

CITY OF SALEM, MASSACHUSETTS

Kimberley Driscoll
Mayor

December 12, 2014

Honorable Salem City Council
Salem City Hall
Salem, Massachusetts 01970

Ladies and Gentlemen of the City Council:

As you know, for the last several months we have been in negotiations with Footprint regarding a Payment in Lieu of Taxes (PILOT) payment for real estate taxes on the power plant site, pursuant to M.G.L. chapter 59, section 38H. PILOT agreements are consistent with the manner our community and several other host cities address real estate tax payments with power plant operators. Generally, a PILOT agreement provides certainty and stability for both the community and the operator and I believe the attached proposed PILOT accomplishes that and more for our community.

The proposed PILOT agreement is still in draft form as we are still ironing out a few key details with Footprint in preparation for Monday's meeting.

This agreement is the culmination of several months of negotiations with Footprint and represents, I believe, a balance that respects and achieves, to a large degree, the objectives of each party. It grows our tax base, substantially protecting our residential taxpayers, while also not encumbering the project with costs beyond what could be supported by anticipated plant revenues. These were competing goals that, in the end, I feel were adequately achieved.

As you review the PILOT agreement, it is important to keep in mind that the City is guaranteed \$4.75 million through 2019, thanks to the hold-harmless legislation enacted by former Representative John Keenan and former Senator Fred Berry. Without this critical stop-gap funding, Salem's residential taxpayers would have felt the brunt of the impact from the plant's closing and even more so in the next few years, when the site's value will be especially down during construction.

The proposed agreement covers a term of 18 years, with the opportunity for renegotiation should the plant's value prove more higher than anticipated at any point in that term. A graduated escalation factor is also incorporated (2.25% from 2020-2023, 2.5% from 2023-2027, and 2.75% from 2027-2032). Finally, Footprint has agreed to an additional potential revenue point through the provision of payments to the City commencing in 2022, should the plant exceed their capacity upside threshold (the price they are getting for their electricity) by a certain amount. This additional revenue potential is modeled to range from a low of \$404,000 to a high of \$1,006,000 in 2026. The total additional potential revenue from these payments could equal as much as \$7,000,000 over the ten years that they are in place. Again, this revenue is only a potential source and depends on the profitability of the plant. We and future administrations should not budget assuming these revenues.

In addition, the City, at our sole discretion, can provide notice of our desire to terminate the agreement in year 11, should we determine that we would benefit from renegotiating the terms of the current agreement.

We can, however, reliably budget based on the tax payment revenues anticipated for the foreseeable future under this agreement. With the hold-harmless funding from the state, the total tax revenue that will be collected by the City over the term of this contract for the new plant and the smaller parcel on which it sits is \$99,242,000. That is an average of \$5,513,444 per year for the 18-year term, or a 16% increase over the current tax level collected on the plant and the entire site. The amount collected each year varies, of course, up to a maximum amount of \$6,760,000 in 2032, a 42% increase over the current amount.

Combining the potential additional revenue with the base tax amounts yields a total revenue potential over the

18 years of the agreement of \$107,025,000, with the highest amount in year 18, 2032, at \$7,337,000, a 54% increase over the current level.

Establishing a long-term tax agreement is critical to providing the fiscal certainty both the City and Footprint require. The proposed agreement is the culmination of many months of negotiation and, I believe, appropriately protects the City, while not devaluing the significant positive development that the project represents. It also does not reflect the additional benefits to the City included in the separately filed Community Benefits Agreement which includes a shared ownership in the current power plant pier.

Finally, there is also the added potential growth in our tax base possible through the redevelopment of the additional 40 acres of waterfront land at the Footprint site, which will now be vacant following the demolition of the old plant. The future reuse of those pieces of land will further expand our tax base, create the possibility of new jobs for our community, and enhance further the vitality of our increasingly active waterfront and port. This tax agreement does not cover these additional new parcels.

I strongly encourage the approval of this agreement and welcome the opportunity to answer any questions you may have about it. We will have our team of lawyers and energy valuation consultants who helped us negotiate this agreement on hand on Monday evening.

Sincerely,

Kimberley Driscoll
Mayor
City of Salem