

**MEMO ON THE CHAMPLAIN HUDSON POWER EXPRESS (CHPE)
APPLICATION FOR BENEFITS TO THE WARREN-WASHINGTON
INDUSTRIAL DEVELOPMENT AGENCY**

From: David O'Brien

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CONFIDENTIAL

The application Champlain Hudson Power Express (CHPE) has submitted to the Warren-Washington Industrial Agency (WWIDA) for tax abatement incentives for a project to build a transmission line to supply electricity to NYC presents challenges.

The transmission line from Quebec to New York city spans 330 miles through 15 counties. The route will cover 47.2 miles in Washington County which is 23% of the length of the transmission line. While most of the route is submarine and buried in the bed of either Lake Champlain or the Hudson River, the line will come out of the water in Putnam and be buried in the road right of way until in Fort Ann the line will be buried in the railroad right of way and travels the right of way until it leaves Washington County in Fort Edward. The line then travels the railroad right of way through Saratoga, Schenectady, Albany counties until the line enters the Hudson River in Greene County.

In Washington County the route is unique in that construction of 20 miles of the line from Putnam to Fort Ann is in the road right of way. No other county will have this combination of road and railroad right of ways. Some of these roads in Washington County transverse remarkably busy highways which provide primary access to tourist locations and seasonal homes in Vermont and the only access to the northern part of Washington County.

Since construction will take two seasons and will be in prime tourism and growing season, this will cause a large inconvenience to our farmers, agricultural growers, seasonal residents, permanent residences, tourists, and recreational activities including fishing, boating, biking, walking trails, and motorcycling. There will also be a large inconvenience to Putnam Residents at the crossing where the line exits Lake Champlain since this crossing provides access to the lake, several seasonal homes, and residents.

Since initially being contacted by CHPE in 2013 there have been several changes to the route. Finally in 2020 CHPE began its application for benefits contacting the WWIDA to secure a PILOT Agreement and other tax abatement benefits for the Transmission Line. CHPE has stated they have received all the permits required

for the route to New York City where it will deliver the electricity generated by Hydro Quebec. After the initial outreach by CHPE to the WWIDA in 2020 it has been recognized that this is a very unique and challenging project for the WWIDA and the developer. In addition to this there are 15 separate taxing jurisdictions involved of which the WWIDA requires approval of the 15 taxing jurisdictions in order to divide the payments as proposed. A further factor is that CHPE is still refining budgets and their proformas as they finalize the construction budget. Concurrently CHPE is in the process of submitting an application to NYSERDA for the contract to deliver power to NYC. This application is due May 12th with a decision targeted for third quarter of 2021. According to CHPE if they receive the contract construction will begin later this year.

While the project's final cost benefit analysis has not yet been completed, it is necessary to acknowledge there are currently some challenges that will be key to the final cost benefit analysis. They include:

Valuation: When considering financial incentives, the WWIDA must have a reasonable idea of the projected final assessment of the parcels which are traversed by the project. In the IDA's current tax revenue projections for the project without a PILOT, the tentative construction cost of \$285,000,000 was assumed as the final assessment and tax projections calculated based on this assumption.

Cost Benefit Analysis: Although the final cost benefit analysis cannot be completed without a proposed incentive package to input into the model, it will be difficult to produce a cost benefit analysis of this project. As opposed to our normal projects, a cost/benefit analysis may not produce a favorable return typical of most of our projects given there is no impact to any of the taxing jurisdictions on an expense basis. Additionally, over half the route (27 miles) in Washington County travels along the railroad right of way most taxing jurisdictions will see minimal impact from the construction and none once construction is completed.

Perhaps the most important consideration in evaluating this project and granting incentives is what this project does not require. This project, once construction is completed, the will require no services from any municipality or school system.

However, as indicated above, there is substantial impact to the route which travels the road right of ways through towns, and villages, as well as construction under roads and intersections. Construction activity itself as

well as transport of supplies, materials, equipment, and manpower, will cause inconvenience and interruptions in these vital routes. Unlike other areas, there are very few detours to minimize the interruptions.

The significant factor in the consideration is the lack of income derived from the project over the life of the PILOT. Unlike most projects there are no secondary direct or indirect impacts of this project after construction is completed. On the other side of the equation this project will not generate any additional costs for municipalities or school districts. When the WWIDA evaluates projects they normally will look for the benefits such as new employment, of employee spending, business procurement, local business expansion, and/or additional expansion and supporting businesses. One benefit of providing a PILOT and Host Benefit Payment (HCBP) with contractual obligations to pay these through the life of the PILOT is that CHPE or its successor or assignee would be contractually bound to not terminate the PILOT and HCBP nor grieve the assessment. Being able to lock in the real property taxes for CHPE would be advantageous to taxing jurisdictions to provide planning for revenue through the term of the agreement.

With an annual escalator this also builds in a planned increase in assessment for through the thirty years of the project.

ANALYSIS OF PILOT AND ABATEMENT REQUEST FROM CHPE:

In reviewing the PILOT requested by CHPE and comparing to the entirety of the route, we found several distinct differences between the routes through the 14 other counties in the transmission lines route. We will see that the route through Washington County is distinctly different than the other counties on the route.

These include:

Rockland County – This will be going through the center of the business district via Route 9W a four lane highway which has a traffic count of 20,000 cars a day. This also passes several major industries, hospitals, schools, and a very busy main shopping district. CHPE made this detour out of the Hudson River due to protected spawning grounds in the Hudson River.

In addition to Rockland County there are five counties where the route goes mostly underground; Washington, Saratoga, Schenectady, Albany and Greene County. In all counties except for Washington the route will be in the railroad right of way causing little disruption to the traffic flow and the communities on the route.

