



CITY COUNCIL AGENDA REPORT

TO: Honorable Mayor, City Council Members and Stakeholders

FROM: Finance

Agenda Item No.: 9B. – Resolution Number 5615 Approving Revenue Stabilization Agreement and Possible Tax Abatement For Certain Property Pursuant to Minnesota Statute Section 469.1813.

Meeting Date: October 23, 2006

ACTION REQUESTED:

1. **Open the required public hearing** taking input from the public and other stakeholders.
2. **Close the public hearing** after taking input from the public and other stakeholders.
3. Debate and discuss Resolution Number 5615.
4. **Approve Resolution Number 5615** acknowledging that
 - a. The final dates on the front sheet of the agreement and the first page of the agreement will be completed upon passage of Resolution Number 5615.
 - b. Exhibit A will be completed with the insertion of an executed copy of Resolution Number 5615.

ATTACHMENTS:

1. Resolution Number 5615 Approving Revenue Stabilization Agreement And Possible Tax Abatement For Certain Property Pursuant To Minnesota Statute Section 469.1813.
2. Revenue Stabilization Agreement By And Between City Of Red Wing, Minnesota And Northern States Power Company D/B/A Xcel Energy Dated October __, 2006.

BACKGROUND:

The accompanying documents are the result of over 1 ½ years of negotiation between Xcel and the Host Communities. The particular negotiations which lead to the accompanying "Stabilization Agreement" initially commenced as the direct result of the Minnesota Department of Revenue (DOR) proposing revisions of the current utility valuation rules. According to the DOR the revision and subsequent adoption of new utility valuation rules could produce an 18 - 30% decline in utility valuation. As a consequence of the DOR's actions pertaining to the utility

valuation rules there currently exists a large degree of uncertainty and instability in the City's property tax base.

The property located at the Prairie Island Nuclear Generating Plant (PING) constitutes a significant portion of the City's property tax base. As the utility property valuation methodology is currently under review at the DOR there are numerous uncertainties including the potential of a substantial decline in the property tax base which may create significant increases in the local property tax rates and subsequent property tax burdens. In recognition of the significant and detrimental impact of such uncertainties an agreement was negotiated with NSP, D/B/A Xcel Energy, for the purposes of, among other things, promoting in the public interest stable, predictable and controlled revenue streams and providing a basis for long-term budgetary planning of revenues. The final "Stabilization Agreement" is attached hereto.

DISCUSSION:

While the entire Stabilization Agreement is important to understand there are key items in such which warrant particular attention. Some of these items follow.

1. The Stabilization Agreement is legally binding.
2. The Stabilization Agreement is terminated if the amended DOR utility valuation rules are not implemented on or before December 31, 2008.
3. Subject to termination provisions, the term of the agreement is for a period of 10 years, or through December 31, 2018, whichever occurs first.
4. The property subject to stabilization is the DOR assessed property at the Prairie Island Nuclear Generating Facility (PING). Loosely speaking this includes everything within the fenced area less the land value.
5. The base tax payment will be the taxes paid in the year prior to the DOR rule change. For example, and as proposed by the DOR, if the DOR rule changes go into effect for the 2007 assessment year (2008 payable year) the base tax payment will be the amount paid by Xcel on the PING in 2007.
6. If during the duration of the agreement the property taxes paid by Xcel on the PING are less than those paid in the year prior to the rule change Xcel will make a stabilization payment to the City for the difference. For example, if Xcel paid \$10 in property taxes on the PING in the year prior to the rule change and the pay \$7 after the rule change they will remit \$3 to the City as a stabilization payment.
7. On the flip side of the above, with certain exceptions for property taxes paid as a result of significant capital additions to the PING, if during the duration of the definitive agreement the property taxes paid by Xcel on the PING are more than those paid in the year prior to the rule change the City will make an abatement payment to Xcel for the difference. Amounts paid will be treated as Economic Development Abatements to Xcel. Given the best available information we have now from the DOR, which indicates that the proposed rule would reduce utility valuation by 18% to 30%, and provided some other reasonable assumptions on Red Wing's growth and local property tax rates, and provided no significant changes to the State property tax system, our analysis continues to indicate that the City would not be placed in an abatement situation.

ONGOING OPERATING & MAINTENANCE COSTS:

As customary, staff time and departmental resources are required to address the tax capacity and numerous other issues inherent with Xcel's contribution to our community. The last few years have required a substantial volume of resources, particularly time. We believe that 2007 will require the same commitment. The 2006 costs associated with the Stabilization Agreement, MOU and continuing discussions with Xcel are already included in the General Fund's Administrative and Membership budgets. The 2007 budget will not require any material adjustment from the 2006 budgeted amounts as a result of the Stabilization Agreement.

FUNDING SOURCE(S):

We have run numerous scenarios in an attempt to ascertain the resulting impact of the potential DOR rule changes and the Revenue Stabilization Agreement with Xcel. The outcome of those analyses indicate that given the current property tax system, other key assumptions and key estimates that the City has a low probability of being in an abatement position during the term of this agreement. Dependent on the extent the proposed DOR rule reduces utility valuation; the City has a significant probability of receiving annual revenue stabilization payments ranging from approximately \$300,000 to approximately \$2,000,000 during the term of this agreement.

