

TAX REVENUE FROM AN INSTALLED HIGH VOLTAGE TRANSMISSION LINE

**MSTI
REVIEW
PROJECT**

*A Guide to Fiscal
Impact Analysis in
Montana and Idaho*

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Montana and Idaho*

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Produced for MSTI Review Project
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ABOUT THE MSTI REVIEW PROJECT

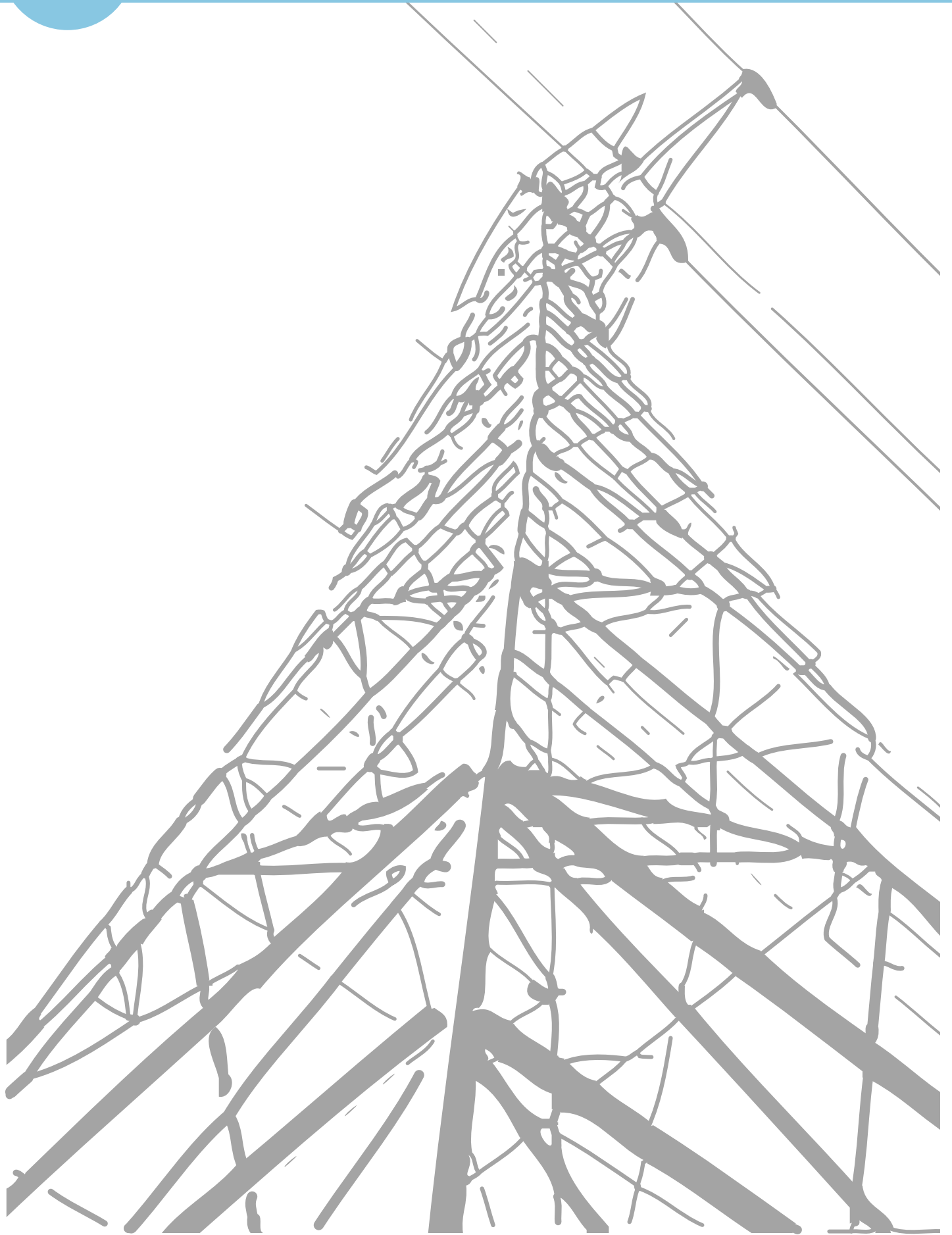
The MSTI Review Project is a joint effort between three Montana counties and five non-governmental organizations along the Montana-Idaho border to conduct an independent analysis of the Mountain States Transmission Intertie (MSTI).

For more information, please visit the project web site: www.mstireviewproject.org

TABLE OF CONTENTS

Introduction and Background	1
Key Findings	2
Property Tax Policy Background and Detail	6
Property Taxes, Montana	7
Property Taxes, Idaho	10
Other Public Revenue Sources	14
Public Land Royalties and Rents	14
Sales Taxes on Electricity	15
Corporate Income Tax	15
Construction-Related Revenue	15
Recommended Elements of a Complete Fiscal Impact Analysis.....	16





INTRODUCTION AND BACKGROUND

Local government officials and other decision makers involved in the permitting process for the Mountain States Transmission Intertie (MSTI), a 500 kV electric transmission line proposed to run from central Montana to south-central Idaho, seek information about the potential revenue benefits of a new high voltage overhead transmission line. An installed high voltage transmission line can directly generate public revenue through property taxes, rent, and lease payments for right of ways on public land, and through taxes on the sale of electricity. Public revenue is also created during the construction phase indirectly through sales and use taxes on equipment and materials, and other taxes such as lodging taxes on construction-related economic activity. The amount and distribution of these sources of revenue vary according to state laws.

This report discusses fiscal impacts from high voltage overhead transmission lines with a focus on the proposed MSTI project.¹ The target audience for this review is local government officials associated with the MSTI Review Project. The discussion focuses primarily on property taxes because these taxes are the largest and longest-lasting source of public revenue associated with a high voltage transmission line. Other forms of revenue are discussed briefly at the end of this document.