In nine of the counties of the route is submarine causing even less disruption to the

residents and businesses in the route.

Washington County differs in several notable ways:

Forty-two percent (42%) of the route will be in the right of way on roads through the route. These roads are traveled by farmers, agricultural users, residents, seasonal residents, and tourists and recreational activities. These roads also provide a very valuable route to access communities on the east and west side of Lake Champlain and the east side of Lake George for truck routes bringing supplies and needed commodities to the residents and businesses. A projected construction period of two construction seasons will be extremely disruptive to tourism and access to tourism areas and most importantly the economy of Washington County.

The transmission line exits from Lake Champlain at a railroad crossing in Putnam. This crossing is a very important access point to the lake, railroad crossing, and to valuable seasonal residences and local residences. This will cause severe disruption during construction.

Due to our Uniform Tax Abatement Policy the WWIDA requires approval from the seven towns that the route passes through in order to approve any PILOT agreement with CHPE.

After reflecting on the challenges, the WWIDA has with this Tax Abatement Request, and consulting with the seven affected towns, the WWIDA Board has determined that an alternate PILOT, Sales Tax, and Mortgage Tax Abatement is required in this case.

Also, we consider that due to the inconveniences and disruption, that there should be a Community Host Benefit Payment (CHBP) to compensate the affected towns and villages the transmission lines passes through.

INCENTIVES

Incentives approved by the WWIDA Board which have received conceptual agreement with the Supervisors of the affected Towns are as follows:

COMMUNITY HOST BENEFIT PAYMENT (CHBP): The Analysis of the incentive payment is difficult due to the lack of economic benefits to the affected communities. Normally the cost benefit analysis would be enhanced by additional employment, as well as additional secondary or indirect economic effects within the ten affected host communities. As such the WWIDA will require a Community Host Benefit Payment be agreed on. The CHBP will be paid by CHPE to the WWIDA as part of the broader incentive Payment. The HCBP shall then be distributed to the towns and villages through which the transmission line passes.

The HCBP will be paid annually to the WWIDA and distributed to the Towns/ Villages. Distribution of the funds will be calculated by the percentage of mileage in each of the Host Towns and Villages. The fund would be restricted to use for capital projects that will be for the benefit of the entire community and for retirement of debt. The use of this fund to reduce the general tax levy will not be allowed. The intention of this fund is for the communities to be able to have flexibility in the usage of these funds and municipalities would be encouraged to use their CHBP to benefit all community organizations.

The WWIDA will be structuring agreements with CHPE to ensure that the CHBP survives any termination of the PILOT agreements.

Attachment 1 shows the annual payments of CHPF over the course of its 30 year life. These figures are calculated based on preliminary construction costs as estimated by CHPE and will be updated based on actual construction costs.

Percentages for municipalities will be adjusted as of the year construction ends and prior to when payment of the CHBP commences.

SDBP BENEFIT PAYMENTS: There will be a School District Benefit Payment for each affected school district. This fund will be paid on an annual basis as shown in Attachment 2.

PILOT: The PILOT schedules for each taxing jurisdiction are attached. These sheets will show the amount due annually to each municipality the transmission lines pass through. The PILOT agreement is for 30 years. The amount of the tax abatement drops every four years through the life of the agreement and there is a 1.45% annual escalator to compensate for assessment appreciation over the course of the 30 year PILOT.

These figures are calculated based on preliminary construction costs as estimated by CHPE and will be updated based on actual construction costs. Attachment 2 shows the breakdown of PILOT payments to the respective municipalities.

Percentages for municipalities will be adjusted as of the year construction ends and prior to when payment of the CHBP commences.

SPECIAL DISTRICT TAXES: All Special District Taxes will be paid at the full amount without any reduction due to the PILOT agreements.

SALES AND USE TAX ABATEMENT: Sales Tax Abatement will be given based on the final Sales Tax Usage. This is currently estimated by CHPE at \$ 8,179,500

MORTGAGE REPORTING TAX ABATEMENT: Full abatement on the MRT will be given.

ECONOMIC BENEFIT PACKAGE:

1. Upon closing of the construction financing for the Project, TDI will make an Economic Payment of \$2,000,000 to the WWIDA.
2. Upon commencement of commercial operation of the Project, TDI will make a Economic Payment of \$2,000,000 to the WWIDA.

ADDITIONAL TERMS COVERING ENTIRE STRUCTURE:

- Due to the complexity of handling the disbursement of the PILOT and Community Host Benefit PAYMENT billing and disbursement, the WWIDA will assess a \$7,500 annual administrative fee for this complex task.
- The WWIDA reserves the right to hire an independent consultant to verify construction costs, calculation of payments to all taxing jurisdictions, and sales tax calculations. This cost will be borne by CHPE or their assignees and successors.
- If any other IDA or taxing jurisdiction negotiates a PILOT Agreement, Community Host Benefit Payment, School District Benefit Payment or other abatement/inducement terms more favorable than the terms described in the agreements between CHPE, the WWIDA shall receive the same terms.
- Under the PILOT, CHBP, and SDPP Payments, CHPE or their successors will not have the option to terminate the PILOT or Community Host Benefit Payment Agreements prior to their expiration date.
- Under the PILOT, CHBP, and SDBP agreements CHPE or their assignees or successors agree not to challenge the agreed on amounts or challenge them under Article 7 or equivalent New York State Law.
- TDI will pay all legal costs incurred by the WWIDA, Towns and Schools in relation to these Total Payment Agreements.
- These payments do not include Special District Taxes which will be paid at the full rates.