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Tax Revenue from an Installed High Voltage Transmission Line: A Guide to Fiscal Impact Analysis in Montana and Idaho -- Summary

May 31, 2012

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This document summarizes the fiscal impacts from high voltage overhead transmission lines with a focus on the proposed MSTI 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. This document was produced as part of the as part of the MSTI Review Project - an independent, transparent analysis of the proposed MSTI transmission line that leads to better planning outcomes from a variety of perspectives. Other forms of revenue are discussed briefly in the detailed report, posted at www.mstireviewproject.org.

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 also is 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.

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 the existing tax base. 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.

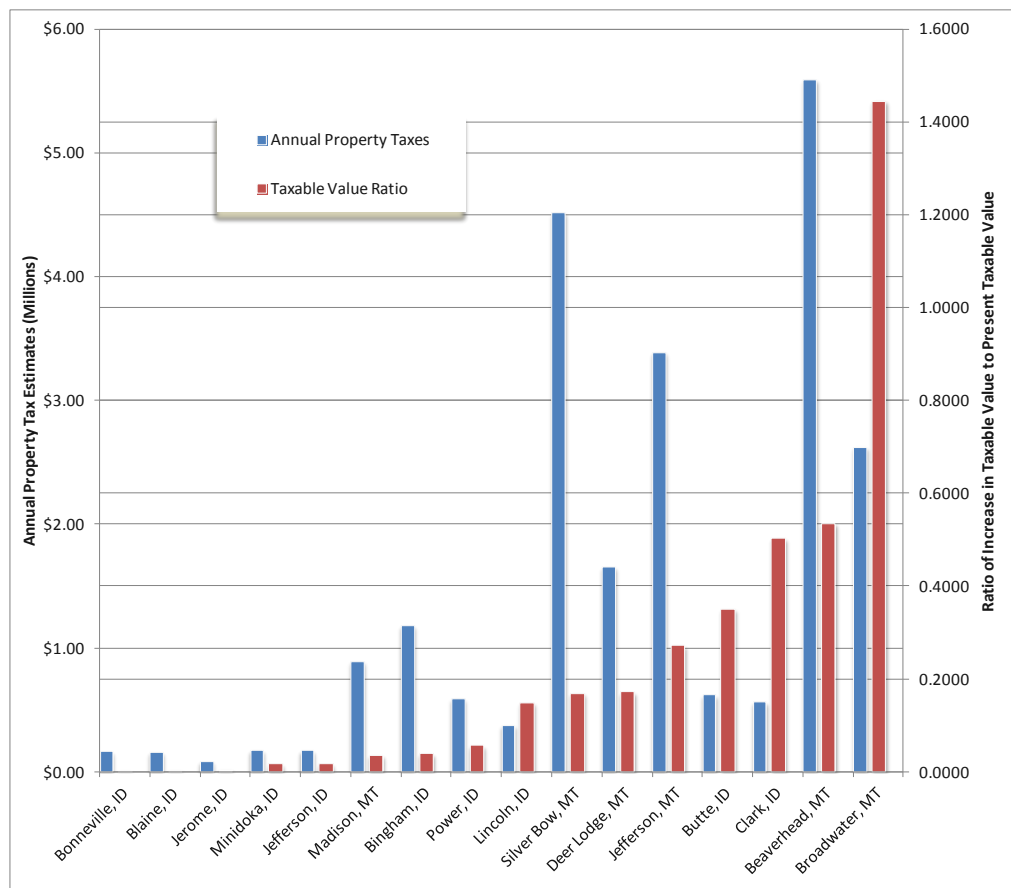
The Size of Tax Payment Differs from the Scale of Impact

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

Figure 1 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.¹ 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



¹ 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 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.