While estimates of the potential revenue value are provided, the goal of this report is to enable critical and informed understanding of revenue estimates from other sources by describing how these estimates are derived and the assumptions made in the process. The discussion also aims to provide a sense of how significant differences between affected areas mean that the impact of an increase in taxable value will vary from place to place. What matters more than the total dollar amount of tax revenue from a new project like a transmission line is how that dollar amount compares to a tax jurisdiction's size. Across the different taxing jurisdictions in potentially affected landscape in Montana and Idaho, the scale of the fiscal impact varies dramatically. Thus, this document discusses the state fiscal policies that shape the ability of local and state governments to capture revenue from a large industrial transmission project.

The format of this report is as follows.

1. A summary of **key points** about MSTI's potential property tax benefits for local governments is illustrated with charts.
2. The remainder of the report provides the **policy background and detail** necessary to understand the opportunities and constraints facing local tax jurisdictions.
3. **Other revenue sources** associated with a HVTL are discussed in brief.
4. A short list of **recommendations** for future revenue impact analyses completes the report.

KEY FINDINGS

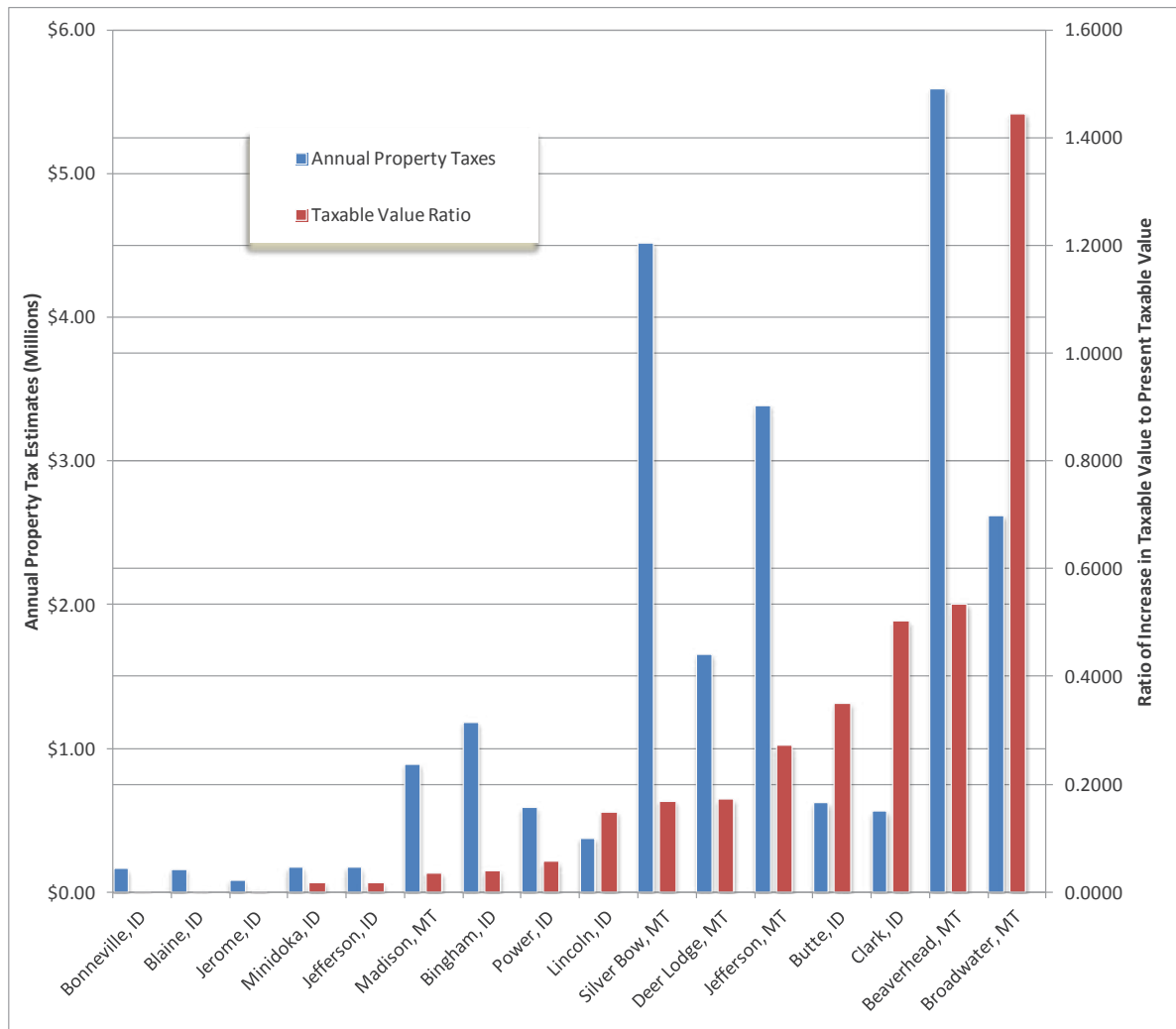
1. The Size of Tax Payment Differs from the Scale of Impact

MSTI has an estimated capital cost of well over \$1 billion and as such represents a sizable taxable asset. In local taxing districts, a 500 kV high voltage transmission line generates tax revenue in an amount proportional to the number of miles and the presence of substation facilities.

Figure 1 on the following page provides a visual comparison of the size of possible tax payments in terms of dollars and the scale of impact, as measured by the increase in taxable value associated with the project.

A rough estimate of the dollar value of potential annual property taxes associated with MSTI and its substations in each county* is shown in the chart in blue. The influence of the fiscal benefit depends on the size of the benefit relative to the taxable value of a school, county, or other tax district. This varies significantly across the MSTI landscape. The red bars compare the potential increase in taxable value represented by the MSTI project to each county's assessed value.

Figure 1. Estimates of Annual Tax Revenue to Local Tax Districts vs. Ratio of Increase in Taxable Value to Present Taxable Value



Property tax estimates assume a value of \$1.5m per mile of line and substation values of \$190m in Broadwater County; \$75m in Deer Lodge County, \$29m in Clark County, and \$25m in Jerome County.

*Calculations for Montana are based on 2010 average levies for countywide, local and countywide schools, fire, and miscellaneous districts in each county—total taxes would be more considering other mills, state taxes, etc. Idaho estimates use 2011 mill levies for countywide funds, school districts, county roads, and ambulance districts. The estimates shown here assume that the line carries 50 percent “clean” energy (see page 7) and are calculated based on maximum possible mileage in each county (per the 2010 preliminary Draft EIS). Taxable values shown are countywide for 2010 in Montana and December 2011 in Idaho.

