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Overview

H.F. 1985 provides a new method for determining the market value for property tax purposes for facilities of most companies that produce, transmit, or distribute electric energy (excluding solar and wind energy production). The new valuation system is based on the capacity and actual production of power plants, the capacity of substations, the mileage of transmission lines, and the customer count of distribution lines. This replaces the current valuation system based on factors such as the cost and depreciation of the facilities. H.F. 1985 also provides for state-paid replacement aid for local taxing jurisdictions that experience a loss in value under the new valuation system.

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- 1 **Commission approval.** Deletes a reference to the sliding-scale exclusion, which is repealed in section 8.
- 2 **Definitions.** Clarifies a cross reference to a definition used in the sliding-scale exclusion program.
- 3 **Pollution control exemption.** Provides that the property tax exemption for pollution control equipment does not apply to property of electric generation, transmission, or distribution systems.
- 4 **Property valuation; general rules.** Provides that electric generation, transmission, or distribution systems are not valued for property tax purposes according to the current method of determining market value, but instead valued as provided in section 5. [Note that systems owned or operated by a municipal utility, a rural electric distribution cooperative, or a

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generation system wholly owned by a municipal power agency would continue to be valued as under current law rather than the method prescribed in section 5. Also allows systems owned by a generation and transmission cooperative to elect not to be covered by the alternative valuation system.]

5 Valuation of electric generation, transmission, distribution, and substation equipment and machinery.

Subd. 1. Definitions. Defines terms used in the section.

Subd. 2. Valuation rates. Sets the valuation rates for each type of electric system component (see table at end). Note that the rates for electric generation production are indexed for inflation.

Subd. 3. Valuation of electric system components. Provides for the calculation of the valuation of each system component based on the valuation rates prescribed in subdivision 2. The valuation based on electric production is based on average production over the most recent five-year period. For electric generation facilities, the total valuation is derived by summing its capacity value, its production value, and (if applicable) its spent fuel value. Provides that a generating facility that is permanently closed has a valuation of \$0.

Subd. 4. Electric generating system size. Defines how the total capacity of an electric generating system is determined.

Subd. 5. Generating system reports. Requires the owner of an electric system component to file a report with the commissioner of revenue by March 31 of each year providing the data necessary for the commissioner of revenue to determine the value of each system component by taxing jurisdiction. Provides for default calculations if the reports are not submitted by the due date.

Subd. 6. Notification to counties. Requires the commissioner of revenue to notify the counties of the valuation of each electric system component by taxing jurisdiction by March 31 of each year.

Subd. 7. Omitted or undervalued property. Provides for extending taxes against any system components whose value was undervalued or omitted for up to three years.

6 Electric system replacement aid.

Subd. 1. Definitions. Provides that the definitions found in section 5 also apply to terms used in this section, and defines “local unit” to be a city, county or town.

Subd. 2. Eligibility; payment. (a) Provides that for aid payable in 2019, each local unit shall be eligible for a replacement aid payment equal to the amount by which the tax on electric system components for taxes payable in 2019 is less than the tax on those components in 2018.

(c) provides that for aids payable in 2020 and subsequent years:

(i) if the tax on electric system components for a local unit is reduced by at least 10 percent compared to the previous year, and if the reduction is at least 5 percent of the

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local unit’s tax base, replacement aid equals the previous year’s aid plus the reduction in tax for the current year; or

(ii) if the condition in clause (i) is not met, the local unit receives 95 percent of its previous year’s aid minus any increase in electric system component taxes from the prior year.

Aid to a local unit is terminated if it is less than 5 percent of the jurisdiction’s total tax capacity multiplied by the local tax rate.

(f) Provides for the commissioner of revenue to compute the replacement aid amounts and pay them to local units at the time that second-half LGA payments are made.

Subd. 3. Appropriation. Provides an open and standing appropriation for aid payments under this section.

7 Commissioner notification. Requires the commissioner of revenue to notify the revisor of statutes when each of the repeal conditions under section 8 has been met.

8 Repealer. (a) Repeals the sliding-scale exemption for electric generation facilities. (b) Repeals statutory exemptions for each individual electric generation facility at the expiration of the facility’s purchase power agreement in effect as of June 30, 2017.

H.F. 1985 Valuation Rates

Electric generating systems (capacity):	
Hydroelectric	\$0
Biomass, natural gas or nuclear	\$5 per kilowatt
Coal, oil, or other fossil fuel	\$10 per kilowatt
Electric generating systems (production):	
Hydroelectric	\$0.05 per kilowatt hour (indexed for inflation)
Biomass, natural gas or nuclear	\$0.0525 per kilowatt hour (indexed for inflation)
Coal, oil, or other fossil fuel	\$0.055 per kilowatt hour (indexed for inflation)
Spent fuel	\$75,000 per ton
Electric substations	\$23,790 per megavolt ampere (MVA)
Electric transmission lines	\$778 per mile
Electric distribution lines	\$1,287 per customer