

MINNESOTA • REVENUE

PROPERTY TAX Exemption for an Electric Generating Facility

March 19, 2004

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

Department of Revenue
Analysis of S.F. 1919 (Hottinger) / H.F. 2481 (Dorn)

	Revenue Gain or (Loss)			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective for taxes payable in 2006 and thereafter.

EXPLANATION OF THE BILL

Current Law: A property tax exemption was enacted in 2003 for attached machinery and other personal property which is part of a combined-cycle combustion-turbine electric generating facility that exceeds 550 megawatts of installed capacity. At the time of construction, the facility must be designed to utilize natural gas as a primary fuel, not be owned by a public utility, and be located within five miles of an existing natural gas pipeline and within four miles of an existing electrical transmission substation. The facility must also be designed to provide energy and ancillary services and have received a certificate of need. Construction of the facility must be commenced after January 1, 2004, and before January 1, 2007.

Proposed Law: The proposal changes the required minimum capacity of the electric generating facility from 550 megawatts to 300 megawatts. It also provides an exemption for attached machinery and other personal property beyond January 1, 2007, for any expansion of the facility meeting the criteria of the initial project.

REVENUE ANALYSIS DETAIL

- It is assumed that the proposed electric generating facility in the city of Mankato in Blue Earth County would be the only facility affected by the proposal.
- The total cost of attached machinery and other equipment, excluding currently exempt pollution control equipment, that would be exempt from personal property tax is about \$124 million.
- Under the current contingent plan, it is assumed that the plant will be completed in June 2006 and will affect property taxes starting with payable year 2008.

REVENUE ANALYSIS DETAIL (continued)

- Upon completion of the proposed facility, the property tax exemption will reduce the local tax base relative to the base under current law, and cause a property tax shift to all other property including homeowners.
- The increased property tax burden on homeowners caused by the exemption (relative to current law) will increase state-paid homeowner refunds by about \$100,000 in FY 2009.
- There is a possibility for a second phase to the project, with no specific start or completion dates determined. The cost of attached machinery or other personal property that would be exempt under this proposal is estimated at about \$54 million for the second phase. The increased property tax burden on homeowners resulting from this exemption would increase state-paid homeowner refunds by an additional \$50,000 annually.

Number of Taxpayers: All property taxpayers in Blue Earth County will be affected by the property tax exemption.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy