SB 251

Department of Legislative Services

Maryland General Assembly
2001 Session

FISCAL NOTE
Revised

Senate Bill 251 (Senator Middleton)
Budget and Taxation Ways and Means

Property Tax Credits - Electricity Generation Facilities - Effect on State Aid

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This bill excludes personal property subject to an electricity generation tax credit from a county's assessable base for purposes of calculating State education aid payments. The tax credit must be applied to either a new facility permitted by the Maryland Public Service Commission after June 1, 2001 or an existing facility that receives approval for modification. This bill takes effect June 1, 2001 and is applicable to the calculation of State aid payments beginning in fiscal 2002.

Fiscal Summary

State Effect: None.

Local Effect: The fiscal impact of this bill would depend on the number of additional electricity generation facilities that are constructed and whether property tax credits are granted to the facilities. A Charles County facility is the only known project in which property tax credits have been proposed. Accordingly, Charles County State education aid could increase by $518,000 in FY 2005 and by $1.6 million in FY 2007 and each year thereafter. State education aid to all other local school systems would decrease, in the aggregate, by the same amount.

Small Business Effect: None.

Analysis

Current Law: Approximately 63% of State education aid is allocated inversely to local wealth, whereby less affluent jurisdictions receive relatively more aid. Wealth is usually defined as some combination of property assessable base and net taxable income. State aid is based on 50% of the personal property assessable base in the prior fiscal year.

For purposes of calculating State aid, the value of tax exempt property is excluded from a county's assessable base; however, the value of property to which a tax credit applies is included in the assessable base except for personal property subject to a manufacturing tax credit. Chapters 492 and 493 of 2000 excluded personal property subject to a manufacturing tax credit from a county's assessable base for purposes of calculating State aid payments. In addition, Chapters 5 and 6 of 1999 changed the tax structure relating to electric generating facilities and granted a 50% exemption on personal property that is machinery or equipment of electric generating facilities.

Background: Two of the State's largest education aid programs, current expense and compensatory aid, include personal property assessable base as a wealth component to distribute funding to local school systems. State funding for these programs totals $1.8 billion in the proposed fiscal 2002 State budget.

One goal of State aid formulas that are based on local wealth is to separate the computation of State aid from local decisions on property taxation. Due to this goal, State aid is based on a county's property base that could be subject to taxation, not the property base actually taxed by a county. Through this approach, counties are treated consistently under the State aid computation. If a county chooses to forego tax revenues by granting a property tax credit, that decision would not affect the State aid received by other counties.

Local Fiscal Effect: Two electricity generation facilities are intended to be built in Maryland in the next few years. Old Dominion Electric Cooperative has plans to build a gas turbine at Rock Springs in Cecil County. Cecil County intends to negotiate a payment in lieu of taxes for a 20-year period that is approximately equal to the property tax revenues it would have collected. The county has not proposed a tax credit for the facility. Accordingly, this facility would not be affected by this bill.

Orion Power Holdings, Inc. has plans to build a gas-fired electric generation plant in Charles County. The plant, known as the Kelson Ridge Project, would be built in phases over three years, with the first phase being taxable in fiscal 2004. The plant is expected to cost $1 billion, of which 85% is personal property and 15% is real property. Charles County intends to provide a tax credit against the plant's personal property. After adjusting for the 50% exemption for personal property from the 1999 utility deregulation and the 50% of personal property that is not included in the local wealth base for purposes of calculating State aid, the estimated value of the facility property will total $90.8 million in fiscal 2004 and $272.5 million by fiscal 2006, as shown in **Exhibit 1**.

Exhibit 1
Estimated Value of Assessable Base Included in Local Wealth Base

	Fiscal 2004	Fiscal 2005	Fiscal 2006
Real Property	$20 million	$40 million	$60 million
Personal Property	$70.8 million	$141.6 million	$212.5 million
Total	**$90.8 million**	**$181.6 million**	**$272.5 million**

Since education aid formulas are based on the prior year's wealth base, State education aid will not be affected until fiscal 2005. Charles County State education aid would increase by $518,000 in FY 2005 and by $1.6 million in FY 2007 and each year thereafter. State education aid to all other local school systems would decrease, in the aggregate, by the same amount.

Additional Information

Prior Introductions: None.

Cross File: HB 346 (Charles County Delegation) – Ways and Means.

Information Source(s): State Department of Assessments and Taxation, Department of Legislative Services

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