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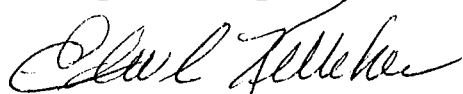
December 5, 1978

Representative John L. Martin, Chairman
Legislative Council
State House
Augusta, Maine 04333

Dear Speaker Martin:

Enclosed is the final report of the Joint Select Committee on Property Taxation of Public Utilities. The Select Committee has fulfilled its obligation as directed by Study Order, H.P. 2325.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Edward C. Kelleher".

Rep. Edward C. Kelleher
Committee Chairman

enclosures
ECK/TP/sym

Report of the Joint Select Committee
on Property Taxation of Public Utilities
on Its Study of
Municipal Valuation and Taxation of Public Utilities

Senate

Michael E. Carpenter
Roland D. Martin
Hollis J. Wyman

House

Edward C. Kelleher, Chairman
Philip P. Berry
Frank M. Carter
Harold R. Cox
Sidney D. Maxwell
Carl W. Smith
Frank P. Wood

Edward Potter
Legislative Assistant

December 5, 1978

Introduction

On March 24, 1978, the State Legislature approved Study Order, H.P. 2325, that created the Joint Select Committee on Property Taxation of Public Utilities and instructed the Committee "... to study the question of the benefits conferred upon municipalities and utility ratepayers by property taxes paid by utilities." The order instructed the Committee to report its findings and recommendations to the Legislative Council.

The Committee is composed of 10 legislators selected from the Joint Standing Committee on Public Utilities and the Joint Standing Committee on Taxation.

In order to implement the study, the Joint Select Committee on Property Taxation of Public Utilities held two public hearings to obtain information from utilities and municipalities. In addition the Committee conducted extensive research into present municipal property valuation procedures, alternative valuation procedures, and the impact of present utility property taxes upon ratepayers.

JOINT SELECT COMMITTEE ON PROPERTY TAXATION
OF PUBLIC UTILITIES

FINDINGS

1. For most municipalities, property tax revenues derived from the taxation of public utilities comprise a very small part of total municipal property tax income. Statewide, public utility property tax revenues constituted 6.4 percent of total municipal property tax revenues in 1977.
2. For a very small percentage of municipalities (2.2 percent), public utility property taxes are a significant source of income. In 11 municipalities, property tax revenues derived from public utilities constitute more than 25 percent of total revenues, and in 6 municipalities, public utility property taxes constitute 50 percent or more of total municipal property tax revenues.
3. Electric utility property, which produces nearly 90 percent of total utility property taxes in Maine, is the utility property tax therefore, that has the greatest impact on Maine residents. Public utility property taxes are considered ordinary business expenses and included in rates of customers across the state.
4. According to valuation estimates conducted by the Bureau of Taxation, 58 municipalities and plantations overvalue electric generating systems. The greatest percentage of overvaluation occurred in 8 municipalities in 1977 which collected 65 percent of total "excess" revenues from electric generating facilities.
5. The impact of overvaluation is not severe at the present time.
 - A. Approximately \$2,500,000 of "excess" electric utility property tax revenues is collected annually in Maine which represents roughly \$5.50 per residential customer. If industrial and commercial customers are included, the increased per customer cost would be much less.
6. Any changes in utility property valuation procedure could have a profound impact upon the State.
 - A. If a change in electric utility property valuation provides no incentives for a municipality to accept an electric generating facility it may be impossible to construct additional generating facilities in Maine.
7. Municipal overvaluation may be gradually corrected in the future.
 - A. Improved assessment practices mandated by state law, utility property valuation conducted by professional property assessment firms, and the exclusion of "excess" utility valuation from the state valuation of each municipality will force improved valuation practices of utility property.

8. The problem of municipal overvaluation could be corrected, in part, by court action. The Supreme Judicial Court has ruled that valuation of electric utility property must include the income, cost, and market measures and that no one measure can be used exclusively. If an electric utility can prove that municipal valuations do not conform to the Court ruling, the Court may require the municipality to adopt a different valuation formula that establishes a more realistic valuation.

