ATHENS GENERATING PROJECT
AN ASSESSMENT OF THE PROJECT'S VALUE TO THE COMMUNITY AND THE OWNER

Prepared for:

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Center for Governmental Research Inc (CGR)
Mission Statement

CGR is an independent, nonprofit research and management consulting organization that serves the public interest. By developing comprehensive perspectives on issues facing communities, CGR distinguishes itself as a unique professional resource empowering government, business and nonprofit leaders to make informed decisions. CGR takes the initiative to integrate facts and professional judgment into practical recommendations that lead to significant public policy action and organizational change.

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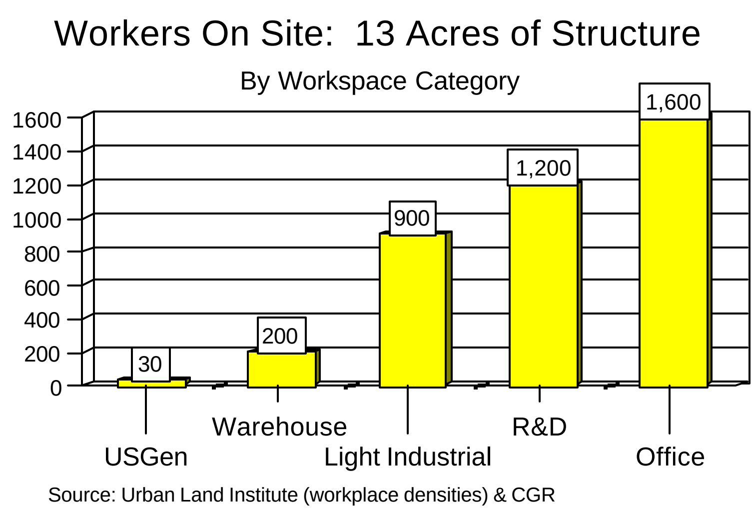
Summary

U.S. Generating Company (USGen) proposes to build a 1,080 megawatt gas-fired generating plant in the Town of Athens, Greene County. As a non-utility generator of electric power, USGen would be selling electricity on the open market with prices subject to competitive pressures now being unleashed through a complex deregulation of the power industry in New York State. CGR was asked to assess the value of the project to the Greene County community and to explore the nature of possible negotiated agreements over property taxes and other benefits.

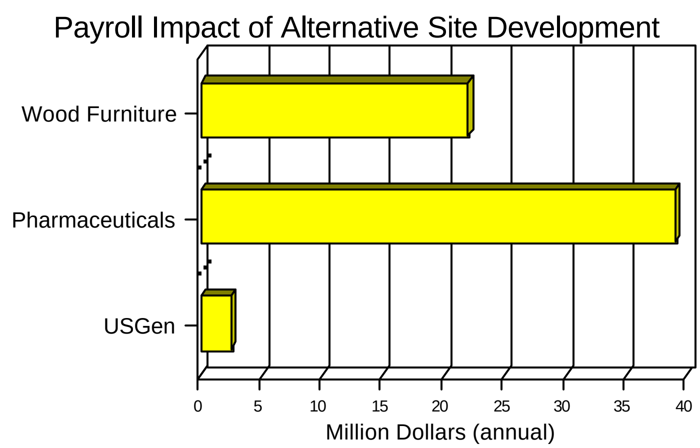
This project could create significant benefits for the Town of Athens and Greene County. Nonetheless, these benefits will only be achieved through a fair and appropriate agreement on property taxes. In brief, CGR's findings are as follows:

– Using this site for a generating plant will preclude its use for another purpose. The location of the project site, its desirability and the growth prospects for Greene County strongly suggest



that the loss of the project would not be a tragedy for the community. This particular project confers a potential tax base windfall but little else. Alternative uses for the project site may confer a substantially higher community benefit in the form of jobs and payroll. Were the 13 acres occupied by USGen filled with an industrial park at average worker densities, about 900 would be employed on site.

— The payroll and employment impacts of the project are relatively small and will be concentrated in the families whose members are employed by the plant. There will be little spillover community benefit from the Athens Generating project as the plant will employ no more than 30.

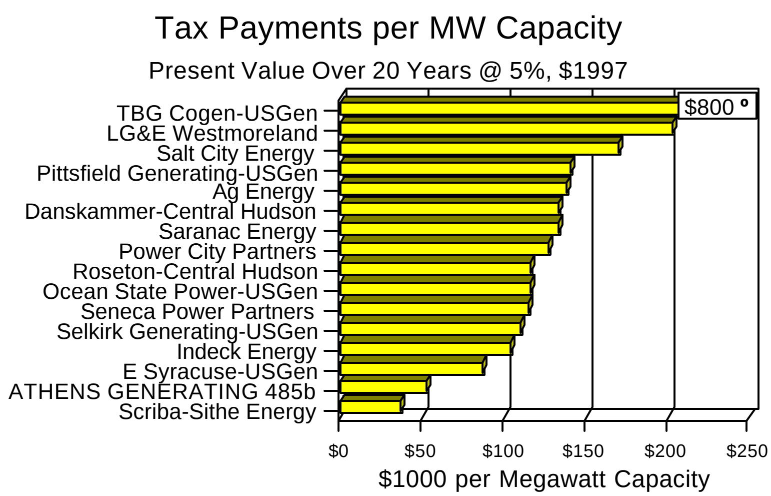


— The property tax benefits are substantial, but highly concentrated. In the absence of a tax base sharing agreement or other negotiated benefits, the impact on the economic climate in the county as a whole will be small.

As a result of these findings, CGR suggests that:

— The assessed value of the plant be in the range of \$450 million to \$500 million dollars, in accordance with the methodology adopted by the NYS Office of Real Property Services.

— The Greene County IDA negotiate a PILOT with terms no more generous than those provided in Real Property Tax Law §485b. The small tax levy and low tax base of the affected communities guarantee that the company will pay taxes that are lower than virtually all other generating plants in the State of New York, even without an agreement with the IDA.



— The Greene County IDA should negotiate payments in lieu of tax that stimulate a broader community benefit than would be the case were the property not covered by a PILOT agreement.

