

HB

778



THE PROBLEM

Since 1960, electric and telephone cooperatives have been paying 2% of gross receipts as a tax in lieu of ad valorem. This worked well through the years until the price of diesel fuel began to skyrocket after the 1973 Arab oil embargo. As the cost of diesel increased, the rates for diesel generated electricity increased. As the rates went up, the taxes went up with them.

The result of all this is that the consumers served by highest cost electric cooperative (AVEC) pay about ten times more tax than those served by the cooperative with the lowest rates (Chugach). It simply is not fair for rural consumers to have to pay disproportionately more tax than their urban neighbors just because their electricity costs more.

EFFECT OF THE BILL

This bill separates the taxing procedure used for electric cooperatives from that used for telephone cooperatives. It leaves the present procedure alone for telephone cooperatives -- they would still pay 2% of gross receipts in taxes.

Electric cooperatives would now pay 1/2 mill per kilowatt hour of electricity sold at retail. This is approximately the same tax per kilowatt hour that is now being paid by the electric cooperative with the lowest rates. It simply equalizes the taxes paid in the rest of the state to this level.



# ALASKA RURAL ELECTRIC COOPERATIVE ASSOCIATION, INC.

8000 C STREET - SUITE C - ANCHORAGE, ALASKA 99502 • (907) 278-3235

COMPARISON OF GROSS RECEIPTS TAX  
WITH PROPOSED  
ELECTRIC COOPERATIVE <sup>TAX</sup> FOR 1978  
(Calculated from REA Bulletin 1-1, 1978)

COOP	2% GROSS RECEIPTS TAX	G.R. TAX EXPRESSED IN MILLS/KWH	ELECTRIC COOP TAX @ 1/2 MILL/KWH
MEA	\$ 178,287	.80	\$ 111,834
KEA	95,362	1.77	26,870
HEA	140,546	.63	112,296
GVEA	388,858	1.26	154,564
GHEA	11,365	1.43	3,964
CEA	495,952	.64	390,085
NEA	15,980	2.86	2,794
KtzEA	26,551	3.10	4,281
CVEA	82,766	2.16	19,118
NEC	14,568	2.63	2,764
AVEC	109,506	6.85	7,992
*CEC	(@ 1%) 3,733	(@ 1%) 1.18	(@ 1mill) 785
TOTALS	\$1,563,474		\$ 837,347

NOTE: REA Bulletin 1-1, 1978 did not contain figures for Barrow Utilities & Electric Cooperative, which would also be affected by the proposed tax change.

\* Cordova Electric Cooperative qualifies for the new coop reduced rate.

DEMOCRACY IN ACTION



Official Business

# Alaska State Legislature

## Senate

### Committee on State Affairs

Pouch V  
State Capitol  
Juneau, Alaska 99811

CSHB 778 - An Act relating to the taxation of electric cooperatives; and providing for an effective date.

BY: The Commerce Committee

Since 1960, electric and telephone cooperatives have been paying 2% of gross receipts as a tax in lieu of ad valorem. This worked well through the years until the price of diesel fuel began to skyrocket after the 1973 Arab oil embargo. As the cost of diesel increased, the rates for diesel generated electricity increased. As the rates went up, the taxes went up with them.

The result of all this is that the consumers served by highest cost electric cooperative (AVEC) pay about ten times more tax than those served by the cooperative with the lowest rates (Chugach).

This bill separates the taxing procedure used for electric cooperatives from that used for telephone cooperatives. It leaves the present procedure alone for telephone cooperatives - they would still pay 2% of gross receipts in taxes.

Electric cooperatives would now pay 1/2 mill per kilowatt hour of electricity sold at retail. This is approximately the same tax per kilowatt hour that is now being paid by the electric cooperative with the lowest rates. It simply equalizes the taxes paid in the rest of the state to this level.

SB 504 and HB 778 (Taxation of electric and telephone co-ops.)

Current statutes (AS 10.25.) provide that telephone and electric co-ops shall be taxed as follows:

- a) 1% of gross revenues for co-ops which have furnished electric or telephone service to consumers for less than five years as of December 31 of the preceding calendar year.
- b) 2% of gross revenues for co-ops which have furnished electric or telephone service to consumers for five years or longer as of December 31 of the preceding calendar year.

This bill would not change the taxing procedures for telephone co-ops which would remain as shown above. However, this bill would require that the tax for electric co-ops be computed as follows:

- a)  $\frac{1}{2}$  mill per kilowatt hour for electric co-ops which have furnished electric energy and power to consumers for less than five years as of December 31, of the preceding calendar year.
- b)  $\frac{1}{2}$  mill per kilowatt hour for electric co-ops which have furnished electric energy and power to consumers for five years or longer as of December 31, of the preceding calendar year.

