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ABANDONMENT OF THE SHOREHAM NUCLEAR PLANT:

THE EFFECT ON LOCAL GOVERNMENT PROPERTY TAX REVENUES

Prepared for the County of Suffolk

September 1983

Contact: Gregory Palast
Project Director
New York

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Rev: 8/15/09 RL

#24358252

EXECUTIVE SUMMARY

In its reports to the State Legislature and the Governor's panel on Shoreham, Long Island Lighting Company paints a picture of economic devastation if the Shoreham nuclear plant does not open. This devastation allegedly would be wrought on the local taxpayer through the loss of property tax revenue which would have been assessed on the Shoreham plant. Relying entirely on LILCO assumptions and methods, the Hudson Institute and Coopers and Lybrand echo this claim.

At the request of the Suffolk County government, Union Associates has conducted a detailed analysis of the effects of Shoreham's closing on property tax revenues. Unlike the LILCO studies, our analysis is based on a detailed review of Long Island's system of tax assessment to measure the projected tax revenues we would expect from Shoreham and the plants which would replace Shoreham. In contrast to LILCO, Union Associates developed an assessment model for Long Island which incorporates the guidelines of the State Board of Equalization and Assessment, actual practices of local assessors, the effective equalization and tax rates for each school district, town and county and the other factors necessary for a reliable and independent analysis of property taxation. We were greatly aided by our work with the taxing

authorities themselves.

We find no basis for LILCO's fear-inducing claim that Shoreham's abandonment will require massive increases in property taxes. Indeed, we find that Shoreham's **operation** could threaten the financial security of Port Jefferson and other school districts now dependent on existing LILCO plant for a major portion of their property tax revenues.

Summary of findings

Section A. The Shoreham Windfall

The claimed loss of billions of dollars in property tax levies on the Shoreham plant, if closed, is, in fact, no more than the loss of an enormous future windfall of up to $200 million per year, a sum many times the amount now collected on the plant as a construction site ($41 million in 1983). Contrary to LILCO's claim, the loss of this future windfall, about half a million dollars per family in the Shoreham/Wading River School District, will not require an equally enormous increase in property tax revenues.

> **Shoreham remains taxable after abandonment.** This should maintain the relatively low level of revenues

now collected on the plant during its construction.

> The levies on the abandoned plant and other projects should maintain the revenues now collected by local authorities on Shoreham as a construction site. Taxes will not have to rise to make up for a windfall assessment which has not yet become part of the tax base.

> **LILCO's suit against Brookhaven Township** to return 42% of all assessments on the plant during its decade of construction is the greatest immediate threat faced by local government.

Section B. Tax Revenues from Coal Plants

LILCO has failed to calculate the tax revenue gained on the generating plants that would replace Shoreham. While Shoreham is expected to generate $1.9 billion in property tax revenues over its life, replacing Shoreham with two 400 MW coal plants will produce $2.4 billion to $3.6 billion in revenue, depending on their location. (These figures are stated in inflation-adjusted dollars.)

> Siting the plants at either Port Jefferson or Shoreham

will provide Brookhaven residents with up to $1,934 per family in tax benefits (in inflation-adjusted dollars).

> Even one plant would provide revenues of about $447,537 for each family in the school district where the plant is sited.

Section C. Tax Revenue from Oil and Gas Plants

If Shoreham's operation permits the retirement of oil and gas plant, the ten school districts and eight towns which depend on assessment of LILCO plants for up to 53% of their property tax revenue face the threat of significant revenue loss and tax increases.

> Were Shoreham's capacity replaced by extending these oil and gas plants, total property tax revenues would exceed $137 million per year for the school districts, $61 million per year for town governments and $61 million per year for the Counties of Suffolk and Nassau.

> LILCO admits that forestalling the retirement of its present operating plant would reduce the cost of

closing Shoreham by $2.9 billion. Simply operating old plant rather than completing Shoreham would provide 823,541 residents of Long Island with property tax benefits of up to $5,768 per family. By contrast, the enormous tax windfall on the Shoreham plant would largely benefit only 2,800 families.

A generic problem. The problem faced by the Shoreham/Wading River School District is no different than the problems of the ten other local school districts which fear the closing of LILCO plants. Ultimately, this generic problem calls for a generic solution which prevents financial devastation to a community due the closing of any LILCO plant, oil or nuclear. The problem certainly cannot be solved by building nuclear plants in every district facing a revenue loss.

Section D. LILCO's Alternates to Shoreham Nuclear

LILCO has stated that constructing new coal plants or conversion of the Shoreham nuclear site to coal are the most likely alternatives to Shoreham's operation as a nuclear plant. **Each of these LILCO alternatives to Shoreham produces between $2.59 billion and $4.03 billion in property tax revenues, substantially greater than the amount projected for Shoreham nuclear.**

Coal conversion. According to LILCO, Shoreham's abandonment will require conversion of oil plants at Port Jefferson to coal. This will produce $341 per family in property tax benefits for each family in Brookhaven, the town affected by Shoreham's closing. Island Park in Nassau would also benefit by the coal conversion program which LILCO would initiate if the Shoreham plant is abandoned.

> The Port Jefferson school district relies on assessment of LILCO plant for 53% of its property tax revenues. If Shoreham's operation eventually permits the retirement of the oil plants rather than their conversion or refurbishing, the local school district will be in financial jeopardy.

Section E. Property Value Losses

We know from a companion Union Associates study that Shoreham's operation will reduce home values near the plant by 7.1% and by lesser amounts as far as 20 miles from the plant, a loss in home values totalling $410 million. The loss in property values would ultimately reduce property tax collections by $12 million per year.

Section F. LILCO's Projections

LILCO's own property tax projections suffer from errors in data and method. Unlike Union Associates, which incorporated local rules, records and rates in our calculations, LILCO did nothing more than guess at future property tax collections. For example, LILCO does not account for the important role of depreciation in assessing utility plant. Because the Hudson Institute and Coopers and Lybrand rely without justification on LILCO's guesses and assumptions, their own reports inherit all of LILCO's errors. For example, Hudson Institute assumes that Port Jefferson and Island Park have the same tax rate.

It is our hope that a reasoned analysis of the property tax implications of Shoreham's abandonment will aid in rational deliberation on this important topic. We wish to thank and the local town assessors' offices for their aid in this project as well as Kenneth P. Weiss, Suffolk County Assistant Budget Director. Findings and interpretations, however, are our own.

Gregory Palast, MBA, and Kenneth Acks, BA, directed the study for Union Associates.

