TETRA TECH

Montague Solar
Property Tax Comparison
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On August 23, 2019, the Oregon Energy Facility Siting Council approved a Goal 3 exception for up to 1,189 acres of agricultural lands for the Montague Solar facility in Request for Amendment (RFA) 4. On September 25, 2020, the Goal 3 exception acreage was increased to 1,496 acres and the project was transferred from Montague Wind Power Facility, LLC to Montague Solar, LLC (RFA 5; EFSC 2020). The Council relied on local economic benefits, minimal loss to productive agriculture, and lack of water rights at the project site as reasons to grant a Goal 3 exception. All these reasons remain valid for the project; however, Montague Solar, LLC (Certificate Holder) is providing additional information to demonstrate that use of renewable energy incentives other than the Strategic Investment Programs as mentioned in the Final Order[1] provide similar local economic benefit.

Background on Renewable Energy Incentives

The following discussion provides an overview of two types of renewable energy incentives that are available for renewable energy projects in Gilliam County: the Strategic Investment Program (SIP) and the Rural Renewable Energy Development (RRED) Zone. Information is also provided for a third type of renewable energy incentive: the Fee in Lieu of Property Taxes for solar projects program.

Strategic Investment Program

The SIP is a state-administered program that offers up to a 15-year property tax exemption on a portion of large capital investments. To qualify, a project must serve a "traded sector" industry, which is defined by Oregon law as an industry in which "member firms sell their goods or services into markets for which national or international competition exists" (Business Oregon 2021a). Renewable projects are an accepted industry for the SIP. Projects must either receive local approval through a negotiated agreement between the project owner and the affected local government, or be located in a pre-established Strategic Investment Zone.[2]

The property tax exemption applies to the portion of the project's real market value that exceeds an initial taxable portion. In non-rural areas, the initial taxable portion is $100 million. In rural areas,

[1] Final Order on RFA 4, p.97, "The certificate holder maintains a "Strategic Investment Plan" that would "provide the tax revenue directly to the County."

[2] Strategic Investment Zones (SIZ) are designed to provide a more streamlined local process. There are currently three SIZ in Oregon: Gresham SIZ #1, Clackamas Rural SIZ #1, and Clackamas Urban SIZ #2 (Business Oregon 2021a).

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the initial taxable portion depends on the size of the investment, as shown in Table 1. Following approval, the taxable portion increases 3 percent per year until the abatement ends after 15 years. In order to qualify, the overall project cost must be at least $25 million in a rural area and $100 million in non-rural areas.

Table 1. Initial Amount of Investment Subject to Property Taxes in Rural Areas

Total Investment Costs	Initial Taxable Portion
Up to $500 million	$25 million
From $500 million to $1.0 billion	$50 million
Greater than $1.0 billion	$100 million

Under the SIP the project pays property tax on the initial taxable portion of the assessed value. In addition, the project pays a community service fee equal to 25 percent of foregone tax (up to $2.5 million) and may also make additional payments as negotiated with the county. The amount of tax savings provided by the SIP depends on the terms of the agreement negotiated between the project and the county, specifically the amount of additional payments, if any. Past examples of SIP agreements negotiated for renewable energy projects have included a minimum payment per megawatt (MW) that includes the required property tax and community service fee payments, as well as an additional payment to the county. In these cases, the negotiated additional payment amount is the difference between the total per MW payment and the required property tax and community service fund payments.

Property taxes paid on the taxable portion are distributed to the local taxing districts with property tax authority in the code area or areas where the project is located.[3] The community service fee payment and any negotiated amounts are distributed based on agreements between the county and local taxing districts.

Montague Solar, LCC does not have a negotiated SIP, nor is the project in an SIZ. Gilliam County does not have a designated SIZ. To obtain a SIZ, Gilliam County would need to apply to the state and go through a formal designation process.

