COALITION OF UTILITY CITIES

Becker ◆ Cohasset ◆ Granite Falls ◆ Hoyt Lakes ◆ Monticello ◆ Oak Park Heights ◆ Red Wing

To: Representative Paul Marquart
Chair, House Taxes Committee
597 State Office Building
St. Paul, MN 55155

Senator Carla Nelson
Chair, Senate Taxes Committee
Minnesota Senate Bldg., Room 3235
St. Paul, MN 55155

May 16, 2022

Chair Nelson, Chair Marquart, and Omnibus Tax Bill conferees:

The Coalition of Utility Cities (CUC) submits this letter to urge conferees to include the Electric Generation Transition Aid Program in your final conference agreement.

We sincerely thank the Senate for including SF 3641 in your omnibus tax bill. This bill would create a transition aid program to support local governments that will be deeply impacted by the retirement of the state's largest remaining power plants. As tax committee members are aware, for cities that host power plants, the plant alone can comprise 40-75% of the tax base in our cities. When that property retires, it can cause immediate and drastic tax shifts onto residents and businesses in our communities.

The sheer scale of these transitions requires a well-planned and coordinated response. Our communities are doing all we can to plan for and weather this transition through enhanced economic development efforts, carefully structuring our local finances, and working together with local partners and the state, but these efforts take time. Electric Generation Transition Aid would provide the time needed to rebuild our community's tax bases while protecting local property taxpayers along the way.

There is precedent for this program as well. When the state made changes to the valuation and assessment process for utility property just under 15 years ago, the legislature created a transition aid program to help our communities through that transition until our tax base recovered. The need is even greater today, with plants headed toward final retirement and an uncertain future for each of our communities.

Included with this letter is a handout showing—at the most basic level—what happens to a community's tax base when a power plant retires and what this bill would do to help. In short, this bill is the lifeline our communities need.

With questions about this proposal, please contact the Coalition's government relations representative Shane Zahrt of Flaherty & Hood at (651) 295-1123 or SAZahrt@flaherty-hood.com.

Sincerely,

Max Peters
Director of City Operations, City of Cohasset
President, Coalition of Utility Cities

What happens to a host community when a power plant retires?

A power plant community's tax base includes:

Power Plant
Derives most of its value from electric generating machinery, which is centrally assessed by the Dept. of Revenue

Residential

Businesses

What happens when a power plant retires?

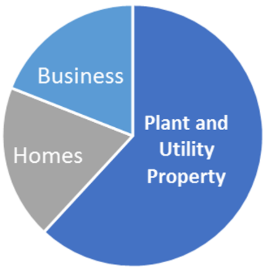
Electric generating machinery is decommissioned.

Taxable value of electric generating machinery drops to zero.

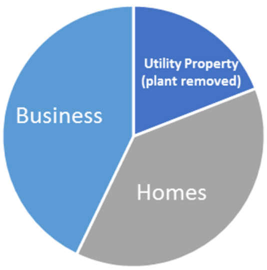
Electric generating machinery is considered "personal property" of the utility under Minnesota's tax code. Once a plant retires, its personal property is exempt from taxation and the tax capacity attributable to it is removed immediately from the local tax base.

Impact on city's tax base

Tax burden immediately shifts onto others ...



Tax base:
Plant's final year



Tax base:
First year after retirement

... resulting in hard choices for communities.

COALITION OF UTILITY CITIES

SF3641/HF3977 will help host communities thrive after plants retire

Plant Retirement Timeline

2023	Becker Unit 2
2026	Becker Unit 1
2028	Oak Park Heights
2029	Cohasset Unit 3
2030	Becker Unit 3
2033/34	Red Wing Units 1 and 2*
2035	Cohasset Unit 4
2040	Monticello

*End of current licenses
Unknown retirement: Hoyt Lakes

This Bill:

Empowers communities to protect residents and businesses from bearing the brunt of property tax shifts that occur when a power plant retires

Provides property tax replacement aid that faces down over time — providing valuable time for communities to execute a strategy to develop their future

How It Works:

- **Aid is triggered by the retirement of electric generating unit**
- **The first year of aid is determined by a calculation to measure the city's lost utility tax capacity**
- **Aid phases down by 5% each year**
- **Allows communities to provide services without drastic cuts or dramatic property tax increases**

Year of Aid	Percent of Year One Aid
Year 1	100%
Year 2	95%
Year 3	90%
Year 4	85%
...	...
Year 18	15%
Year 19	10%
Year 20	5%
Year 21	0%

Created by Flaherty & Hood, P.A., 4/13/22