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Staff Team

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ATHENS GENERATING PROJECT ECONOMIC ASSESSMENT

Introduction

The purpose of this study is to explore the relationship between company and community for the Athens Generating Project, a 1080 megawatt natural gas-fired electric generating plant proposed by U.S. Generating Company (USGen) through its Athens Generating Company affiliate. Ultimately, the task of negotiating terms between the community and the company falls to the Greene County Industrial Development Agency (IDA). CGR is not privy to all the information provided to the IDA by the company nor has it participated in any negotiations that have taken place so far between USGen and the IDA. Our task is to provide information and analysis that will support the IDA in its task, not to usurp or second-guess the process of negotiation that is its sole responsibility. For reasons unknown to CGR or the community, some of the suggestions or comments included in this report may not be applicable to the Athens Generating Project.

Property Tax Abatement

The most significant benefit that can be conferred on a project by virtue of the participation of the IDA is the property tax exemption. This benefit is achieved by the IDA taking formal title to the property for the period of the agreement. As a public benefit corporation, property owned by the IDA is exempt from property, sales and mortgage recording taxes. In addition, bonds issued by the IDA to finance the project are exempt from taxation by New York State, although this exemption appears to have a negligible impact on the interest rate received in the marketplace. New York State is also allocated authority to issue a limited volume of federally-tax exempt bonds. IDAs can also request that a project be included within the state's volume cap. If approved, this confers an exemption from federal taxation on the issued bonds which does have a measurable impact on the cost of borrowing.

Without IDA participation, the company is entitled to the property tax relief conferred by §485b of the Real Property Tax Law (RPTL) of the State of New York, i.e. "Real property constructed, altered or improved . . . for the purpose of commercial, business or industrial activity shall be exempt from taxation, special ad valorem levies or service charges to the extent hereinafter provided.[1]" The extent of exemption is defined as 50% reduction in the first year, reduced 5% each year until year eleven, at which time the property becomes wholly taxable. A conventional §485b exemption would confer a reduction in benefits on the company equivalent to $2.3 million in the first year. Over the ten-year life of the §485b exemption, the present value of the exemption conferred on the company would total just under $10 million[2]. This estimate (and all others in this report) assumes that the tax levy will remain the same[3]. Unlike a tax reduction agreement facilitated through an industrial development agency, §485b does not confer an exemption from sales taxes or mortgage recording taxes.

An agreement with the IDA is also unnecessary to receive an exemption from sales taxation on the generating equipment purchased for the project. Tax Law §1115(a)(12) specifically states that an exemption from sales taxation applies to

> Machinery or equipment for use of consumption directly and predominantly in the production of tangible personal property, gas, ***electricity***, refrigeration or steam for sale . . . but not including parts with a useful life of one year or less or tools or supplies used in connection with such machinery, equipment or apparatus. (emphasis added)

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[1]RPTL §485b(1)

[2]Throughout this report, the value of money received at some future time is converted into "present value" terms. This adjusts for the fact that money received in the future is worth less than money received today. One dollar received today is worth more than one dollar received in a year. A "present value" discounts the future dollar according to the rate of interest that can be earned on the dollar received today. So a dollar today will be equal to $1.05 in one year, if the recipient can deposit the money today in an interest-bearing account earning 5%. To adjust for the time at which money is received, we "discount" money received in the future (at a 5% rate) to make it comparable to money received today.

[3]The tax levy in the Town of Athens and the Catskill Central School District will probably not remain unchanged by the project. Taxpayers in both jurisdictions will be able to increase spending on services substantially without a very significant increase in tax rate for homeowners. While CGR acknowledges that this is possible–even likely–we were not in a position to forecast the likely increase in levy. Tax rates and property tax payments discussed in this report for Athens and the school district assume that the levy does not change. The increase in tax base is solely devoted to a reduction in tax rate in the municipality.

While the capital equipment is tax exempt under this portion of the Tax Law, all building materials would be subject to taxation, an issue settled by a court case in 1980[4]. Thus the participation of the IDA would be required to exempt the project from tax for anything but the capital equipment.

At the other extreme, industrial development agencies have conferred tax benefits on particularly desirable projects that are far more generous than the §485b terms–even to the extent of forgiving virtually all real property taxes for periods of up to 25 years. This is very unusual but may be sensible policy if (1) the project involves substantial job creation, (2) the particular jobs offered by the project are badly needed by the community and (3) the project could easily take place in another location, thus putting the municipality in a very competitive situation.

The Benefits of the Athens Generating Project to the Community

Impact of Construction & Operation Payroll on Greene County

Representatives of USGen indicate that the project will employ about 30 people earning an average salary of approximately $75,000. Total payroll on site will be about $2.25 million. During the construction period, the project will employ up to 600. While the excellent transportation infrastructure through Greene County, particularly the NYS Thruway, is a tremendous economic asset for the county, it will enable a share of workers on site–both during construction and subsequent operation–to live outside the county. Construction workers are very likely to commute to the project site from more populous counties to the north. Even some of those who are employed to operate the plant may commute from outside the county, particularly in the early years of the project. Over time, a majority of workers will probably live within Greene County. USGen has indicated a willingness to provide scholarships to people living in the county who wish to take courses leading to employment

[4] Slattery Associates v. Tully, 1980, 79 A.D.2d 761, 434 N.Y.S. 2d 788, affirmed 54 N.Y. 2d 711, 442 N.Y.S. 2d 978, 426 N.E. 2d 472.

at the plant, which would increase the proportion of local residents employed at the generating facility.

Impact of Construction Phase

Without considering property taxes or payments in lieu of taxation from the project, the construction and operation expenditures of USGen will certainly confer a sizeable, though temporary, benefit on the community. The total payroll from a $500 million construction project is, of course, substantial. It is likely that a relatively large share of the construction workforce would live outside the county, making any county impact assessment highly speculative. Certainly some businesses–particularly retail businesses located on U.S. Route 9W and at the Thruway interchanges plus lodging establishments throughout the county–will benefit significantly during the two year construction period. Sales tax revenue from the spending of workers could also be considerable, but also is very difficult to estimate.