9. The problem could also be corrected to a certain extent by the Public Utilities Commission.

A. If the Public Utilities Commission refuses to allow utility rates to reflect "excessive" municipal property taxes, the municipalities may be forced to curtail overvaluation of these facilities.

RECOMMENDATION OF THE
JOINT SELECT COMMITTEE
ON PROPERTY TAXATION OF PUBLIC UTILITIES

1. Based upon the information that the Committee obtained and the findings that are derived from this information, the Joint Select Committee does not propose any legislation to correct the problem at the present time.

JOINT SELECT COMMITTEE ON PROPERTY TAXATION
OF PUBLIC UTILITIES

SUMMARY OF REPORT

1. Utility property tax revenues are derived principally from electric utilities. In 1977 electric, gas, telephone, and water utilities paid \$17,110,854.87 in property taxes or 6.4 percent of total property taxes collected by Maine municipalities. Electric companies provided 88 percent of total utility property taxes collected followed by telephone companies which provided 4.8 percent, water companies which paid 4.4 percent, and gas utilities which paid 2.8 percent of total utility property taxes.

2. With the exception of electric utilities, property taxation of public utilities is similar to that in other states.

A. In Maine, as in other states, telephone companies pay a gross receipts tax in lieu of property taxes levied on personal property, equipment, distribution, and transmission systems. The reason for the exemption of telephone companies from property taxation is that telephone company property and equipment provides an essential service to the public and constitutes an equal value to all users. Since generating stations cannot be located in just any municipality, municipalities in which these facilities are located are permitted to tax the land and buildings but not the equipment, or personal property or transmission systems of telephone companies.

3. Unlike most states, Maine empowers municipalities to value and tax the personal property, equipment, distribution, and transmission systems of electric utilities.

A. In 43 states, either the State values and taxes electric utilities or electric utilities pay an excise tax or gross receipts tax in lieu of property taxes levied on personal property, equipment, and transmission-distribution systems.

4. Municipal valuation and taxation of electric companies differs from one municipality to another.

A. In Lewiston, for example, the value of electric company property is the value determined by a professional property assessment firm in 1965. The value includes depreciation. The city mill rate and valuation ratio is applied to the 1965 value.

In Wiscasset, the value of Maine Yankee property has been determined by the actual cost of plant and equipment with no provision for depreciation. In Yarmouth, the valuation of utility property is based upon replacement cost without provision for depreciation.

5. Municipal valuation and taxation of electric companies does not differ substantially from municipal valuation of industrial facilities.

A. For example, the town of East Millinocket traditionally did not provide for the depreciation of plant and equipment in the town's valuation of Great Northern Paper Company. Recently, a professional property assessment firm did include a depreciation factor in the valuation of GNP which the town may contest. In the past, the town and Great Northern Paper Company agreed upon the percentage of total taxes that the firm would pay.

6. While municipal valuation of electric utilities may not differ significantly from municipal valuation of other types of industrial enterprise in Maine, the effect of inaccurate valuation practices of utility property could have a greater adverse impact upon Maine residents than inaccurate valuation of industrial or commercial firms. Some municipalities, according to statistics compiled by the Bureau of Taxation of the Maine Department of Finance and Administration, are over-valuing electric company generating facilities and distribution-transmission systems. Approximately 50 municipalities and plantations value these facilities. Of these 50 municipalities, 8 (16 percent) derive most of the "excessive" tax revenues.

A. Compared to the valuation proposed by the State, municipal valuations are generating roughly \$2,500,000 in additional property taxes at current tax rates that would not be generated by the proposed state valuation of electric generating systems. The \$2,500,000 of "excess" property taxes represents roughly a \$5.50 by every residential electric customer in the State. If every electric company customer is included (commercial, industrial and residential) the per customer excess charge would be less.

B. Of the additional \$2,500,000 of property taxes generated by "excessive" municipal valuation, 34 percent was generated by Wiscasset and Yarmouth valuations. An additional 31 percent of the total was generated by valuations of Auburn, Buxton, Emden, Lewiston, Moscow, and South Portland.