\* This is a tax on the number of kilowatt hours of electricity sold at retail during the preceding calendar year.

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CS for House Bill No. 778.  
 Title An Act relating to the taxation of electric cooperatives.  
 Requested by House Rules Committee Date 4/24/80

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_ Revenue \_\_\_\_\_  
 Program Category Affected \_\_\_\_\_ Fiscal Services \_\_\_\_\_  
 BRU, Program, or Subprogram(s) Affected \_\_\_\_\_ Audit Division \_\_\_\_\_  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						
<b>TOTAL</b>		-0-	-0-	-0-	-0-	-0-

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-	-0-	-0-	-0-	-0-
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS


None

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

See attached memorandum to R. D. Stevenson dated 4/24/80.

IV. DATE April 24, 1980

PREPARED BY   
 AGENCY Department of Revenue, Audit Division  
 PHONE 465-2320

Original: Legislative Finance  
 cc: Budget and Management  
Prime Sponsor (First Legislator Named)

THE LEGISLATURE OF THE STATE OF ALASKA  
ELEVENTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. CSHB 778  
 Title An Act relating to the taxation of electric cooperatives  
 Requested by Rules Date 4/15/80

II. FISCAL DETAIL

Agency Affected \_\_\_\_\_  
 Program Category Affected \_\_\_\_\_  
 BRU, Program, or Subprogram(s) Affected \_\_\_\_\_  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 COMMODITIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS, ETC.						

TOTAL

FUNDING (Thousands of Dollars)

GENERAL FUND	-----approx. ( 50.0) annually-----					
FEDERAL FUNDS						
OTHER (Specify Fund Source)						

POSITIONS

FULL TIME						
PART TIME						
TEMPORARY						

III. ANALYSIS (See Fiscal Note Preparation Instructions, Section III)

The bill proposes to replace the present gross receipt tax for electric cooperatives with a flat amount per kwh charge. The proposed charge would vary with the length of service.

The proposed change would have a very minor impact on the general fund revenues because most of the receipts of this tax are shared with local governments.

IV. DATE 4/16/80 PREPARED BY Barbara Jorgensen  
 AGENCY Revenue  
 PHONE \* 2,74  
 Original: Legislative Finance  
 cc: Budget and Management  
Prime Sponsor (First Legislator Named)

# MEMORANDUM

TO:

R. D. Stevenson  
Special Assistant  
Department of Revenue

DATE: April 24, 1980

FILE NO:

TELEPHONE NO

FROM:

Gary L. Jenkins  
Director  
Audit Division

SUBJECT

CS for House Bill No. 778

This proposed legislation would amend the provisions of Chapter 25 of Title 10 which deals with the taxation of electric cooperatives. The proposed amendments to the current law are clearly state and there do not appear to be any administrative problems or costs.

The Committee Substitute for House Bill 778 made one minor change in the original bill; however, there were no changes made in the areas which we mentioned in our original analysis.

The Legislature may wish to consider one factor with regard to the taxation of cooperatives which in recent years has been of concern to local municipalities. That issue is the fact that cooperatives have substantial other income from pole rentals and providing other services besides the direct telephone or electric service and they are not taxed at all on these receipts. This issue was originally raised by the Matanuska - Susitna Borough and has been of concern to other boroughs. The boroughs are concerned because of the fact that the majority of the money received from this tax is shared back to the local municipalities. We did pursue the issue in depth and it was determined that we could not tax this other income under the provisions in Title 10 and further, Title 10 also exempted this income from taxation under Title 43.



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## COMPARISON OF GROSS RECEIPTS TAX WITH PROPOSED ELECTRIC COOPERATIVE TAX FOR 1977 (Source: REA Bulletin 1-1, 1977)

COOP	2% GROSS RECEIPTS TAX	G.R. TAX EXPRESSED IN MILLS/KWH	ELECTRIC COOP TAX @ 1/2 MILL/KWH
MEA	\$ 130,758	.76	\$ 87,979
KEA	81,994	1.62	25,279
HEA	121,455	.63	96,993
GVEA	350,736	1.06	166,224
GHEA	10,036	1.41	3,558
CEA	418,521	.58	363,105
NEA	12,664	2.47	2,567
KtzeA	22,779	2.97	3,838
CVEA	76,568	1.81	21,186
NEC	12,495	2.62	2,384
AVEC	84,845	5.52	7,685
TOTALS	\$1,322,851		\$ 780,798

NOTE: REA Bulletin 1-1, 1977 did not contain figures for the following cooperatives which would also be affected by the proposed tax change: Barrow Utilities & Electric Cooperative and Cordova Electric Cooperative.