessment Division of the Department of Revenue, didn't take a position on the bill, but he said they don't have the facilities to go out and get the information now.

OPPONENTS

Gene Phillips, representing Pacific Power and Light (PPL), said they don't feel HB 747 is the way to reach the problem. They are a 10% participant at Colstrip 3 and 4. They will meet their peak load of 140 megawatts in the northwestern part of Montana. They generate less than 5% of the power, he said; the rest is imported. According to their transmission agreement with BPA, PPL will deliver to BPA at Garrison whatever their share is of Colstrip 3 and 4, to provide power to a substation in the Flathead and Libby areas. This bill doesn't address the way the system really operates. They deliver to BPA, and BPA delivers to them. The restriction in the bill to a 500 KV line may create a problem. They have all sizes of lines. He submitted that their solution was suggested in a March 25, 1983, article in the Missoulian (see Exhibit C).

Bob Quinn, representing Montana Power Company, said that because a portion of the tax would be passed on to consumers, they oppose HB 747.

Questions from the committee were called for.

Senator Towe asked Mr. Phillips if the lines from Garrison were owned by BPA. Mr. Phillips said that the lines from Townsend to Garrison are owned by BPA. Their contract calls for the power to be measured at Garrison.

Senator Towe thought the bill was drafted much too broadly. Representative Marks referred to 15-24-1203, MCA, in response to his comment.

Senator Towe commented that the added language on page 3, lines 7-10, should be affirmatively stated. Representative Marks noted that the previous section is affirmatively stated and agreed that lines 7-10 on page 3 could be changed to be consistent with that. If you got below 500 KV, he said, you could include smaller lines and REAs.

Senator Elliott asked Mr. Phillips if the Flathead lines were 230 KV, and Mr. Phillips responded they were and that they are contemplating an additional 230 KV.

Senator Elliott asked Representative Marks why this didn't extend to Forest Service lands. Representative Marks said if they took out the Forest Service exemption, the bill might not pass.

Senator Crippen, addressing Representative Marks, said that Manley's bill last session couldn't measure energy and this taxable value.

Senator Towe asked Gregg Groepper if the Department of Revenue had explored imposition of this tax. If the language is as clear as it appears to be, it should apply right now, he said. Mr. Groepper said that BPA has no trespassing. Being able to use as a beneficial use encourages them to clean up when they leave, so they don't have to pay taxes.

Senator Crippen didn't feel the Department of Revenue could divide the amount of beneficial use under this bill. Mr. Phillips said it is hard for many people to understand how this is going to work. There are 90+ utilities in the Pacific Northwest. Who gets the benefits? Is the Department of Revenue going to go to Washington and Oregon and tax them, too, he asked.

Senator Crippen asked, if they could measure the benefit they have, was there a way that they could add that tax on in the process of exchanging or selling power. Mr. Phillips thought it could be done. They take power from BPA from four locations in Montana.

Senator Crippen asked if they were required to pay any beneficial use tax on power taken from Washington. Mr. Phillips said they don't pay a beneficial use tax in any of the six states in which they operate. Mr. Quinn from Montana Power indicated that the tax would be included in any rate increase requested.

Mr. Phillips stated that PPL sells more power to Montana Power Company than PPL buys from them. They have exchange contracts with BPA. They can tell how much comes in and how much comes out at certain points, but they can't tell what goes on in between.

Senator Eck wondered if HB 747 would expand beyond the transmission lines and property covered under this act. Mr. Groepper replied that they are trying to get centrally assessed utilities to provide information so they can start assessing that value.

Senator Eck asked if the Department of Revenue had discussed this with the Public Service Commission to see what impact it would have on Montana ratepayers. Mr. Groepper replied they had not.

Senator Crippen asked, if the Department of Revenue did charge, how much would fall on consumers in Montana. Montana beneficial users probably use only 30% of line use. Mr. Groepper said the Department would have the authority to bill all 90+ utilities mentioned earlier.

In closing, Representative Marks said this includes other power lines which will be built in the future, not just BPA. If we need 500 KV lines in Montana, let private enterprise build them. They will have to go through the Major Facility Siting Act first, but you will have the tax base there.

The statement of intent gives authority to draft rules to get the necessary information. Congress has not taken care of the impact yet. Keep the lines in Montana, and keep them private, he said.

The meeting adjourned at 9 a.m. so committee members could attend other committee hearings in order to meet transmittal deadlines. The committee will meet in executive session on Saturday, March 26, at 8 a.m.

