

Wind Turbine Financial Information (4/11/16)



1. **Are there requirements and incentives for renewable energy development?**
– Yes

The State passed laws that required utility companies to produce 10% of their energy from renewable sources by the year end of 2015. Compliance with this requirement has been achieved primarily using wind energy development. The state has been studying a new standard for energy generation from renewable sources. Also, the federal government is providing funding for part of the construction cost and tax incentives promoting renewable energy development to reduce dependency on fossil fuels.

2. **Who has regulatory authority over wind turbine development?** –
Townships, villages and cities.

Regulatory authority over wind energy development is entirely with local units of government - **not the county government**. Local units of government include: townships, villages and cities. Regulatory authority is exercised through the development of wind and zoning ordinances. Typical regulatory provisions include height, setback and permitted noise (decibel) levels.

3. **When was the first wind turbine project built and how many have been built in Tuscola County at the end of 2015?** – **The first turbines were built in 2012**

in Gilford Township with two more projects built in other townships of the county since 2012 for a total of 189 turbines.

The first project was built by NextEra Energy in 2012 with the construction of 68 turbines in Gilford Township. The second project was constructed by NextEra in 2014 in Akron, Fairgrove, Gilford and Wisner Townships with 59 turbines. The third project was constructed by Consumers Energy in 2014 and 2015 with 62 turbines primarily in Columbia Township. There are 189 wind turbines currently in Tuscola County. These turbines are located in the Townships of Akron, Columbia, Fairgrove, Gilford and Wisner.

4. Is there more wind turbine construction planned in Tuscola County? – Yes

NextEra Energy is planning a third 55-60 turbine project in Ellington and Almer Townships with construction currently slated to begin in 2016 and project completion anticipated in 2017. Consumers Energy has a second planned project currently for the year 2022 for Columbia and nearby Townships.

5. Are there beneficiaries from wind turbines? – Yes, property owners that have leases with the wind companies in addition to governments, schools and libraries and other entities with wind projects in their community that levy millage to provide public services.

The amount of funds generated is based on the number of mills levied and the taxable value of the turbines located in the political jurisdiction. In 2014, \$4,070,000 total tax revenue was paid to taxing jurisdiction with wind turbines including: Intermediate School District (\$775,000), certain individual school districts (\$968,000), County (1,389,000), townships (\$718,000), libraries (\$151,000) and other (\$69,000).

With the addition of the Consumers Energy wind project the amount of total revenue received will increase. These funds are used for public services. The total amount paid in private property leases is unavailable. Lease payments provide increased spendable capital that has an overall positive economic impact. Development of renewable energy reduces dependency on fossil fuels and the negative environmental effects of carbon dioxide emissions

6. Has wind turbine revenue been beneficial to balancing the county budget?
– Yes

Tuscola is a county of modest financial means because of a limited tax base and a weak economy. The county is still financially recovering from the great recession that occurred from 2009 to 2012. Without the estimated \$1.4 million in revenue from wind turbine construction and the International Transmission Company new electrical transmission line construction, balancing the county budget would have been much more difficult.

7. Does wind turbine revenue for taxing entities remain constant? – No, the amount of revenue received declines each year based on what is called a Multiplier Schedule.

Depending on which Multiplier Schedule a local assessor uses, the year one multiplier may be 100% of taxable value, by year two this may drop to 90%, year three 80% and so on until the percentage levels out in 10 to 12 years at about 30% to 40% of the first year amount. If a taxing entity receives \$400,000 in the first year, the amount declines each year until in about 10 to 12 years only \$120,000 to \$160,000 is received.

The fact that revenue declines with time has major financial implications. Entities that receive these funds have to be careful to not build a level of dependency that cannot be sustained long term. The multiplier schedule remains highly controversial and has not been agreed to by the wind companies, state and local taxing entities.

8. Is the method of assessing and taxing wind turbines agreed to by taxing entities and wind companies? – No, the Multiplier Schedule and Federal 1603 Cash Grants are in dispute.

The dispute between county/local government and wind developers regarding the Multiplier Schedule and Federal 1603 Cash Grants has been on-going for over four years and is a major issue because literally revenue involving tens of millions of dollars per wind project is at stake.

NextEra has for several years appealed their assessment for the wind projects in Tuscola County. They have argued that 30% of qualified costs cash grant can be

deducted from historical cost when using the cost approach for determining true cash value. In other words, NextEra argues because Federal funding was involved (1603 cash grants) the true cash value of the wind projects is 30% less which in their opinion means their tax responsibility is 30% less. The position of county/local government is the true cash value of the projects are not reduced because Federal 1603 cash grants paid a portion of the construction cost.

With respect to the multiplier schedule, in 2012 officials at the Michigan Tax Commission (STC) changed the schedule. The net effect of this change was the amount of tax revenue received over the life of a wind project was reduced by about 28%. There was no rationale provided by the STC to justify this change. This was extremely frustrating to counties and local units of government because the impact was the amount of revenue received was reduced by approximately 28%.

9. What has been done to resolve the on-going dispute? – The Michigan Renewable Energy Collaborative was formed and law/appraisal professionals were hired to assist. The Federal 1603 Cash Grant Issue is being heard by the Michigan Tax Tribunal.

Tuscola County assisted in forming and joining the Michigan Renewable Energy Collaborative (MREC) with four other counties (Huron, Sanilac, Gratiot and Mason) and many of the local units of government in each of the counties. MREC was formed to protect the county, local government and public interests with respect to fair and equitable assessing and taxation of wind turbines. The law firm of Clark Hill and Appraisal Economics was hired. Appraisal Economics conducted a comprehensive study to determine a fair and equitable Multiplier Schedule.

The dispute will be decided by the Michigan Tax Tribunal (MTT). MREC and NextEra attorneys have both filed their “briefs”. Pending the case outcome, MREC or NextEra could appeal to the Michigan Court of Appeals. Tuscola County has escrowed funds to payback portions of taxes collected if the case is lost.

10. Has the Michigan Tax Tribunal made any decisions? - Yes

The legal team assisting MREC (Clark Hill) has recently received a favorable opinion from the Chief Judge of the MTT regarding the issue of Federal 1603

cash grants. Contrary to the arguments of NextEra a 30% of qualified costs cash grant cannot be deducted from historical cost when using the cost approach for determining true cash value. Simply stated, this opinion is Federal 1603 cash grants do not reduce true cash value of wind turbines and the corresponding amount of tax revenue that has to be paid. An adverse ruling for MREC would have been a tremendous potential loss in assessments (tens of millions per wind farm) and tax revenues.

This is the first decision of its kind in the country. The logic behind the decision should also be beneficial in other wind energy system tax appeals where the wind developer has argued for a similar deduction using the cost approach whether they have received a cash grant or taken a production tax credit or investment tax credit.

In addition the MTT has ordered the production of documents related to tax and other corporate financial information by the end of March.

Of course, it is important to note that the decision can be and probably will be appealed to the Michigan Court of Appeals.