



JOEL KITCHENS

STATE REPRESENTATIVE • 1ST ASSEMBLY DISTRICT

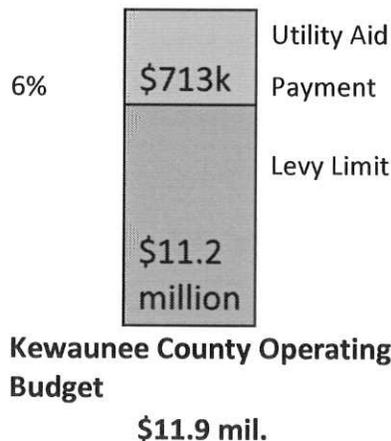
Joint Testimony for Representative Joel Kitchens and Senator Lasee for Assembly Bill 335

Thank you Mr. Chairman and members of the State Affairs and Government Operations Committee for allowing me to testify today. Over the last several months, we have been working with officials from the Department of Revenue to address a fiscal problem concerning the Kewaunee Nuclear Power Plant closure. However, the same issue will extend to other counties and municipalities hosting power plants that are set to close due to new federal EPA regulations.

A week ago, both the DOR and Governor's staff agreed that the only feasible plan that could pass the legislature and be signed by the Governor is the plan we bring before you today. As we were finalizing the bill language they learned that this plan would need to be law by the first week in October due to statutory deadlines regarding the payout of utility aid payments, which is the reason this bill is being rushed through the legislature. It passed through the Senate Committee on Government Operations and Consumer Protection.

Utility aid payments are revenues received by governmental units in lieu of property taxes. When they were started, levy limits were not in place for our municipalities or counties as they are now. When levy limits were enacted, they did not allow these utility aids to be included in the levy limit calculations. I believe this was an oversight that is now creating serious problem for municipalities, and counties. In Kewaunee County the utility aid Payment is 6% the county's overall budget. Due to current circumstances and current law, Kewaunee would lose all of their utility aid payment this year. Because of the levy limit laws, Kewaunee has no ability to adjust to this sudden budget cliff.

By implementing AB-335, Kewaunee will still lose their utility aid, but gradually until 2019.



As we developed this solution for Kewaunee County, we learned that other counties and municipalities are going to be in the same predicament as Kewaunee. This is due to the new EPA regulations against carbon fueled power plants. AB-335 will help municipalities in the event a power plants they host should close. Many smaller communities will lose an even greater percentage of their operating budget, as you will hear in other testimony.

Previous legislatures did not predict shutdowns of power plants in Wisconsin and current statutes do not address the sudden budget cliff that would occur when communities who host power plants suddenly lose their utility aid payments. AB-335 will provide those communities with a 5 year graduated reduction in utility aid payments as well.

The 5-year graduated step down in utility aid payments gives Kewaunee County and the other municipalities the time they need to adjust their spending after the loss of utility aid payments in their budgets.



Scott Walker
Governor

Richard G. Chandler
Secretary of Revenue

September 16, 2015

**Testimony to the Assembly Committee on State Affairs and Government Operations on
Assembly Bill 335**

Chairman Swearingen and members of the committee, thank you for the opportunity to testify on Assembly Bill 335, which would expand the five year phase-out of utility aid payments to instances where a non-nuclear or non-wind power plant closes. The bill also eliminates the subtraction from the phase-out payment for property taxes paid by the property.

Several decades ago, the legislature determined that the presence of a utility company in a particular community should not equate to a property tax windfall for that community because ratepayers from outside of that community were ultimately subsidizing the operation. Instead, the state chose to remove these properties from the local property tax roll and tax them at the state-level, so as to more broadly disperse the public benefit of these valuable operations. Utility companies pay an annual license fee to DOR based on their gross revenues. As long as the utility property is included in the ratebase of the utility, it generates revenues upon which the state assesses the license fee. The state collects approximately \$240 million in general purpose revenues from these license fees annually.

In order to balance the loss of property tax base, the legislature also created a payment in lieu of taxes, the utility aid payment, which is paid to counties and municipalities as part of shared revenue. The state issues roughly \$70 million in utility aid payments each year through a sum sufficient GPR-appropriation in the budget.