Impact of Operation Phase

As stated above, on-site payroll from the operation of the generating facility is likely to total about $2.25 million. Assuming that 22 of the 30 (about 75%) live in Greene County, the local payroll will be about $1.65 million. The plant's purchases in the community are likely to stimulate an additional 25 jobs with earnings of about $600,000 annually[5]. CGR estimates that added spending in the community by employees of the plant will stimulate employment among retail and service businesses of 15, earning about $300,000.

Aggregate employment impacts from the operation of the plant can be expected to total about 60 with total compensation an estimated $2.5 million. This makes a very small impact on the local economy. The Bureau of Economic Analysis of the U.S. Department of Commerce estimates that total personal income among Greene County residents in 1995 was $868 million. Jobs held by county residents totaled 17,400.

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[5]CGR estimates off-site impacts on employment and payroll using the IMPLAN input-output modeling system. IMPLAN is a highly respected model enabling the user to adapt national input-output production relationships to specific geography based on groups of counties. CGR's model for this project includes only Greene County.

What Might Happen to the Site if USGen Does Not Build the Plant?

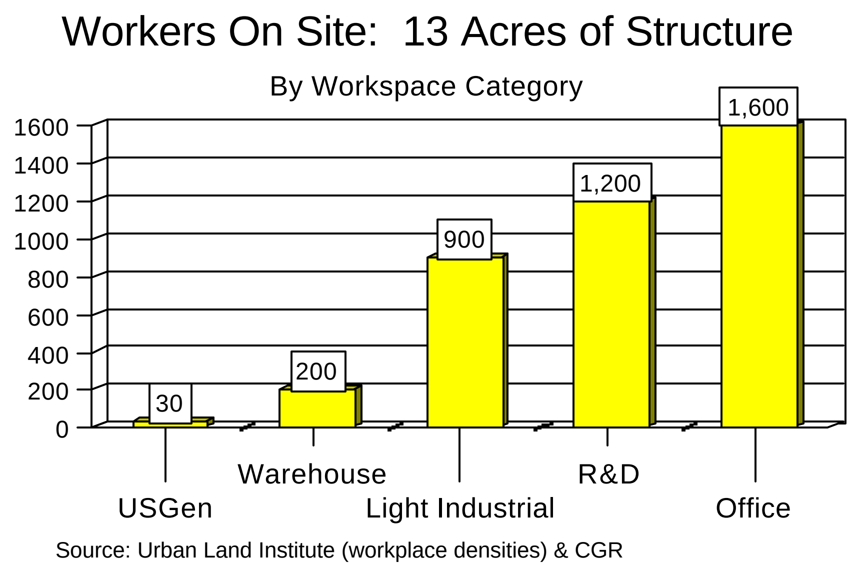
The county should consider the likely impact on the community of other industrial development projects that might occur if the USGen facility is not built. USGen indicates that it plans to occupy a parcel about 200 acres in size, although the physical footprint of the plant will be 13-15 acres. The site that has been selected offers unique advantages to USGen, particularly its proximity to the Iroquois gas pipeline, the high voltage transmission lines owned by Niagara-Mohawk Power Corporation and the Hudson River. While less important to USGen, the site is also on the U.S. Route 9W corridor with ready access to the NYS Thruway at Catskill. In addition to quality highways, the site boasts access to rail and possible Hudson River transport.

The Capital District has been growing more rapidly than any other region in the state when viewed over a 10 year time horizon. The continued growth of the region seems assured, particularly if the U.S. economy continues its healthy expansion. The Capital District offers business firms a range of markets that is unparalleled in the Northeast. New York's markets and ports are only a couple of hours to the south; Boston and the varied markets of the Eastern Seaboard are an easy drive to the east.

Greene County is the best kept secret in the Capital District. Located only 30-40 minutes from Albany, Greene County is likely to experience rapid residential and industrial growth during the next decade. The expansion of the Capital District has been northward in recent years as housing and industrial development has moved into Saratoga County. The vitality of the New York City economy and the strength of the lower Hudson Valley increases the value of viable sites in Greene County still further.

The site selected by USGen is arguably the best industrial site in the Town of Athens and one of the best sites in Greene County. If the region and the county expand as anticipated, this site will probably develop at some time in the future. CGR has attempted to estimate the likely payroll impact of alternative business expansion possibilities. CGR assumes that the site will develop at the same density as planned by USGen. In fact, a full build-out of the 200 acres would likely yield a higher density of structure than that planned by USGen. In a recent study of 1,200 acres of occupied industrial property in suburban Monroe County, property records showed an average coverage ratio of 12%. Even when 485 acres of vacant parcels located in the same industrial zone were added to the total, the coverage ratio was 9%. The coverage ratio planned by USGen is about 6.5%.

A survey commissioned by the Urban Land Institute in the 1980s reports the average workplace density for each industrial category.[6] Using these averages, CGR estimated the number of workers that would be employed on the USGen site for each potential land use. These totals are compared to USGen employment in the attached chart. Of course, actual occupants of new space built on the site would adopt their own approach to space utilization and will undoubtedly employ more or fewer workers than the average.



Thus assuming that 6.5% of the 200-acre industrial site is used for structures and assuming that these structures house firms engaged in light industrial activity, on-site employment would be expected to total over 900 workers. An office park would occupy more than 1,600 workers. Even if the site were devoted to a very low density use such as warehousing and distribution, the site would employ almost seven times as many workers as in the USGen proposal.

[6]CGR verified these density statistics against a more recent source, a survey of energy usage by detailed industry from the U.S. Environmental Protection Agency. While only available for manufacturing firms, the EPA survey confirmed that the Urban Land Institute figures are still current.

Economic Impact of Alternative Uses

It is clear that alternative uses of the site would probably employ more residents of Greene County. In the following sections, CGR estimates the total impact on the economy of a full "build-out" of the USGen site for another use. These impact estimates are intended to include the direct effect (from on-site businesses), the indirect effect (stimulated by the purchases of the site businesses in the community) and, in the case of major increases in employment, the *induced* impact, a result of new families moving into the community.

As no one knows what kind of industrial expansion will actually occur if USGen does not develop a generating plant on site, CGR has selected two hypothetical industries to illustrate the possible impact of expansion. Drug manufacturing already has a presence in the county. The second industry selected is wood household furniture. These are examples only. They are only meant to illustrate the potential impact on the region from industrial development of a different nature.