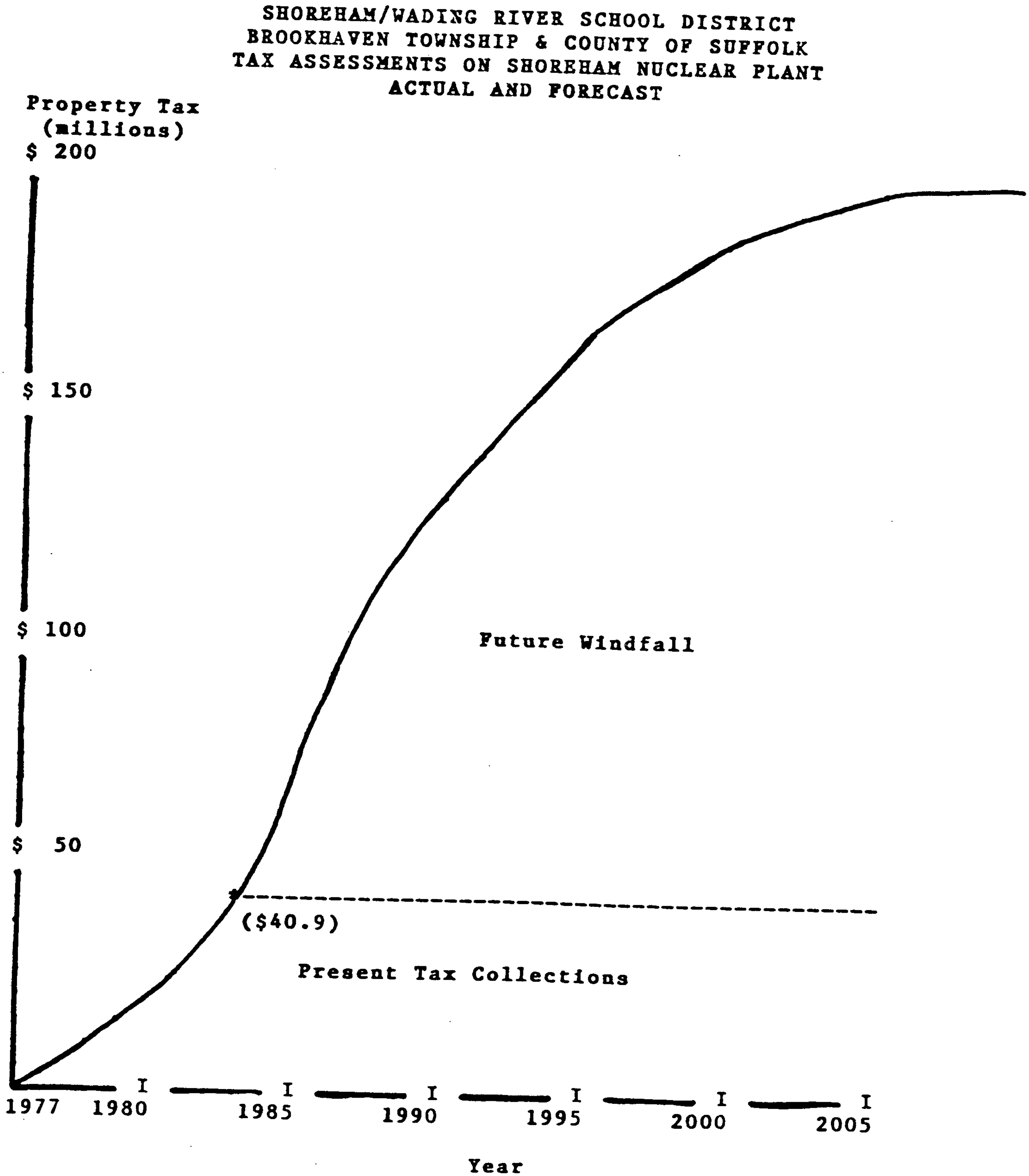
A. THE SHOREHAM WINDFALL;
SHOREHAM REMAINS TAXABLE AFTER CLOSING;
LILCO SUES BROOKHAVEN

Long Island Lighting claims that abandonment of the Shoreham plant threatens a devastating loss in property tax revenues which will require massive tax increases in the Shoreham/Wading River School District, Brookhaven Township and Suffolk County. The Hudson Institute and Coopers and Lybrand, who rely on LILCO assumptions, repeat this claim. However, a more careful review of the rules and history of utility tax assessment on Long Island tells us that:

1. The multi-billion dollar "loss" in property tax levies on the Shoreham plant is, on closer examination, an enormous windfall never received nor budgeted by local government. The loss of a windfall which has never been realized is not cause for an increase in property taxes.

2. Shoreham will continue to be assessed after its

Chart A-1


SHOREHAM/WADING RIVER SCHOOL DISTRICT
BROOKHAVEN TOWNSHIP & COUNTY OF SUFFOLK
TAX ASSESSMENTS ON SHOREHAM NUCLEAR PLANT
ACTUAL AND FORECAST
Property Tax
(millions)
$ 200
$ 150
$ 100
$ 50
Future Windfall
($40.9)
Present Tax Collections
1977
1980
1985
1990
1995
2000
2005
Year

closing, thereby replacing the lower sums now levied on the plant during its construction phase.

3. The great immediate threat to local government is LILCO's suit to recover 42% of the taxes collected since construction began a decade ago.

The Shoreham Windfall

Chart A-1 puts the problems of the local school district, town and County in perspective. (Chart A-1, "Tax Assessments on Shoreham Nuclear Plant, Actual and Forecast.") As the chart shows, present tax collections on Shoreham have reached a maximum of only $40.9 million per year, the amount assessed on Shoreham as a construction site. Once the plant goes on line, however, property tax levies can be expected to soar, eventually reaching $200 million per year -- an undreamed-of windfall for local taxing authorities.

The windfall amounts to approximately half a million dollars for each family in the Shoreham/Wading River School District. LILCO claims that for every dollar of tax revenue lost, taxes on local homes will have to rise to make up for every dollar "lost." However, it does not follow that if the residents of

Shoreham/Wading River lose a half million dollar windfall, school district taxes will have to rise by half a million dollars.

Even now, the relatively low level of assessment on the plant's construction provides over 92% of Shoreham/Wading River's budget. The school district already enjoys the lowest full value millage rate for an urban district in the two-county area. It is inconceivable that local government will raise taxes to make up for a windfall never received nor expected. Nevertheless, Coopers & Lybrand asserts that the school board will raise taxes by over $9,000 per household in the next few years to make up for the lost windfall, although this would provide revenues nearly double the school budget.

Over its life, Shoreham would provide $1.94 billion in property tax payments (in inflation-adjusted dollars), primarily for the 2,800 residents of the local school district. The windfall is provided by charges to LILCO's residential and business customers. The question is not, how do we preserve a windfall for local government, especially given that any windfall is provided by charges to other ratepayers. The question is, how do we protect the integrity of the school district, town and County treasuries from the loss of the relatively smaller sum now assessed on the Shoreham construction site? There are two answers: first, plant that replaces Shoreham's power will replace its taxes, and second, the Shoreham plant will continue

to be taxed long after its termination.

Shoreham assessed after closing

The warning by LILCO and its allied consultants that property taxes will rise if Shoreham is terminated rests on the unsupported contention that the plant will not be taxed if closed. The position is inconsistent with historical precedent and state assessment guidelines. Both LILCO's history of combatting local assessments and the self-serving conclusion cast doubt on the authority of LILCO's claim for a tax holiday on Shoreham.

Even the Company's own President, Wilfred Uhl, has admitted to the probable assessment of Shoreham after its abandonment. On July 15, 1983, before the Governor's fact-finding panel on Shoreham, Mr. Uhl stated that the plant would probably remained assessed at least until it were physically leveled to the ground, which would not be for many years. (LILCO also considers the conversion of Shoreham to coal a probable alternative to nuclear operations. This would produce even greater revenue than a nuclear plant, as we will detail in a Section D of this report.)

Under state assessment guidelines, there are grounds for

$58.1 million in all. See **Table A-2**, "Shoreham Property Tax Litigation."

Of the total, LILCO seeks a refund of $27.7 million of taxes collected from the Shoreham/Wading School District, an amount that exceeds the district's entire annual budget. Were LILCO successful and the tax shortfall recovered from other district residents over 5 years, taxes from other residents would have to rise 146% per year. Without a grace period, or without assumption of the obligation by the Town or County, the school district would be insolvent.

LILCO has sued only the township, which as the assessing agency, is liable for the collections of both the town and school district.