Rural Renewable Energy Development Zones

RRED Zones are a type of enterprise zone that offer a tax exemption incentive to encourage new investments in renewable energy. The incentive is a 100 percent (full) exemption from the property taxes normally assessed for the first 3 to 5 years of project operation. The program consists of an initial 3-year exemption that may be extended for up to an additional 2 years through agreement with the local government sponsor (Business Oregon 2021b).

[3] Individual government units with property tax authority in Oregon, include counties, cities, school districts, hospitals, libraries, and fire districts. These government units, known as taxing districts, combine to form tax code areas, which represent unique combinations of overlapping taxing districts.

The total amount of property (among one or more projects) that can qualify is subject to a locally set cap within each zone that cannot exceed $250 million in initial market value with each project valued based on its real market value on the assessment date of the first year that the exemption is applied. Local governments apply to the Oregon Business Development Department for RRED Zone designation. Once designated, if a project meets the eligibility requirements, the tax exemption must be granted (Green Energy Institute 2019). Once the exemption expires after 3 to 5 years, the project is taxed based on its assessed value and tax revenues are distributed to the local taxing districts with property tax authority in the code area(s) where the project is located.

According to Business Oregon (2021b), 12 other Oregon counties and one city (Pilot Rock) have established RRED zones. The Gilliam County Court adopted a proposed RRED Zone in Gilliam County in January 2021 (Allen 2021).

Montague Solar is a qualifying project for Gilliam County's RRED Zone and the project is participating in the 3-year tax exemption program.

Fee in Lieu of Property Taxes for Solar Projects

In 2015, the Oregon legislature passed an act temporarily authorizing counties to enter into a Fee in Lieu of Property Taxes agreement with solar project owners. Under this type of agreement, a solar project may be exempt from property taxes for up to 20 years, contingent on the annual payment to the county of a flat fee of $7,000 per MW of nameplate capacity (Business Oregon 2021c). This program cannot be used if the project is approved for another type of exemption (e.g., a SIP or RRED zone). The temporary authorization to enter into this type of agreement expires in January 2022 (Green Energy Institute 2019).

Montague Solar has not entered into a Fee in Lieu of Property Taxes agreement with Gilliam County.

Montague Solar Property Tax Comparison

The following assessment compares the tax benefits of a 160-MW solar project in Gilliam County under four different property tax scenarios: the base case with no tax exemptions, a RRED Zone scenario, and two potential SIP scenarios (low and high). These are estimates for the purposes of comparison only. The assessment is based on the following assumptions:

- The project has an initial assessed value of $212 million.
- Estimates are for a 25-year operating life. Assessed values are assumed to depreciate over this period, with the property depreciating to 20 percent of its original value by Year 25.

- The project is located in Gilliam County Tax Code Area 4.[4] Base case estimates are based on the 2020 millage rate for Tax Code Area 4.[5]
- The RRED Zone assessment assumes that the initial 3-year abatement is extended for an additional 2 years, with the project making a $200,000 payment in lieu of taxes (PILOT) in the fourth and fifth years.
- The SIP assessment assumes the taxable portion of the project is $25 million and increases 3 percent per year until the abatement ends after 15 years.
- Two SIP scenarios are assessed to capture the range of potential impacts:
    - The low SIP scenario assumes project payments are equal to property taxes payable on the taxable portion of the assessed value and community service fee payments.
    - The high SIP scenario assumes a negotiated minimum payment of $7,000 per MW that includes property tax, community service fee payments, and additional payments.

The results of this assessment are summarized in Table 2 and Figure 1. Total estimated payments to Gilliam County under the tax abatement scenarios would range from approximately $18.4 million (low SIP) to $24.9 million (high SIP) over the 25-year operating life of the project, with the RRED Zone scenario estimated to generate approximately $24.1 million. Viewed over the life of the project, these estimates are equivalent to 53 percent (low SIP), 70 percent (RRED Zone), and 72 percent (high SIP) of the base case scenario.