7. If municipalities tend to overvalue existing electric generating plants which presently represent roughly 50 percent of total electric utility investment, any excess valuation of transmission and distribution systems, which represent roughly 60 percent of total electric utility investment, will also have a very significant impact upon ratepayers. Distribution and transmission systems however are located in many more municipalities than electric generating facilities, and the benefits of overvaluation may be shared by a large number of municipalities.

A. The benefits of overvaluation of transmission-distribution systems in many municipalities may be in the form of lower taxes. These benefits, however, are offset by higher electricity rates.

8. Of the nearly 500 municipalities and plantations in the State, very few benefit from electric utility property taxes. In 6 municipalities and plantations, electric utility property tax revenues comprised more than 50 percent of total property tax revenues collected in 1977. In 5 municipalities, electric utility property taxes comprised more than 25 percent but less than 50 percent of total property tax revenues.

9. Over valuation of electric generating facilities has caused electric utilities, on a few occasions, to challenge municipal valuations in court. The courts, however, have not issued a definitive decree on this issue, and municipal valuation formulas have not changed. The courts maintain that both the electric utilities and the municipalities use insufficient valuation criteria. Valuation measures, according to court decrees, should include factors that are presently missing from utility and municipal formulas.

10. Alternatives to the present system of taxing electric utility property include:

A. Maintaining the same approach, but empower the Bureau of Taxation to establish values for utility property.

B. Institute the same tax approach that applies to telephone companies in Maine. Allow municipalities to tax land and buildings, but exempt personal property, equipment, distribution, and transmission systems from municipal property taxes. A gross receipts or excise tax would replace the exempted property tax.

C. Exempt utilities from all taxes. The theory behind this approach is that taxes are an ordinary business expense that are passed on to rate payers. The loss in revenues could be recovered by an increase in the personal income tax which is a more progressive tax than property taxes.

D. Exempt utilities from property taxes completely and subject them to a gross receipts or excise tax. Excise tax revenues or revenues from a gross receipts tax would be distributed among the municipalities and plantations according to a formula which includes the number of electric utility customers, the investment of electric utilities, and the amount of electricity produced in each municipality and plantation.

11. If an alternative to taxing electric utility property does not include a means of distributing revenues to municipalities and plantations, there will be no incentive for municipalities and plantations to accept electric generating facilities.

Chapter I Municipal Valuation and Taxation of Public Utilities in Maine

The issue before the Joint Select Committee is, whether utility rate payers, via user rates, should provide municipalities, in which utility facilities are located, with property tax revenues. For example, utility property taxes in Wiscasset constitute 95.3 percent of total property taxes collected in the municipality. Utility customers throughout the State pay these taxes which are incorporated in the Utility's rates.

Electric companies, private water companies, and private gas companies are subject to property taxes levied upon land, buildings, equipment, personal property, and the distribution-transmission system. Each municipality levies a different tax rate and establishes different values for utility property.

Maine is one of 7 states in which the property of electric utilities and gas companies is valued and taxed by municipalities. In 43 states, the property of electric utilities is either exempt from taxation or the property is valued and taxed by the State. Electric utilities exempted from property taxation pay an excise or gross receipts tax in lieu of a property tax.

Taxation of telephone companies in Maine is very similar to that of other states. Municipalities may value and tax land and buildings of telephone companies, but the personal property, distribution, and transmission systems of these firms are not subject to a property tax. Instead, a gross receipts or excise tax is levied on these companies.

The principle behind the taxation of telephone and telegraph companies is that a municipality is entitled to property tax revenues for land and structures (building shells) owned by these firms in a municipality, but personal property, equipment, and the distribution-transmission system do not create additional costs to or constitute a value exclusive to a particular municipality. Since personal property, equipment, and the distribution-transmission system are necessary to provide an essential public service, they are not subjected to local controls. In addition, these items which provide a service to the entire public are of equal value to all users, and therefore, are not subject to different valuations and tax rates of roughly 500 municipalities.

The other side of the argument as it relates to the electric utilities is that utility facilities are not unlike any other industrial or commercial facility such as a paper company with respect to the value that the facility reflects and the value that the facility derives from its location in a municipality. Paper companies in East Millinocket, Bucksport, Woodland, Hinckley, and Jay constitute the major property tax payers in each of these municipalities.