Under normal circumstances, a power plant stops operating once it is out of useful life, and it is removed from the ratebase. Once the plant is out of the ratebase, it is not producing revenues for the utility. Therefore, DOR stops collecting a license fee attributable to that plant, and the property is returned to the local property tax rolls.

For nuclear and wind plants, the statutes contemplate a five year phase-out period for the utility aid payment. There is no such phase-out period for other types of power plants in current law. The current phase-out statute includes a subtraction from the phase-out payment for local property taxes paid by the property. However, under levy limits, the property does not produce any new revenues for the local taxing jurisdictions, so this subtraction merely reduces their overall revenue stream.

In order to ensure that DOR adjusts the November 2015 payments of utility aid for any change to the statutes, this bill would need to be final by mid-October. Communities most immediately affected by this bill would have to wait until August 2016 for DOR to adjust future payments compensating them for this potential statutory change, if it occurs later.

I also want to provide the committee with some context to DOR's fiscal note. You will notice in the discussion of the Kewaunee Nuclear Plant a reference to the local assessed value, which was \$10 million last year and is \$457 million this year. The property owner has appealed this change in their assessment. If the local assessment were lower, the 2016 fiscal impact of this bill over current law would be reduced.

Thank you again for the opportunity to discuss AB 335.



KEWAUNEE COUNTY ADMINISTRATOR'S OFFICE

Scott Feldt
County Administrator

TESTIMONY ON AB 335
Assembly Committee on State Affairs and Government Operations
Madison, WI September 16, 2015

Good afternoon Mr. Chairman and committee members. My name is Scott Feldt and I am the County Administrator of Kewaunee County. I am here to testify in favor of AB 335. This legislation is important in assisting local governments as they react to the closing of power plants and the effects those closings have on local government budgets.

As stated in the fiscal estimate before you, under current law, utility aid payments to counties and municipalities for a decommissioned power plant decrease from 100% to 0% in 20% increments over a period of five years. This phase down applies only to nuclear and wind plants. The statutes also dictate that the amount of utility aid payments is reduced dollar for dollar by the amount the wind or nuclear power plant pays in property taxes. In reality, the assessed value on a power plant will generate a tax bill amount that will immediately and completely eliminate any utility aid payment. In essence having a utility property transfer on to the tax rolls has a negative revenue effect on local governments as they lose the utility aid payments and are unable to recoup the loss in revenue due to levy limits.

This legislation would extend the phase down of utility aid payments and remove the subtraction of property taxes paid by a power plant.

The closing of the Kewaunee Power Station (KPS) has had a profound effect on Kewaunee County, its economy, and most of all, its residents. With a decommissioning process that is scheduled for sixty (60) years, the local impact will be long-lasting. The decommissioning of KPS poses significant challenges to local governments in Kewaunee County as we struggle to continue to provide services to our residents under the burden of reduced revenues coupled with inability to recover those lost revenues due to local levy limits.

While this is something that Kewaunee County currently faces, we believe that similar situations will occur in other townships and counties throughout Wisconsin in the coming years as other power plants may need to shut down due to U.S. EPA regulations requiring reduced carbon emissions and the aging of current power stations.

The financial implications of assessed values of this magnitude for Dominion will negatively impact county government operations and potentially every individual taxpayer in Kewaunee County. These assessed values will result in the immediate loss of all utility tax revenue for Kewaunee County in 2016. Because Kewaunee County is not allowed to increase its levy to make up for this revenue loss, the County will be looking at budget cuts of over \$700,000 for our 2016 budget. For a small county like Kewaunee this is dramatic.

While Kewaunee County and the Town of Carlton are experiencing these challenges today, we believe that this will not be an isolated incident. In Wisconsin, in addition to the two (2) nuclear plants, there are dozens of coal-fired and gas-fired plants in the state, in addition to wind farms. The fiscal impacts that are facing local governments in Kewaunee County will be the same challenges that will face those communities when those plants come off-line. Because a significant number of those plants are located in townships and small communities, the fiscal challenges relating to local budgets and chargeback payments could be experienced by those communities as well if property assessments are challenged.

On behalf of Kewaunee County, I urge your support of AB 335. Thank you.

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