Official Proceedings of the Stutsman County Negotiating Committee – September 8th, 2014

At 1:05 p.m., Auditor/COO Bradley called the special meeting of the Stutsman County Negotiating Committee to order. Dennis Ova, David Schwartz, Dustin Bakken, and Casey Bradley answered the roll call as voting members of the committee. Dan Sizer, Barnes County North School District; Mike Scott, Spiritwood Township; Shirley Krapp, Richard Klose, and Brian Paulson, Rural Fire District, answered the roll call as the non-voting members of the committee.

Casey Bradley, Auditor/COO, requested nomination for Chairman. Schwartz made a motion, seconded by Ova to nominate Casey Bradley for Chairman for the Negotiating Committee. Motion Carried.

Bryan Schouvieller, Senior Vice President of Ag Business Group for Cenex Harvest States (CHS) gave a presentation of the Spiritwood, North Dakota fertilizer project. CHS is the nation's largest cooperative which is owned by farmers and ranchers throughout the United States. The main businesses are energy, food, grain products and marketing. The number one goal is to bring value and to provide access to local and international markets for producer owners. CHS currently has retail and wholesale businesses, but is not in the manufacturing business. CHS looked at North Dakota to build a fertilizer plant because North Dakota is a deficit state in terms of usage versus production and CHS also has a lot of businesses in North Dakota already such as retail fertilizer businesses. Just about everything the Spiritwood fertilizer plant can produce could be consumed within a 200 mile radius and is a strong demand base. The Spiritwood location already has a major railroad and highway system and does not have another major fertilizer plant other than Dakota Gas in the region. The Spiritwood, ND project is the largest project for CHS and the history of North Dakota; coming in at approximately $3 billion. CHS has purchased 650 acres with the actual plant being located in Spiritwood Township on Section 24. The plant will be built with safety being kept in mind first. CHS will participate in the VPP Star program during the construction phase as well as when it is operational. This is a volunteer OSHA program where you are working in partnership with OSHA. The plant will produce about 2400 to 2500 tons of ammonia per day, which is further processed into urea, UAN and DEF (diesel exhaust fuel). Annually, CHS will produce approximately 150,000 tons of ammonia; 800,000 tons of urea, and about a half million tons of UAN. In regards to storage, CHS will store about 100,000 tons of urea, 150,000 tons of UAN, and approximately 40,000 tons of ammonia in existing facilities. CHS will have about 1090 tons of DEF storage on-site. Additional storage will be built in key locations where the blending will take place. The UAN facility will be a self-automated 24/7 business operation with 12 load out bays and five rail load out stations. Some of the key milestones are as follows: the air permit was issued June 2014; the full notice to proceed, the PMO contract was negotiated, and early site works will be completed in September 2014; the mechanical completion will be March 2018 with the plant commissioning and startup will be in the spring or summer of 2018. It will take approximately six months to test the entire system to make sure everything is working the way it is supposed to before CHS will announce they are in startup mode. Once the plant is running they will use approximately 88,000 MMBTU per day of natural gas; 40 megawatts of electricity per day and 2600 gallons of water per minute.

CHS is looking at two options for the water supply: one option is using fresh water from the Jamestown aquifer and replacing it with gray water and the second option is utilizing treated gray water from the City of Jamestown, Great River Energy (GRE) and Cargill. CHS is making sure they are getting the quality of water they need at a consistency and reliability they need it. CHS would prefer using the treated gray water.

Brian Paulson questioned what equipment and staff would CHS have on hand as well as what equipment the fire department would need. Schouvieller stated CHS will have a dedicated staff on hand and they are designing the fertilizer plant to have fail-safes in place as well as having an internal source for fire suppression. CHS is willing to work with the Rural Fire Department to help with training and equipment needs.

Chairman Bradley presented the Committee packet. The committee was set up by the Stutsman County Commission board to negotiate the property taxes as required by the North Dakota Century Code 40-57.1-03. The directive from the commission board has been no agreement that the county enters into or recommends can reduce taxes after construction. The proposed project will take an estimated 36 months to complete and will cross three assessment cycles before it commences operations. North Dakota Century Code 40-57.1-03 does not allow for any consideration of property tax benefit during construction, only after the commencement of commercial operations. Whatever is negotiated today must at a minimum maintain mill rates at where they were at the last year of construction. Dustin Bakken, Tax Director, and Bradley, Auditor/COO has been going over many values and construction schedules. Thos. Y. Pickett & Company, Inc. performed an industrial appraisal of CHS for the county. The value the county is using is slightly below Pickett & Company's estimate. The estimates are educated guesses