Although the benefits of the paper companies such as employment, increased purchasing power for local goods, spin-off enterprises, etc., are not limited exclusively to the municipalities in which they are located, nevertheless, the municipalities levy property taxes on these facilities which are based within their jurisdiction. The property tax is also passed on to paper

company customers, and the retail price of paper and paper goods include property taxes. Property tax revenues levied on paper companies and other industrial enterprises help reduce costs of municipal services to these firms.

The major difference between utilities and other industrial facilities is that the utility is a monopoly that provides an essential public service. This service is purchased almost exclusively by residents within the geographical jurisdiction of the utility. Utility customers do not have access to another source for the service.

Industrial enterprises, on the other hand, compete to sell a product that is not necessarily essential. In addition, these facilities do not have distribution and transmission systems in every municipality within their jurisdiction that is subject to local property taxes.

Another aspect of the issue before the Joint Select Committee concerns municipal valuation of electric utility facilities, especially generating stations. This is particularly important because 88 percent of all utility property tax revenues (\$17,110,854.87) are derived from electric utilities. Telephone, water, and gas utilities produce 4.8 percent, 4.4 percent, and 2.8 percent respectively of total utility property tax revenues. The method of valuation of utilities therefore, has the greatest impact on electric utilities and users of electricity who pay the property taxes of electric utilities.

The Bureau of Taxation has recently appraised roughly 50 electrical generation plants in Maine. A comparison of the State valuation of electric utilities at full value with municipal valuation of these facilities at full value shows that municipal valuations exceed the state valuation by as much as 250 percent. Consequently, utility users are paying property taxes for generating plants that may be significantly "over-valued." In addition, some municipalities have valued and taxed the distribution and transmission systems of electric utilities that greatly exceeds the adjusted value proposed by the Bureau of Taxation.

Another indication of the problems of municipal utility facility valuation is the method of valuation used by the Public Utilities Commission (PUC). The PUC uses the book value of the utility which includes land, buildings, equipment, transmission systems, etc., in the rate base. The total book value of three of Maine's largest electric utilities is roughly \$500,000,000. According to municipal valuations of all electrical generating plants (30% of total utility investment) in Maine, these facilities have a value that exceeds \$1,000,000,000 at 100 percent valuation.

Municipal valuation of private water companies in Maine is very difficult to evaluate. In general, water companies are

much less capital intensive than electric utilities, and the glaring inequities of property taxation associated with electric utilities is not as evident with water companies. Furthermore, electric utility generating and transmission systems can be valued more easily than a lake or reservoir owned by a private water company. For example, a lake and its surrounding undeveloped shoreland owned by a private water company may have a market value of several million dollars, but the inability to develop the lake area as well as the necessity for a water supply may establish a much lower value for the lake and surrounding land.

The problem with respect to valuation of utility property stems, in part, from the various measures used to compute utility property values. In a number of cases before the Maine Supreme Judicial Court, the court ruled that several measures exist to value utility property, but no one measure should be the exclusive measure. In the opinion of the court:

If it is impossible to determine true worth of real estate by reference to price which such property will bring in market, resort may be made to other factors; and consideration may be given (1) to original cost of construction less depreciation, (2) to reproduction cost with allowance for depreciation, (3) to purchase price, if not sold under stress or unusual conditions, and (4) to capacity of property to earn money for its owner; and while none of these elements is controlling, each has its place in estimating value for purposes of taxation.

In general, there are three measures to determine property values as described below:

Income Measure

$$\text{Value} = \frac{\text{Net Operating Income}}{\text{capitalization rate}} \quad (\text{return on investment and return of investment})$$

Cost Measures

- A. Value = Replacement cost minus depreciation or
- B. Value = Original cost minus depreciation or
- C. Value = Reproduction cost minus depreciation.

Market Measure

Value is assets = liability and equity.

The court has ruled that the income, cost, and market measures should be considered in determining value of utility property and that no one measure should be used exclusively. The court, however, did not propose the weight that should be attributed to each measure in determining utility property values.

