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March 4, 2005

TO: Goodhue County Board

FROM: Brad Johnson, Auditor-Treasurer/Assessor

Bob Davis, Veteran's Service office/Legislative Liaison

RE: Invenergy peaking plant

Honorable Commissioners:

Relatively early in the current legislative session, House File 578 was introduced, authored by Representative Jerry Dempsey, to exempt the personal property and machinery tax of the proposed electric generation peaking plant in Cannon Falls City. We contacted Representative Dempsey, and he added an amendment which specified that supporting resolutions must be obtained from the city, the county, and the school. The bill was heard in the House Property Tax committee on March 3. At that meeting, Invenergy representatives indicated to Representative Dempsey that the amendment needed to be dropped, as they wished to only negotiate with the City. The intent appeared to be that Cannon Falls would then negotiate separately with the County. We informed Mr. Dempsey that we would have to oppose the bill per our Boards resolution of the spring of 2004. Finally, the House Committeel passed the bill with our three-party amendment we wanted intact.

At this time, we need to determine the nature of the agreement that Goodhue County seeks. We attach a summary sheet of agreements for other peaking plants in the State. No "formula" exists for determining amounts, though some consider it significant that these plants operate only 5-20% of the time compared to 100% of the time for a baseload plant. If taxed per normal procedures, this plant would pay approximately \$3,000,000 in taxes. As requested with the exemption, the plant would pay only \$65,000 in taxes on real estate. Their exemption for personal property/machinery, if approved as requested, would eliminate \$1,057,801 in taxes to the County, \$1,447,768 to the City, and \$435,000 to the School. Invenergy has asserted that they cannot afford to pay those taxes and will not build without the exemption. We requested (in 2004) a "but for" analysis with documentation, as is normal in Economic Development projects, but have not received it.

NOW AVAILABLE AND EXPANDING:

Goodhue County Property Tax Information on the web at www.co.goodhue.mn.us

We received the following statement regarding that request from Vice President Bryan Schueler as a reply to our request:

“The Project is highly unlikely to proceed without this exemption. All of the power produced by the Project will be sold to Northern States Power (Xcel) under a 15 year power purchase agreement. This agreement incorporates very low prices that were the result of an intense competitive bidding process. This pricing was based on the assumption that the Project, like other gas fueled projects in the state, would be exempt from personal property tax. The pricing would be inadequate to justify the Project without exemption.

“Despite the exemption from personal property tax, the Project will provide significant benefits to Goodhue County and the City of Cannon Falls. The Project will pay real property tax and voluntary fees totaling at least \$500,000 per year for a period of 20 years. In addition, the project will provide high paying construction and permanent jobs, it will result in the purchase of a variety of local goods and services and it will provide an important new source of reliable electric supply. The Project will provide all of these benefits with absolutely minimal environmental or aesthetic impacts and with very little burden on local municipal services or schools.”

No financial documentation or income/expense assumptions were presented by Invenergy in support of a “but for” request.

If the property was valued and taxed under normal utility taxation rules, personal property and machinery would be included. The total tax would be approximately \$3 million.

TOTAL TAX PAID, NORMAL PROCEDURES	\$3,000,000
GOODHUE COUNTY	\$1,140,000
CANNON FALLS CITY	\$1,530,000
CANNON FALLS SCHOOL	\$330,000

The most recent agreement proposal we have received from Invenergy indicates that the City must negotiate agreements with the County and School. The City will receive also \$1 million for capital improvements, building permits, inspections and connection fees. An annual fee of \$500,000 with a 2% annual adjustment—less the annual property tax on land and buildings— will be paid to the city every year of “commercial operation” of the facility. The agreement would be renegotiated if the plant converted to baseload or additional generators are added, though Invenergy and the City would be the only “negotiators”. This assumes that the bill exempting the personal property/machinery passes.

Invenergy's current proposal, with the personal/property machinery exemption:

Total Property Tax paid, land and buildings only	\$65,000
Goodhue County	\$24,700
Cannon Falls City	\$33,150 + \$435,000 per year "in lieu"
Cannon Falls school district	\$7,150

We recommend that the Board consider the following agreement, based partially on the Invenergy proposal:

1) Cannon Falls City will retain the entire \$1 million "upfront" money for capital expenditures and infrastructure necessary to the plant.

2) Invenergy will pay an annual fee to the host communities in the first year of operations, with a 2% annual increase for inflation. The annual fee will be split according to the composition of the local tax rate for the City of Cannon Falls. For proposed 2005, the County comprises 38% of the rate, the School 11%, and the City 51%. The local tax rate is calculated by the County Auditor each February/March; the Auditor will mail a letter with the proportions of the rate to the Cannon Falls City Administrator, the School Superintendent, and the designee with Invenergy. Invenergy will mail the checks for that amount as calculated to each of the three taxing jurisdictions by June 1 of that year. If not delivered on time, normal tax penalties and interest will be applied to that amount.