2. State Tax Policies Shape the Fiscal Opportunities for Local Governments

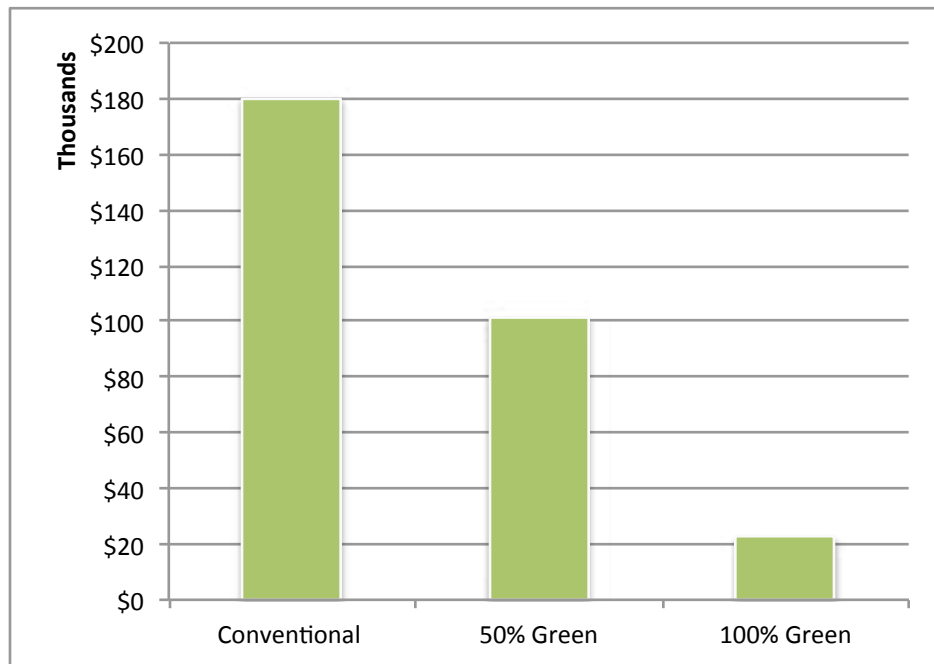
State tax laws shape the scope of the fiscal opportunity for local taxing districts. Incentives can work to lower taxes accruing to tax jurisdictions.

Limits on the ability to increase property tax collections mean that a new taxable value can work to lower tax rates, but will not create new funds for county projects such as economic development.

INCENTIVES

In Montana, the revenue opportunity can be reduced significantly if the transmission line qualifies for considerable tax exemptions directed at renewable energy facilities (see page 7).

Figure 2. Range of Taxable Value of 1 Mile of MSTI in Montana due to Tax Incentives



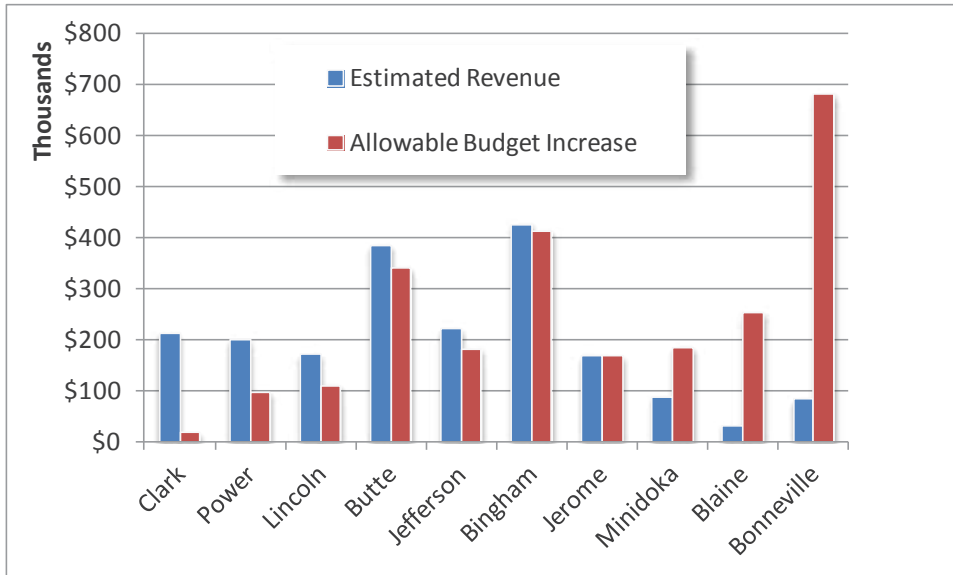
Taxable value shown based on total value of \$1.5m per mile of line and does not include substations. Class 9, conventional utility property, is taxed at 12 percent of market value, while two state tax incentives can reduce a transmission line's tax burden to as little as 1.5 percent if all of its firm transmission is contracted to qualifying clean energy facilities.

In Idaho, utility property receives special treatment that includes being exempt from fire district taxes and also exclusion from allowable budget increases associated with new construction.

BUDGET AND EXPENDITURE LIMITS

Both Montana and Idaho have laws restricting the ability of tax districts to increase property tax collections. However, Montana law allows taxing jurisdictions to capture additional revenue from the value of large increases in the area tax base, although school districts are an important exception. In contrast, Idaho tax law imposes stricter limits on the ability to increase revenue collection. Figure 3 compares the estimated annual tax revenue (blue bars) from the line to the amount county budgets are allowed to increase (red bars).

Figure 3. Potential MSTI Property Tax Revenue Compared to Allowable Budget Increases by Idaho County (county funds only)



Property tax estimates assume a value of \$1.5m per mile of line and substation values of \$29m in Clark County, and \$25m in Jerome County. Calculations are based on 2011 mill levies for countywide funds only and maximum allowable budget increases for 2011.

