CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 19, 2006

H.R. 1369
A bill to prevent certain discriminatory taxation of natural gas pipeline property

As ordered reported by the House Committee on the Judiciary on July 12, 2006

SUMMARY

H.R. 1369 would prohibit state, local, and tribal governments from imposing taxes that discriminate against the property of natural gas pipelines.

CBO estimates that enacting H.R. 1369 would increase federal revenues by $45 million in 2007, by $214 million over the 2007-2011 period, and by $371 million over the 2007-2016 period. The bill would have no other impacts on the federal budget.

By prohibiting state, local, and tribal governments from levying discriminatory taxes on the property of natural gas pipelines, the bill would impose intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that those governments initially would lose revenues that exceed the threshold established in UMRA for intergovernmental mandates ($64 million in 2006, adjusted annually for inflation). Over time, we expect those governments likely would change their tax policies to offset at least some of those losses.

This bill contains no new private-sector mandates as defined in UMRA.

ESTIMATED EFFECT ON THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1369 is shown in the following table.

	By Fiscal Year, in Millions of Dollars									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CHANGES IN REVENUES										
Estimated Revenues	45	51	47	39	33	32	32	31	31	31

CBO expects that enacting H.R. 1369 would reduce payments of state and local property taxes by corporations. These lower payments, would, in turn, reduce deductions made by corporations for federal income taxes and raise taxable income. State and local governments are expected to adjust their finances as a result of these lost revenues. These adjustments would likely be a combination of reduced spending and higher taxes and fees—both deductible and non-deductible. This response by state and local governments would mute, but not eliminate, the revenue gain to the federal government. CBO estimates that, on balance, H.R. 1369 would increase federal revenues by $45 million in 2007, by $214 million over the 2007-2011 period, and by $371 million over the 2007-2016 period.

INTERGOVERNMENTAL MANDATES CONTAINED IN THE BILL

H.R. 1369 would prohibit state, local, and tribal governments from imposing taxes that discriminate against the property of natural gas pipelines. Specifically, the bill would prohibit those governments from:

- Assessing the value of property owned by pipelines at ratios, relative to true market value, that are higher than the ratio for other commercial and industrial property in the same jurisdiction;

- Setting tax rates for pipeline properties that are higher than the rates applied to other commercial or industrial properties in the same jurisdiction; or

- Imposing any other discriminatory tax on natural gas pipelines that provide transportation or storage of natural gas.

Those prohibitions constitute intergovernmental mandates as defined in UMRA.

The bill’s application to tribal governments is uncertain. Without specific language to exclude those governments from complying with the mandates contained in the bill, however, CBO assumes that they would be required to comply.

ESTIMATED DIRECT COSTS OF MANDATES TO STATE AND LOCAL GOVERNMENTS

Currently as many as 15 states and their local jurisdictions, and several tribal governments, engage in practices that would be prohibited by this bill. In total, those jurisdictions collect a total of nearly $500 million annually from pipeline property. CBO estimates more than $250 million of those collections result from tax policies that would be prohibited by the bill, amounts that would be lost in the short run if this bill is enacted. A significant portion of those revenues are collected by city and county governments including local school districts.

Over time, we expect that these governments would change their tax policies to mitigate at least some, if not all, of those losses. Such changes would take time to implement, however. On balance, we estimate that losses in the first year after enactment likely would exceed the threshold established in UMRA for intergovernmental mandates ($64 million in 2006, adjusted annually for inflation).

BASIS OF ESTIMATE FOR INTERGOVERNMENTAL MANDATES COSTS

CBO relied on information from a variety of sources to prepare this estimate. Using data from states, the Federation of Tax Administrators, the National Governors Association, tribal organizations, and industry sources, CBO calculated the taxes currently collected from the pipeline industry (as noted above, about $500 million) and estimated potential losses ($250 million) based on current tax policies in the states most likely to be affected by the bill.

There are several state tax practices that would no longer be allowed under H.R. 1369, resulting in a reduction in property taxes currently levied on natural gas pipeline. Ten states, for example, have statutes that authorize the differential classification of property for the purpose of establishing assessment values and tax rates. Montana classifies property into 13 classes, each of which has different assessment and tax rates. As a result of this bill, Montana expects that they would have to reclassify pipeline property, which is currently in class 9 (public utilities) to class 12 (railroads and airline property), with an estimated decrease in annual property taxes collections totaling $24 million. Other states, such as Ohio, would no longer be able to tax such items as the tangible personal property of pipeline companies. Ohio estimates that this prohibition would result in a reduction of annual property tax collections totaling $46 million.

How quickly state, local, and tribal governments would be able to mitigate losses would depend on how quickly they could enact legislative or administrative changes to their tax policies. CBO estimates that such changes would take at least several months to implement and that net losses to states in at least the first year after the bill's enactment would exceed the threshold for intergovernmental mandates.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains no new private-sector mandates as defined in UMRA.

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