Impact of Expanded Pharmaceutical Manufacturing Were firms dedicated to drug manufacturing to occupy this 13 acre site and employ workers at the average density for light manufacturing, CGR estimates that total payroll in the county would increase by about $23 million on direct employment of about 675 jobs. The purchases of the firms located on site would stimulate another 430 jobs earning $11 million in payroll. This assumes that 75% of employees at the new facilities live in Greene County.

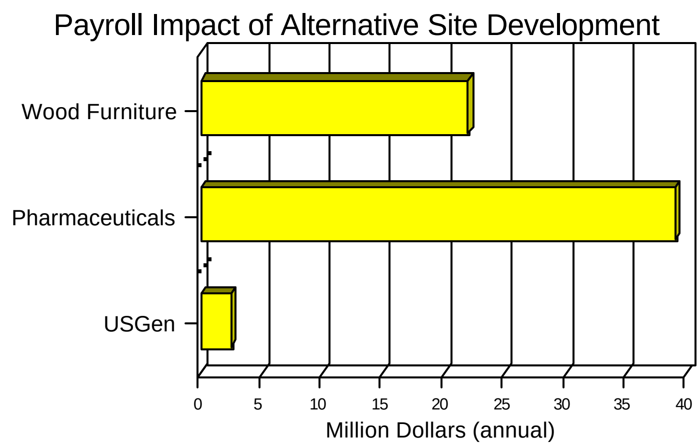
In this case, an increase in county employment of 675 would stimulate an increase in the population and, with it, the expansion of retail and service businesses in Greene County. This population increase would induce a further economic impact of an additional 300 jobs earning payroll of about $5 million dollars.

Impact of Wood Household Furniture Manufacturing. Furniture manufacturing pays less well than drug manufacturing, so the impacts would be correspondingly lower. A group of manufacturers of wood household furniture employing 900, with 675 living in the county, would stimulate an increase in direct payroll in the county of $16.4 million. Off-site employment would total 120 jobs from the spending of the firm and another 160 jobs from the spending of employees in the community. Off-site payroll from both sources would total an additional $5.5 million.

The aggregate impact of occupying the site with firms devoted to wood household furniture manufacturing would be employment of just under 1,000. Payroll earned by these workers would total almost $22 million.

Benefit of USGen Project Not in Job Impact

As shown in the chart on the right, the payroll impact of the USGen project is very small when compared to two alternative uses of the 13 acre site. Were a portion of the parcel devoted to an office use (such as a "back office" site for a financial services firm), the number of jobs and total payroll stimulated by the site would be even greater. While the 30 jobs announced by USGen would be good jobs, they are too few in number to have a noticeable impact on the local economy. A generating facility is a particularly low density user of industrial space. If building the USGen plant on this site displaces other development, the net impact on jobs and payroll could easily be negative.



The impact on property tax revenue is a very different story, of course. The difference in assessed value between the generating facility and other types of industrial space would be considerable. A fairly simple industrial building might be assessed at $35 per square foot, leading to a total assessed value for the parcel of about $20 million. CGR's analysis indicates that the assessed value of the Athens Generating Project should be near $500 million.

Tax Impact of Athens Generating Project

Concentrated Benefit

If USGen's plans move forward, the Athens Generating facility will be built in the Town of Athens and the Catskill School District. As the payroll impact on the county is very small relative to the industrial space displaced, the principal benefit of the plant will be felt by the involved taxing jurisdictions (which, of course, includes Greene County). This is one of many instances in which the system of local property taxes in place across New York (and much of the nation) is perceived by some to be arbitrary and unfair. The project site could just as easily have been located in the Town of Catskill or in the Coxsackie-Athens School District.

The benefits of this project are unusually concentrated. Most industrial projects carry with them benefits like jobs that naturally spread across a community along with the concentrated tax base impact. In this case the benefit is almost solely limited to the tax base impact. A concentrated benefit often leads to destructive competition among communities. In response, some communities have endorsed a formal "tax base sharing" arrangement in which the communities agree in advance to share a portion of the benefits of economic development[7]. Such sharing encourages productive collaboration in economic development planning and marketing.

Tax base sharing agreements are extraordinarily difficult to negotiate, even without a pending project. With a project as significant as the Athens Generating Facility in the offing, CGR does not expect that any formal agreement will be forthcoming. Although we acknowledge that we are "tilting at windmills," we would be remiss in not suggesting that an agreement to share the increase in tax revenue among the towns of Athens, Catskill and Coxsackie; the villages of Athens, Catskill and Coxsackie; and the Catskill and Coxsackie-Athens school districts would spread the benefit of the project more broadly, likely improving the economic well-being of the entire area far more than the pending allocation is likely to do. By spreading the benefit more broadly, this combined community would constitute a large "low tax" zone that would be able to offer to prospective firms a wide array of different sites. By

[7]Minneapolis-St. Paul is the oldest and best-known example.

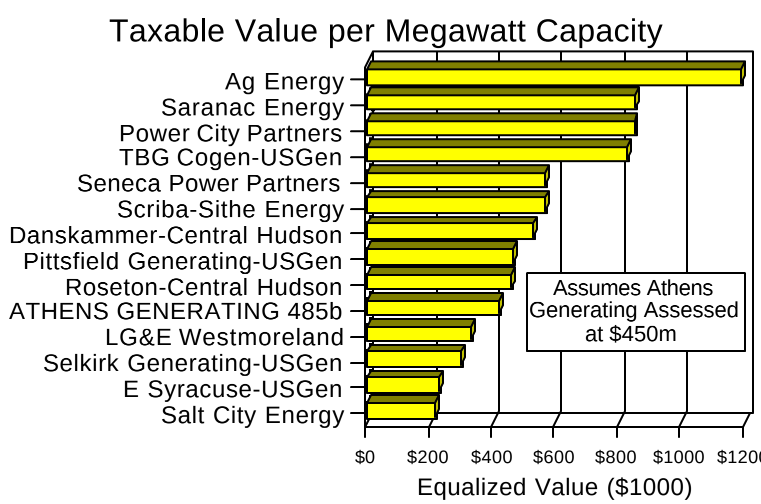
concentrating the benefit in the Town of Athens and the Catskill School District, the low tax rate will be very appealing but only available for a relatively small set of developable parcels.

