

**PROPERTY TAX  
SALES TAX  
Exemption for New Electric Generation  
and Natural Gas Peaking Facilities,  
Utility Surcharge, Generation Increment  
Tax**

May 8, 2001

	<b>Yes</b>	<b>No</b>
Separate Official Fiscal Note Requested		<b>X</b>
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		

Department of Revenue  
Analysis of H.F. 1323 (Jennings) / S.F. 1303 (Metzen) Third Engrossment of House Bill

	<u>Revenue Gain or (Loss)</u>		
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>
		(000's)	<u>FY2005</u>
Homeowner property tax refund		(\$100)	(\$200)
State generation increment revenue			(\$300)
Distribution of increment revenue			\$4,400
Sales tax exemption of utility surcharge			(\$4,400)
General Fund Total		(\$650)	(\$8,800)
		(\$100)	(\$650)
		(\$850)	(\$950)

Effective various dates. Exemption from property tax for new electric generation and natural gas peaking facilities is effective for facilities placed into service after January 1, 2001. Payment of generation increment tax to the state general fund is effective for property taxes payable in 2003 and thereafter.

**EXPLANATION OF THE BILL**

**Current Law:** In general, the personal property of electric generating facilities used to produce electric power for sale is taxable and classified as class 3 personal property.

**Proposed Law:** All new power plants would be exempt from personal property tax. The proposal also establishes certain incentives for new electric generating plants, including establishments of electric generation parks, provision of generation construction credits to provide incentive for generating plant construction for facilities that produce 250 megawatts of power or more, or for improvement of an existing facility by increasing capacity by 100 megawatts or more. The proposal also provides incentives to reduce emission from and increase efficiency of existing plants.

To fund the construction incentives, the proposal would establish a private energy reliability trust, funded by a surcharge imposed by the Public Utilities Commission (PUC) of \$0.00017 per kilowatt hour of electricity and \$0.003 per thousand cubic feet for natural gas sold to Minnesota consumers. The PUC would be limited to a surcharge of \$10 million in a fiscal year, with an overall limit of \$50 million.

The proposal would establish an "incremental tax capacity" equal to the increase in net tax capacity from generating plant construction. Local governments then would levy a tax on the generating plant increment using local tax rates, and the taxes raised would be deposited in the state general fund. The commissioner of commerce would use up to 75 percent of the local revenue collected as an incentive for construction of the project, with a remaining portion, if any, available for local governments. 20 percent of the revenue may be used to provide incentives for renewable generation resources, conservation and weatherization. A minimum of 5 percent of the revenue must be paid to the city and county where the facility is constructed.

For purposes of the sales tax, the \$10 million surcharge would not be considered part of the sale price. The exemption of the surcharge would be a change from current law.

## **REVENUE ANALYSIS DETAIL**

### *Property tax:*

- It is assumed that the proposed incentives will lead to construction of new generating plants or substantial expansion of existing plants equal to about \$114 million of additional improvement per year from state FY 2003 to 2005. The new improvements will add about 250 megawatts per year to total generating capacity.
- The proposed generation increment tax on the improvements will yield about \$4.4 million in F.Y. 2004 and \$8.8 million in F.Y. 2005.
- The proposed exemption of new and existing generating plant improvements will shift property tax burdens to other taxpayers, relative to the tax burden without the exemption. The increased tax burden on homeowners will result in an increase in state homeowner PTR refunds of about \$100,000 in F.Y. 2003, \$200,000 in F.Y. 2004, and \$300,000 in F.Y. 2005.

### *Sales tax:*

- It is assumed that the full \$10 million surcharge would be imposed each year. The exemption is equal to 6.5% of the surcharge.

**Number of Taxpayers Affected:** All taxpayers in counties where generating plants are located will be affected by the property tax exemption for improvements to existing plants, or construction of new plants. Persons owning eligible generating plant property will receive a personal property tax exemption.

## **ADMINISTRATIVE/OPERATIONAL IMPACT**

Source: Minnesota Department of Revenue  
Tax Research Division  
<http://www.taxes.state.mn.us/polic.html#analyses>