Table 2. Estimated Tax Benefits by Scenario (in millions of dollars)

Years	Base Case	RRED Zone	Low SIP	High SIP
1 to 5	10.715	0.400	3.755	5.600
6 to 10	8.804	8.804	3.448	5.600
11 to 15	6.892	6.892	3.169	5.600
16 to 20	4.981	4.981	4.981	4.981
20 to 25	3.070	3.070	3.070	3.070
Total	**34.461**	**24.146**	**18.422**	**24.851**

[4] Tax Code Area 4 includes seven taxing districts: the Gilliam County General Fund, North Gilliam County Health, North Central Education Service District (ESD), Arlington #3 School District, North Gilliam County Rural Fire Protection District, North Gilliam County Cemetery, and Arlington Port. The combined levy or millage rate for these districts was 0.01080780 in 2020 (Gilliam County Court 2020). Millage rates are expressed as a dollar amount per $1,000 assessed value. A rate of 1 mill, for example, imposes tax at a rate of $1 per $1,000 of assessed property value.

[5] Estimates are based on the full millage rate and do not account for the effects of compression, which would potentially reduce the amount of education funds paid to North Central ESD and Arlington #3 School District.

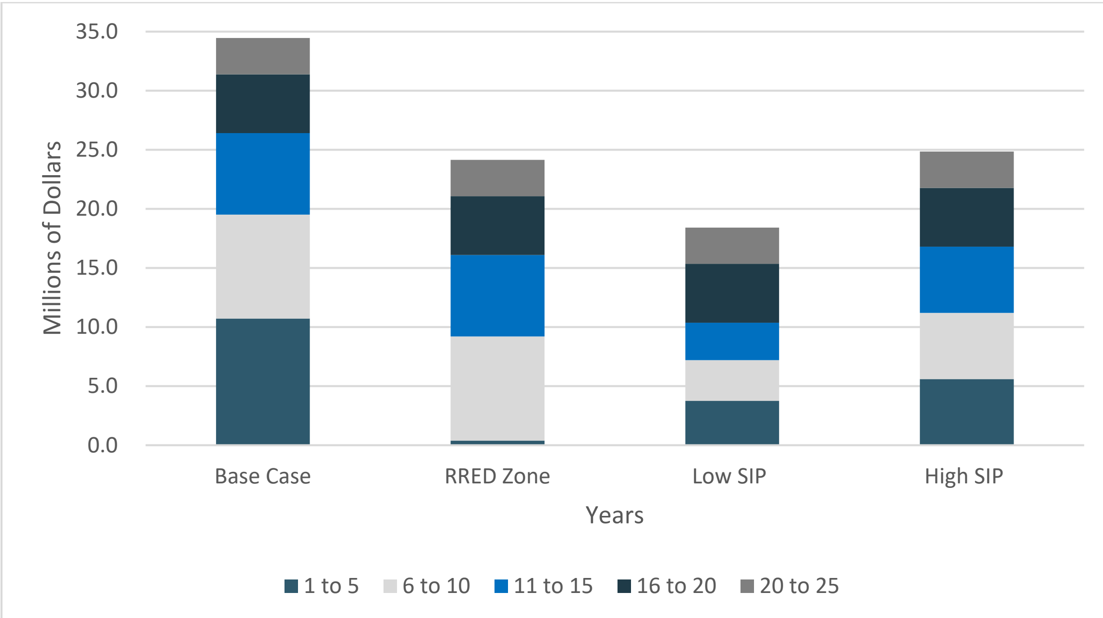

Figure 1. Estimated Tax Benefits by Scenario (in millions of dollars)

Estimates are presented for two SIP scenarios to provide a range of potential tax payments that could occur under a SIP agreement. This range represents the uncertainty surrounding the amount of additional payments, if any, that would be negotiated with Gilliam County. The low SIP scenario assumes that payments would be equal to property taxes on the taxable portion of the assessed value and the required community service fee payments, with no additional payments. The high SIP scenario assumes a minimum negotiated payment of $7,000 per MW. This upper threshold is based on the Fee in Lieu of Property Taxes for solar projects program, which, as discussed above, allows solar projects to be exempt from property taxes for up to 20 years contingent on an annual payment of $7,000 per MW (Business Oregon 2021c). The total estimate for the RRED zone is close to the high end of the estimated SIP range ($24.1 million versus $24.9 million, respectively) and suggests that payments over time would likely be comparable to those under a SIP agreement (Table 2, Figure 1).