LILCO's suit has implications beyond the resolution of past assessments. Coopers & Lybrand based its calculations of taxes lost by Shoreham's closing on figures supplied by the utility, figures apparently based on contested assessments. It is worth noting that between the first and second editions of its own report, "Shoreham Operation Versus Shoreham Abandonment," LILCO added a footnote on page 10 effectively disavowing its own property tax calculations. Given that LILCO has challenged close to half the taxes collected in 6 of the 7 years of the plant's assessment, there is no reason to believe that LILCO itself will

Even if none of Shoreham's cost is recovered from the ratepayers, the plant will almost certainly be assessed. State guidelines generally do not permit depreciation of a plant to less than 20% of its reproduction cost. Keep in mind that only a fractional assessment of the plant will replace all revenue now collected on Shoreham as a construction site.

The ultimate decision to assess the plant and at what rate remains with the Brookhaven Town Assessor and the County of Suffolk. While we have avoided direct questioning on the matter, our interviews with the local taxing authorities and a review of the history of assessment of LILCO plant leads us to conclude that continued assessment is likely.

Dr. Howard Axelrod of the staff of the Governor's panel has also found that Shoreham is likely to be taxed after abandonment, though probably not at the high rate applicable to its operation.

LILCO's Suit Against Brookhaven

While LILCO has suggested financial disaster for the school district of Shoreham/Wading River and the Town of Brookhaven were the plant project terminated, the Company has sued the Township to recover 42% of the taxes levied on the nuclear plant thus far,

Table A-2

PROPERTY TAX ASSESSMENTS ON THE SHOREHAM PLANT

DISPUTED BY LONG ISLAND LIGHTING

	Taxing Authorities' Assessment	LILCO's Proposed Valuation	Percent in Dispute
1981	$62.933 million	$47.695 million	24%
1982	$79.219 million	$36.085 million	54%
1983	$98.177 million	$52.735 million	46%

continued full or partial assessment, though the law is unclear as to the sum which can be levied. The guidelines established by the State Board of Equalization and Assessment suggest taxing utility plant based on the book value of the plant in the rate base used for ratesetting (adjusted for numerous factors). Most scenarios reviewed by the County's consultants provide for allowing a portion of the plant's cost in LILCO's rate base; this would provide a reasonable basis for assessment. The levies would continue during the entire three-decade period of amortization, producing substantial revenues.

While the plant may not produce electricity, it may produce profits. Income producing property in a utility's rate base is suject to assessment. Keep in mind, even now, LILCO has excess generating capacity which is fully assessed although the plants may not operate.

The assessment of non-operating plant could be affected not only by the legnth of the amortization period in rates but by a provision in state guidelines for reduced assessments due to "economic depreciation" of plant which does not earn a full return. Various scenarios suggested for Shoreham amortization range from a full return on the plant, claimed by LILCO, to various partial return plans suggested by County consultants. The law prohibiting recovery of utility not "used and useful" could bar any recovery whatsoever.

not continue to challenge the tax levies which it claims are vital to the financial health of these communities.

B. TAX REVENUES FROM COAL PLANTS

Findings

LILCO states that if Shoreham is terminated, it will have to replace Shoreham's power with new plant capacity. While LILCO creates fear over the loss of property tax revenues assessed on Shoreham, the Company fails to fully and properly calculate the enormous tax revenues that will be levied on the plants which would replace Shoreham.

The following section and tables measure property tax revenues to be derived from a building program projected by County consultants: replacing Shoreham's power with two 400 megawatt coal plants.

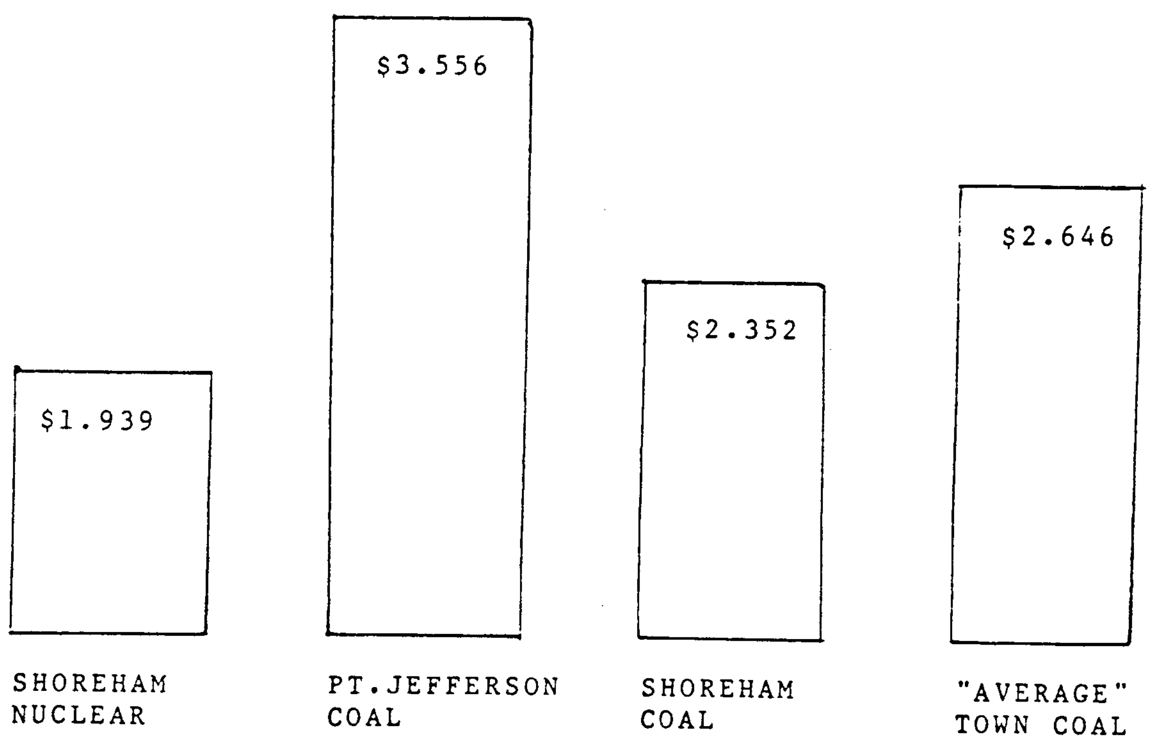
We find that the replacement plants will produce significantly higher property tax revenues than the sums expected from the Shoreham plant. While Shoreham is expected to generate $1.9 billion in property tax revenues over its life, the coal plants will produce $2.4 billion to $3.6 billion in revenue, depending on their location and construction schedule. (These figures are

Chart B - 1

TOTAL PROPERTY TAX REVENUES:

SHOREHAM NUCLEAR PLANT VERSUS REPLACEMENT COAL PLANTS

- in $ billions -



Revenues total for school district, township and County of Suffolk.

Revenues expressed in 1984 constant dollars.

expressed in inflation-adjusted dollars.) **Chart B-1** illustrates the revenue from two 400 MW coal plants sited at various Suffolk locations.

Just as important, coal plants will probably disperse revenue to a larger portion of the public than the Shoreham plant. Even one plant will more than replace the present level of taxes now levied on Shoreham.

The Sites

To project property taxes for local governments on the proposed coal plants, we considered siting the plants in three locations:

1. Port Jefferson. LILCO already has plans to convert two oil-fired generators to coal. Should new coal capacity be needed, Port Jefferson becomes a likely candidate for building new plants instead of converting others.

2. Shoreham. LILCO suggests the possibility of converting the incomplete nuclear station to coal, but rejects the plan as too costly. However, Shoreham is a likely candidate for "green-field" coal plants to take advantage of the infrastructure prepared for the nuclear plant. LILCO lists Shoreham

as the candidate for two of its three coal plant alternatives to Shoreham nuclear.