Annual fee (using \$500,000 example)	\$500,000
Goodhue County	\$190,000 (38%)
Cannon Falls City	\$255,000 (51%)
Cannon Falls School district	\$55,000 (11%)

We respectfully request direction from the Board if we are to proceed discussing an agreement and to what specifications the Board would prefer in the agreement.

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This Document can be made available
in alternative formats upon request

State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FOURTH
SESSION

HOUSE FILE NO. 578

January 31, 2005

Authored by Dempsey

The bill was read for the first time and referred to the Committee on Taxes

1 A bill for an act
2 relating to taxation; property; exempting certain
3 property of an electric generation facility; amending
4 Minnesota Statutes 2004, section 272.02, by adding a
5 subdivision.
6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
7 Section 1. Minnesota Statutes 2004, section 272.02, is
8 amended by adding a subdivision to read:
9 Subd. 68. [ELECTRIC GENERATION FACILITY; PERSONAL
10 PROPERTY.] (a) Notwithstanding subdivision 9, clause (a),
11 attached machinery and other personal property which is part of
12 a simple-cycle combustion-turbine electric generation facility
13 that exceeds 290 megawatts of installed capacity and that meets
14 the requirements of this subdivision is exempt. At the time of
15 construction, the facility must:
16 (1) be designed to utilize natural gas as a primary fuel;
17 (2) not be owned by a public utility as defined in section
18 216B.02, subdivision 4;
19 (3) be located within 15 miles of the mainline existing
20 interstate natural gas pipeline and within five miles of an
21 existing electrical transmission substation;
22 (4) be located outside the metropolitan area as defined
23 under section 473.121, subdivision 2; and
24 (5) be designed to provide peaking capacity energy and
25 ancillary services and have satisfied all of the requirements

1 under section 216B.243.

2 (b) Construction of the facility must be commenced after
3 January 1, 2005, and before January 1, 2009. Property eligible
4 for this exemption does not include electric transmission lines
5 and interconnections or gas pipelines and interconnections
6 appurtenant to the property or the facility.

7 [EFFECTIVE DATE.] This section is effective for assessment
8 year 2006, taxes payable in 2007, and thereafter.

Amendment to HF 578

1 moves to amend H. F. No. 578, as follows:

2 Page 1, line 23, delete "and"

3 Page 2, line 1, delete the period and insert "; and

4 (6) have received, by resolution, the approval from the
5 governing body of the county, city, and school district in which
6 the proposed facility is to be located for the exemption of
7 personal property under this subdivision."

INVENERGY IN LIEU WITH 2% INFLATION ACCELERATOR

	Total	county	city	school
1	\$500,000	\$190,000	\$255,000	\$55,000
2	\$510,000	\$193,800	\$260,100	\$56,100
3	\$520,200	\$197,676	\$265,302	\$57,222
4	\$530,604	\$201,630	\$270,608	\$58,366
5	\$541,216	\$205,662	\$276,020	\$59,534
6	\$552,040	\$209,775	\$281,541	\$60,724
7	\$563,081	\$213,971	\$287,171	\$61,939
8	\$574,343	\$218,250	\$292,915	\$63,178
9	\$585,830	\$222,615	\$298,773	\$64,441
10	\$597,546	\$227,068	\$304,749	\$65,730
11	\$609,497	\$231,609	\$310,844	\$67,045
12	\$621,687	\$236,241	\$317,060	\$68,386
13	\$634,121	\$240,966	\$323,402	\$69,753
14	\$646,803	\$245,785	\$329,870	\$71,148
15	\$659,739	\$250,701	\$336,467	\$72,571
16	\$672,934	\$255,715	\$343,196	\$74,023
17	\$686,393	\$260,829	\$350,060	\$75,503
18	\$700,121	\$266,046	\$357,062	\$77,013
19	\$714,123	\$271,367	\$364,203	\$78,554
20	\$728,406	\$276,794	\$371,487	\$80,125

BLUE LAKE PEAKING PLANT PROJECT
Scott County, MN (Shakopee) - March 2004

The source for seeking jurisdictions that have entered agreements with electric utility facilities for which machinery or other personal property has been exempted is titled "Primer on Minnesota's Property Taxation of Electric Utilities": Minnesota House of Representatives Research Dept., October 2003.

Summary Compendium

Facility	Scott Addition	Mower New Site	Waseca New Site	Martin New Site	St. Louis New Site	Beltrami New Site	Blue Earth** New Site
Tax Property/ Transmission	\$70,000	\$100,043		\$62,076		<i>pending</i>	<i>pending</i>
Valuation	\$100 million	\$18.73 million		\$20 million		<i>pending</i>	<i>pending</i>
Negotiation	Full exemption	Full exemption	No Agreement#	Minimum \$575,000 - 20 yr.	No Agreement*	Full exemption	\$700,000 project
In-Lieu-of	\$50,000/annual	\$2.5 million/1 payment		\$19,603 annually - 20 yr.		150% assessed value	City waste-water
1. Equity		8 hrs peaking daily				Legislative action	
2. "		Road damage				Deregulate 100% asses	
3. "		Full reimbursement		Full reimbursement			
4. "		Full permitting		Full permitting			
5. "		Full assessed		Full assessed			
6. "		No purchasing		No purchasing			
7. "		No financial assist		No financial assist			
8. "		No adverse service					
9. "				No obligate condemnation			
10. "				User fee agreement			
11. "				List service demands			
12. "		Expense limit \$5,000		Expense limit \$15,000			
13. "				Project only resolution			

* No resolution was offered, project occurred

** City of Mankato is currently negotiating

Resolution was offered - no agreement, project never occurred

Amend Current Bill to include language such as "to qualify for exemption a local agreement shall be in place" and require in every agreement that a future exemption request has a County/City agreement in place.

