SB10-019

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 10-0172	**Date:**	January 15, 2010
Prime Sponsor(s):	Sen. Schwartz Rep. Fischer	**Bill Status:**	Senate Local Government & Energy
		Fiscal Analyst:	Marc Carey (303-866-4102)

TITLE: CONCERNING THE VALUATION OF NEW HYDROELECTRIC ENERGY FACILITIES FOR THE PURPOSE OF PROPERTY TAXATION.

Fiscal Impact Summary	FY 2010-2011	FY 2011-2012
State Revenue		
State Expenditures		
FTE Position Change		
Effective Date: Upon signature of the Governor, or upon becoming law without his signature, and applies to the determination of the actual value of all new hydroelectric energy facilities first place in production on or after January 1, 2010.		
Appropriation Summary for FY 2010-2011: None required.		
Local Government Impact: See Local Government Impact section.		

Summary of Legislation

This bill, recommended by the Water Resources Review Committee, specifies that for purposes of property taxation, new hydroelectric energy facilities will be valued using the income approach if (1) energy production begins on or after January 1, 2010, and (2) generation capacity is more than 5 megawatts. This means that the actual value will be based on the projected gross revenue of such facilities, measured in nominal dollars. Under current law, assessors are allowed to use either the cost approach, the market approach, or the income approach, and traditionally have used the cost approach.

Background

Under current law, the actual value of real property for purposes of property taxation is determined differently for each of the following:

- traditional (non-renewable) energy generation facilities, such as coal and natural gas power plants;
- renewable energy facilities, excluding wind and solar energy facilities; and
- wind energy facilities beginning operation after January 1, 2006, and solar energy facilities beginning operation after January 1, 2009.

In 2006, the General Assembly made a significant change in the way that new wind energy facilities are valued for purposes of property taxation. HB 06-1275 specified that for wind energy facilities beginning operation on or after January 1, 2006, actual value would be determined using the income method and be based on projected gross revenue. With the passage of SB 09-177 in 2009, the General Assembly specified that for solar energy generation facilities with a capacity of more than 2 megawatts and beginning operation on or after January 1, 2009, actual value would also be determined using the income method. This contrasts with the traditional cost approach, where property taxes decline over time as assets depreciate. Under the income approach, property taxes are lower in early years of operation, but increase to relatively higher levels in later years. Over a 20-year horizon, total property tax revenue remains unchanged.

State Expenditures

Department of Local Affairs, Division of Property Taxation. In the short run, this bill will reduce the actual value of qualifying hydroelectric energy facilities. Currently, the division values 4 separate hydroelectric facilities operating in Colorado. These facilities were in operation prior to January 1, 2010, and thus would not be affected by this bill. Currently, the division is unaware of any planned hydroelectric facilities that would qualify under the provisions of the bill.

As part of the school finance act, K-12 education in Colorado is funded with state aid and local property tax revenue. If property tax revenue declines, the state is required to increase its aid to make up the difference. This bill does not create a need for additional state aid to school districts through the school finance act. However, to the degree that new qualifying hydroelectric energy facilities begin operating after January 1, 2010, state aid for local school districts would increase in the short term and decrease in the long term over what would have been required.

Local Government Impact

This bill requires that, similar to wind and solar energy facilities, state assessed hydroelectric energy facilities be valued using the income approach. In the short run, local property tax revenue from qualifying facilities will decline in counties where such facilities are located. The magnitude of such a reduction would depend on the size of the facility, prevailing electricity prices and industry cost of capital, as well as the local property tax revenue limit, and whether or not the local government has received prior voter-approval to be exempted from its property tax revenue limit. Over a 20-year time horizon, aggregate property tax revenue will remain unchanged.

Departments Contacted

Local Affairs Regulatory Agencies