3. "Average" Town. Rather than attempt to specify every other site for the plants, UA has created a composite profile of the tax rates of the average town and school district in Suffolk County as a guide to the revenue effects of siting anywhere other than the two locations listed above. We note that siting the plant at Jamesport, once considered by LILCO for an 800 MW coal plant, would produce revenues approximating the average Suffolk location.

Coal Tax Collections Exceed Nuclear Plant

Pt. Jefferson. Were the plants sited at Pt. Jefferson, **Table B-1, page 1**, indicates that the **total tax collections for the coal plants will total over $15.0 billion** ($3.6 billion in 1984 dollars), far outstripping the expected payments on the nuclear plant.

The tables state the sums in both nominal dollars and inflation-adjusted dollars to ease comparisons to LILCO assertions.

Table B-1 - page 1

TAX REVENUES FOR SHOREHAM REPLACEMENT

COAL PLANTS

SITED AT PT. JEFFERSON

	Total	1984 Dollars
Pt. Jefferson School District	$8.429 billion	$2.203 billion
Brookhaven Township	2.013 billion	o.526 billion
Suffolk County	4.576 billion	o.825 billion
TOTAL	$15.018 Billion	$3.556 billion

Table B-1 - page 2

TAX REVENUES FOR SHOREHAM REPLACEMENT

COAL PLANTS

Sited at Pt. Jefferson

	Per Family	1984 Dollars
Pt. Jefferson Residents	$3,509,331	$917,003
Brookhaven Residents	$ 16,666	$ 4,354
Suffolk Residents	$ 7,309	$ 1,909

Table B-2 - page 1

TAX REVENUES FOR SHOREHAM REPLACEMENT

COAL PLANTS

Sited at Shoreham

	Total	1984 Dollars
Shoreham/Wading River School District	$3.787 billion	$0.990 billion
Brookhaven Town	2.018 billion	0.527 billion
Suffolk County	3.195 billion	0.835 billion
TOTAL	$9.000 billion	$2.352 billion

Note: Calculation based on siting new green-field plants at Shoreham. Conversion of nuclear facility to coal would produce higher total revenues by an amount determined by the assessment of underlying plant.

Table B-2 - page 2

TAX REVENUES FOR SHOREHAM REPLACEMENT

COAL PLANTS

Sited at Shoreham

	Per Family	1984 Dollars
Shoreham/Wading River Residents	$1,485,261	$388,105
Brookhaven Residents	$ 16,710	$ 4,364
Suffolk Residents	$ 7,407	$ 1,934

Table B-1, page 2, tells us that the average family in the Pt. Jefferson school district will receive $3.5 million in tax benefits over the life of the two plants (just under one million in current dollars).

Shoreham. Table B-2, page 1, indicates that siting the coal plants at Shoreham would produce higher tax revenues than the nuclear plant. This is due to the fact that, in New York State, utilities are assessed on the value of their construction work in progress as well as the value of operating property. Thus, local tax authorities will charge LILCO for a second round of construction on the coal plants. This adds the (non-refundable) sums already collected on the construction of nuclear plant.

Siting coal plants at Shoreham will provide the average Brookhaven resident with $7,407 in tax benefits ($1,934 in inflation-adjusted dollars). See **Table B-2, page 2.**

Both Port Jefferson and Shoreham are located in Brookhaven Township. The average County and Town resident will enjoy a greater tax benefit by Shoreham's termination if the plant is replaced by coal units.

There will be, however, a difference in the period of time of tax

collections on the coal plants compared to the nuclear plant. In the LILCO scenario, construction of a coal plant to replace Shoreham nuclear would begin virtually immediately. Under the more conservative plan of the County, on which we've based our tables, construction would not begin until 1990. Nevertheless, taxes would be paid on the land value of the site held for the future construction and the existing infrastructure carried over from the nuclear project.

Our calculation is conservative, based on the cost of a green-field coal plant. If, instead of a new plant, LILCO converts the Shoreham nuclear plant to coal as it has suggested, this would provide tax revenues far in excess of those expected on the plant operating with a nuclear reactor because the assessment would include both the cost of initial Shoreham investment and the added investment in conversion -- a figure the Company puts at $5.8 billion. The ultimate sum would depend on the size of any write-down of any reactor equipment which cannot be used in the conversion.

"Average Town"

Siting the plants at the "average" Suffolk town would produce revenues somewhat greater than projected for the nuclear plant. See **Table B-3.** The table is based on the average effective

Table B-3

TAX REVENUES FOR SHOREHAM REPLACEMENT

COAL PLANTS

Sited in an Average School District in Suffolk

	Total	1984 Dollars
Average School District	$6.009 billion	$1.570 billion
Average Township	3.472 billion	$0.907 billion
Suffolk County	0.646 billion	$0.169 billion
TOTAL	$10.127 billion	$2.646 billion

	Per Family	1984 dollars
Average School District Resident	$2,002,988	$523,388
Average Town Resident	$ 80,429	$ 21,017

tax rate for LILCO plant in Suffolk.

While in all siting scenarios, we find that the coal plants' tax assessments will match or exceed expected taxes on Shoreham nuclear, the beneficiaries may not be the same. While siting at either Shoreham or Pt. Jefferson completely replenishes lost revenues to Brookhaven township, siting at Jamesport does not. The question of dispersion of the benefits will be discussed in a subsequent section.

One Plant Will Preserve Present Level of Collections

Table B-4 indicates that the property tax revenues on just one coal plant will exceed taxes now paid on Shoreham.

Table B-5 indicates that the average family in the school district will receive a tax benefit equal to **$1,612,744 or $447,537 in inflation-adjusted dollars for one plant alone.** (In the example, the plant is sited at Pt. Jefferson, though this general finding would hold true for any Suffolk location.)

Notes on Method

Our model projects assessments based upon the formula

Table B-4

PROJECTED PROPERTY TAX REVENUES

ON ONE SINGLE 400 MW COAL PLANT

Sited at Pt. Jefferson

Plant constructed for operation in 1998.

Total Tax Payments over Life of Property School District, Town, and County	$6.249 billion	
In 1984 dollars		$1.734 billion
Revenue per Family in Pt. Jefferson School District	$1,612,744	
In 1984 dollars		$447,537

established by the New York State Board of Equalization and Assessment. The formula requires calculation of replacement cost new, depreciation, construction work in progress assessments and other factors.

To the projected assessments we have applied effective tax rates consisting of the equalization rate and the effective equalized rate now paid by LILCO on its presently assessed properties for each appropriate school district, town and county. Where effective rates could not be calculated, we have applied statutory rates. For ease of comprehension, we have combined highway and special districts town-wide into the effective town levy, though any particular location within a town may contain any combination of special assessment districts.

We assume, conservatively, an equality of engineering life and tax-depreciable life although the former is typically longer than the latter for fossil plants.

Finally, we assume that tax rates will not change until the final years of a plant's operation. As a conservative procedure, our model incorporates an expected reduction in tax rates to recognize the pronounced trend of local government to share a portion of the revenue surpluses from large utility assessments with the public through tax rate reductions. This reduces the projected the expected tax receipts from **both** the Shoreham

nuclear plant and the replacement properties. Were we to excise this adjustment to our model, the coal plants would show an even greater revenue difference over Shoreham nuclear. This adjustment is especially reasonable in light of the State guidelines. The guidelines do not permit a utility to depreciate a plant by more than 80% for assessment purposes; this can lead to an explosive growth in levies in a plant's final years of operation.

The reader should keep in mind that property tax expense accrued by the utility in any one year will not equal tax charges for rate reporting. This is due to the capitalization of taxes during construction and other rate-to-tax timing differences. We note that the LILCO and Hudson Institute studies confuse taxes assessed with taxes incorporated in rates.