Nearly all of Maine's municipalities have adopted the cost measure approach and do not consider the other two measures in determining utility property values. In a great many cases, municipalities have adopted original cost plus inflation to establish the property value of electric utilities. The trend has been for municipalities to maintain the proportion of municipality property taxes borne by electric utilities despite the increase in value of other types of property in the municipalities and municipal growth.

The electric utilities have attempted to negotiate property valuations and taxes with municipal officers to more accurately reflect the value of utility property. In a few cases, a municipality has agreed to a more realistic valuation. In most cases, however, there has been no or little change.

When negotiations have failed, the utilities have appealed to the Court a few of the municipal valuations that represent extreme over-valuation of utility property. In many other cases, the utilities have accepted municipal valuations.

In cases in which the electric utilities have appealed to the Court to review municipal valuation of utility property, the utilities have based their appeal on the original cost minus depreciation approach to valuation. Both the municipalities and electric utilities therefore, have adopted only one measure of property valuation which the court has rejected as the proper approach. The Court has pointed out that the income, cost, and market measures must be taken into consideration in developing property tax values for utilities. The Court's decision has not had any effect upon municipal valuation of utility property. One reason is that the court did not specify the formula, and municipalities are in quandry about the proper measure.

The Bureau of Taxation has adopted the valuation procedure prescribed by the Court for the determination of utility property. The results of the State valuation indicates that municipalities are over-valuing electric generating stations by roughly 250 percent.

A comparison of municipal and state valuation of electric utility generating systems indicates that municipal valuations produce roughly \$2,500,000 in additional tax revenues that would not be generated by proposed state valuations of these facilities at current municipal tax rates. Of the total additional tax revenues generated, 65 percent is produced by 8 towns. According to the data, 34 percent of the total "excess" revenues is generated in Wiscasset and Yarmouth, and an additional 31 percent is generated in Auburn, Buxton, Embden, Lewiston, Moscow, and South Portland. The proposed state valuation of electric generating facilities shows that electric utility customers in 497 municipalities and plantations each pay an additional \$5.50 producing roughly \$2,500,000, and 11 towns receive 75 percent of the total.

TABLE 1
PROPERTY TAXATION OF POWER GENERATING
STATIONS

MUNICIPALITY	MUNICIPAL ASSESSMENT NOT 100% VALUE	MUNICIPAL TAX RATE	MUNICIPAL TAX	STATE APPRAISAL 100% VALUE	FULL VALUE TAX RATE	PROPOSED TAX	TAX REVENUE BETWEEN MUNICIPAL & STATE
Central Maine Power							
Auburn	\$1,592,800	\$40.40	64,349	\$825,240	\$22.43	\$18,510	45,839
	1,802,120	40.40	72,805	1,128,900	22.43	25,321	47,484
Baldwin	461,520	29.00	13,384	444,000	12.88	5,719	7,665
Benton	1,011,840	11.50	11,636	313,580	12.66	3,970	7,666
Biddeford	117,600	23.00	2,704	332,175	19.14	6,358	(3654-loss)
Brunswick	1,232,460	30.70	37,836	313,790	19.10	5,993	31,843
Buxton	127,000	27.00	3,429	152,650	14.79	2,258	1171
	2,006,960	27.00	54,187	559,690	14.79	8,278	45,909
	4,354,120	27.00	117,561	2,392,765	14.79	35,389	82,172
Dayton	1,258,600	29.00	36,499	2,919,820	17.08	49,870	(13,371-loss)
Emden	803,000	196.00	157,388	1,934,210	14.31	27,678	129,710
Fairfield	1,598,480	19.05	30,451	740,220	18.19	13,464	16,987
Farmingdale	475,570	20.50	9,749	278,060	14.78	4,110	5,639
Gorham	467,060	36.80	17,188	268,250	16.85	4,520	12,668
Hiram	434,400	57.00	24,766	182,900	12.14	2,220	22,546
Hollis	1,208,810	33.50	40,495	448,330	17.09	7,662	32,833
	1,663,810	33.50	55,738	1,178,480	17.09	20,140	35,598
	621,980	33.50	20,837	364,475	17.09	6,229	14,608
Illesboro	30,030	13.75	413.00	25,825	11.06	285.00	\$128
Lewiston	312,950	38.30	11,986	152,200	21.91	3,334	8,652
	639,350	38.30	24,487	86,470	21.91	1,895	22,592
	4,507,400	38.30	172,633	2,395,440	21.91	52,484	120,149
	444,400	38.30	17,020	726,900	21.91	15,926	1,094
Moscow	20,280,000	14.80	300,144	4,707,530	38.54	186,135	114,009
Oakland	466,000	48.00	22,368	636,200	14.74	9,377	12,991
	363,900	48.00	17,467	418,260	14.74	6,165	11,302
Peaks Island	135,590	33.70	4,569	219,920	27.35	6,014	(1445-loss)