Determining the Assessed Value of the Facility

The assessed value of the completed project will be determined by the Town of Athens Assessor, with advice from the NYS Office of Real Property Services (ORPS). NYS considers generating facilities to be "specialty property" without a market value. Of the three methods of determining taxable value for real property (reproduction cost, income and market value), the courts have upheld the use of only one–reproduction cost less depreciation. This may change as the energy industry in New York is deregulated. As income becomes subject to market forces, the income approach may be used to value generating assets. At the present time, however, the reproduction cost of the property less straight line depreciation over the useful life of the asset–probably 40 years in this case–is the only means of assigning taxable value. Reproduction cost includes land and site development costs, environmental studies, and architectural and engineering fees. It is not limited simply to the "bricks and mortar" portion of the construction cost.

Site Name/Owner	Location	Generating Capacity (MW)	1st Year of Service
Salt City Energy	Solvay V., Onondaga County	80	1990
LG&E Westmoreland	Rensselaer T., Rensselaer County	80	1993
Roseton-Central Hudson	Newburgh T., Orange County	1200	1973
Danskammer-Central Hudson	Newburgh T., Orange County	480	1951-67
Scriba-Sithe Energy	Scriba T., Oswego County	1042	1994
Seneca Power Partners	Batavia C., Genesee County	54	1991
Power City Partners	Massena T., St. Lawrence County	80	1993
Saranac Energy	Plattsburgh T., Clinton County	240	1994
Ag-Energy	Ogdensburg C., St. Lawrence County	80	1994
Indeck Energy	Olean C., Cattaraugus County	79	1992
U.S. Generating Company Projects			
E Syracuse-USGen	E. Syr T., Onondaga County	97	1994
Selkirk Generating-USGen	Bethlehem T., Albany County	345	1993
Pittsfield Generating-USGen	Pittsfield C., Massachusetts	165	1990
TBG Cogen-USGen	Oyster Bay T., Nassau County	50	1991
Ocean State Power-USGen	Burrillville T. Rhode Island	500	1989

This suggests that the completed generating plant should carry a full market value of close to $500 million. In practice, generating facilities are assessed at dramatically different levels across New York and nearby states. CGR acquired the assessed values for thirteen generating plants in New



York and one in Massachusetts. The characteristics of these plants are summarized in the table above. Calculated on the basis of generating capacity, assessments ranged from $215,000 per MW to $1.2 million per MW. Using this range as a guide, the assessment on the Athens site would range from a low of $233 million to a high of $1.3 billion. The median value of the sample sites was $527 million per MW with the mean about $567 million.[8]

There are some expenses of construction that will not be taxable, of course, as they qualify as personal property, not real property. The NYS Office of Real Property Services requires that the company submit cost records when it develops an advisory assessment. As the plant has not been built and USGen's estimate of $500 million for "all-in" costs is still an estimate, CGR will adopt a figure of $450 million for its calculations.

It is important to emphasize that generating equipment is considered real property under NYS law (RPTL §102.12(f)). While utilities regard this as inequitable, the courts have upheld this definition. In one case, Consolidated Edison placed a generating plant on a barge, arguing that the entire asset should be considered personal property. The courts disagreed, finding that the law is clear in defining generating equipment as real property.[9] Furthermore, an opinion of the Counsel of the State Board of Equalization and Assessment found that all machinery and equipment located in a hydro-electric plant used to generate electricity which is affixed to the land or building is taxable real property.[10]

There is interest among NYS utilities and non-utility generators to petition the State of New York to change this, however. As much of the benefit to the community will be driven by the value of the payments received in lieu of tax, the PILOT agreement should be written to guarantee that the value used to determine the payments not change in the event that the law is altered. The most common approach is to negotiate the actual cash payments and place these in the agreement.

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[8] In two cases–Indeck in Cattaraugus County and Ocean State Power in Rhode Island–an assessed value had not been determined by the taxing jurisdiction. The assessment was deemed unnecessary as the real property was covered by a PILOT agreement.

[9] Consolidated Edison Co. of New York v. City of New York, 1978, 44 N.Y.2d 536, 406 N.Y.S.2d 727, 378 N.E.2d 91.

[10] 4 Op. Counsel S.B.E.A., #81.

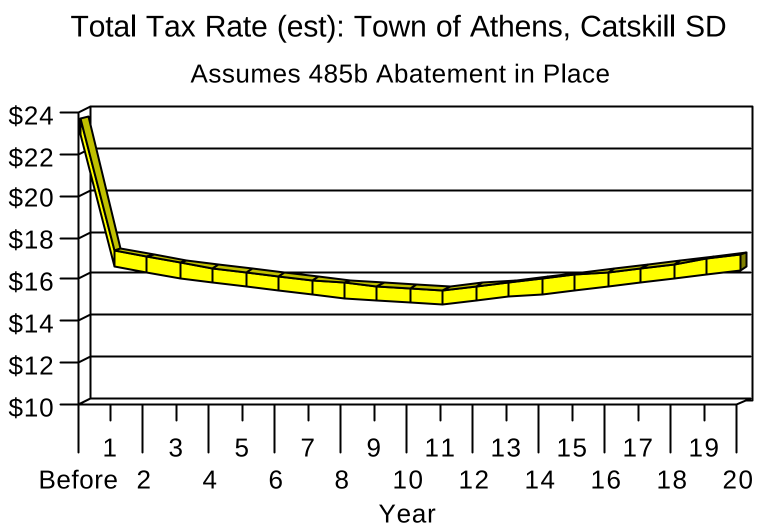
Full Value Tax Receipts by Jurisdiction

The Athens Generating Project will have an enormous impact on the tax base of the Town of Athens and the Catskill School District. This increase in tax base can be used two different ways. Either the tax levy can remain the same and tax rates fall dramatically or, if tax rates remain the same, the tax levy will rise dramatically. In the table below, CGR calculated the tax rate required to maintain a constant levy. In our calculations, the entire advantage of the increase in tax base is channeled into a tax rate reduction for the town's residents.