To compare Shoreham's future property taxes to that of coal plants requires us to draw a picture of Suffolk well into the next century. With Suffolk's decentralized system of assessment, this has been a major task. While our model incorporates the basic formula for assessments of public utility property as established by the State, Suffolk Township assessors have no legal obligation to follow these guidelines. For these reasons, we cannot hope to figure to the penny the levies in future decades. Nevertheless, our models provide the best guide possible to policymakers for determining the relative benefits of

alternatives to operating the Shoreham plant.

Differences with LILCO-sponsored studies

We have rejected LILCO's, Coopers & Lybrand's and the Hudson Institute's property tax projections and methods as simplistic and inconsistent with state guidelines and historic assessment practices. Also, as LILCO has challenged a large portion of the assessments on its properties, we could not rely on the company as an unbiased authority.

Neither LILCO, Coopers & Lybrand nor the Hudson Institute used the actual assessment formula in projecting future taxes. Indeed, all the utility-sponsored studies relied on rough guesses or estimates of taxes which, by ignoring the role of depreciation and other factors, lead to both erroneous calculations and wrong conclusions. Neither did any of these LILCO-sponsored studies incorporate actual assessment rates. Rather, they relied on crude (and wrong) guesses about the general increase in tax levies. All the utility-sponsored studies fail to account for the substantial taxes that will be levied on the coal plants during construction.

Also, unlike C&L, we do not make any projection about the future size of Suffolk's population. We find no rationale for C&L's

projection of a 7% per year population gain in the Shoreham/Wading River School District for every year of the next three decades. Rather than make our own projections, we ask to reader to keep in mind that the tables showing dollar tax benefits per family are for comprehension of the aggregates. Were the population to rise by 10%, the benefits would be more widely dispersed.

(

C. TAX REVENUE FROM OIL AND GAS PLANTS

THE FINANCIAL THREAT OF SHOREHAM'S OPERATION TO DISTRICTS WITH AGED PLANT

The school district of Shoreham/Wading River is not alone in facing a potential loss of revenue due to the closing of LILCO plant. Concentrating a large portion of Long Island's power generating plant at Shoreham jeopardizes the financial security of the ten school districts which presently rely on assessments of smaller-capacity LILCO oil and gas generators for up to 53% of their property tax revenues. As centralized nuclear capacity permits the retirement of these plants, school districts and towns face significant revenue loss. (See Table C-1, Percent of Revenues Provided by LILCO in Towns and School Districts with LILCO Generating Plant.)

While LILCO suggests that closing Shoreham will require an expensive building program, the Company's own documents indicate that simply extending the life of present oil and gas plant another ten years provides one of the least expensive alternatives to Shoreham.

Table C-1

DEPENDENCE ON PROPERTY TAX REVENUES PROVIDED BY LILCO

IN SCHOOL DISTRICTS WITH OIL AND GAS GENERATING PLANT

School District	Amount	Percentage
Port Jefferson	$ 4,586,200	53%
Northport-East Northport	$12,207,983	43%
Montauk	$ 55,286	3%
Greenport	$ 112,912	6%
Southampton	$ 173,413	3%
Central (Sachem)	$ 2,655,100	15%
East Hampton	$ 172,201	4%
West Babylon	$ 660,306	5%
Island Park	$ 3,558,609	--
Glenwood Landing - North Shore	$ 825,751	--

Projected for 1983

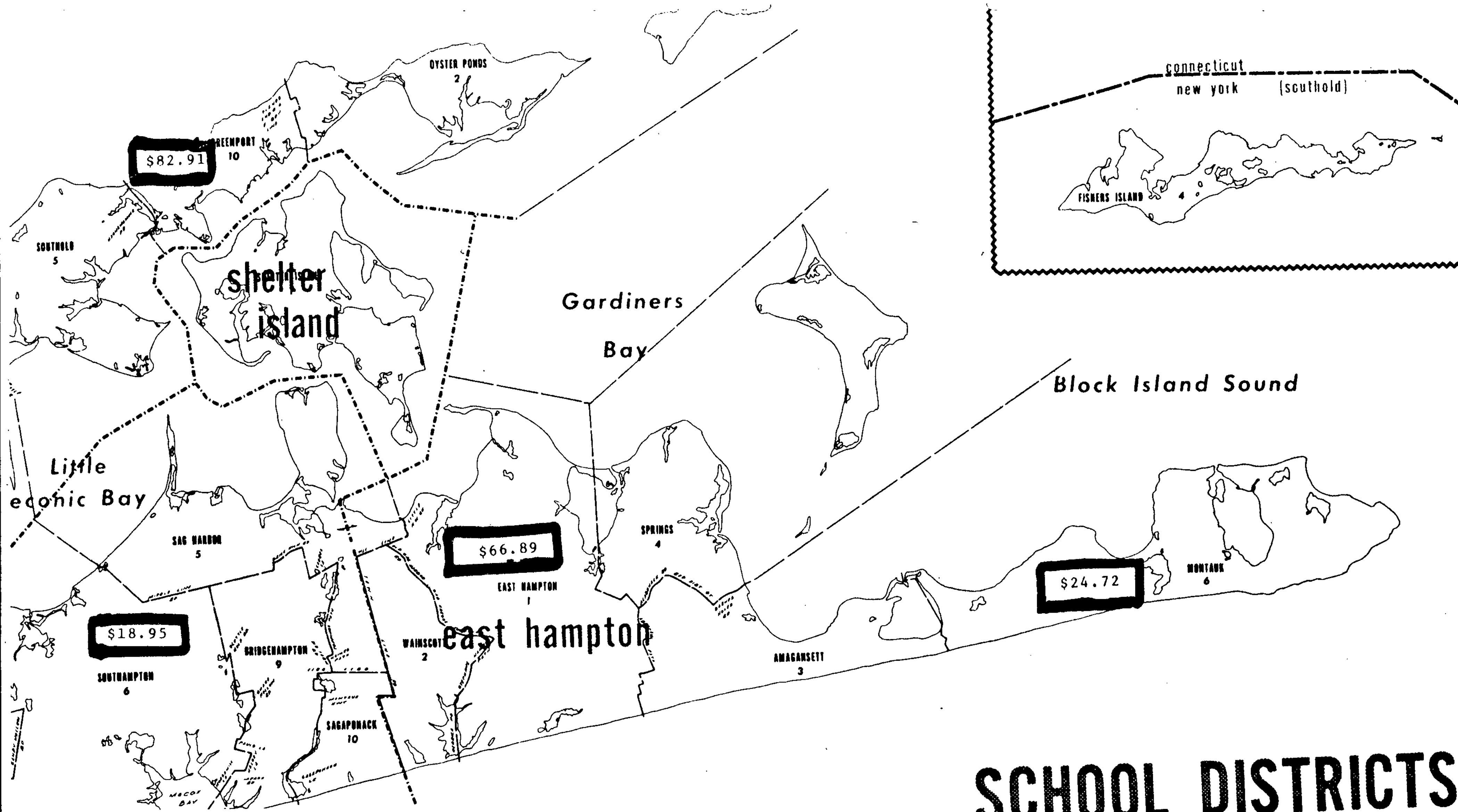
Whereas the Shoreham plant property tax revenues benefit only one school district and only one town, extending the operation of LILCO's present oil- and gas-fired plants would provide revenues to 10 school districts and 8 towns in 3 counties. The school districts that would benefit from abandoning Shoreham and permitting continued operation of present plant are shown on the attached map.