MUNICIPALITY	MUNICIPAL ASSESSMENT NOT 100% VALUE	MUNICIPAL TAX RATE	MUNICIPAL TAX	STATE APPRAISAL 100% VALUE	FULL VALUE TAX RATE	PROPOSED TAX	TAX REVENUE BETWEEN MUNICIPAL & STATE
Central Maine Power							
Pleasant Ridge	15,575,000	22.50	350,437	5,661,680	51.66	292,482	57,955
Rockland	315,275	24.50	7,724	162,690	23.59	3,837	3887
Saco	1,739,290	40.30	70,093	839,520	18.40	15,447	54,646
Skowhegan	3,907,950	19.00	74,251	2,190,260	7.11	15,572	58,679
Solon	700,200	72.00	50,414	902,020	14.62	13,187	37,227
South Portland	3,735,800	31.30	116,930	1,090,940	22.47	24,513	92,417
	2,023,000	31.30	63,320	2,211,065	22.47	49,682	13,638
Standish	2,721,385	17.00	46,263	634,420	12.12	7,689	38,574
Topsham	403,650	19.55	7,891	242,320	15.01	3,637	4254
Waterville	565,130	18.50	10,455	184,680	17.91	3,307	7,148
	299,940	18.50	5,549	140,220	17.91	2,511	3,038
Windham	393,400	14.18	5,578	97,970	14.66	1436	4142
Winslow	812,960	14.80	12,031	285,540	14.67	4,188	7843
Wiscasset	7,140,140	37.50	267,755	13,067,070	16.54	216,129	51,626
(Maine Yankee)	115,185,520		4,319,457	237,536,400		3,928,852	390,605
Yarmouth	66,086,400	29.58	1,954,835	93,663,655	16.84	1,577,295	377,540
TOTAL			8,705,072			6,689,068	2,016,004
Bangor Hydro							
Bar Harbor	673,410	27.20	18,317	385,100	19.36	7,455	10,862
East Machias	265,000	31.00	8,215	117,225	13.08	1,533	6,682
Eastport	580,295	22.00	12,767	319,960	19.69	6,300	6467
Eddington	166,000	56.00	9,296	377,770	13.10	4,949	4347
Ellsworth	1,453,600	13.75	19,987	480,570	15.71	7,550	12,437
Enfield	1,128,280	22.00	24,822	820,000	11.88	9,742	15,080
Howland	1,929,000	23.00	44,367	884,140	15.19	13,430	30,937
Medway	4,598,180	17.60	80,928	1,320,760	25.31	33,428	47,500

MUNICIPALITY	MUNICIPAL ASSESSMENT NOT 100% VALUE	MUNICIPAL TAX RATE	MUNICIPAL TAX	STATE APPRAISAL 100% VALUE	FULL VALUE TAX RATE	PROPOSED TAX	TAX REVENUE BETWEEN MUNICIPAL & STATE
Bangor Hydro Milford	1,584,800	52.00	82,410	1,658,320	17.58	29,153	53,257
Orono	392,360	30.00	11,771	611,980	17.73	10,850	921
Stillwater	1,453,600	23.20	33,724	480,570	15.96	7,670	26,054
Veazie	1,748,950	18.60	32,530	1,451,090	20.96	30,414	2,116
	10,475,260	18.60	194,840	5,590,520	20.96	117,177	77,663
TOTAL			573,974			279,651	294,323
Maine Public Service							
Caribou	3,836,860	34.00	130,453	2,929,270	18.67	54,689	75,764
Houlton	202,300	35.50	7,222	86,730	25.60	2,220	5,002
Masardis	289,210	14.20	4,107	243,300	13.40	3,260	847
Presque Isle	351,150	37.00	12,993	215,400	20.61	4,439	8554
TOTAL			154,775			64,608	90,167
Eastern Maine Electric Co.							
Calais	247,700	28.50	7,060	114,090	18.96	2,163	4,897
Public Service Co. of New Hamp.							
Fryburg	61,250	12.76	782.00	95,185	14.04	1,336	(554-loss)
GRAND TOTAL			9,441,663			7,026,826	2,404,837

