PROPERTY TAX
Exemption for an Electric Generating Facility

February 25, 2005

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

Department of Revenue
Analysis of S.F. 315 (Day) / H.F. 413 (Fritz)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
	(000's)			
General Fund	$0	$0	($13)	($13)

Effective for taxes payable in 2006 and thereafter.

EXPLANATION OF THE BILL

Current Law: With some exceptions, attached machinery and other personal property which is part of an electric generating system are subject to property tax.

Proposed Law: Attached machinery and other personal property which are part of an electric generating facility that exceeds 150 megawatts of installed capacity would be exempt from the property tax. At the time of construction, the facility must be designed to utilize natural gas as a primary fuel, be owned by a municipal power agency, and be located outside the seven-county metropolitan area. The facility must be designed to be a combined-cycle facility and have received a certificate of need. Construction of the facility must start after January 1, 2004, and before January 1, 2006. Property eligible for this exemption does not include electric transmission lines, gas pipelines, or any other interconnections to the facility.

To qualify, an agreement must be negotiated between the municipal power agency and the host city for a payment in lieu of property taxes to the host city.

REVENUE ANALYSIS DETAIL

- It is assumed that the proposed electric generating facility in the city of Faribault in Rice 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 $40 million.
- Under the current contingent plan, it is assumed that the facility will be completed in the spring of 2005 and will affect property taxes starting with payable year 2007.

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 homesteads.
- The Minnesota Municipal Power Agency would make a payment in lieu of taxes to the city of Faribault. This would reduce the total amount of the property tax shift.
- The increased property tax burden on homeowners caused by the exemption (relative to current law) will increase state-paid homeowner property tax refunds by about $13,000 starting in FY 2007.

Number of Taxpayers: All property taxpayers in Rice 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