Additional Equity or In-Lieu-Of Suggestions include requesting substitute wind energy or other environmental energy supplies; sponsorships; grants; escrows; civic; product; training; best practice sharing; and/or trade-off.

BLUE LAKE PEAKING PLANT PROJECT
Scott County, MN (Shakopee) - March 2004

Martin County - April 1999

Summary: Lakefield Junction LLP (now owned by Great River Energy) approached Martin County to seek support and exemptions for construction of a new Electric Generation Facility at Lakefield Junction (Cedar Township) near the City of Trimont.

Valuation: Exempt generator personal property is not known. Non-exempt (new) tax revenues on the real property and transmission personal property captured by the County is at about \$62,076 (or \$437,000 for all polities) annually. It is estimated that the entire project value is at about \$20 million.

Negotiations: (Note: includes findings from interview w/ County Assessor.) So as to realize \$2 million in equity a development fee (*in-lieu-of*) was structured for a minimum tax capture of \$575,000 annually for 20 years. This amount is distributed among all political jurisdictions. The County's share is roughly \$19,603 annually -- difference between minimum and actual taxable property value.

Shared Equity:

- ⊙ County shall be reimbursed for any out-of-pocket expenses -- County shall not exceed \$15,000 -- all potential service demands are listed in agreement;
- ⊙ No promises by the County to waive or modify any permitting requirements;
- ⊙ No promises by the County for reduced assessed valuation of properties;
- ⊙ No promises by the County for purchasing electricity, recruiting or supporting any other electrical generation facilities;
- ⊙ No promises by the County for providing financial assistance;
- ⊙ No obligation upon the County to use its power of condemnation;
- ⊙ Company agreed to enter into a user fee agreement; and
- ⊙ The resolution/agreement shall only be enforceable regarding the current project

BLUE LAKE PEAKING PLANT PROJECT
Scott County, MN (Shakopee) - March 2004

Mower County - July 2000

Summary: Great River Energy (GRE) approached Mower County to seek support and exemptions for construction of a new 434 Megawatt Electric Generation Facility at Pleasant Valley Station (Pleasant Valley Township) near the City of Austin.

Valuation: Exempt generator personal property is at about \$8.6 million. Non-exempt (new) tax revenues on the real property and transmission personal property are at about \$10.2 million. The tax captured by the County is at about \$172,863 (or \$539,150 for all polities) annually. It is estimated that the entire project value is at about \$18.73 million.

Negotiations: *(Note: includes findings from interview w/ County Coordinator.)* Started with GRE offering a one-time payment of \$500,000 and Mower County requesting a one-time payment of \$20 million (*host fee*). Near final negotiations GRE still maintained an offer of \$500,000 and County requesting \$5 million, upon which negotiations stopped and GRE Present entered negotiations and offered \$2.5 million. *(Note: an-after-thought, County felt it may have gotten \$4 million if continued to negotiate).*

Shared Equity:

(Note: County privately suggested that the school district and township pursue independent agreementst.)

- ⊙ In the permitting process the County limited "peaking" from (termed less than 20%) 15- to 8-hours daily for noise management and future permitting;
- ⊙ County shall be reimbursed for any road damage as a result of heavy trucks, compensate for devaluation, and shall not be obligated to use State Aid funds for repair;
- ⊙ County shall be reimbursed for any out-of-pocket expenses incurred -- county shall not exceed \$5,000;
- ⊙ No promises by the County to waive or modify any permitting requirements;
- ⊙ No promises by the County for reduced assessed valuation of properties;
- ⊙ No promises by the County for purchasing electricity, recruiting or supporting any other electrical generation facilities;
- ⊙ No promises by the County for providing financial assistance; and
- ⊙ No new government service or appreciable increase in service demands, or adverse impacts on the County.

BLUE LAKE PEAKING PLANT PROJECT
Scott County, MN (Shakopee) - March 2004

Beltrami County - May 2001

Summary: Otter Tail Power Company approached Beltrami County to seek support and exemption for construction of a new combustion turbine generating plant at Potlach Cogen (Lammers Township).

Valuation: Exempt generator personal property is unknown. Non-exempt (new) tax revenues on the real property and transmission personal property captured by the County are unknown.

Negotiations: The real property tax on the generating equipment, not including transmissions or substation equipment, shall be abased upon 150 percent of the assessed value.

Shared Equity: None