Were Shoreham's capacity replaced by extending these oil and gas plants, total property tax revenues would exceed $137 million per year for the ten school districts, $51 million per year for nine town treasuries and $61 million for county treasuries (excluding New York City). See Table C-2, Total Property Tax Revenues: Extending the Life of Present Oil and Gas Plant.

Extending the life of present fossil-fuel plant for just two years would provide school districts with tax revenues ranging from $5,768 for each family in Island Park down to $24.74 for each family in Montauk. The figures are stated in inflation-discounted dollars. See Table C-3, page 1.

Dispersion of Benefits; Brookhaven Collections

Forestalling retirement of present plant would provide major benefits to 823,541 Nassau and Suffolk residents as opposed to



SCHOOL DISTRICTS

SCHOOL DISTRICTS WITH LILCO
OIL OR GAS PLANT.

Figures in box indicate property tax benefit to each family in the district given a two-year extention of the life of the LILCO plant in the district. Figures in 1984 dollars.
See T ble C-3.

NASSAU COUNTY
SUFFOLK COUNTY

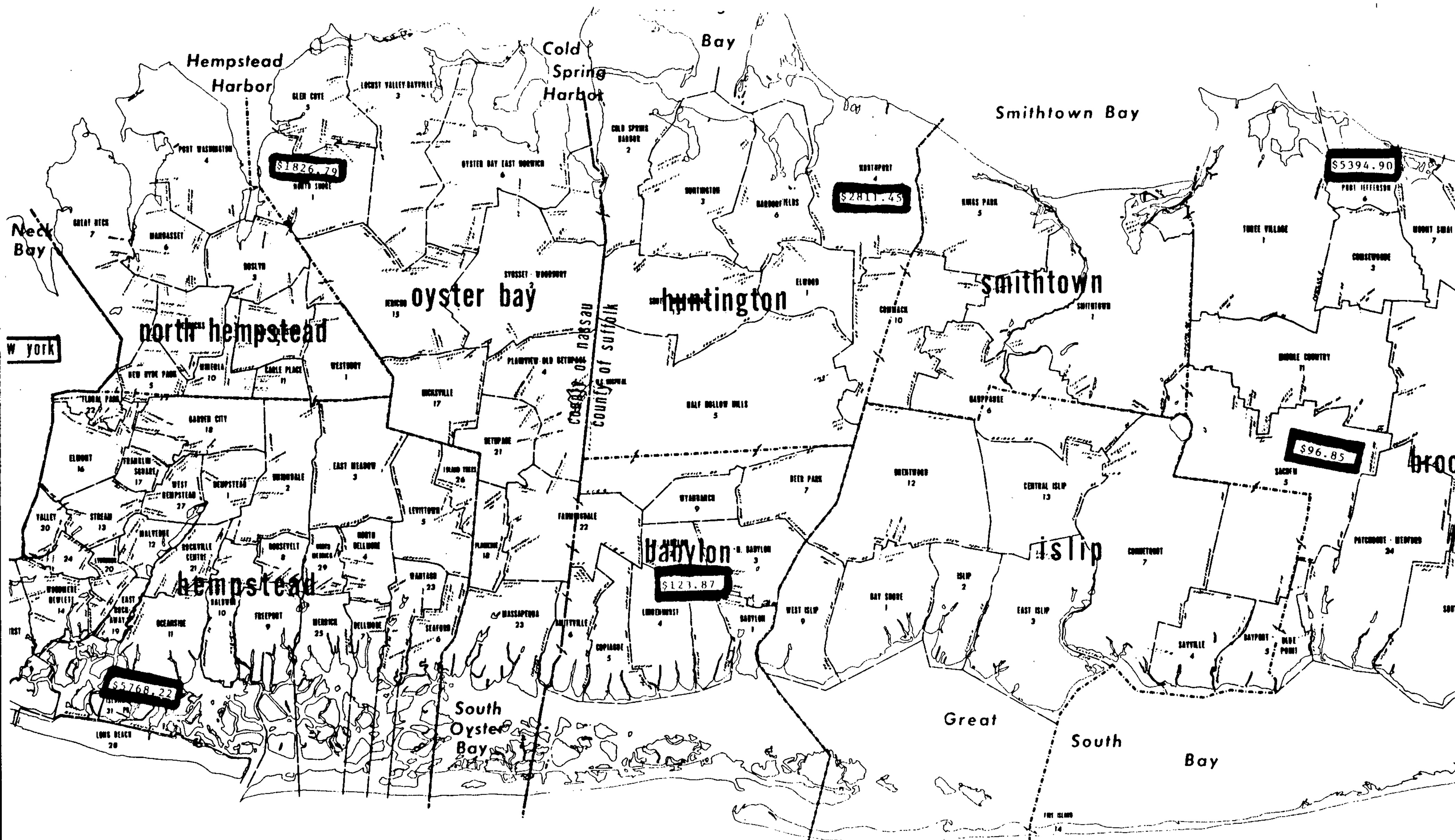
N

scale in miles

0 1 2 3 4

long island
new york

LONG ISLAND REGIONAL PLANNING BOARD


Hempstead Harbor
Cold Spring Harbor
Bay
Smithtown Bay
Neck Bay
w york
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$96.85
$123.87
$5768.22
north hempstead
oyster bay
huntington
smithtown
hempstead
babylon
islip
brook
county of nassau
county of suffolk
South Oyster Bay
Great South Bay

Table C-2 - page 1

TOTAL PROPERTY TAX REVENUE:
EXTENDING THE LIFE OF OIL AND GAS PLANT

- PER YEAR -

Revenues to School Districts

Plant	School District	Total Revenues
Suffolk:		
Pt. Jefferson	Pt. Jefferson	$17,755,493
Northport	Northport-East Northport	76,073,120
Montauk	Montauk	38,424
Southold	Greenport	183,252
Southampton	Southampton	62,686
Holtsville	Central, Sachem	10,789,819
East Hampton	East Hampton	187,130
West Babylon	West Babylon	1,264,791
Nassau:		
Barrett	Island Park	21,272,501
Glenwood Landing	North Shore	9,162,791
TOTAL		**$137,149,010**

Note: Rockaway Plant in New York City would provide $5,935,214 in revenues for NYC in the first year of extension.

Table C-2 - page 2

TOTAL PROPERTY TAX REVENUE:

EXTENDING THE LIFE OF OIL AND GAS PLANT

- PER YEAR -

Revenues to Townships and Special Districts.

Suffolk:		
	Brookhaven	$ 5,199,300
	Huntington	23,421,079
	East Hampton	643,793
	Southold	55,109
	Southampton	1,675,154
	Babylon	331,024
Nassau:		
	Hempstead	8,163,813
	Oyster Bay	7,266,138
New York City		5,935,214
TOTAL		**$51,448,984**

Table c-2 - page 3

TOTAL PROPERTY TAX REVENUE:

EXTENDING THE LIFE OF OIL AND GAS PLANT

- PER YEAR -

Revenues to County and City treasuries.

Suffolk County	$47,962,580
Nassau County	13,226,450
New York City	5,935,214
TOTAL	$67,124,244

only 2,800 residents who would receive the major benefits from the nuclear plant.

Suffolk County residents would receive a tax benefit of $4.8 million per year to their County Treasury by continuing the operation of present plant, about $111.10 per family per year. In contrast to Shoreham's operation, benefits will extend to both Nassau and, to a minor extent, New York City. (See Table C-4: Revenues Total and per Family to Counties for Extending the Life of Present Operating Plant.)

We note that replacing some or all of Shoreham nuclear's power with present capacity provides the greatest benefit to the Township of Brookhaven, the town most affected by Shoreham's operation or abandonment. Brookhaven, which contains three fossil plant stations, would receive a benefit of $71 per family for a two-year extension of its oil and gas plants. The figure is stated in inflation-adjusted dollars. See Table C-3, page 2.