The table that follows summarizes the impact on the tax rate in two ways: **First**, it presents an estimate of the tax rate impact as if the property were fully taxable. **Second**, it presents an estimate of the tax rate impact if the IDA takes no action and the property falls under RPTL §485b. In the absence of a PILOT agreement between the county IDA and USGen, RPTL §485b enables the company to receive a 10 year tax abatement. The abatement consists of a 50% abatement in the first year, falling 5% to 45% in the second year, and so on. In year 11 the property is fully taxable. The statistics below reflect an estimate of the tax rate in the first year and in year 11 when the property becomes fully taxable.

	Town of Athens: Village + Town Outside	Town of Athens: Outside Only	Greene County	Catskill CSD
Current Equalized Value	$243,204,119	$169,133,354	$2,788,686,433	$566,571,859
Current Tax Levy	$355,078	$189,429	$11,991,352	$9,280,447
Current Tax Rate	$1.46	$1.12	$4.30	$16.38
Equalized Value in Year 1	$693,204,119	$619,133,354	$3,238,686,433	$1,016,571,859
Post-Project Tax Levy	$355,078	$189,429	$11,991,352	$9,280,447
Tax Rate in Year 1 (Project Fully Taxable)	$0.51	$0.31	$3.70	$9.13
Tax Rate in Year 1 (485b Tax Abatement)	$0.76	$0.48	$3.98	$11.72
Tax Rate in Year 11 (485b expired)	$0.61	$0.37	$3.84	$10.27

Even though CGR assumes that the tax levy remains the same[11], the tax rate changes over time because the assessed value of the generating plant will fall over time. Our analysis assumes that the assessed value shrinks each year by one-fortieth of its value (equivalent to "straight line" depreciation over a 40 year life).



This tax rate reduction will have a significant impact on the average homeowner. Again, if the tax levy remains the same, the property tax paid for the owner of an $80,000 home in the Town of Athens and the Catskill School District will fall about $500 (from about $1,850 before the project is built to about $1,350 after the project is built).

Sales Tax

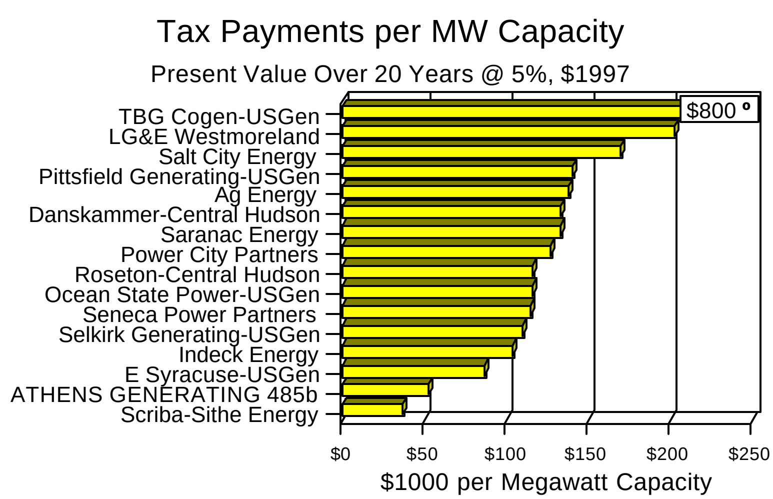
Greene County taxes the sales of electrical power to commercial and industrial customers, but exempts sales to residential customers. Were the sale of Athens Generating's output subject to this tax and were total revenue equal to the amount speculated above, total annual tax receipts would be about $4.7 million for the county. Sales tax receipts on electric and gas in Greene County between 3/95 and 2/96 totaled $14 million.

[11]We ignore inflation throughout the report. In effect, this means that we are assuming that inflation will affect revenue and expenditure in the same way. While the cost of government (as reflected in the tax levy) will probably grow at a different rate than the value of property (as reflected in the tax base), estimating the difference is beyond the scope of this report.

The Scope for Negotiation: PILOT Agreements and USGen

Sample PILOT Agreements: Recently Constructed Generating Facilities

CGR gathered PILOT agreements for thirteen generating facilities that have been constructed within the previous decade. In each case we determined the present value of the stream of PILOT payments to the host municipalities and compared this total to the value of the investment, i.e. the equalized value of the generating property. We then compared the projected property taxes for the Athens facility to those actually paid by the comparison facilities. For comparison purposes, CGR added taxes paid the by generating facilities of Central Hudson Gas & Electric Corporation to the total.



Our approach was to sum up the PILOT payments made for each year, assuming a 20 year life for each project[12]. Each payment was "discounted" to the present (using a rate of 5%) to adjust for the fact that the payments would be received at different points in time. We found that the Athens Generating Project, if granted tax abatements equal to the schedule included in RPTL §485b, would pay a discounted present value of about $52,000 per megawatt of capacity. Only one site was lower: Sithe Energy's facility in Scriba is paying about $36,000 per megawatt of capacity. Every other generating plant in the sample is paying more–in some cases, much more.

[12]Technical note: To adjust for different starting years, CGR calculated the present value for each project, then converted each sum into 1997 dollars using the Consumer Price Index.

Why will the Athens project pay so little tax without any abatement other than that granted under §485b? By locating in a taxing jurisdiction with a relatively small property tax base, the Athens project will reduce tax rates dramatically simply by increasing the tax base dramatically–almost tripling the tax base of the Town of Athens, for example. If the project were located in a city it would have a negligible impact on tax rates and the tax bill of the project would be much larger as a result.

CGR finds no justification for a reduction in taxes beyond what the company is due under §485b of the Real Property Tax Law.

Other Negotiable Benefits

If the goal of Greene County is to maximize the long-term value of the project to the community as a whole, then CGR recommends that the IDA attempt to negotiate terms that broaden the benefit beyond the property tax windfall that threatens to drop on Greene County, the Town of Athens and the Catskill School District. Community benefits that fall outside the strict definition of a "payment in lieu of tax" should still be established as part of the legal agreement, possibly part of the installment sale agreement or lease agreement. If the company fails to honor the commitments made to the community, the IDA should have the power to curtail property tax benefits received under the PILOT agreement.

