

MINNESOTA • REVENUE

PROPERTY TAX SALES AND USE TAX Hydroelectric Generating Facility

April 18, 2005

Department of Revenue
Analysis of S.F. 2163 (Pogemiller) / H.F. 2413 (Ellison)

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

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
Homeowner PTR Increase	\$0	\$0	\$0	(Negligible)
Sales and Use Tax Exemption	(\$145)	(\$20)	\$0	\$0
General Fund Total	(\$145)	(\$20)	\$0	(Negligible)

EXPLANATION OF THE BILL

Current Law: With some exceptions, personal property that is part of an electric generating system is subject to the local property tax. The attached machinery of an electric generation facility is exempt for the state general property tax levy. Regarding sales and use tax, capital equipment used by production industries, including electric generating plants, is exempt from sales and use tax. The capital equipment exemption is administered as a tax refund. Sales of building materials and supplies used or consumed in construction are normally considered taxable retail sales.

Exemptions were enacted in 2002 for construction and operation of a qualifying electric generating facility. The property tax exemption enacted in 2002 applied if the construction of the facility was commenced after January 1, 2002, and before January 1, 2005. Also, there was a requirement in the previous exemption that the facility be publicly owned. The sales and use tax exemption that was enacted in 2002, and extended in 2003, has expired.

Proposed Law: To qualify for both the property tax exemption and the sales and use tax exemption, the hydroelectric generating facility must: 1) utilize two turbine generators at a dam site existing on March 31, 1994, 2) be located on land within a specified distance of a 13.8 kilovolt distribution circuit, and 3) be eligible to receive a renewable energy production incentive payment.

For the attached machinery and other personal property exemption, the proposal amends current law by removing the requirement that the facility be publicly owned and adjusts the specified facility construction dates to after December 31, 2004, and before January 1, 2007.

The proposal would allow another sales tax exemption for materials and supplies used or consumed in the construction of this facility and would be effective for sales made after December 31, 2004, and on or before December 31, 2007.

REVENUE ANALYSIS DETAIL

- Project information was received from a representative of Xcel Energy. The proposed Minneapolis Crown Hydro plant will be built by Xcel Energy near St. Anthony Falls in Minneapolis.
- It is assumed that this project will meet the specified conditions.

Property Tax

- 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 increased property tax burden on homesteads caused by the exemption will increase state-paid homeowner property tax refunds by less than \$5,000 beginning in FY 2009.

Sales and Use Tax

- The revised cost for construction materials and supplies is \$2.5 million.
- The revised construction timeline is from the fall of 2005 to the fall of 2006.
- It is estimated that 90% of the purchases will have a fiscal impact in fiscal year 2006, and the remaining 10% will occur in fiscal year 2007.

Number of Taxpayers: This proposal is expected to apply to one project in Minneapolis.

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