3.16 FISCAL CONDITIONS

3.16.1 <u>Affected Environment</u>

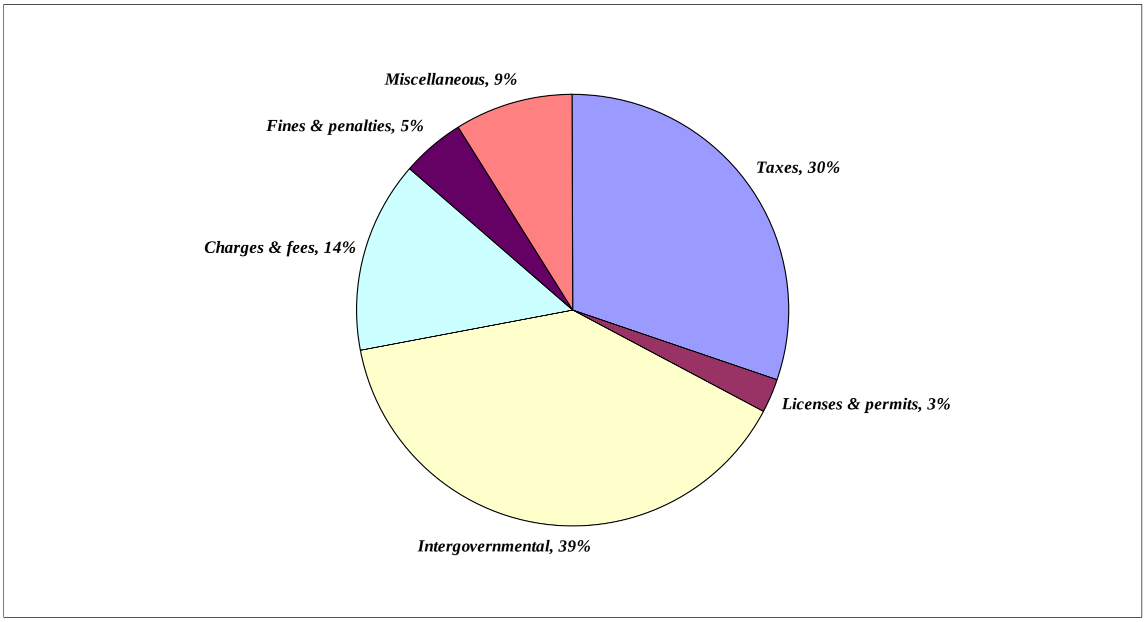
The following description of baseline fiscal conditions applies to the Desert Claim project area and to the Wild Horse and Springwood Ranch sites that have been defined as the project areas for Alternatives 1 and 2, respectively.

3.16.1.1 Kittitas County Revenues

County governments in Washington State collect a variety of taxes, licenses and permit fees, charges and fines, and intergovernmental transfers. Washington State governments rely heavily on consumer taxes, the most significant of which is the retail sales tax, which applies to most items (one of the major exceptions is food) purchased by consumers. Sales taxes on construction materials are paid at the place of purchase. Washington State has no personal income tax. Utility taxes are levied by the State, but not by counties.

In Kittitas County, operating revenues are received from a variety of funding sources. For the current 2003 budget year, operating revenues totaling $32.2 million are received primarily from intergovernmental transfers, taxes, and charges and fines (**Figure 3.16-1**).

Figure 3.16-1
2003 Operating Revenues, Kittitas County



Source: Kittitas County Auditor, 2003.

Each county collects property taxes for local jurisdictions within the county that have taxing authority. Property subject to taxation includes all privately owned real property (e.g., land, buildings, fixed machinery and equipment) and personal property used in a business.

Various jurisdictions have authority to levy property taxes. Properties in the Desert Claim project area (and other sites in Kittitas County) are classified into one code for property tax assessment purposes and subject to taxes from 6 different taxing authorities as shown in **Table 3.16-1**. Each jurisdiction receives property tax revenue according to the mill levy rate assigned to the respective code.

Table 3.16-1
Property Tax Rates in Kittitas County, 2003

Category	Mill Rate	Percent of Total levy
State	2.8847	24.4%
County	1.3406	11.3%
Fire District	1.4455	12.2%
Road District	1.6310	13.8%
School District	4.0930	34.6%
Hospital District	0.4449	3.8%
Total	11.8397	100.0%

Mill rate = $ per $1,000 property valuation
Source: Kittitas County Assessor's Office, 2003.

According to the Kittitas County Assessor's Office (2003), the total assessed valuation for real and personal property in the county was approximately $2.53 billion in FY2002-03. The total tax levied in the county for FY2002-03 was approximately $26.3 million.

3.16.2 Impacts of the Proposed Action

3.16.2.1 County Revenues

Construction

Washington State categorizes most wind power structures, such as towers, pads, and turbines, as both real and personal property. The wind turbine pad is considered real property, whereas the attached (i.e., to the pad) tower and turbine are considered personal property (personal communication, I. Rominger, Kittitas County Assessor, Ellensburg, Washington, August 27, 2003). Any equipment and supplies used within an office setting would be subject to personal property assessment. All project-related wind power facilities would be placed on property leased from current landowners. Consequently, the assessed value of affected properties would increase when project facilities are added (with corresponding increases in tax revenue, for which the project proponent – not the owners of underlying property – will be responsible). This is essentially the only tax revenue source affected by the construction and operation of a wind power project in Washington State.