IDA Fee. The normal fee for the IDA would be ½ of 1% of the project cost. In projects of particular value to the community, this fee may be negotiated downward. CGR has argued above that the benefit of this project to Greene County is limited outside the Town of Athens and Catskill Central School District. We suggest that the Greene County IDA resist pressure from the company to reduce the fee. A lump sum payment of this magnitude will provide the IDA with funds needed to promote prudent, long term economic development in the county. The IDA's participation in the project will exempt the project from the mortgage recording tax (¾ of 1% in Greene County). This more than pays for the IDA fee.

Cheap Power. One benefit that might be negotiated between the county and USGen would involve allocating some share of the total power generated by the facility for job-creating economic development in Greene County. The U.S. Route 9W corridor already possesses many characteristics that make it a very desirable location for industrial development. The two most significant liabilities of NYS municipalities when competing with industrial states in the Southeast are energy costs and property taxes. Were access to inexpensive power added to lower tax rates in the Town of Athens and the Catskill School District, both of these liabilities would be overcome.

A cautionary note is in order. With energy competition on the horizon, the language of any agreement must be carefully written. CGR recommends (1) that any agreement regarding inexpensive power be either a set price or fixed to a published index, such as the Dow Jones PJM (Pennsylvania-New Jersey-Maryland) index and (2) that the price of delivery be included in the price negotiated in the agreement. Given uncertainties surrounding the transmission and distribution of power in the state, the agreement should specify that power be provided to properties within a particular radius of the plant (such as five or ten miles) at a set price that shall include the cost of transmission.

We strongly urge the county to resist pressure to negotiate an allocation of inexpensive power for residential uses. While a popular political gesture, this would squander an opportunity to provide inexpensive power to job creating businesses that would broaden the economic base and benefit the larger community for years to come. Were inexpensive power diverted for residential purposes, the net effect would be to stimulate residential construction in the area. In general, residential construction adds more to the cost of community services (principally through the school district) than to the tax base. Low cost industrial power will help existing residents build their economic base without turning Greene County into a bedroom suburb of Albany.

Infrastructure. Although water supply appears to be adequate along the Route 9W corridor, sewer capacity is not. While USGen may not itself require access to sanitary sewers, the county might consider negotiating an extension of sewer services to the site and a possible expansion of treatment capacity as a way of improving the corridor for industrial development.

Educational Benefits. USGen, acknowledging that the Coxsackie-Athens School District is likely to reap little benefit from the plant, has indicated that it may “adopt” one of the schools in the district, providing sufficient capital to enable the school to meet the standards Vice-President Gore’s commission has set for the 21st century school. In addition, the company has discussed establishing 2-4 scholarships each year for a “1+1” program at

Columbia-Greene and Hudson Valley community colleges leading to an associate's degree in power plant operations. Graduates of this program would be considered for jobs at USGen's Athens, Selkirk, and Pittsfield, Massachusetts plants.

Both of these offers are laudable. There is nothing to prevent these offers from being formalized in the agreement between USGen and the Greene County IDA. We recommend that this be done.

Value of Athens Site to USGen

How Long Would a Change of Site Cost USGen?

USGen has indicated that there are other sites under consideration in other parts of the state, all of which are south of the present site. While the Athens site is particularly well suited to USGen's use, it is not the only available site with reasonable access to natural gas, high voltage transmission lines and cooling water. Furthermore, the cost of transmission into the NYC market is not negligible. By moving further south, the plant would be closer to the highest cost electricity market in the United States.

The site offers advantages beyond fuel, transmission capacity and cooling water, however. CGR believes that the cost of siting a new generating facility rises substantially the further down the Hudson USGen shifts its desired site. Concern about the Hudson River and its viewshed is significant all along the river, but the intensity of feeling and the depth of resources among the activist community increases dramatically in the Lower Hudson Valley. Siting this project further down the river (in Rockland County, for example) would surely take longer than will be required in Greene County. Simply shifting the site could add a year or more to the siting process.

Finally, USGen has invested considerable time and money into siting the plant in the Town of Athens. In its *Article X Pre-Application Report* submitted to the NYS Department of Public Service in September 1997, USGen indicated that planning had already been underway for more than one year. While it is likely that other sites have been afforded some pre-planning, it seems plausible that a year of work on the Athens site will be lost if USGen shifts its interest away from Greene County.

Thus we believe that USGen will probably lose two full years if the Athens site is abandoned. What is this worth to the company?

Delivered Cost of Power in Limbo

CGR does not have any way of determining what USGen's cost of generation is likely to be once the plant is up and running, although a new generating facility should have an efficiency advantage over most of the plants already in operation. Nor does CGR have the ability to divine what final users or electricity wholesalers in high cost markets like NYC and New England can be persuaded to pay for USGen power. In fact, the market is in greater turmoil at this point in time than at any time since the early years of the power industry. While the highest prices are paid in the NYC market, access to this market is particularly difficult as transmission lines into the City are limited in their capacity. Expanding transmission capacity would very expensive. For this reason, the proposal submitted by the state's utilities to the Federal Energy Regulatory Commission in December 1997 assumes that a set of congestion fees will apply to power producers selling into the NYC market. The level of these fees is still uncertain.

While it is clear that the high voltage transmission lines owned by Niagara Mohawk Power Corporation don't have sufficient capacity to carry all of the USGen power into the NYC or New England markets, the shortfall in capacity has yet to be determined. If the capacity of these lines between Athens and Pleasant Valley will have to be increased, USGen will face additional costs. While the cost of increasing the capacity of an existing transmission corridor pales in comparison with the cost of siting and building a new corridor, the need for expanded transmission capacity will reduce USGen's expected profit from the project.

Market Prices Uncertain

When will the plant begin to sell power? USGen indicates that it will submit its application under Article 10 of the Public Service law in early June. The Public Service

Commission can take up to a year to respond. Given the interest among Commission members to further the competitive marketplace they have created, CGR was told that there is some incentive to expedite review. In any event, it seems unlikely that the PSC will finish its work in less than six months. USGen indicates that construction of the plant will require an additional two years. Were USGen to cut six months off the anticipated construction period, the plant could conceivably be operating in two years.

