

An Analysis of Shared Revenue Utility Aid

Prepared by Andrew Reschovsky, Ph.D. at the request of Brown County Citizens for Responsible Wind Energy in connection with the Public Service Commission of Wisconsin Docket No. 1-AC-231, Wind Siting Rules

Executive Summary

In Wisconsin, utilities are generally exempt from local property taxation. However, county and municipal governments are compensated for their loss of property tax revenue through a state-financed grant program known as shared revenue utility aid. This paper describes the utility aid program and explains why revenue from utility aid will most likely be used to increase spending on municipal or countywide public services or to reduce municipal or county property tax mill rates. The paper concludes that these benefits of utility aid accrue to all property owners within the recipient jurisdictions and that they would not provide disproportionately larger benefits to landowners who are within close proximity of a wind turbine farm.

Introduction

In Wisconsin, most gas and electric utilities are exempt from paying property tax on the value of their real property. Instead, utilities are subject to a state government gross receipts tax. During the first decade of the 20th century, the Legislature established the *utility aid* program as a means of compensating municipal and county governments for the loss of property tax revenue from utility property and as a way of helping municipal and county governments pay for public services provided to utilities. Until 2004, utility aid was one of four components of the state's *shared revenue* program. The other three components of shared revenue were suspended effective in 2004 and replaced by the *county and municipal aid program*. Thus, in 2010 the utility aid program remains the only operative part to the state's shared revenue program.

The Wisconsin Department of Revenue (2009) projects that in 2010 utility aid payments to local governments will total \$60.2 million, with \$29.6 million allocated to county governments and \$30.6 million allocated to municipal (city, village, and town) governments. The data in Table 1 indicate that while all of Wisconsin's 72 counties will receive shared revenue utility aid in 2010, only about 1,100 of the state's 1,850 municipal governments were eligible for aid. Although on average, utility aid per resident was quite modest, 22 of Wisconsin's municipal governments will receive in excess of \$100 per capita in utility aid in 2010.

Description of Shared Revenue Utility Aid Program

The state government's gross receipts tax applies to electric utility companies with a power production capacity of at least 50 megawatts. Utility companies with smaller capacity remain subject to the local property tax, and in turn, their presence in a municipality does not generate any shared revenue utility aid.

Table 1

**Estimated 2010 Shared Revenue Utility Payments
by Type of Government**

	Local Governments		Average Utility Aid*	
	Total Number	Receiving Utility Aid	Dollar Amount	Per Capita
Towns	1,257	769	\$11,063	\$9
Villages	403	181	\$31,065	\$16
Cities	190	163	\$76,463	\$8
Counties	72	72	\$364,763	\$5

*Averages of aid to those governments receiving aid.

Source: Author's calculations based on data provided by the Wisconsin Department of Revenue.

Shared revenue utility aids are calculated using a complex set of formulas. There are eight different types of payments: ad valorem, minimum, spent nuclear fuel storage, megawatt-based, and four different incentive payment programs. In addition, there are a number of provisions that determine both minimum and maximum utility aid payments under various circumstances. Table 2 summarizes the main elements of the shared revenue utility aid program. For a more detailed description of the shared revenue utility aid program, see Wisconsin Department of Revenue (2009) or Wisconsin Legislative Fiscal Bureau (2009).

As indicated in Table 2, existing and new electricity-generating utility operations will result in different amounts of utility aid to municipal and county governments. If a new wind turbine farm is designed to operate at least 60 percent of the time, the new operation would under most circumstances result in a total utility aid payment of \$2,267 per megawatt to the town government in which it is located and an additional \$2,933 per megawatt to the county government in which it is located. The two per megawatt amounts in the previous sentence would be switched if the new wind turbine was located in a village or city instead of a town. These utility payment amounts reflect the sum of megawatt-based, base load plant incentive, and alternative energy incentive payments. The incentive payments would only be made if the utility company operating the wind turbines has a generating capacity of at least 50 megawatts and is thus eligible for exemption from local property taxation. It should be noted that in 2010 only two municipal governments and no county governments had their utility aid payments reduced by the per capita ceilings listed in the notes to Table 2.