Chairman

ROLL CALL

SENATE TAXATION

COMMITTEE

48th LEGISLATIVE SESSION -- 1983

Date 3/25/83

NAME	PRESENT	ABSENT	EXCUSED
SENATOR GOODOVER, CHAIRMAN	✓		
SENATOR McCALLUM, VICE CHAIRMAN	✓		
SENATOR BROWN	✓		
SENATOR CRIPPEN	✓		
SENATOR ELLIOTT	✓		
SENATOR GAGE	✓		
SENATOR TURNAGE	✓		
SENATOR SEVERSON	✓		
SENATOR HAGER			✓
SENATOR ECK	✓		
SENATOR HALLIGAN	✓		
SENATOR LYNCH	✓		
SENATOR NORMAN	✓		
SENATOR TOWE	✓		
SENATOR MAZUREK	✓		

, 1983

TAXATION

VISITORS' REGISTER

NAME (PLEASE PRINT)	REPRESENTING	BILL #	Check One	
			Support	Oppose
John Nicolay	DEPT. of Revenue			
Gerry Hawgyn	Dept of Revenue	747	No	POSITION
GENE PHILLIPS	PACIFIC POWER & LIGHT	747		X
Bob Quinn	Mont Park Co.			X
Robert P. Lawrence	Boulder Coun. Sch.		X	
Rep Bob Wachs	House Dist 80 Clancy	48747	XX	
J. Olson	O.B.P.P.		No	POSITION
Tim Stearns	Northern Plains Resource Council	HB 747	X	

(Please leave prepared statement with Secretary)

The Office of Public Instruction

EXHIBIT <u>A</u>
<u>March 25</u> , 198 <u>3</u>
<u>House</u> BILL/RES. <u>747</u>

State Capitol
Helena, Montana 59620
(406) 449-3654



Ed Argenbright
State Superintendent

March 25, 1983

TO: Senator *Pat* M. Goodover, Chairman
Senate Taxation Committee

FROM: Ed Argenbright
Superintendent *[Signature]*

RE: H.B. 747, "an act clarifying administration and reporting requirements related to the privilege tax for possession or beneficial use by a private individual, association, or corporation of property which for any reason is exempt from taxation...".

The Office of Public Instruction supports H.B. 747 for the following reasons:

1. Such property provided for in this bill would normally be owned by private interests and, therefore, would be on the tax rolls for financing of cities, counties and school districts in providing vitally-needed services to people living in these areas.
2. By taxing the privilege of using properties (i.e. Bonneville Power Administration lines) belonging to the Federal government, equity and fairness are provided.
3. Public utility companies should pay for services in a county or community along with the owners of private residences and small businesses.
4. Local property taxpayers will get some well-deserved relief if H.B. 747 is passed and implemented. For example, the Bonneville Power Administration estimates that the eight western counties crossed by their 500 kilowatt lines will lose \$7 million annually in tax benefits since these lines will not be privately owned. If House Bill 747 is approved, the privilege tax included in the bill will increase the tax benefits to those eight counties by \$7 million annually.
5. The privilege tax is a fair method of spreading the tax burden to include public utilities.

Therefore, we support H.B. 747 in order to provide assistance to school districts and counties where these facilities are located.

EA:dkk

EXHIBIT <u>B</u> <u>March 25, 1983</u> <u>House BILL/RES. 747</u>

HOUSE BILL 747 Marks

This bill alters the administration and reporting requirements of the privilege tax. Its effect will be to make utilities wheeling electricity on federal powerlines to pay the taxes on those federal transmission lines. The utilities will in turn pass these taxes on through to their customers. The rate effects to customers will be slight, but the revenues to the local governments crossed by these lines will be very large.

The counties being crossed by these federal lines deserve to receive the tax benefits of those projects.

It will be a relatively small fiscal impact on all northwest ratepayers who receive the benefits of that electricity. It only seems that those localities receiving the costs of those lines be justly compensated. The costs include fire protection, law enforcement, road maintenance, not to mention the visual and environmental impacts and possible health affects.

The Northwest Power Planning Council cites a current population of 7.97million residents and growing to 9.76m - 12.76m by the year 2000. Using the BPA preferred alternative which would yield \$6.316m per year in tax revenue, a crude analysis would render the following:

<u>YEAR</u>	<u>POPULATION</u>	<u>TAX REVENUE</u>	<u>ANNUAL TAX</u>	<u>MONTHLY</u>
1983	7.97m	\$6.316m	\$.79	\$.065
2000 (low)	9.76m	\$6.316m	\$.647	\$.05
2000 (high)	12.76m	\$6.316m	\$.49	\$.04

NOTE: this assumes constant dollars and only distributes tax costs among residents, not different rate classes. It also not attempt to project for the years in between 1983 and 2000.