The purchase and installation of machinery and equipment for wind generation facilities are exempt from sales tax under the Washington Administrative Rules (¶68-663 WAC 458-20-263). Therefore, no new sales taxes in Kittitas County would be generated from the construction value of the turbine components for the proposed Desert Claim Wind Power Project. Local purchases of goods and services during the long-term operation of the project would generate minor amounts of local sales tax revenues.

In **Section 3.15.2**, it was noted that project construction would have a beneficial impact on local employment. During the construction period, needed materials and supplies (fuel, gravel, cement) would be purchased from local vendors. Overall, this projected modest increase in economic activity from construction of the Desert Claim Wind Power Project would likely increase tax revenues for Kittitas County. The project is expected to have a positive financial impact on the local economy through the purchases of goods and services, resulting in increased sales tax revenues on those purchases.

Operation

As stated earlier, the primary increase in tax revenues would be from property taxes on the wind turbines themselves. For this calculation, each of the proposed 120 turbines is valued at approximately $765,000, for a total assessed valuation of $91.8 million. The property tax rate used for the calculation of potential property tax revenues is 1.18 percent (the actual rate applied in 2003). Given the proposed total of 120 turbines for this project, the potential property tax revenues from the project are estimated at a maximum of $1,086,884 for the first year of operation.

It is possible that the effect of the added tax base (an initial total of $91.8 million) would largely be to reduce the tax rate, in which case the increase in tax revenues would be less than reported above. According to the recent passage of Initiative 747, property tax revenue increases are limited to 1 percent per year. The installation of 120 wind turbines would increase the assessed property value by $91.8 million, which is a 3.6 percent increase in the total assessed value of all real and personal property in Kittitas County. To comply with I-747, the County Assessor takes the total prior year assessed value for all real property in the County and can add up to 1 percent. After this, the Assessor adds in the value of newly constructed real property. Then, the Assessor applies the mill rate to calculate real property tax revenues. For personal property, the Assessor includes new additions to the prior year assessment, applies the mill rate, and then calculates personal property tax revenues. Because the project would generate significant tax revenues (both real and personal), it is possible that Kittitas County could receive additional revenue from the project, local tax rates could decline to maintain tax revenues within the I-747 limit, or some combination thereof could occur.

The likely distribution of potential new tax revenues for the first year of operation is reported in **Table 3.16-2**. Based on current local government spending patterns, local schools would receive the largest share of the project-generated property tax revenues at over $375,000 (if the assessed valuation of the project were taxed at the 2003 mill rate of 1.18 percent). The state share of the property tax revenue (which is used to fund basic education) would be the next largest share, at nearly $265,000. The County road district would receive nearly $150,000, followed by smaller amounts to the fire district, general County government, and finally, the hospital district.

Table 3.16-2a
Allocation of Estimated Potential Property Tax Revenues from Desert Claim Project, First Year of Operation

Category	Amount
School District	$375,737
State Schools	$264,815
Road District	$149,726
Fire District	$132,697
County	$123,067
Hospital District	$40,842
Total	$1,086,884

Source: Huckell/Weinman Associates, 2003.

The additional employment directly associated with the operation phase of the project would result in some increased economic activity within Kittitas County through project-related purchases from local vendors and consumer expenditures by project workers. The increased economic activity would have positive financial implications through a modest increase in sales tax revenue collections. It is also expected that the project would produce a positive though modest increase in personal income and economic activity in the local area. However, the amount of these additional tax revenues—based on increased property values and increased consumer expenditures—has not been estimated.

In review comments on the Draft EIS, the Economic Development Group (EDG) of Kittitas County (formerly the Phoenix Group) submitted additional information related to the property tax base and potential revenue aspects of the project (see letter 8 in **Appendix I**). The EDG noted that the value of new construction is exempt from the 1 percent limit under I-747, and estimated that the new construction value of the project would generate an additional approximate $189,000 of new local tax revenue in the first year (Strand, Debbie. The Phoenix Group Economic Development, Ellensburg, WA Personal communication and review, January 30, 2004). It is unresolved, however, whether some portion of the project would be valued as new construction.

Tax revenues attributed to the Desert Claim project over the life of the project would be based on the depreciated value of the wind turbines. This issue of depreciation was raised in comments received on the Draft EIS. A depreciation schedule for the attached tower and turbine has not yet been determined, so the assessed value and potential revenue in future years cannot be identified precisely. Despite these uncertainties, however, one could devise a possible scheme and develop an estimate based on a straight line depreciation schedule over a 30 year period with an end-of-period salvage value of 10 percent for each turbine. This scenario was based on information from the Washington State Department of Revenue (Chuck Boise, personal communication August 2, 2004). Under such a taxing scheme, tax revenues would decrease as the turbines aged and depreciated in value. Tax revenues would be somewhat lower than those shown in Table 3.16-2a. A distribution of potential new tax revenues for selected years of operation, accounting for depreciation, are reported in Table 3.16-2b.