Property tax paid under all three tax exemption scenarios (low SIP, RRED Zone, and high SIP) would represent a significant economic benefit to Gilliam County when compared to current assessed value of the two subject parcels. The combined 2020-2021 tax due for the two parcels that encompass the solar project site was $7,151, with a portion of this total due to improvements on one of the parcels (Gilliam County 2021). These improvements, which comprise approximately 23 percent of the combined real market value for the two parcels, are located outside the solar project site and would not be affected by the project. Assuming that existing assessed values would increase at a rate of 3 percent per year, the estimated property tax paid if there was not a solar project, would be $0.26 million over the 25-year period used for the estimates presented in Table 2 and Figure 1.[6] The estimated total property tax that would be generated if there was not a solar project ($0.26 million) is equivalent to 1.1 percent (RRED Zone and high SIP) and 1.4 percent (low SIP) of the estimated property tax revenues that would be generated under the three tax exemption scenarios.

While the RRED Zone and high SIP scenarios are comparable in terms of overall payments, the distribution over time would be different (Table 2, Figure 1). The RRED Zone abatement would occur entirely in the first 3 to 5 years of project operation, with no property tax revenues generated in the first 3 years. Following the abatement, the project would no longer be exempt and would be taxed based on the total assessed value. Under a SIP, the abatement would be spread over 15 years, with reduced payments each year. In addition, total payments under a SIP agreement could be distributed differently relative to the base case and RRED Zone scenario. In the base case and RRED Zone scenario, payments would be made to the taxing districts that comprise Tax Code Area 4 in accordance with their established levies (which combined make up the Area 4 millage rate). This would also be the case for the payments on the taxable portion of the assessed value under a SIP agreement. In contrast, community service fee payments and any negotiated amounts would be distributed based on agreements between the county and local taxing districts.

Conclusion

The analysis above demonstrates that regardless of the renewable energy incentive program, Montague Solar will contribute tax dollars to Gilliam County and the project will provide a local economic benefit. The local economic benefit under any renewable energy incentive program would be significant, as presented above. Estimated tax revenues over the 25-year operating life of the project would range from $18.4 million (low SIP) to $24.9 million (high SIP), with an estimated $24.1 million for the RRED Zone scenario (Table 2, Figure 1). In all cases, these estimates are significantly higher than the estimated property tax revenues ($0.26 million) that would be generated over the same period if there was not a solar project. In addition, construction and operation of the project would generate local economic benefits through direct expenditures for materials and services in the local area, and new payroll income. These additional benefits are not captured in the preceding analysis.

This analysis provides additional evidence upon which the Oregon Department of Energy may rely when confirming that the project will still result in local economic benefits, which was one of the three reasons providing the basis for the project's Goal 3 exception under OAR 345-022-0030(4)(c)(A) and ORS 469.504(2)(c)(A), regardless of the renewable energy incentive program pursued. The Final Order on RFA 4 found that local economic benefits arise from multiple project benefits including tax revenue, employment opportunities, direct spending in the community, and indirect benefits to local businesses. With respect to tax revenue, the Final Order on RFA 4 mentioned that a SIP would provide "tax revenue directly to the County" as context and justification

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[6] Statewide Measure 50, passed in 1997, limits the annual growth in assessed value to 3 percent of the existing value.

that economic benefits from the project would be localized within Gilliam County. The RRED Zone would provide similar local benefits to a SIP because taxes would be paid to Tax Code Area 4 that provides money to important local services, such as county health clinics, schools, rural fire districts, and the county's port facilities. Therefore, Montague Solar concludes there are no substantive differences in local economic benefits between the RRED Zone and SIP renewable energy incentive program, and the Council's findings of local economic benefit for a "reasons" exception to Goal 3 remain valid, despite Montague Solar's participating in the RRED Zone.

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