ALTERNATIVES:

1. Motion to Approve – Would approve the execution of the Stabilization Agreement and tax abatement.
2. Motion to Deny – Would prohibit the execution of the Stabilization Agreement and tax abatement.
3. Table – Would permit time to consult or analyze additional data prior to approval or denial.

RECOMMENDATION:

Given, among other things, the importance of PING to Red Wing's tax base and the uncertainties and instabilities created by the current review of the utility valuation rules by the DOR it is recommended that the City Council approve Resolution Number 5615 as:

1. The agreement and possible abatement are in the public interest as the expected benefits the City will receive are greater than the expected costs.
2. The agreement and possible abatement are in the public interest as they provide for stable, predictable and controlled revenue streams and provide a basis for long-term budgetary planning.

RESOLUTION NO. 5615

Member _____ introduced the following resolution and moved its adoption:

RESOLUTION APPROVING REVENUE STABILIZATION AGREEMENT AND POSSIBLE TAX ABATEMENT FOR CERTAIN PROPERTY PURSUANT TO MINNESOTA STATUTE SECTION 469.1813

WHEREAS, Minnesota Statutes § 469.1813 gives authority to the City of Red Wing (the "City") to grant a current or prospective abatement of taxes on property, including personal property and machinery, pursuant to a contract; and

WHEREAS, Northern States Power Company d/b/a Xcel Energy ("Xcel Energy") and the City desire to enter into a Revenue Stabilization Agreement, which may, by its operation, result in an abatement of taxes imposed by the City if certain criteria in the Agreement are met; and

WHEREAS, Xcel Energy owns certain properties in the City which are more fully described in the proposed Revenue Stabilization Agreement and which are subject to valuation under Minnesota Rules, Chapter 8100; and

WHEREAS, the City has determined that it is necessary and appropriate to enter into the Revenue Stabilization Agreement in order to preserve and stabilize the City's tax base through equalization of property tax revenues for the period specified in the Revenue Stabilization Agreement; and

WHEREAS, Xcel Energy desires to enter into, and has requested that the City Council approve, the attached Revenue Stabilization Agreement; and

WHEREAS, the City has performed all actions required by law prior to the adoption and approval of the proposed tax abatement, including the holding of a public hearing on October 23, 2006, upon published notice as required by law.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Red Wing as follows:

1. **Findings.** The City finds that entering into the Revenue Stabilization Agreement, which may result in the abatement of taxes for the Xcel Energy property, is in the public interest because it will stabilize the tax base through equalization of property tax revenues for a specified period of time. By stabilizing the tax base, the City expects that it will receive benefits at least equal to the potential costs of the abatement. The Xcel Energy property is not located within a tax increment financing district.

ONGOING OPERATING & MAINTENANCE COSTS:

As customary, staff time and departmental resources are required to address the tax capacity and numerous other issues inherent with Xcel's contribution to our community. The last few years have required a substantial volume of resources, particularly time. We believe that 2007 will require the same commitment. The 2006 costs associated with the Stabilization Agreement, MOU and continuing discussions with Xcel are already included in the General Fund's Administrative and Membership budgets. The 2007 budget will not require any material adjustment from the 2006 budgeted amounts as a result of the Stabilization Agreement.

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1. The agreement and possible abatement are in the public interest as the expected benefits the City will receive are greater than the expected costs.
2. The agreement and possible abatement are in the public interest as they provide for stable, predictable and controlled revenue streams and provide a basis for long-term budgetary planning.

2. Abatement Approved. The City will potentially abate the property taxes that it imposes upon said property for the time periods described in the Revenue Stabilization Agreement.
3. Use of Revenues. Any abated taxes under the Revenue Stabilization Agreement will be payable to Xcel Energy per the terms of the Revenue Stabilization Agreement.
4. Time Period of the Abatement. The time period of the abatement shall be as specified in the Revenue Stabilization Agreement, which time period shall not exceed the 20-year time period set forth in Minnesota Statutes §469.1813, Subd. 6b.
5. Business Subsidy. The assistance granted by the tax abatement is not a "business subsidy" as that term is defined in Minnesota Statute §116J.993.
6. Approval and Execution of Agreement. The Council hereby approves the attached Revenue Stabilization Agreement, and authorizes and directs the appropriate officers to execute the Agreement.

The motion for the adoption of the foregoing resolution was duly seconded by Council Member _____ and upon vote being taken thereon, the following voted in favor thereof:

and the following voted against:

whereupon said resolution was declared duly passed and adopted this ___ day of October, 2006.

Steve Castner, Council President

ATTEST:

Kathy Seymour Johnson, City Clerk

(seal)

Presented to the Mayor at _____ pm on this ___ day of October, 2006.

Steve Castner, Acting Mayor