

Department of Legislative Services
 Maryland General Assembly
 2000 Session

FISCAL NOTE
 Revised

Senate Bill 414 (Senator Hoffman)

Budget and Taxation

Property Taxation - Property Used to Generate Steam or Hot or Chilled Water

This bill provides that a company that generates steam for sale is eligible for a credit against the corporate income tax for 60% of property taxes paid by the public utility on operating real property used to generate steam for sale. A 50% exemption from property tax for personal property that is machinery and equipment used to generate steam or hot or chilled water is also provided. The bill also provides for an addition modification of the credit for real property under the corporate income tax.

The corporate income tax credit for the operating real property taxes paid is effective beginning in tax year 2001. The personal property tax exemption applies to property tax years beginning after June 30, 2001.

Fiscal Summary

State Effect: General fund revenue decrease of \$61,000 and Transportation Trust Fund (TTF) revenue decrease of \$14,200 in FY 2002. Future years reflect 3% growth. No effect on expenditures.

(in dollars)	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
GF Revenues	\$0	(\$61,000)	(\$62,900)	(\$65,800)	(\$66,700)
SF Revenues	0	(\$14,200)	(\$14,700)	(\$15,100)	(\$15,600)
GF Expenditures	0	0	0	0	0
Net Effect	\$0	(\$75,200)	(\$77,600)	(\$80,900)	(\$82,300)

Note: () = decrease; GF = general funds; FF = federal funds; SF = special funds; - =indeterminate effect

Local Effect: Baltimore City revenue decrease of approximately \$314,000 in FY 2002. In addition, aggregate local government revenue decrease of approximately \$6,100 in FY 2002 as a result of credits taken against the corporate income tax.

Small Business Effect: None.

Analysis

Current Law: Public utilities are eligible to claim an income tax credit for 60% of the property taxes paid by the utility for operating real property, other than land used to generate electricity.

Background: Steam heating companies manufacture, sell, or distribute steam for use or sale. Steam heating as a public utility service was originally regulated as one of the monopoly services provided by the Baltimore Gas and Electric Company (BGE). Throughout most of this century there has been only one steam heating and cooling company in the State. In 1985, BGE sold its steam heating service to a predecessor of Trigen Energy, Inc. (Baltimore Steam), now the sole regulated steam heating company in the State. Steam heating competes with other forms of heating, including hot water, electricity, gas, and oil.

As a regulated utility, Trigen Energy, Inc. is taxed for property tax purposes as a public utility, which means unit valuation and 100% assessment of real and personal operating property. The generation of steam is considered to be simply the heating of water which does not constitute manufacturing, so the personal property used to generate the steam is not eligible for the sales and use tax exemption for equipment and machinery used in production activities. Steam generated by Trigen Energy, Inc. is distributed through a system of underground pipes to heat buildings in the downtown area.

In order to provide similar tax treatment for steam heating companies or companies that provide hot or chilled water to heat or cool a building as the electric utilities: (1) a credit would be allowed against the State corporate income tax for 60% of the total property taxes paid on its operating real property in the State, other than operating land, that is used to generate steam for sale; and (2) a property tax exemption would be provided for personal property that is machinery or equipment used to generate electricity for sale. The exemption would be for 50% of the value for the property tax year beginning July 1, 2001.

Chapter 605 of 1999 eliminated the jurisdiction of the Public Service Commission over steam heating companies. In order to provide some protection for existing customers of regulated steam heating, Chapter 605 requires the formerly regulated steam heating company to be

bound by the rate structure in effect on September 30, 1999 as a maximum, and to notify its customers of the provisions of the law.

State Fiscal Effect: Operating real property of a public utility is land and permanent improvements to land that are used to operate the facility. The State Department of Assessments and Taxation (SDAT) advises that approximately 75% of the operating real property of Trigen Energy, Inc. is comprised of underground pipes and conduits that are used to deliver, not generate steam, and therefore would not qualify for the income tax credit.

SDAT estimates that the assessment of operating real property of this entity used to generate steam for fiscal 2000 is \$2,349,086. Applying the State property tax rate of \$.21 per \$100 of assessment and the Baltimore City rate of \$5.82 per \$100 of assessment results in an estimated total tax on eligible operating real property of \$141,650. A credit of 60% against the income tax results in a sum of \$84,991. This amount is reduced by 7% (the corporate income tax rate) to take into account the addition modification required under current law, for a credit worth \$79,042 that can be claimed against the corporate income tax.

It is assumed that the credit will be taken against the corporate income tax. Because 75% of all corporate income tax revenues are distributed to the general fund and 25% are distributed to the TTF, credits taken on corporate income tax returns will reduce general fund revenues by 75% of the amount of the credits taken, and TTF revenues will be reduced by 25% of the credits taken. In addition, 30% of the 25% of revenues distributed to the TTF is distributed to local governments. As a result, general fund revenues would decrease by \$61,060, and TTF revenues would decrease by \$20,353 in fiscal 2002 which reflects the applicable effective dates of the bill's provisions. Because 30% of the distribution to the TTF is distributed to the local jurisdictions, the net TTF revenue loss in fiscal 2002 will be \$14,247.

Future year estimates include 3% annual growth in taxes assessed.

Local Fiscal Effect: SDAT estimates that Trigen Energy, Inc. has qualifying operating personal property assessed at \$3,578,980 for fiscal 2000. As a result of the property tax exemption of 50% and the Baltimore City tax rate of \$5.82 per \$100 of assessment, Baltimore City revenue would decline by approximately \$104,000 in fiscal 2002.

There is currently one company, ComfortLink, also located in Baltimore City, that operates two facilities that generate chilled water for cooling purposes. One of these facilities would not be affected by the bill. SDAT estimates that ComfortLink's other facility will have qualifying operating personal property assessed of approximately \$8.1 million in fiscal 2001.

As a result of depreciation, the property tax exemption of 50%, and the Baltimore City tax rate of \$5.82 per \$100 of assessment, Baltimore City revenues would decline by approximately \$210,000 in fiscal 2002.

As a result total Baltimore City revenues would decline by approximately \$314,000 in fiscal 2002.

In addition, local government revenues would decline as a result of credit being claimed on the corporate taxpayers income tax. As mentioned above, 75% of corporate tax revenues are distributed to the general fund, and 25% are distributed to the TTF. Of the 25% distributed to the TTF, approximately 30% is distributed to local jurisdictions. As a result, total local government revenue will decrease by \$6,106 in fiscal 2002.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Comptroller of the Treasury (Bureau of Revenue Estimates), Department of Assessments and Taxation, Department of Legislative Services

Fiscal Note History: First Reader - March 6, 2000
mncsjr Revised - Senate Third Reader - April 3, 2000
Revised - Enrolled Bill - May 15, 2000

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