Where the blue bar exceeds the red bar, the county is not in a position to grow its budget to reflect the increase in taxable value. The implication is that Clark, Power, Lincoln, and Butte counties will not capture an increase in taxable value in a growth in county budgets—unlike some Montana counties might. However, taxpayers would benefit from lower mill levies. As noted on the previous page, the scale of relief would be most significant in tax districts where the mileage proposed represents a significant addition to the district’s taxable value.



PROPERTY TAX POLICY BACKGROUND AND DETAIL

Utility property, such as transmission lines are subject to property tax in Montana and Idaho. Property taxes are the primary mechanism for collecting funds to provide government services throughout the United States. The value of installed transmission equipment is allocated proportionally based on the mileage of the line present in the taxing jurisdictions (e.g., counties, towns, special districts, and school districts). Property taxes are based on the mileage within a taxing jurisdiction and accrue in full to the taxing jurisdiction in each state.

The State of Montana levies statewide property taxes as do taxing jurisdictions representing local governments, schools, fire districts, libraries, hospitals, and other special districts and project-specific funds. The State of Idaho does not levy property tax, but local taxing jurisdictions do.

Both Montana and Idaho have enacted state laws that restrict the ability of local governments to increase tax collections, although the effect in each state is quite different.² Montana law allows taxing jurisdictions to capture additional revenue from the value of large increases in the area tax base. Idaho tax law limits how counties capture the value of new industrial projects associated with transmission and utility property. Practically speaking, a substantial increase in the taxable value of an area due to construction of new utility property can bring significant additional revenue to local governments in Montana, whereas in Idaho it would primarily function to provide tax relief to existing taxpayers due to limits imposed by Idaho on tax collection increases.

The following section begins with the estimated revenue value in affected counties of one mile of line for the purposes of comparison. Examples of the calculations that can be used to estimate property tax revenue to specific jurisdictions in Montana and Idaho are offered. The subsequent text provides an overview of the relevant tax policy in each state as explanation.

Property Taxes, Montana

If built, the MSTI transmission line has the potential to generate a significant amount of property taxes in Montana.

In Montana, property taxes are a function of taxable value and mill levies.

$$\text{Property Taxes Paid} = (\text{Taxable Value} \times \text{Mills}) / 1,000$$

This section first describes a process for determining taxable value and next the range of possible values to different taxing jurisdictions in the affected counties.

Valuation & Tax Rates

Taxable value is determined by statute, and in the case of MSTI could range from 1.5 to 12 percent of assessed market value.

Like a railroad or telecommunications property, transmission lines in Montana are centrally assessed by the state. Centrally assessed properties are typically valued, to the extent possible, using three methodologies. Expert appraisers use the value from the approach they feel best reflects the value of a given property, or may select an average of the results of the three valuation methods.³ For the purposes of estimating the taxable value of utility lines, the installed cost of the line is often used as a proxy for its market value until a full appraisal is available, with depreciation applied based on applicable tax laws.⁴

Some local officials have asked whether a Major Facility Siting Act (MFSA) certificate, as an asset with value to a corporation, could be taxed in a manner that would apportion value to affected counties. According to the Department of Revenue, there is no precedent or practice for this. The certificate does comprise part of the company's overall value which is assessed and taxed yearly, but its value would not be specifically allocated to local taxing jurisdictions.⁵

Actual taxable value is based on class of property in Montana (Montana tax law specifies tax rates for 14 classes of property). Conventionally, transmission lines are considered Class 9 property in Montana, taxed at 12 percent of assessed value. There is a possibility that the MSTI line could qualify for large property tax exemptions under a 2007 Montana law (15-6-157 MCA) that established tax exemptions for renewable energy generation and transmission facilities. Under this law, which is part of Montana's "Clean and Green" tax incentives, the tax rate on qualifying property—so-called "Class 14" clean energy property—is 3 percent rather than 12 percent (in the case of transmission lines). In addition, Montana tax law (15-24-3010) offers a 50 percent property tax abatement for qualifying facilities for up to 19 years.⁶ This means that under a hypothetical scenario in which a transmission line sells 100 percent of its firm capacity to renewable-based electricity⁷ (and meets other provisions of the Montana code that concern labor issues), that line would pay only 1.5 percent of assessed market value for the first 19 years of taxation and possibly only 3 percent after that.

Montana Department of Environmental Quality is responsible for determining Class 14 eligibility based on established administrative rules.⁸ In 2011, the Montana Alberta Tie Line requested and received Class 14 eligibility for its existing assets (the line was under construction and the entire property was valued at \$52 million based on installed poles, construction yards, and related construction property).⁹



Local Collections

The actual collections from the MSTI project depend on the mill levy for each district—counties, fire districts, school districts, and so on. Mill levies vary dramatically from district to district and place to place, reflecting an area’s service burden (how much tax revenue it needs to raise) and its tax base (the assessed value of area property). The calculation for allowable mill levy increases under state law allows local governments to capture the value of newly taxable property, such as a new transmission line.¹⁰

In addition, at any given point on the line, the total taxes paid reflect the combined total of the applicable taxes for each overlying tax district. This is why it is conventional to estimate taxes based on an average of all levies paid in the rural districts of a county.

It is technically possible to estimate tax revenue from the project in a way that reflects the differences among taxing districts, although several assumptions have to be made. The first has to do with the market value of the line, which can’t be known until the Department of Revenue executes a full assessment. Whether MSTI qualifies in whole or in part for tax exemptions that reduce the tax rate is difficult to predict until the line’s ultimate customers are known. The other assumption is that large increases in taxable value would not have the result of lowering tax rates in a given district, but would be used to increase revenues. This is a discretionary decision up to tax district trustees and/or local elected officials.

School districts are an exception. Montana’s school districts face strict limits on allowable revenue collections that exceed state budget formulae which track enrollment closely.¹¹ What this means in practice is that a large increase in an area’s taxable value is most likely to function as tax relief for existing taxpayers in school districts.¹²

In the table below, we have provided estimates of the value in annual property tax revenue based on one mile of line for each of several types of districts for the counties in Montana in which MSTI might be sited. Each table lists the counties from highest to lowest in terms of average mill levy for each type of district (based on the average 2010 mill levy for the type of jurisdiction in each county). High and low ranges are offered for the tax value per line, reflecting a range from a tax rate of .12 percent to 1.5 percent.