In this marketplace, two to three years is a very long time. How prices will respond over this period is impossible to predict, even with full knowledge of the electric energy marketplace, an expertise CGR does not possess. Prices will be determined not only by predictable costs such as the price of natural gas and transmission capacities but by negotiated agreements among a number of companies. Many of these companies have little experience in a competitive marketplace; others are new to the New York electric market; still others have yet to be formed. Given the complexities of forming a competitive market in the state, particularly given the transmission limitations faced by New York City and Long Island, the next few years will be a period of tremendous upheaval.

What Might the Value of the Plant's Output Be?

Without knowledge of costs and prices, it is impossible for CGR to estimate the profit that USGen will earn from an additional year in operation. What we provide instead should be considered illustrative, not predictive. We attempt to answer the question, "What *might* the plant be worth to USGen?"

If USGen can sell 90% of its capacity at the median daily wholesale price now received in the California market[13], total annual revenue for the generating project would be about $118

[13]Daily wholesale prices are published for several markets in the United States. Were the plant generating now, the most appropriate price to use would be that of the PJM market (Pennsylvania, New Jersey, Maryland). Given the competitive pressures faced in the New York marketplace, CGR chose to use prices for another relatively costly marketplace that is several years ahead of New York in the deregulation of its energy industry, California. Prices used for this illustration are based on the median daily wholesale price for the COB (California-Oregon Border) market over the January-May 1998 period. CGR calculated the median peak and off-peak prices and averaged them. This blended median price in the COB market was $17 per megawatt hour.

million (after taking out the cost of transmission, calculated to be $2200 per MW month.[14]). We believe that this estimate is extremely conservative. It seems unlikely that USGen would invest $500 million in a project with projected annual revenue of only $118 million, particularly given the uncertainties inherent in the NYS market.

Nonetheless, if USGen were to earn profit at a rate of five percent on its operating revenue, the benefit of having the plant operating one year earlier would be $5.9 million. Were USGen to (1) sell more than 90% of capacity, (2) earn a higher rate of profit on this volume of sales, or (3) sell at a higher price, the total profit earned by the company would rise accordingly. The opposite, of course, is also true.

The Market Will Become More Competitive

There is another reason for haste on the part of USGen. As discussed above, the power market in the State of New York is in tremendous flux. The number of generators willing and able to deliver power to high-priced markets is likely to increase substantially over the next decade. It is likely that older generating capacity will be either retired or retained only to meet backup generation requirements–this is particularly needed in the New York City and Long Island markets. If opening the market to competition has the desired effect, the wholesale price of power will be falling over the next decade or so. It seems likely that revenue earned by USGen in the early years will be higher than revenue earned as the market becomes more efficient. Each year the project is delayed will reduce its margin of profit as new competitors bring efficient production capacity on line.

Other Costs of Changing Sites

Other sites might be available, but this site brings together the three key elements–fuel, transmission lines and cooling water–in close proximity. Few sites in the state will offer such advantages. Each additional mile from the gas pipeline, high voltage transmission lines or cooling water will add substantial sums to the cost of site development. In addition, while the

[14]This cost was calculated for CGR from tariffs filed by Niagara Mohawk Power Corporation with the NYS Public Service Commission.

Hudson River is close enough to provide cooling water, the plant is far enough to shield all but the very top of the stack and the plume from the river.

Measuring the Cost of Delay

Delaying the project is costly to USGen in many ways. While U.S. Generating is a very large company that can afford to "walk away" from significant investments, it will do so only if it must.

- While we do not know how much profit can be made by USGen during the two years it would have to delay production to shift sites, we suspect that the two year delay could cost them $12 million or more in lost profit.
- The out-of-pocket costs of site-specific planning and analysis would have to be replicated at a different site.
- Few sites are as well-suited to this project as the Athens site. Other sites are likely to require higher costs of land acquisition or access to fuel, cooling water or a transmission corridor.
- The sensitivity of local residents and Hudson River activists further toward NYC would force added environmental study, thus added cost.
- Market prices in the high cost NYC market should fall over time as a fully competitive market takes hold.

Conclusion

Adopt Tough Negotiating Position

In previous sections, CGR has made the following points:

- The payroll and employment impacts of the project are relatively small and will be concentrated in the families whose members are employed by the plant. There will be little spillover community benefit from an increase in the county workforce of 30 jobs.

- The location of the project site, its desirability and the growth prospects for Greene County strongly suggest that the loss of the project would not be a tragedy for the community. On the contrary, this particular project confers a potential tax base windfall but little else. Alternative uses for the project site may confer a substantially higher community benefit in the form of jobs and payroll.
- The property tax benefits are substantial, but highly concentrated. In the absence of a tax base sharing agreement or other negotiated benefits, the impact on the economic climate in the county as a whole will be small.
- Based on PILOT agreements negotiated for similar projects, we recommend that the IDA negotiate a PILOT with terms no more generous than those provided in Real Property Tax Law §485b.
- The Greene County IDA should negotiate payments in lieu of tax that stimulate a broader community benefit than would be the case were the property not covered by a PILOT agreement.

In short, we recommend that the IDA adopt a fairly tough negotiating position with USGen as this project moves forward. While this project can confer substantial benefits on the county, these benefits depend almost entirely on substantial property tax payments or payments in lieu of tax by the U.S. Generating Company. Likely alternative uses for the site could create broader, more lasting benefits for the county as a whole.

Will the Project "Go Away?"

We do not want to imply that this project is a certainty. The unknowns surrounding this generating project are substantial. An investment of this magnitude is particularly risky at this time in this marketplace. For all of these reasons, USGen may choose not to proceed.

Our data indicate, however, that the scope for negotiation between the community and the company will not have a bearing on whether the project is viable. If the profitability of the project were dependent on a reduction in property taxes from the already low level likely under §485b, USGen would probably have stopped its efforts long ago. Without any concessions at all from the community, we believe that the Athens site is the cheapest site possible for U.S. Generating Company. USGen may choose to not do the project at all, but it is extremely unlikely that it will choose to do the project somewhere else in New York State.