Simply maintaining present capacity will not generate property tax revenues of the magnitude promised by future assessments on either a coal or nuclear plant. However, while extending present capacity will not provide the enormous tax windfalls of new plant construction, it will provide widely dispersed benefits to school districts which would face extreme hardship were these plants closed.

Table C-3 - page 1

PROPERTY TAX REVENUE FOR

EXTENDING THE LIFE OF OIL AND GAS PLANT:

Benefit of a Two-Year Extension

School District	Benefit Per Family	1984 Dollars
Suffolk:		
Pt. Jefferson	$25,006	$5,395
Northport-East Northport	$24,695	$2,811
Montauk	$ 61	$ 25
Greenport	$ 244	$ 83
Southampton	$ 53	$ 19
Sachem - Central	$ 1,308	$ 97
East Hampton	$ 175	$ 67
West Babylon	$ 507	$ 125
Nassau:		
Island Park	$29,468	$5,768
North Shore	$ 8,010	$1,827

Table C-3 - page 2

PROPERTY TAX REVENUE FOR

EXTENDING THE LIFE OF OIL AND GAS PLANT:

Benefit of a Two-Year Extension

Town	Benefit Per Family	1984 Dollars
Suffolk:		
Brookhaven	$ 263	$ 71
Huntington	$2,095	$239
East Hampton	24	9
Southold	16	5
Southampton	6	5
Babylon	24	6
Nassau:		
Hempstead	172	34
Oyster Bay	199	46

Table C-4

PROPERTY TAX REVENUE FOR

EXTENDING THE LIFE OF OIL AND GAS PLANT:

Benefit of a Two-Year Extension

County or City	Benefit per Family
Suffolk	$233
Nassau	$ 64
New York City	$ 4

Benefit determined by utility payment to County or City Treasury for two-year extension of useful life of property.

If Shoreham's closing poses any threat to the Brookhaven Treasury, it certainly cannot be from the loss of the **future** assessed levies never received by the town. Rather, there is only the manageable problem of replacing revenues **now** received on the Shoreham plant -- which have averaged a mere $2.84 million per year during Shoreham's construction. If LILCO permits continued operation of the Port Jefferson and Holtsville oil and gas plant (and the **gas** turbine at Shoreham), Brookhaven will collect taxes far in excess of the amount now paid on the Shoreham nuclear plant, that is, in excess of the $7.98 million levied on Shoreham in 1983.

Extending the Life of Present Operating Plants

The tables throughout this report measure future property tax revenues associated with various alternatives to generating power from the nuclear plant at Shoreham. In this report we neither propose nor endorse any particular power supply program. However, we have analyzed extending the life of present plant given that such an extension, remains a likely alternative to operating Shoreham for the following reasons:

1. LILCO has already planned to extend the lives of these properties by 10 years due to the long delay

in completing Shoreham and constructing new capacity. Given LILCO's record of extensive delays in constructing new capacity and possible delays in new transmission, further extension of operations at present plant may be required.

2. Should natural gas remain plentiful and oil prices remain relatively low, extending present capacity may prove the most efficient, low-cost power source. LILCO's own Office of Engineering reports that a second ten-year extention of oil-fired plant (from 45 to 55 years) **would reduce the cost of closing Shoreham by $2.9 billion.** See LILCO Office of Engineering, "Shoreham Operation Versus Shoreham Abandonment; Appendix," page C-20.

3. Extending the life of present plant would eliminate the need for LILCO or its successor to borrow the large sums required to build new plant.

Peak-load needs and the unreliability of the nuclear plant will not permit LILCO to immediately retire fossil-fired plant if and when Shoreham operates. The retirements will take place over a number of years on a schedule beginning in 1994.

LILCO Plant Closings: A Generic Problem

LILCO's closing of any generating station spells problems for the school district or town dependent on those assessments. The public is most aware of the potential difficulties of the Shoreham/Wading River district for no other reason than the Shoreham nuclear plant may be the first major station to close. There should be no less concern for the 8000 families of Port Jefferson than for the 2800 families of Shoreham/Wading River. The problem is found in the unique Long Island system of balkanized taxing districts in which a large utility plant serving an entire county provides taxes for a single district of a few thousand families. What begins as a windfall gain for the local residents ends up in a breathtaking drop in the tax base when a plant closes.

The case of the Shoreham/Wading River School District should not be considered in isolation from the generic problem of utility property taxation policy in Suffolk. Policymakers face a dilemma: ten school districts face financial hardship unless the Shoreham plant is closed and present plant kept on line. Thus, protecting revenues for one school district can harm the treasuries of other districts. Our findings suggest that, the generic problem of revenue loss due to utility plant closing cannot be solved by opening or closing power plants: it is not wise, fo course, to build ten nuclear plants on Long Island to

solve the tax revenue problems of ten school districts.

What is the solution? Terminating the Shoreham project and extending the life of present plant would provide a decade of tax relief to a third of Long Island's residents, though, admittedly, this only forestalls the need for a permanent solution.

Eventually, there must be a generic solution to a generic problem. Since replacing Shoreham with new plant will produce a windfall for the local school district or town, it would be reasonable to apply a portion of this levy to a payment in-lieu-of taxes to fund relief for towns and school districts facing the closing of LILCO plant, whether the plant is oil-fired, coal-fired or nuclear.

Method

In calculating future property tax revenues, we have been both conservative and cautious. We have assumed extension of the lives of the plants by normal maintenance and a normal level of net capital additions to the plant. In fact, should extending the lives of the generators require a major refurbishing of turbines or boilers, the tax revenues would increase beyond the sums stated in the tables.

We have used the established state assessment guidelines to project property tax cash-flows into the future. Where possible, we have employed LILCO's effective equalized tax rates, though we applied equalized statutory rates to small gas turbines.

We have rejected LILCO's, Hudson Institute's and Coopers & Lybrand's method of projecting future property taxes as a crude approximations inconsistent with assessment guidelines. Our reasons were explained in the previous section.

We encountered some difficultly in projecting tax revenues in accordance with state guidelines because present assessments do not necessarily follow from a simple application of the guidelines. Therefore, to successfully model Long Island's system of assessment, we have factored in to our model the reproduction-cost-new values implicit in current assessments calculated as a depreciation-normalized average per megawatt at each station taking into account the present vintage, size and type of each generator. Retirement date extensions are calculated from the end of the 10-year extension period already announced by LILCO for its supply program.

D. LILCO'S FOUR ALTERNATIVES TO SHOREHAM
TAX REVENUES ON COAL CONVERSION

Long Island Lighting Company asserts that terminating Shoreham will require an extraordinary multi-billion dollar building program to replace the nuclear plant. **Each one of these alternatives promises higher total property tax revenues than does Shoreham.**

Moreover, as Shoreham's operation would eliminate planned coal conversions, the school districts of Port Jefferson in Suffolk and Island Park in Nassau face significant financial problems, as will be explained below.

LILCO's Four Alternatives to Shoreham

We have estimated the approximate property tax revenues which would result from each of LILCO's four main power supply alternatives to the Shoreham nuclear plant. See Table D-1.