In reality, total property taxes collected will reflect a combination of all applicable mill levies for the location of the line in the county and depend on the total mileage in each county, and would be substantially increased in those counties with substations. When the final route alternatives are delineated for the purposes of the Draft EIS, it will technically be possible to estimate revenue for individual districts more specifically, however the range of taxable value based on the property class designation of MSTI will still need to be considered. It is important to recognize that school district taxes would not result in additional revenue, but could provide tax relief to existing taxpayers.

Figure 4. Possible Annual Property Tax Revenues from One Mile of MSTI Based on Average Mill Levies for Various Types of Districts, by County (2010)

County Taxes			Fire & Miscellaneous Districts		
	High	Low		High	Low
Silver Bow	\$56,921	\$3,537	Deer Lodge	\$17,145	\$528
Jefferson	\$33,210	\$3,804	Silver Bow	\$16,393	\$1,229
Broadwater	\$30,429	\$3,359	Jefferson	\$5,240	\$4,286
Beaverhead	\$28,292	\$4,151	Broadwater	\$4,914	\$1,310
Deer Lodge	\$26,870	\$2,396	Madison	\$4,558	\$1,139
Madison	\$19,165	\$7,115	Beaverhead	\$2,111	\$4,098
Local School Districts			Countywide Schools		
	High	Low		High	Low
Silver Bow	\$39,665	\$4,958	Silver Bow	\$39,202	\$8,740
Beaverhead	\$38,065	\$4,758	Deer Lodge	\$37,931	\$6,582
Deer Lodge	\$36,765	\$4,596	Beaverhead	\$34,960	\$9,483
Jefferson	\$33,631	\$4,204	Jefferson	\$33,631	\$8,408
Broadwater	\$27,187	\$3,398	Broadwater	\$26,329	\$4,641
Madison	\$20,687	\$2,586	Madison	\$18,563	\$9,801

Average Mill Levies as reported by MT Department of Revenue, 2010. Biennial Report 2008-2010.

*See notes above on limits on revenue collection by school districts.

The State of Montana levies a fixed mill on property.¹³ Depending on the tax rate applied to the line's value, this means one mile of the MSTI transmission line could be worth between approximately \$18,000 and \$2,200 in state taxes, meaning that the total annual revenue could exceed \$3.5 million if more than 200 miles of line were built in the state and the line were appraised as Class 9 (i.e. conventional utility) property. State-assessed property tax accrues to the general fund and is redistributed to schools and universities. Taxes based on the value of substations would be additional revenue to these funds.

NorthWestern Energy has provided separate cost estimates for substations associated with the MSTI project: \$190,000,000 for the Townsend substation in Broadwater County and \$75,000,000 for the Mill Creek area substation in Deer Lodge County.¹⁴ Using high and low ranges depending on possible assessed value of the property, the substation values to the two counties and the states are shown.

Figure 5. Possible Annual Property Tax Values of Substations in Montana

Countywide Taxes			Fire & Miscellaneous Districts		
	High	Low		High	Low
Broadwater	\$3,854,340	\$481,793	Broadwater	\$622,440	\$77,805
Deer Lodge	\$1,521,450	\$190,181	Deer Lodge	\$245,700	\$30,713
Local School Districts			Countywide Schools		
	High	Low		High	Low
Broadwater	\$3,443,712	\$430,464	Broadwater	\$3,334,956	\$416,870
Deer Lodge	\$1,359,360	\$169,920	Deer Lodge	\$1,316,430	\$164,554
State 101 mill					
	High	Low			
Broadwater	\$2,302,800	\$287,850			
Deer Lodge	\$909,000	\$113,625			

Average Mill Levies as reported by MT Department of Revenue, 2010. Biennial Report 2008-2010.

*See notes above on limits on revenue collection by school districts.

Summary

If it were a conventional high voltage transmission line that does not qualify for tax credits geared toward renewable energy, the MSTI project could yield substantial property tax benefits in affected counties and for the state. What would actually be collected per mile of line of line varies depending on existing mill levy rates. Silver Bow County, with relatively high mill levy rates in all tax jurisdictions, is positioned to collect the greatest taxes on each mile of line in most taxing areas—or to use the increase in taxable value to lower taxes for its taxpayers. Counties with high mill levy rates may benefit from the increase in taxable value by lowering high mill levy rates for the benefit of all taxpayers. Madison County ranks closer to the bottom in estimated revenue, thanks to low mill levy rates in the county in 2010.

Substations at Broadwater and Mill Creek would bring annual property taxes that could be in the millions of dollars if the line was designated Class 9 (conventional utility) property and in the hundreds of thousands of dollars if MSTI were designated Class 14 (“clean and green”) property.

Property Taxes, Idaho

Property taxes are collected only by local taxing jurisdictions in Idaho and are not collected by the state.¹⁵ Utility property is referred to as operating property in Idaho—e.g., railroad, telecommunications, pipelines, water infrastructure, and electric utility property. Operating property is taxed by local taxing jurisdictions, with the exception of fire districts.¹⁶

Valuation

Operating property in Idaho is “centrally assessed” in a method similar to that described above for the state of Montana. The installed cost would be averaged across the line to derive dollar value per mile. The mileage is apportioned on the actual mileage in a tax district’s geographic area.¹⁷

Tax rates for valuation are not an issue in Idaho due to the state’s budget-based approach to tax levies. All real property types pay the same effective tax rate.