Electric utility generating facilities are substantial property tax sources in a very small number of municipalities and plantations. In 6 municipalities and plantations (Embden, Moscow, Pleasant Ridge Pl., Veazie, Wiscasset, and Yarmouth), property tax revenues derived from electric utility generating plants comprise more than 50 percent of total municipal property tax revenues. In 5 municipalities (Buxton, Hollis, Howland, Medway and Solon) property tax revenues from electric utility generating facilities comprised 25 percent but less than 50 percent of total municipal property tax revenues.

If municipal property taxes levied on personal property, equipment, distribution systems and transmission systems of electric utilities could be calculated for each municipality, the effect of electric utility property taxes on Maine's municipalities could be more dramatic. Transmission and distribution systems comprise 70 percent of current electric utility investment.

Alternatives

There are several alternatives to the present method of taxing utility property. Any alternative that does not include an incentive for municipalities to accept generating stations, however, could discourage or prevent the expansion of utilities in the future. A few of the alternatives are:

A. Empower municipalities to tax all utility property, but the Bureau of Taxation would establish the value of all utility property.

B. Extend the current method of taxing the property of telephone companies to all utilities in Maine. In lieu of property taxes on distribution systems, transmission systems, personal property, and equipment, utilities would be subject to an excise or gross receipts tax could be distributed to the municipalities or retained by the State. Municipalities would be empowered to tax land and buildings associated with generating plants located within their jurisdiction.

C. Exempt utilities from all taxes. Since taxes are legitimate business expenses which are passed on to rate payers, utilities could be made exempt from all taxes. The price of an essential public service would thereby be reduced. The loss of utility tax revenues could be offset by increases in income tax rates which is a more progressive form of taxation. A portion of the income tax revenues could be distributed among the municipalities.

1. This alternative may not fit within the scope, however. The study order addresses the issue of utility taxes and not other utility taxes.

D. Exempt utilities from all property taxes and implement a gross receipts or excise tax. Revenues derived from a gross receipts or excise tax could be distributed among Maine's municipalities according to a formula including the number of utility customers, utility investment, and the amount of electricity generated in each municipality.

TABLE II
PROPERTY TAXES AND UTILITY PROPERTY
TAX BURDEN

<u>Cities</u>	<u>% of total Property Tax Assessment borne by all utilities</u>	<u>Selected Towns</u>	<u>% of total Proper- ty Tax Assessment borne by utilities</u>
Auburn	4.4%	Ashland	4.7%
Augusta	7.0%	Baldwin	14.77%
Bangor	1.5%	Bar Harbor	2.3%
Bath	0.97%	Buxton	27.3%
Belfast	14.0%	East Machias	8.25%
Biddeford	3.3%	Eddington	6.26%
Brewer	0.85%	Embden	62.4%
Calias	0.68%	Enfield	17.67%
Caribou	8.0%	Fairfield	5.5%
Eastport	4.7%	Gorham	5.1%
Ellsworth	1.4%	Hiram	17.5%
Gardiner	1.8%	Hollis	32.1%
Hallowell	1.8%	Howland	29.9%
Lewiston	5.5%	Lincoln	0.88%
Old Town	1.8%	Masardis	5.6%
Portland	2.7%	Medway	30.6%
Presque Isle	4.0%	Milford	22.6%
Rockland	4.9%	Millinocket	0.27%
Saco	7.3%	Milo	2.4%
South Portland	23.1%	Moscow	87.7%
Waterville	2.2%	Orono	2.8%
Westbrook	6.6%	Pleasant Ridge Pl.	96.7%
		Standish	5.0%
		Solon	34.4%
		Topsham	6.1%
		Windham	2.3%
		Wiscasset	95.2%
		Veazie	50.7%
		Yarmouth	60.4%