Table 3.16-2b. Allocation of Potential Property Tax Revenues from Desert Claim Project Using Straight Line Depreciation Schedule For Selected Years of Operation

Taxing District	First Year Operation	Fifth Year Operation	Tenth Year Operation	Fifteen Year Operation	Twentieth Year Operation	Thirtieth Year Operation
State	$230,389	$198,612	$158,889	$119,167	$79,445	$0
County	$107,068	$92,300	$73,840	$55,380	$36,920	$0
Fire District	$115,446	$99,523	$79,618	$59,714	$39,809	$0
Road District	$130,261	$112,294	$89,835	$67,377	$44,918	$0
School District	$326,892	$281,803	$225,442	$169,082	$112,721	$0
Hospital District	$35,532	$30,631	$24,505	$18,379	$12,253	$0
Total	$945,589	$815,163	$652,131	$489,098	$326,065	$0

3.16.2.2 County Expenditures

Anticipated effects of the Desert Claim Wind Power Project on existing public services and utilities are discussed in **Section 3.14**. During construction, it is anticipated that there could be some increased expenditures related to surface road damage and fire protection services, for which potential mitigation measures have been identified. During the operation phase, there could be increased fire protection costs, although these would likely be covered through a service contract with Fire District 2. Other potential public services impacts—on schools, police services, and utilities—are expected to be minimal for both construction and operation.

For both the construction and operation phases of the project, the net fiscal position of Kittitas County is expected to be positive. In other words, expected tax revenues from the project are projected to be significantly higher than expected service costs attributable to the project. This would be the case even taking into account the depreciation schedule that would apply to the portion of the project that would be taxed as personal property as compared to real property. While local tax revenues would decline over time because of this depreciation of the personal-property component of the project, tax revenues would still be positive over the long term because of the added tax-base from the project and the relatively low service costs to the County from the project. Service costs attributable to the project would be minimal throughout the operating period; tax revenues would exceed costs even during the latter years of the operating period, and would be far in excess of costs during the initial years.

3.16.3 <u>Impacts of the Alternatives</u>

3.16.3.1 Alternative 1: Wild Horse Site

The fiscal impacts associated with the construction and long-term operation of Alternative 1 would be very similar to those described for the proposed action, as these two alternatives are nearly identical in their size characteristics and would have similar capital values. Alternative 1 would result in a substantial increase in total property tax assessed valuation for Kittitas County, similar to the $91.8 million figure identified for the Desert Claim proposal. The Wild Horse site is located in the Kittitas School District

403, which has a relatively small enrollment and existing assessed valuation. The capital value of Alternative 1 would have a substantial proportionate impact on the tax base of the school district.

As discussed previously, with the increase in assessed valuation it is likely that property tax levy rates in the County would decrease to comply with the property tax collection limits of Initiative 747. Even with the tax increase limitations, the County could expect to collect a sizeable amount of additional revenue when compared to 2002 collections because of the project. Analyses prepared by Zilkha Renewable Energy for the company's proposed Wild Horse project indicated that property tax revenues could increase by up to $1.3 million in the first year of operation; see **Section 3.16.4** for additional discussion. On balance, it is likely that the revenue and service cost impacts of Alternative 1 would be very similar to those identified for the proposed action.

3.16.3.2 Alternative 2: Springwood Ranch Site

The fiscal impacts associated with the construction and operation of Alternative 2 would be parallel to those described for the proposed action, but would involve considerably smaller dollar values. Alternative 2 would result in the construction of 40 to 45 wind turbines on the Springwood Ranch site. Based on the unit value figures cited previously, this would result in a total assessed valuation for the project of up to about $34.4 million. This amount is approximately 37 percent of the value calculated for the Desert Claim project, and is equivalent to approximately 1.3 percent of total assessed valuation in Kittitas County. The combination of additional property tax revenues and/or decreased levy rates associated with this change in total assessed value would be proportionately less than for the proposed action or Alternative 1. Similar to the case for Alternative 1, Alternative 2 would result in a large relative increase in the tax base for the Thorp School District 400. Expected local government revenues associated with Alternative 2 are likely to be significantly higher than expected service costs for the project.

3.16.3.3 No Action Alternative

Under this alternative, the Desert Claim project would not be developed and the Kittitas County tax base would not be increased by the real property and personal property value represented by the project facilities. No significant additional county revenues and expenditures relative to the proposed project area are anticipated under the No Action Alternative. Kittitas County tax revenue and service cost trends would likely continue to be similar to those of past years, at least with respect to the project area.

3.16.4 Cumulative Impacts

Cumulative impacts for all elements of the environment are discussed in **Chapter 4**.

3.16.5 Mitigation Measures

No adverse fiscal impacts associated with the proposed project have been identified, and no mitigation measures are necessary.

3.16.6 Significant Unavoidable Adverse Impacts

No significant unavoidable adverse impacts are expected. Anticipated local government revenues associated with the project are likely to be significantly higher than expected service costs.