Idaho law sets a cap on the annual increase in the portion of a taxing district’s budget funded by property tax. The portion of the budget funded through property taxes may increase by up to three percent of the highest of the non-exempt property tax budget of the previous three years,¹⁸ plus an allowed amount for new construction and annexation.¹⁹ Non-generating operating property is excluded from the new construction allowance by Idaho statute.²⁰

In a given year, a tax district (i.e., county, library, ambulance district, etc.) must base its tax collections on this formula:

$$\begin{aligned} & \text{Highest property tax budget of past 3 years, plus 3\%} \\ + & \text{ New Construction and/or Annexation * last year’s mill levy} \\ + & \text{ Foregone amount (Carryover of 3 percent increase not used)} \\ = & \text{ Allowable Budget (Tax Collections)} \end{aligned}$$

The levied mill rate is then calculated as follows:

$$\text{Mill levy} = \text{Allowable Budget} / \text{Taxable Value}$$

The constraints of these laws means that a significant increase in taxable value in a given local tax district in Idaho will decrease the applicable mill levy, not lead to increased revenue generation.²¹ There are opportunities for temporary and permanent overrides with limits (the state maintains a levy cap for all types of districts).²² And, communities can and do pursue voter-approved bonds for various types of government services, particularly school funding. In fact, of the eleven potentially affected school districts in Idaho, all but one has passed one or more bonds along with voter-approved overrides to make up the gap between state funding and school budgets.²³ This means school districts are tax districts that could benefit significantly from an increase in taxable value, depending on the size of the increase relative to the taxable value of the district.

Reducing mill levies for all taxpayers is not insignificant and can be especially beneficial in tax districts that have encountered maximum allowable mill levies or have suffered rapid declines in taxable value. In Clark County, for example, countywide funds including Current Expenses, Ambulance, Noxious Weeds, and District Court are all at maximum allowable levy limits.²⁴ Both Butte and Power counties have suffered substantial losses in taxable value in the past decade, putting pressure on local governments.²⁵

One way to evaluate revenue benefits to local governments in Idaho is to consider whether additional revenue from the proposed MSTI project would exceed what a given tax district is allowed to collect based on the allowable 3 percent budget increase. The table below provides an opportunity for comparison of some estimates. Using only countywide budgets, the table compares the range of potential revenue that the line could generate—assuming the 2011 cumulative mill levy for countywide taxes applied to an assessed value of \$1.5 million per mile of line—and compares it to the State Tax Commission’s calculations of allowable budget increases for the same countywide tax district. The table shows the estimated amount of taxes that would shift from local taxpayers to MSTI.

Table 3. Idaho County Property Tax Values per Mile of MSTI versus Allowable Budget Increase (Countywide)

County	Value per Mile	Possible Mileage	Range of Total Value		Allowable Increase-- County Taxes Only
Bingham	\$9,032	3 to 55	\$27,097	\$496,774	\$413,094
Blaine	\$1,336	20	\$26,718		\$253,386
Bonneville	\$5,898	9 to 14	\$53,079	\$82,567	\$5,837,937
Butte	\$9,645	40	\$385,807		\$340,672
Clark	\$7,308	17 to 29	\$124,241	\$211,941	\$17,342
Jefferson	\$7,016	2 to 37	\$14,033	\$259,602	\$182,103
Jerome	\$7,240	4	\$28,962		\$167,601
Lincoln	\$5,036	34	\$171,209		\$110,985
Minidoka	\$6,762	13	\$87,901		\$185,098
Power	\$6,464	31	\$200,383		\$98,162

*Value per mile is calculated as follows: \$1,500,000 * Total County Mill Levy for Countywide Funds, 2011 (From L1 Worksheets, provided by Idaho State Tax Commission)

**Possible mileage is derived from 2010 preliminary Draft EIS

***Allowable Increase is the 3% increase plus foregone carryover. Both data are as reported in Maximum Budget and Foregone Amount Worksheet, Idaho State Tax Commission, 2011. http://tax.idaho.gov/forms/EFO00131_02-13-2012.pdf

In addition to the line itself, MSTI would involve two substations in Idaho, one in Clark County and a second in Jerome County near the line's termination in Midpoint. NorthWestern Energy estimates the installed value of these units at \$25 million and \$29 million respectively. This could translate into \$121,805 in potential annual tax revenue for Clark County and \$139,982 for Jerome County. Based on the allowable increases published for 2011 and shown in the table above, Clark County would not have the opportunity to collect this additional revenue in the form of countywide budget growth, although Jerome County could if it chose to.

Another way to consider the fiscal impacts of the MSTI line in Idaho is to compare the potential tax collection against existing revenue collections. This is a somewhat unrealistic scenario as a direct comparison because more than likely in situations in which the increase in taxable value is large, the likely effect is a decrease in mill levies. Still the relative scale issue merits attention. As discussed above, voter-approved budget cap overrides and bonds are common practices in Idaho school districts facing shortfalls in state funding.²⁶

Table 4 compares potential revenue collections to existing local revenue for school districts. The districts are ranked from highest to lowest in terms of the scale of the potential revenue from MSTI relative to the amount collected through local taxes and bonds in 2010. For some of the school districts with a small tax base and a large amount of proposed MSTI mileage such as Lincoln, Clark, Butte, and Jefferson School Districts, the potential revenue could have a significant impact through reducing mill levies and or easing the struggle to meet budget shortfalls through increased collections (assuming voters approved budget increases or other measures to capture revenue). On the other hand, for school districts with a significant tax base such as in Jerome and Blaine counties, the potential revenue is marginal compared to what is already collected locally.

Table 4. Idaho School District Revenue Estimates versus 2010 Local Revenue

County	District	High End Total Revenue Estimate*	Local Revenue Budgeted in 2010**
Lincoln	Lincoln #316	\$291,833	\$356,739
Clark	Clark #161	\$332,862	\$409,398
Butte	Butte #111	\$168,229	\$616,409
Jefferson	Jefferson #253	\$102,243	\$599,294
Power	Power #381	\$231,953	\$3,139,048
Minidoka	Minidoka #331	\$56,312	\$3,587,992
Jerome	Jerome #261	\$91,680	\$3,728,359
Bonneville	Bonneville #91	\$69,191	\$13,566,823
Blaine	Blaine #61	\$121,595	\$39,015,886
Bingham	Bingham #52		\$1,775,156
	Bingham #58		\$1,311,817

*High End Estimate represents an estimate of revenue based on applying the district's 2011 levy rate to the maximum linear distance of any of the various route alternatives identified in the preliminary Draft EIS.