Shouldn't ratepayers be forced to pay the full cost of electrical service? Afterall this was one of the major selling points for the project. No one should be forced to subsidize other ratepayers.

Ironically, without this bill tax revenues to the local counties will decrease since the 125 foot BPA right-of-way will be tax exempt. Bonneville Power Administration is developing an impact aid formula which seeks to offset the increase costs of servicing their facilities; however, it only includes actual costs not taxes lost or forgone. This was required in the Northwest Electrical Power Planning and Conservation Act. A stronger attempt to require payments-in-lieu of taxes was defeated.

VOTE YES ON HOUSE BILL 747!

4.2.6 Fiscal Impacts

4-11 Because BPA is a tax-exempt federal entity and is not subject to property or corporate income taxes, the proposed project's fiscal impacts would be limited to personal income and sales taxes. The personal income taxes would be paid on construction worker income and on income induced by construction worker and construction contractor expenditures. Sales taxes would be paid on local expenditures made by construction workers, construction contractors, and others who spend project-related induced income. This section will estimate personal income and sales taxes by state for each of the three alternative plans.

Although BPA would not pay taxes on any of its transmission facilities, the property tax issue cannot be totally ignored. Local residents have expressed concern over BPA's tax-exempt status and the revenues that would be foregone if the line is constructed by a federal agency rather than a private utility. Consequently, this section will also present results of a revenues foregone analysis that determined property taxes that would be paid if the transmission project were to be constructed by a private utility.

Short-term effects: first-year revenues foregone

7-12 Because the proposed project would be constructed and energized over a period of several taxable years, first-year revenues foregone would not occur in all of the affected counties in any one year. However, in order to simplify this analysis, it was assumed that the completion of transmission line and substation facilities would coincide with the start of a taxable year. In addition, the analysis used BPA's September 1981 cost estimates, which differed slightly from the more recent cost estimates presented in Section 1.2.4.

Table 4-22 presents the first-year revenues foregone that would result from BPA's tax-exempt status and demonstrates the importance of the public/private sponsorship distinction. If the Garrison-Spokane 500-kV Transmission Project were sponsored by a private utility, the total first-year property tax liabilities for least-impact routes would range from \$3,888,000 for the Hot Springs plan to \$5,450,000 for the Taft plan. If the project were not tax-exempt, it would result in substantial revenue increases in several counties. The least-impact Hot Springs plan's first-year revenues would represent 12.7 and 17.5 percent

Long-term revenues foregone

7-13 Following the straight-line and constant value scenario methodologies outlined in Section 2.2.8, Table 4-23 presents the cumulative long-term revenues foregone for the least-impact route of each plan. The figures in the table include cumulative property taxes that would be paid on both transmission line and substation facilities, which were assumed to have taxable lives of thirty-nine and twenty-eight years, respectively. Under the straight-line depreciation scenario, the cumulative revenues foregone by all counties range from \$68.4 million for the Hot Springs plan to \$103.6 million for the Taft plan. Under the constant value scenario, the cumulative revenues foregone range from a total of \$145.6 million for the Hot Springs plan to \$201.7 million for the Taft plan.

In actuality, tax assessors would not strictly adhere to either of these scenarios. Rather, a more complex valuation process resulting in tax revenues between the values indicated under the two scenarios in Table 4-23 is more likely to occur.

The expense of constructing and/or upgrading access roads will be borne by BPA. Also, roads used exclusively for maintenance of the transmission lines will be maintained at BPA's expense.

Easements will be obtained whenever private lands are crossed by the transmission lines, leaving the lands on the tax rolls. No impacts are expected in general tax assessment values.

The lack of tax revenue from the transmission lines is addressed under Issue #13.

Issue #11 - Process Followed for Corridor Selection

The process followed for corridor selection is described in the Colstrip Transmission Environmental Report (TER), Volume 1 of the Colstrip Project EIS, and the Decision Document. The same process was followed for consideration of Alternatives to the Designated Corridor addressed in this supplement.

Issue #12 - Construction and Mitigation Measures

Mitigation measures to be followed during construction, operation, and maintenance are addressed in the mitigation section in this Supplement, pages 2-2 and 3-5.

