



**House
Legislative
Analysis
Section**

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**ELECTRIC UTILITY COOPS:
ASSESSING PROPERTY**

**Senate Bill 1203 as passed by the Senate
First Analysis (12-10-02)**

**Sponsor: Sen. Bill Bullard, Jr.
House Committee: Tax Policy
Senate Committee: Finance**

THE APPARENT PROBLEM:

According to representatives from the Michigan Electrical Cooperative Association (MECA), the personal property of electric cooperatives in Michigan has traditionally been assessed using a special formula that recognizes the special circumstances of these not-for-profit, member-owned utilities that serve rural areas of the state. Such cooperatives, according to the MECA, serve more than 280,000 homes, farms, and businesses in 58 of the state's 83 counties, and maintain over 33,000 miles of line to serve about 275,000 meters. It is in part this last feature of the electric cooperatives, the fact that they serve about eight customers per mile of line, that has led to the special assessment formula. Larger investor-owned utilities have about 35 customers per mile, says the MECA, and some municipal systems have more than 90 customers per mile. Moreover, the rural cooperatives also serve seasonal customers whose annual usage is low but whose maintenance and service costs are high. MECA says the State Tax Commission has developed a factor known as the "system economic factor" (SEF) for local assessors to use in determining the true cash value of the personal property of electric cooperatives; the factor is based on a comparison of sales between electric cooperatives and other utilities. A Department of Treasury bulletin from 1984 for use by assessing officers and county equalization officers described updated procedures that had then just been arrived at for the fair and equitable determination of personal property tax values and said "the procedures will provide for uniformity among Michigan's electric utilities and, therefore, will be in keeping with the spirit of the law".

The system economic factor is said by the MECA to be "an attempt to adjust each cooperative's personal property value for differences in service area, such as number of customers per mile of line, number of seasonal customers, and lower overall [kilowatt hour] sales that affect the market value of that

cooperative's personal property in relation to the value of other Michigan cooperatives and non-cooperatives". This kind of factor has been in use, says the association, since 1959 and has been upheld in the courts. The cooperatives, however, are worried that this factor is threatened; they claim that staff to the State Tax Commission have sought to eliminate or reduce the use of the SEF over the past few years, although the commission has thus far retained its use. Legislation has been developed that would codify in the state's property tax laws the current methodology for assessing the personal property of electric cooperatives.

THE CONTENT OF THE BILL:

The bill would amend the General Property Tax Act to provide that in determining the true cash value of personal property owned by an electric utility cooperative, the assessor would have to consider the number of kilowatt hours of electricity sold per mile of distribution line compared to the average number of kilowatt hours sold per mile of distribution line for all electric utilities.

MCL 211.27

FISCAL IMPLICATIONS:

The House Fiscal Agency says the bill is still being analyzed for any potential fiscal impact. (HFA committee summary dated 12- 9-02)

ARGUMENTS:

For:

The aim of this bill, according to representatives of electric cooperatives, is to maintain the status quo as regards the assessment of personal property taxes of not-for-profit electric cooperatives. As explained earlier, the value of this property is based to some

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extent on the amount of electricity sold per mile of distribution line, to reflect the unique circumstances of rural electric cooperatives, whose customers live far apart. To see the significance of this, consider that the cooperatives average about 60,500 kilowatt hour sales per mile of line, while investor owned utilities average 725,000, and municipal systems 1.95 million. The association representing the cooperatives says it is not the intent of the bill to decrease or to increase the amount of personal property taxes currently being paid. The bill simply aims at keeping a longstanding practice in place.

POSITIONS:

The Department of Treasury supports the bill. (12-10-02)

The Michigan Electric Cooperative Association supports the bill. (12-10-02)

Analyst: C. Couch

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.