because you cannot appraise a building based on specifications and need to wait for it to be constructed. The problem the county ran into is there are no recent comparables to use since three of these facilities have been built in the last 30 years in the United States. The only option that is reliable is looking at a cost basis. The county determined the True and Full Value at $1.2 billion; which was lowered to $900 million based the application of an inherent risk that is associated with a project of this size. The construction schedule has been discussed with CHS on how the county typically values a project going through completion. CHS sent a letter agreeing to the construction schedule and cost basis method for determination of real property value for property tax purposes. The CHS True and Full valuation is $900 million with an assessed value of $450 million. The total taxable value upon completion is $45 million. The breakdown of the proposed values is as follows: the county is $80,355,287; the township is $3,172,749; the fire district is $25,150,934 and the school district is $22,742,806. The construction schedule for the value created for 2015 is five percent; 2016 is 25%; 2017 is 26% and in 2018 would be the remaining 44%. Currently, the 2014 combined mill levy for all of the taxing districts is 215.597 which will generate $11,084,217. At today's tax rate, the $45 million of taxable value would generate $9,701,865. Due to the statutory limitations of the mill levy this dollar amount is not what the taxing districts would see. The county looked at many options of maintaining the mill levies to generate the same dollar amount that is being generated in 2014. The county would look at the projected values based on the construction schedule and then the county will look at the projected mill levies for each tax collection year. In 2016, to generate the same dollars that is being collected this year the county's mill levy would go down to 110.11, the township would be 10.53, the fire district would be 4.59 and the school would go to 72.26. In 2018, the projected mill levy rate would be 86.16 for the county, 2.01 for the township, 2.50 for the fire district, and 37.66 for the school district. What this means is 24% of the projected levy for the county would be generated from the facility, 89% for the township, 50% for the fire district, and 53% for the school district. If the committee agrees to this proposal, this would be the maximum CHS would pay. It is not the maximum the taxing districts would receive. The taxing districts will be able to raise or lower their mill levy rate as they see fit. During the Payment In Lieu of Tax (PILT) period that the taxing districts enter into, CHS will have a set fee they will pay each year. The county will distribute those payments. For example, when CHS goes operational in 2018 all value created will be gone and payments will be made. The taxable value for CHS will not show up for the mill levy rate calculation purposes for the taxing districts. CHS is requesting a 20 year package. This proposal is an individual board decision. Again, the proposal is an estimate and is based on the assumption of today's mill rates which will have to drop. If everything stayed where it was and tax based on the value and construction schedule, the property tax payment (not including land) from CHS would be $3,235,000 each year beginning in 2019. That payment would be distributed based on the projected proportionate share of each taxing jurisdictions projected millage rate which means the county would retain $2,171,937, the township would receive $50,725, the fire district would receive $62,949 and the school district would receive $949,389 each year. The total benefit of the package for CHS is $197,130,543. The Uniform Standards of Professional Appraisal Practices (USPAP) specifically prohibit valuations being done based on construction schedules and values because they are not real. They are estimates and are not current with market. Bradley, Auditor/COO, contacted the other counties in North Dakota and requested their top three taxpayers, the taxable values, and total taxes paid. Only 27 counties are represented. The two highest valued projects in the state are OneOK Rockies Midstream, LLC in McKenzie County and Ashtabula Wind, LLC in Barnes County. The largest taxpaying projects in the state are OneOK Rockies Midstream LLC in McKenzie County and Tesoro Northwest Company in Morton County. At $3,235,000, the CHS project under consideration would be paying 2.3 times more in property taxes that the largest property taxpayer in the state. After 18 years from when CHS goes active, the county would hire an industrial appraisal firm to work with CHS and the county. The appraisal firm would look at the economic and cost valuation of the facility to establish a value. In the twenty first year, CHS would go full value and would pay full tax.

A question was raised regarding the production tax. Casey Bradley, Auditor/COO, stated Senator Wanzek helped author one of the bills to give oil impact money to law enforcement and emergency management agencies. The committee decided nothing east of Bismarck would be available for the monies. Statistics from the county were presented to the committee showing the oil impact. The City of Jamestown is designated the "Hub City" and is eligible to apply for a $600,000 grant each year. It was suggested to contact Senator Wanzek during the next legislative session. WBI Pipeline, which is being run for CHS, is a $120 million project and 36% is in Stutsman County. For the county alone, it is approximately $25 million in tax revenue.

CHS submitted the Application for Property Tax Incentives for New or Expanding Businesses which will be submitted to the commission board. This discloses the state required information for property tax considerations. CHS submitted a formal request for set annual property tax payments and the concurrence with the values and the proposed construction schedule. The North Dakota Department of Commerce made a determination the CHS project is a certified

primary sector project.

CHS submitted a request for the project property tax payments to be at $3,000,000 and Stutsman County is at $3,235,000. If the committee agrees to go forward with this proposal, the county would request JSDC to cover $235,000 per year out of their incentive fund for the 20 year period during the PILT. This would bring the payment down for CHS to $3,000,000. If the committee agrees to this proposal then the committee requests JSDC to move forward with the incentive fund request so we have an answer by the time the commission board holds a public hearing on this project.

If the committee moves forward with the proposal it will change how the taxes gets distributed due to the proportionate share on how it changes each of the tax levies. An agreement will need to be drafted by the bond council. The committee will come to each of the board meetings and request a signature on the agreement. This will lock the county into an agreement for the next 20 years distributing the tax payments that have been agreed upon today in this presentation.

Schwartz made a motion, seconded by Ova to approve the agreement as presented contingent upon the approval of JSDC and the taxing jurisdictions concurrence with the payment allocations. Roll call vote: Ova, Schwartz, Bakken, and Bradley voted aye. Motion Carried.

At 2:17 p.m., a motion to adjourn was made by Ova, seconded by Bakken. Motion Carried.

ATTEST:

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Casey Bradley	Casey Bradley
Auditor/COO	Chairman