Chapter II

Remedies That Do Not Require Legislative Action

Although 58 municipalities overvalue electric generating facilities, as measured by the valuations of the Bureau of Taxation, 8 municipalities account for 65 percent of the overvaluation. A complete change in the valuation procedure of these facilities on a Statewide basis may not be necessary or desirable. In addition, any change in the valuation procedure that eliminates incentives for municipalities to accept electric generating facilities would have a very adverse effect on the State.

The problem of overvaluation may be corrected, in part, by recently enacted legislation. Legislation requiring municipalities to increase valuation of property to 70 percent by 19 and to improve assessment practices will help resolve this problem. In addition, many municipalities, in order to implement the law are using professional assessment firms that have greater expertise in property valuation than local tax assessors.

Another partial remedy involves the State valuation of municipalities and plantations. The State Tax Assessor could exclude "excessive" valuation of electric generating facilities and transmission systems from the State Valuation of the errant municipalities.

The Public Utilities Commission (PUC) by disallowing rates that reflect "excessive" property taxes could also help resolve the problem. If the municipalities that overvalue electric generating facilities refuse to reduce the taxes to comply with PUC imposed rates, the utility would be required to seek relief from the courts.

Another remedial alternative is for utilities to challenge municipal valuations in court. The Supreme Judicial Court has rules that several measures must be taken into account in valuation of public utilities. If a utility can prove that a municipality has not followed the Court's decision, the Court could resolve the problem.

STATE OF MAINE

In House

Ordered,

Whereas, the State has granted monopolies to public utilities such as electric companies, gas companies and water companies in order to insure that utility equipment and facilities are not duplicated at an unnecessary expense; and

Whereas, the State grants these monopolies under the condition that the utilities are subject to state regulation; and

Whereas, these utilities pay property taxes to the municipalities in which their equipment and facilities are located; and

Whereas, under the utility law, the property taxes paid by utilities are reimbursed them by their ratepayers through utility rates; and

Whereas, the result of this process is that ratepayers residing in municipalities, other than the ones in which utility equipment and facilities are located, pay property taxes through their utility rates to other municipalities; and

Whereas, there has arisen some question as to whether or not the property taxes paid by utility ratepayers should benefit a wider number of persons, other than just the residents of municipalities in which public utility equipment and facilities are located; now, therefore, be it

Ordered, the Senate concurring, that a Joint Select Committee on Property Taxation of Utilities be established to study the question of the benefits conferred upon municipalities and utility ratepayers by property taxes paid by utilities; and be it further

HP2325

Ordered, that this committee be _____ members of the Senate to be appointed by the President of the Senate from among the members of the Joint Standing Committee on Taxation and the Joint Standing Committee on Public Utilities and 7 members of the House of Representatives to be appointed by the Speaker of the House from among the members of the Joint Standing Committee on Taxation and the Joint Standing Committee on Public Utilities; and be it further

Ordered, that the committee shall complete this study no later than December 1, 1978 and submit to the Legislative Council within the same time period its findings and recommendations, including copies of any recommended legislation in final draft form; and be it further

Ordered, upon passage in concurrence, that a suitable copy of this order shall be forwarded to members of the committee.

HOUSE OF REPRESENTATIVES

READ AND PASSED

MAR 23 1978

SENT UP FOR CONCURRENCE

Edith A. [Signature]

ORDERED SENT FORTHWITH CLERK

IN SENATE CHAMBER *[Signature]*

TABLED BY SEN. ~~SEN. SPEERS~~
OF KENNEBEC

MAR 23 1978

PENDING *Passage*

DAY TO BE SET

REG. ASSIGNED SER

Letter in Today

IN SENATE

TAKEN FROM TABLE *[Signature]*

BY *[Signature]* MAR 24 1978

MAR 24 1978

SEN. SPEERS
OF KENNEBEC

Passed

IN CONCURRENCE

(Kelleher)

NAME:

Edith A. Kelleher

TOWN" Bangor