Table 2
Description of Shared Revenue Utility Aid

Types of Utility Aid Payments	Eligibility		Payment Formula
	Date	Size	
Ad valorem*	In operation prior to 2004	Generating capacity of > 50 megawatts	9 mills times "net book value" of qualifying property
Minimum	In operation prior to 2004	Generating capacity of > 200 megawatts	\$75,000 to municipal government and \$75,000 to county government
Spent Nuclear Fuel Storage	Location of stored nuclear fuel		\$50,000 for each eligible municipality and county (in some cases shared with neighboring municipalities)
Megawatt-based	Operation began after 2003	Generating capacity of > 50 megawatts	\$2,000 per megawatt of generating capacity (for towns, 2/3rd to county; for village or city, 1/3rd to county)
Location Incentive	On site or adjacent to existing or decommissioned power plant, or a brownfield	Generating capacity of > 1 megawatts	\$600 per megawatt of generating capacity to county and to municipality
Base Load Plant Incentive	Plant designated to operate at least 60% of time	Generating capacity of > 50 megawatts	\$600 per megawatt of generating capacity to county and to municipality
Co-generation Incentive	Co-generation facility, e.g. electricity and steam	Generating capacity of > 1 megawatts	\$1,000 per megawatt to county and to municipality
Alternative Energy Incentive	Alternative energy source, e.g. biomass, solar, wind (if also eligible for co-generation payment only that payment is made)	Generating capacity of > 1 megawatts	\$1,000 per megawatt to county and to municipality

* For property in towns, 6 mills is paid to county; for property in village or city, 3 mills is paid to county. Qualifying property is limited to \$125 million per utility company. For plants where sum of megawatt-based and alternative energy incentive payment would exceed ad valorem payment, sum of megawatt-based and alternative energy incentive payment is made.

Notes: Sum of ad valorem, minimum, and megawatt-based payments can not exceed \$425 per capita for municipalities or \$125 per capita for county governments.

The Direct Impact of Utility Aid on Municipal and County Governments

From the perspective of local governments, utility aid payments are *unconditional* revenues from the state government. This means that utility aid contributes to the fiscal resources available to municipal or county governments. Upon receipt of utility aid, a municipal government faces several choices. The first option would be to use the additional financial resources to provide public services to tax-exempt utility property associated with the new wind turbine development. Although the provision of services to the utility property is often used as a justification for the utility aid program, it is unlikely that a wind farm will require much in the way of additional municipal services. Wind turbines tend to be sited in rural areas, and data from the Wisconsin Department of Revenue indicate that the largest category of municipal government expenditures of rural towns and villages is related to road maintenance. Once in operation, it is difficult to imagine why the existence of a wind turbine farm should have much if any impact on the level of required municipal government road maintenance expenditures.

The second option available to municipal governments upon receipt of additional utility aid would be to use the money to finance additional municipal government services or to cover rising costs of existing public services. The third option would be to use any additional utility aid to reduce municipal property tax levies. Property tax levies generally serve as the residual source of revenue for municipal and county governments. In other words, once a preliminary budget has been determined, the local government determines the size of its property tax levy by subtracting from its preliminary budget all expected revenues from non-property tax sources, including shared revenues from the state. Thus, as long as additional utility aid is not used to increase municipal or county government spending, the utility aid effectively replaces money that would have been raised through the property tax.

Regardless of how a municipal government chooses to utilize its utility aid, it is important to emphasize that the benefits of the utility aid, whether in the form of additional public services or lower property taxes, are spread among all residents or all property owners within a municipality. There is no reason to believe that the receipt of benefits is in any way related to the beneficiaries' proximity to the physical location of a utility.

If additional utility aid associated with a new wind turbine development finances higher municipal spending, a determination of the direct beneficiaries of the spending depends on the purpose of the new spending. For example, if the spending goes towards upgrading the computer system in the office of the municipal clerk, all municipal residents might benefit from increased efficiencies in the operation of the office. Alternatively, if the extra resources were used to hire an additional snowplow driver, all residents may benefit from the additional snow plowing capacity. On the other hand, if additional utility aid resulted in a reduced property tax levy, the tax savings would accrue to all owners of taxable real property within the municipality, with the tax savings being proportional to the value of the assessed value of each property owner's property.

Shared Revenue Utility Aid and the Compensation of Non-Participating Property Owners

In a recent decision, the Wisconsin Public Service Commission (2010) asserted that shared revenue utility aid payments would compensate non-participant landowners for any loss of property value attributable to the siting of a wind turbine farm.

In my view, this finding is not justified. Shared revenue utility payments benefit all municipal property owners and these benefits may indeed be reflected in increases in property values. The direct fiscal benefits and any property value increases, however, would accrue to all property owners within the municipality and would not provide disproportionately larger benefits to landowners who are within close proximity of a wind turbine farm and who may suffer property losses due to their physical closeness to the turbines.

References

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