MINNESOTA · REVENUE

PROPERTY TAX
SALES AND USE TAX
Electric Generating Plant
Gasification Facilities
Wind Energy Conversion System

PRELIMINARY ANALYSIS

February 26, 2002

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 3583 (McElroy) / S.F. 3358 (Metzen) **As Proposed to be Amended**

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**F.Y. 2005**
General Fund:		(000's)		
Homeowner PTR Increase			$0	$0
Sales and Use Tax	$0	$0	$(1,460)	$(4,370)
Total Estimate	$0	$0	$(1,460)	$(4,370)

Effective various dates. Property tax provisions effective for taxes payable 2004 and thereafter. Sales tax provisions effective July 1, 2002.

Note: The analysis assumed that construction of the power generating plant, as well as the gasification facility, qualifies for the sales tax exemption, although this point is not entirely clear.

EXPLANATION OF THE BILL

Property Tax:

Current Law: With some exceptions, personal property that is part of an electric generating system is subject to local property tax. Electric generation personal property is exempt from the state general levy. The additional tax base from newly constructed utility plants in the Iron Range region is subject to tax base sharing in the regional fiscal disparities program. Although small-scale wind energy conversion systems are exempt from property tax, a portion of medium-scale and large-scale systems are subject to property tax.

Sales and Use Tax

Capital equipment used by production industries, including commercial electric generation, is exempt from tax. The exemption is administered as a tax refund to the purchaser. Materials used to

EXPLANATION OF THE BILL (Cont.)

construct wind energy conversion systems (WECS) are also exempt. The WECS exemption is available up front at time of purchase. Normally, construction materials, supplies, and equipment to be installed are taxable.

Proposed Law:

As proposed to be amended, the minimum capacity of the electric generating plant is reduced from 1,000 megawatts to <u>500</u> megawatts, and the first <u>250</u> megawatts of the plant must be commenced after January 1, 2002 and before January 1, 2005.

Property Tax:

Under the bill, the attached machinery and personal property of an energy park located on an active mining site, or on a former mining or industrial site where mining or industrial operations have terminated, is eligible for exemption from property tax if the following conditions are met:

- It is within a taconite tax relief area
- It has on-site access to existing railroads
- It has a direct rail access to a Great Lakes port
- It has sufficient water resources on site
- It is designed to host at least 500 megawatts of electrical generation
- It is designed to use gasification technology with either natural gas or coal as the primary fuel
- Construction of up to 250 megawatts of generation is commenced between January 1, 2002, and January 1, 2005.

The proposed energy park would be exempt from contribution to the Iron Range fiscal disparities program, and a local subdivision may grant an abatement from real property tax on the energy park property for a period up to 20 years. The property of a wind energy conversion system located at the energy park site would be exempt from property tax if certain conditions are met.

Sales and Use Tax

The bill provides a sales and use tax exemption for building materials and supplies used or consumed in constructing facilities located at the of the power plant. The bill also exempts machinery and equipment to receive or store raw materials, capital equipment, motor vehicles used on site, and machinery and equipment for nonproduction purposes, including security, fire prevention, pollution control, plant communication, etc.

REVENUE ANALYSIS DETAIL

Property tax:

- Because construction of the first 250 megawatts of capacity is planned to start in January 2004, the proposed exemption of attached machinery and personal property from property tax will not be effective until assessment year 2005, taxes payable 2006. Thus, there is no property tax shift to other property or increased homeowner PTR cost during FY. 2004 or F.Y. 2005.
- The attached machinery and other personal property of the proposed plant is estimated to be about $78 million. The total cost of the plant is estimated to be $300 million. Thus the tax shift from exempting the attached machinery and personal property for taxes payable 2006 could approach $2.5 million.

Sales and Use Tax

This preliminary estimate was based on information from one of the involved parties. As mentioned above, it assumes that the main plant qualified for the proposed exemption as well as the gasification facility.

- Construction costs are approximately $1.2 million per megawatt of power.
- 52% of the estimated total cost was attributed to construction materials.
- This amount was adjusted down to exclude currently exempt capital equipment.
- The resulting figure was increased by 15% to account for the on-going exemption of all purchases made by the gasification facility.
- Construction of the first 250 megawatts of capacity is planned to start in January 2004.
- The fiscal impact was broken out to reflect a portion of fiscal year 2004.
- The analysis assumed construction would be completed by the end of fiscal year 2005.
- No estimate was made of WECS construction because it is exempt under current law.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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