

MINNESOTA • REVENUE

PROPERTY TAX Exemption for an Electric Generating Facility

March 13, 2007

Department of Revenue

Analysis of S.F. 1490 (Jungbauer) / H.F. 1731 (Hackbarth)

| | Yes | No |
|-------------------------------------|-----|----|
| DOR Administrative Costs/Savings | | X |

Fund Impact

| | <u>F.Y. 2008</u> | <u>F.Y. 2009</u> | <u>F.Y. 2010</u> | <u>F.Y. 2011</u> |
|--------------|------------------|------------------|------------------|------------------|
| General Fund | \$0 | \$0 | \$0 | \$0 |

(000's)

Effective the day following final enactment.

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 a simple-cycle combustion-turbine electric generating facility that exceeds 150 megawatts of installed capacity and that meets the following requirements are exempt from the property tax. At the time of construction, the facility must:

- (i) utilize natural gas as a primary fuel;
- (ii) be owned by an electric generation and transmission cooperative;
- (iii) be located within one mile of an existing natural gas pipeline and high-voltage electric transmission lines;
- (iv) be designed to provide peaking, emergency backup, or contingency services;
- (v) have received a certificate of need demonstrating demand for its capacity; and
- (vi) have received approval by the county and city where the facility is to be located.

Construction of the facility must begin after January 1, 2008, and before January 1, 2012. Property eligible for the exemption does not include electric transmission lines or gas pipelines.

REVENUE ANALYSIS DETAIL

- It is assumed that the electric generating facility in the city of Elk River in Sherburne County would be the only facility affected by the proposal.
- The preliminary total cost of attached machinery and other equipment, excluding currently exempt pollution control equipment, that would be exempt from personal property tax is estimated to be about \$85 million.
- Under the current contingent plan, it is assumed that the facility will be completed in 2009 and will affect property taxes starting with payable year 2011.

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 increased property tax burden on homesteads caused by the exemption will increase state-paid homeowner property tax refunds by about \$70,000 beginning in FY 2012.

Number of Taxpayers: The proposal would primarily affect one facility. Property owners in Sherburne County would also be affected.

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

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