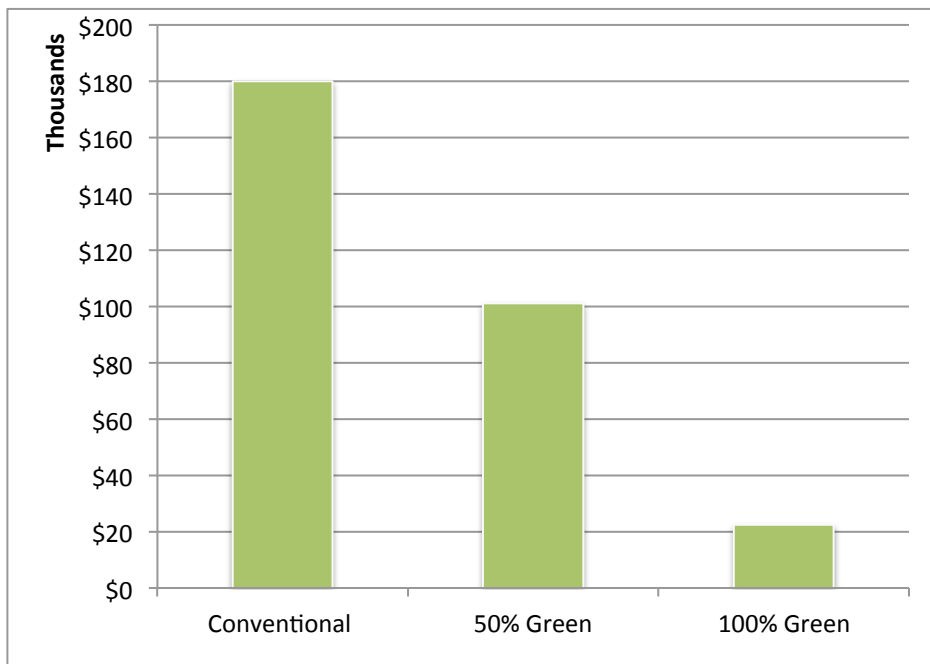
State Tax Policies Shape the Fiscal Opportunities for Local Governments

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

Figure 2. Range of Taxable Value of One Mile of MSTI in Montana Due to Tax Incentives²



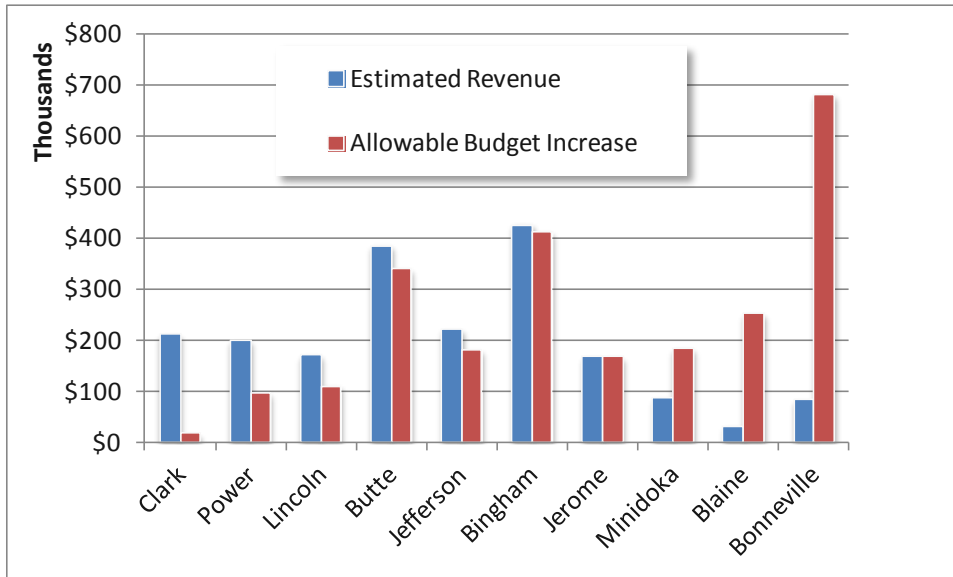
In Idaho, utility property receives special treatment that includes being exempt from fire district taxes and also exclusion from allowable budget increases associated with new construction.

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).

² 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.

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



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. 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.

Recommended Elements of a Complete Fiscal Impact Analysis

Environmental Impact Statements required under federal law 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. It is important to distinguish those counties and other districts where the project’s fiscal benefits are significant from those where the benefits would be unremarkable.

³ 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.