Issue #13 - Lack of Tax Revenue to Local Governments

Bonneville Power Administration does not have legislative authority to pay taxes or in-lieu-of-taxes on its facilities. The figures for tax revenue that would have been paid had a private utility built this transmission line on the state-approved corridor were given in both the Montana DNRC DEIS (Volume Four, page 233) and the Colstrip Project EIS (Volume 1, pages 3.2-55 and 56).

They are based on county-wide average mill rates, which vary by school district within each county, and which are generally highest in cities or towns (which this line would not cross). The figures are, therefore, probably somewhat high. The following figures reflect the revenues which would accrue to the counties if a private utility were to build the Townsend-Garrison Substation in the proposed corridor.

<u>County</u>	<u>Approximate Mill Rate 1979-80</u>	<u>Approximate Miles of BPA Line</u>	<u>Annual Revenue per Mile of Line</u>	<u>Total Annual Revenue</u>
Broadwater	175	17	\$13,293	\$225,981
Jefferson	210	43	\$15,952	\$685,936
Powell	150	33.5	\$11,394	\$381,699

The figures above include levels for the state school foundation program and the state university system plus county roads, city planning, sewers, etc.

Cumulative Totals: Long-term Property Tax Revenues Foregone
Least-impact Alternatives
(thousands of 1981 dollars)

County	Hot Springs Plan		Plains Plan		Taft Plan	
	Straight-line Depreciation	Constant Value	Straight-line Depreciation	Constant Value	Straight-line Depreciation	Constant Value
Powell	\$ 7,055	\$ 13,695	\$ 7,321	\$ 14,212	\$ 6,239	\$ 12,102
Granite	7,292	14,219	7,809	15,227	14,609	28,487
Missoula	18,173	35,437	29,035	56,619	25,601	49,923
Lake	2,590	5,050	-	-	-	-
Sanders	31,984	62,307	25,081	48,842	-	-
Mineral	-	-	-	-	48,955	95,329
Shoshone	2,188	4,267	2,188	4,267	2,733	5,329
Kootenai	2,875	5,607	2,875	5,607	2,875	5,607
Spokane	2,599	5,044	2,599	5,044	2,599	5,044
TOTAL	\$ 68,406	\$145,620	\$ 76,908	\$149,818	\$103,611	\$201,765

Source: Mountain West Research, Inc., 1981.

TABLE 4-22

First-year Property Tax Revenues Foregone
Least-impact Alternatives
(thousands of 1981 dollars)

County	1979 County Revenue	Hot Springs Plan Revenues Foregone	% of 1979 Revenue	Plains Plan Revenues Foregone	% of 1979 Revenue	Taft Plan Revenues Foregone	% of 1979 Revenue
Powell	\$ 5,499	\$ 416 ^a	7.6	\$ 429 ^a	7.8	\$ 375 ^a	6.8
Granite	2,867	365	12.7	390	13.6	730	25.5
Missoula	88,822	909	1.0	1,452	1.6	1,280	1.4
Lake	20,731	129	0.6	-	-	-	-
Sanders	9,465	1,660 ^b	17.5	1,320 ^c	13.9	-	-
Mineral	3,422	-	-	-	-	2,637 ^d	77.1
Shoshone	13,832	110	0.8	109	0.8	137	1.0
Kootenai	26,055	144	0.6	144	0.6	144	0.6
Spokane	102,070	147 ^e	0.1	147	0.1	147 ^e	0.1
TOTAL	\$272,763	\$3,880		\$3,991		\$5,450	

Source: Montana Department of Community Affairs, Local Government Finances, Montand Counties, Raw Data by Year, 1980; Washington State Auditor's Department, Local Government Comparative Statistics, 1980; Idaho State Auditor's Department, Consolidated Financial Statement of Forty-Four Counties, 1979.

Note: Including county revenue and trust and agency revenue.

^aIncludes \$228,000 for Garrison II substation.

^bIncludes \$221,000 for Hot Springs substation.

^cIncludes \$241,000 for Plains substation.

^dIncludes \$689,000 for Taft substation.

^eIncludes \$83,000 for Bell substation expansion.

BPA offer not enough, officials say

Local commissioners want utility to pay for impact of power lines

By Dave Woodruff
The Missoulian

Officials from the Western Montana county commissioners' association, which met in Missoula last week, said they are not satisfied with the offer of \$100,000 per year from the federal government to help pay for the impact of power lines on local communities.

County commissioners and attorneys met in Missoula to discuss the offer, which is part of a federal program to help pay for the impact of power lines on local communities.

But BPA, which manages the program, says it is not willing to pay more than \$100,000 per year for the impact of power lines on local communities.

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