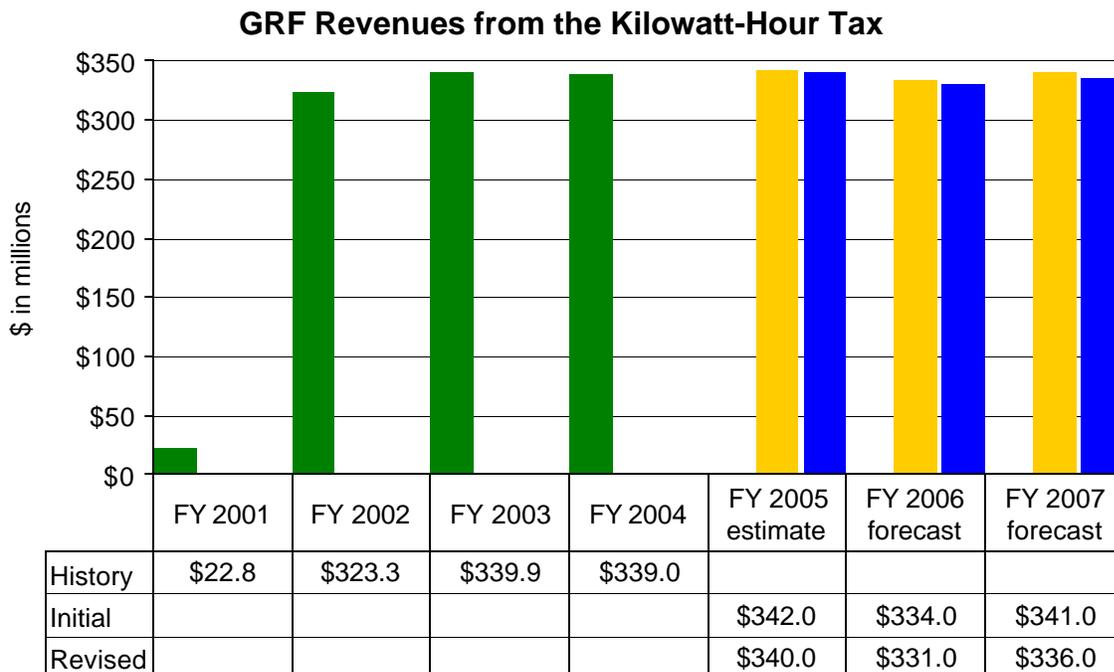


Kilowatt-Hour Tax



The initial forecast was \$334.0 million in FY 2006 and \$341.0 million in FY 2007. The revised forecast is \$331.0 million in FY 2006 and \$336.0 million in FY 2007. The forecast was reduced both because revenues in FY 2005 have been below the estimate, and because Global Insight has reduced its forecast of electricity demand.

The Governor's proposed budget increased tax rates under this tax and changed the formula for distribution of the revenues, increasing the share received by the GRF. Both the House-Passed and Senate-Passed versions of Am. Sub. H.B. 66 left the Governor's proposal intact in its essentials. The tax rates paid by the majority of taxpayers would increase by approximately 30% beginning in July 2005. For the largest users of electricity, those who use more than 45 million kWh in a year, the tax rate paid based on the total price of electricity purchased would increase by 25%. The Senate-Passed version of the budget would allow self-assessors a tax credit to cap the increase in their taxes at \$10 million, although this cap would increase with inflation. Both the House-Passed and the Senate-Passed versions of the budget contain provisions under which revenue deriving from the rate increase on customers of municipal electric companies would go to the GRF; under current law that revenue would have gone to the municipality's general fund.

The combined effects of the tax rate changes and the revenue distribution changes would increase revenue to the GRF by slightly more than \$160 million per year without considering the cap in the Senate-Passed version of the budget, and by slightly less than \$160 million if the cap is retained in the bill. The change in the distribution of revenue collected by municipal electric companies would raise an additional approximately

\$10 million for the GRF. Also, both versions of the budget override the existing formula for determining the shares of revenue going to the Local Government Fund (LGF) and the Local Government Revenue Assistance Fund (LGRAF) for the FY 2006-2007 biennium. The amounts going to the LGF and the LGRAF differ in the two versions of the budget bill. The House-Passed version would increase the share of revenue going to the GRF slightly, while the Senate-Passed version would decrease that share.