

# MINNESOTA • REVENUE

## PROPERTY TAX SALES TAX Electrical Facility – Biomass

March 30, 2004

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

Department of Revenue  
Analysis of S.F. 2969 (Kubly) / H.F. 3115 (Westrom)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
Homeowner Property Tax Refunds	\$0	\$0	\$0	\$0
Sale and Use Tax Exemption	<u>\$0</u>	<u>(\$450)</u>	<u>(\$450)</u>	<u>\$0</u>
General Fund	\$0	(\$450)	(\$450)	\$0

Effective day following final enactment.

### EXPLANATION OF THE BILL

**Current Law:** Public utility land and buildings are taxed the same as commercial property. The first \$150,000 of market value is classed at 1.5%, with the remainder classed at 2.0%. Public utility land and buildings are subject to the state general levy. Electric generating machinery is classed at 2.0%. Electric generating machinery is exempt from the state general levy. The poultry litter biomass energy generation machinery was exempted in 2001. The exemption was extended in 2003 for construction starting after January 1, 2003, and before December 31, 2003.

Generally, for the sales and use tax, construction materials and supplies used or consumed in and equipment (that does not qualify as capital equipment) incorporated into a construction project are considered taxable retail sales. Capital equipment essential to the integrated production process is exempt from the sales tax when used primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold at retail. The exemption extends to capital equipment used for the commercial production of electricity and steam and includes foundations that support machinery or equipment.

A sales tax exemption was enacted in 2001 for materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of a facility using biomass to generate electricity. This exemption expired December 31, 2002.

**Proposed Law:** The bill extends the property tax exemption for the construction start date by one year. The sales tax exemption for purchasing construction materials is extended to June 30, 2006.

## REVENUE ANALYSIS DETAIL

- It is assumed that one project in the city of Benson will be the only facility to qualify for the exemptions. Xcel Energy, Inc. is contracting with Fibrowatt, LLC to purchase electricity produced by burning poultry litter. The local affiliate of Fibrowatt is Fibrominn and the local project requires approval from the Public Utilities Commission. The estimate is based on 2001 cost information provided by a Fibrominn representative, updated in 2003 and 2004.
- The estimate assumes that the project meets the requirements of the biomass mandate in M.S.216B.2424 and that it will be approved by the Public Utilities Commission.

### *Property Tax Exemption*

- The total value of generating equipment that would be exempted from property taxes is about \$63 million.
- The plant is expected to be completed in the last half of 2006.
- Assuming that construction will be completed in 2006, and assessed in 2007 for property taxes payable in 2008, the proposed exemption will increase state-paid homeowner property tax refunds by about \$30,000 in fiscal year 2009 and thereafter.

### *Sales Tax Exemption*

- Of the total \$139 million project cost, a significant portion is attributable to generating equipment that is exempt under current law because it qualifies as capital equipment. Significant other nontaxable project costs include development and financial costs and interest and debt service expenses.
- Information was received from a Fibrominn representative.
- It is estimated that there will be \$14 million of taxable materials and supplies.
- The project start date is within the next two months and the project end date is sometime toward the end of calendar year 2006.
- Expected taxable purchases prior to July 1, 2004, are expected to be minimal. It is estimated that the remaining tax consequence would be distributed evenly between fiscal years 2005 and 2006. The sales tax exemption expires June 30, 2006 (no impact in fiscal year 2007).

**Number of Taxpayers:** This proposal is expected to apply to one project in the city of Benson. All taxpayers in Swift County, where the plant will be located, will be affected by the exemption of the personal property tax.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)