**Local Revenue collected Idaho Dept of Education Financial Summaries Idaho School Districts, 2009-2010, http://www.sde.idaho.gov/site/statistics/docs/financial_summaries/09_10/2009-2010%20Financial%20Summaries.pdf

Summary

The state of Idaho has oversight authority for property taxes but does not collect property tax for state funds. Valuation of operating property in Idaho is more straightforward than in Montana, because there are no separate tax rates in Idaho for different classes of real property. The impact of tax relief would be most significant in tax districts where the mileage proposed for the MSTI project represents a significant addition to the district's taxable value. Because of taxing and expenditure limits, an increase in taxable value from operating property will lower the tax rate for existing taxpayers. Turning the increase in taxable value from MSTI into increased revenue in terms of total collections would depend on voter approval of new funds.

OTHER PUBLIC REVENUE SOURCES

Public Land Royalties and Rents

Another basic form of public revenue from an interstate transmission line comes in the form of royalty and rent payments to federal or state landowners. Royalties and rents are shared between state funds and local areas according to formulae established in various laws. This discussion includes an overview of how the states and federal government collect and distribute royalties and rents on transmission right of ways.

Federal land

Linear facilities must pay per-acre rental fees to the BLM and U.S. Forest Service in exchange for a grant to rent a Right of way.²⁷ The fee schedule was recently updated and is based on fair market value for land, as determined by average land values recorded by the National Agricultural Statistics Service's Census of Agriculture, conducted every 5 years. Counties across the country are assigned to one of 12 value zones depending on average land values there in 2008 (1 has the lowest per-acre values, 12 the highest).

Counties in the MSTI area fall in zones 2 to 6 on the federal right of way fee schedule. The average federal right of way rental fee in 2011 across the MSTI area in Montana and Idaho is \$51/acre. Based on the alternatives described in the unofficial 2010 Draft EIS, the route with the greatest amount of public land would involve 267 miles of BLM and USFS land—or a Right of way of over 6,942 acres.²⁸ Total annual rent due the BLM and USFS for this mileage would be about \$350,000 a year based on 2011 fee schedule. (The fee schedule increases on an annual basis from 2011 to 2015.) According to 2010 disbursements, none of the rent collected by the BLM is returned to counties directly, but rather is split between the BLM (17%) and the U.S. Treasury (83%). BLM directs payments to counties through the Payment in Lieu of Taxes (PILT) program, but right of way rentals are not factored into the payment equation. Forest Service commercial receipts are shared through the Secure Rural Schools and the 25 Percent Fund.²⁹

State land

For a right of way to cross state-owned land, many states charge a one-time fee equal to 100 percent of the highest and best use value of the land based on an appraisal or fee schedule. In general, easements or rights of way are charged based on the market value of the land, typically established through an appraisal. The project as described in the unofficial 2010 Draft EIS would affect a maximum easement of about 600 acres of state land in Montana and 442 acres of state land in Idaho. The value would depend on the type of acreage, with forestry lands typically having the highest appraised value in both states outside of mining-related values.

Montana

The administrative rules stipulate a one-time payment of fair market value for “the interest disposed of,” as established by an appraisal of the land value. Minimum compensation is not spelled out.

Idaho

The administrative rules stipulate that the easement fee can be up to 100 percent of fair market value, as established by an appraisal of the land value, and can include compensation of any impaired rights to the remainder of the property as determined by the Director of State Lands and supported by appraisal data. Minimum compensation is \$500 above application fee and appraisal costs.³⁰

Sales Taxes on Electricity

Montana levies a wholesale energy transaction tax at the rate of \$0.00015 per kilowatt hour on all electricity transmitted by a transmission service provider in the state. The statute includes a five percent volume discount for electricity moving out of state and exemptions for certain electricity products such as generation from federally-owned projects. Revenue is deposited into the general fund. In 2009 and 2010, tax revenue from the wholesale energy tax was \$3,864,771 and \$3,556,056, respectively.³¹ Idaho exempts electricity from its general sales tax and levies a wholesale (license) tax only on water-generated electricity.³²

Corporate Income Tax

While it is an important source of revenue state-wide³³, corporate income tax is also excluded from this discussion. This is because it is difficult to attribute the share of corporate income tax payments that would be specifically related to the construction of MSTI (especially in the absence of detailed valuation reports, which are proprietary).

Construction-Related Revenue

Additionally, the projected benefits in terms of lodging, sales, and use taxes associated with the construction period (note that Montana does not have sales tax) are not discussed in detail here because despite potentially being substantial in some areas, they are temporary in nature.



RECOMMENDED ELEMENTS OF A COMPLETE FISCAL IMPACT ANALYSIS

Environmental Impact Statements required under NEPA and various state siting acts, such as the Montana Major Facility Siting Act, often include a discussion of fiscal impacts from transmission projects. Based on the engagement with local governments over the course of the MSTI Review Project, we offer the following recommendations to make fiscal impact analyses more understandable and relevant to stakeholders.

- An explicit discussion of state policy limits affecting revenue growth and distribution for local governments should accompany any dollar estimates of tax revenue. This would avoid overestimating or misrepresenting actual benefits to local government funds.
- Reports on fiscal impacts from a high voltage transmission line should recognize relevant policies. Examples from the MSTI case study include Idaho state law's exemption of utility property from fire district taxes and from new construction roll allowances, and Montana's tax incentives that significantly lower tax rates for renewable energy projects.
- Attention should be paid to the significant differences in taxable value among affected taxing districts because the ultimate fiscal impact to each place is a function of the proportion of the increase in taxable value to the existing tax base. This information will distinguish those counties and other districts where the project's fiscal benefits are significant from those where the benefits would be unremarkable.



Endnotes

- 1 The MSTI Review Project is an effort between Montana counties and non-governmental organizations along the Montana-Idaho border to conduct an independent analysis of the Mountain States Transmission Intertie (MSTI) proposal. The Project is working to (1) better understand the need and context of the line, (2) balance energy development with local values by identifying corridors while protecting the community and environment, and (3) assess the economic impacts and benefits of the line. Focused on outreach to local government stakeholders in the MSTI permitting process, the MSTI Review Project core team includes Madison County, MT; Jefferson County, MT; Western Environmental Law Center; Headwaters Economics; Sonoran Institute; Craighead Institute; and Future West. For more information, please see: <http://www.mstireviewproject.org>.
- 2 Montana Code Annotated, 15-10-420. Available online: <http://data.opi.mt.gov/bills/mca/15/10/15-10-420.htm>.
- 3 The techniques for central appraisal in Montana were the subject of a September 2011 presentation by the Department of Revenue to the Transportation and Revenue Interim Committee of the Montana State Legislature. http://revenue.mt.gov/content/committees/legislative_interim_committee/09262711-centrally-assessed-ind-prop.pdf.
- 4 Kory Hofland, Department of Revenue, personal communication, 4/30/12.
- 5 Kory Hofland, Department of Revenue, personal communication, 5/1/12.
- 6 For general background on the Clean and Green initiatives, see the Department of Environmental Quality web site: <http://deq.mt.gov/Energy/PropertyTaxIncentives.mcp.x>.
- 7 Firm transmission is guaranteed, contracted transmission service that may not be interrupted except during emergency.
- 8 The state Administrative Rule for considering Alternating Current (AC) transmission lines is 17-80-203, available online: <http://www.mtrules.org/gateway/ruleno.asp?RN=17.80.203>.
- 9 The assessed value of the company was provided by the Department of Revenue to the Transportation and Revenue Interim Committee as “Information Request by Senator Peterson.” http://revenue.mt.gov/content/committees/legislative_interim_committee/Info-Req-Sen-Peterson.pdf. Tonbridge’s receipt of Class 14 and Clean and Green abatement was confirmed by Kory Hofland, Department of Revenue, personal communication, 4/30/12.
- 10 Montana Code Annotated, 15-10-420. Procedure for calculating levy. (1) (a) Subject to the provisions of this section, a governmental entity that is authorized to impose mills may impose a mill levy sufficient to generate the amount of property taxes actually assessed in the prior year plus one-half of the average rate of inflation for the prior 3 years. The maximum number of mills that a governmental entity may impose is established by calculating the number of mills required to generate the amount of property tax actually assessed in the governmental unit in the prior year based on the current year taxable value, less the current year’s value of newly taxable property, plus one-half of the average rate of inflation for the prior 3 years. <http://data.opi.mt.gov/bills/mca/15/10/15-10-420.htm>
- 11 Montana Office of Public Instruction, 2011. Understanding Montana School Finance and School District Budgets. See page 22. <http://opi.mt.gov/pdf/schoolfinance/budget/UnderstSchlFin.pdf>.
- 12 Personal Communication, Janelle Mickelson, Office of Public Instruction, 4/30/12.
- 13 “The state’s portion of property taxes is fixed and is made up of 95 mills for school equalizations, 6 mills for the university system, and, in some counties, 1.5 mills for vocational and technical schools. These mills generate revenue for the general fund that is then used by the legislature to fund schools, universities and technical schools.” Montana Department of Revenue, “Biennial Report, July 1, 2008 – June 30, 2010: 123.
- 14 Tom Pankratz, Northwestern Energy, personal communication, 4/20/2012.
- 15 Idaho State Tax Commission, Annual Report 2011. http://tax.idaho.gov/reports/EPB00033_11-30-2011.pdf
- 16 Idaho Code §31-1425 (1) Voluntary agreements in which the utility agrees to be taxed in return for fire protection services are allowed and are in practice in some fire districts in northern Idaho.
- 17 Idaho Statute 63-4305 (e) <http://legislature.idaho.gov/idstat/Title63/T63CH4SECT63-405.htm>
- 18 This can include back-calculation of foregone amounts from previous years.
- 19 Idaho Statute 63-802.
- 20 Idaho Code 63-301A.2.f. <http://legislature.idaho.gov/idstat/Title63/T63CH3SECT63-301A.htm>
- 21 There are various mechanisms to override budget caps, with permanent overrides requiring a majority vote of 66 2/3 percent of the voters voting in the election. There are state-mandated limits on levies, however, which cannot be exceeded. Idaho Code 63-802. <http://www.legislature.idaho.gov/idstat/Title63/T63CH8SECT63-802.htm>

- 22 Idaho State Tax Commission, Maximum Statutory Mill Levy Rates, http://tax.idaho.gov/pubs/EPB00092_04-14-2011.pdf.
- 23 The exceptions are Blaine County School District #61 which enjoys the advantages of a very large tax base relative to the size of student body
- 24 Idaho State Tax Commission, Clark County Certificate of County Levies (L1), 2011.
- 25 Trilby McAfee, Butte County Clerk, Personal Communication, 4/30/12. Deanna Curry, Power County Treasurer, Personal Communication, 4/30/12.
- 26 Idaho Center for Fiscal Policy, 2012. "Idaho Public School Funding – 1980 to 2013." <http://idahocfp.org/wp-content/uploads/2012/04/Idaho-Public-School-Funding-1980-to-2013.pdf>
- 27 A complete description of the BLM's rental program is available online: http://www.blm.gov/wo/st/en/prog/energy/cost_recovery_regulations/grant_issuance.html.
- 28 Assuming a 220-foot right of way yields about 26 acres per mile.
- 29 For more information see Headwaters Economics County Payments: <http://headwaterseconomics.org/headwaters/county-payments-jobs-and-forest-health/>
- 30 <http://adm.idaho.gov/adminrules/rules/idapa20/0308.pdf>
- 31 15-72-101, MCA. See Montana Department of Revenue Biennial report, 2010-2011: 110. http://revenue.mt.gov/content/publications/biennial_reports/2008-2010/BiennialReport.pdf
- 32 License tax on electricity in Idaho (half-mill per kwh produced) applied only to water-generated electricity. (Chapter 27, Idaho State Code) No sales tax on electricity: There is exempted from the taxes imposed by this chapter the sale or purchase of natural gas, electricity, and water when delivered to consumers at the place of consumption by means of pipes, wires, mains or similar systems.
- 33 Corporate income tax was 5% of 'own source' revenue in Montana and 3% in Idaho according to the 2009 Census of Governments. "Own-source" revenue refers to revenue generated and collected by the taxing entity, as opposed to pass-through money such as intergovernmental transfers

MSTI REVIEW PROJECT

For more information see:
www.MSTIreviewproject.org