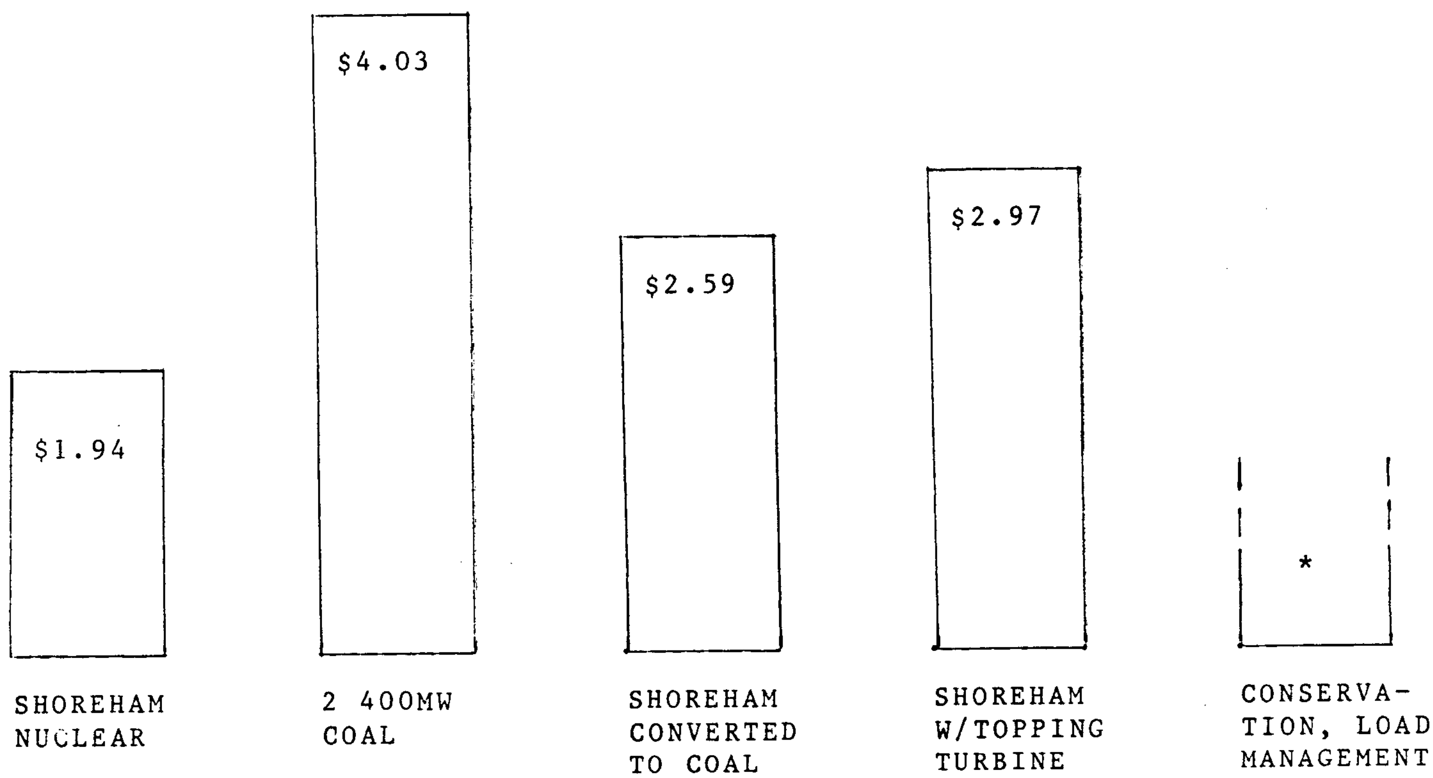
Alternative A: **Two 400 MW coal plants plus coal conversion** will provide approximately $4.03 billion (in inflation-adjusted dollars) in local property tax revenue. The amount will vary

Table D- 1

PROPERTY TAX REVENUES FOR LILCO'S

MAJOR ALTERNATIVES TO SHOREHAM NUCLEAR OPERATION

-in billions ($1984)-



FOUR OIL UNITS CONVERTED TO COAL ON ALL ALTERNATIVES

*Revenues equal levies on coal conversion plus munspecified levies on assessments of both utility and customer conservation and load management capital investment.

depending on the location of the plant. This is the scenario which LILCO considers most likely.

Alternatives B and C: LILCO has considered converting the incomplete nuclear plant to coal. We have made only a rough and conservative calculation of this alternative: as explained in a prior section, converting Shoreham to coal will provide revenues far greater than projected for the nuclear plant though the sum depends on the amount of nuclear equipment excluded from the assessment. Conversion of Shoreham to coal with or without a "topping turbine" (Alternatives C and B, respectively) will, of course, completely solve all problems for the local taxing districts.

Converting Shoreham to coal will provide greater revenues than Shoreham operated as a nuclear plant because the town may assess the entire value of the plant during its conversion-construction phase. As the book value of the converted plant will far exceed the value of Shoreham nuclear (unless the Public Service Commission requires a substantial write-off of the reactor), the converted plant will be assessed at a higher level than the plant with a nuclear generator. Property tax collections will also continue for a longer period of time for conversion as opposed to nuclear generation.

Alternative D: LILCO's fourth alternative requires a combination

of coal conversion, conservation and load management. Such a program requires some capital expenditure (which will be assessed) beyond the investment in the coal conversion. In addition, we can expect that much of the conservation will come from commercial, industrial and residential investments in energy-saving capital improvements, improvement which would also be assessed.

Coal Conversion

During a presentation to the New York Governor's panel on Shoreham, Wilfred Uhl, President of LILCO, stated for the first time that, should Shoreham operate, the utility would not pursue present plans to convert four oil-burning generating units to coal. The implications are severe for the two towns where the generating units are located. If Mr. Uhl is correct, then, within the next several years, LILCO will let the oil plants at Port Jefferson and Island Park depreciate and close. Port Jefferson schools have relied on assessments of LILCO plant for 53% of their total property tax revenue.

Tables D-2 through D-5 summarize the property taxes which local government will collect on the coal conversion investment. Coal conversion promises $1.4 billion in revenue for local government

Table D-. 2

TOTAL PROPERTY TAX REVENUES:

CONVERSION OF FOUR OIL PLANTS TO COAL

School Districts:	
Pt. Jefferson and Island Park	$809.2 million
Towns:	
Brookhaven and Hempstead	237.7 million
Counties:	
Suffolk and. Nassau	356.0 million
TOTAL	$1,403.6 million

Table D- 3

TOTAL PROPERTY TAX REVENUES:

CONVERSION OF FOUR OIL PLANTS TO COAL

- 1983 dollars -

School Districts:	
Pt. Jefferson and Island Park	$278.8 million
Towns:	
Brookhaven and Hempstead	81.3 million
Counties:	
Suffolk and Nassau	122.0 million
TOTAL	**$482.1 million**

Table D- 4

PROPERTY TAX REVENUE:

CONVERSION OF FOUR OIL UNITS TO COAL

- PER FAMILY -

School Districts:	
Pt. Jefferson	$205,917 per household
Island Park	$ 35,129
Town:	
Brookhaven	$ 969
Hempstead	$ 501
Counties:	
Suffolk	$ 428
Nassau	$ 394

Table D-5

PROPERTY TAX REVENUE:

CONVERSION OF FOUR OIL UNITS TO COAL

- PER FAMILY-

- 1983 dollars -

School Districts:	
Pt. Jefferson	$72,527 per household
Island Park	$11,675
Towns:	
Brookhaven	$ 341
Hempstead	$ 167
County:	
Suffolk	$ 151
Nassau	$ 131

Table D-6

PROPERTY TAX REVENUES FROM

CONVERSION TO COAL -- PT. JEFFERSON UNITS ONLY

	Total	1983 dollars
Pt. Jefferson School District	$494.6 million	$174.2 million
Brookhaven Township	117.0 million	41.2 million
Suffolk County	185.2 million	65.2 million
TOTAL	**$796.7 million**	**$280.6 million**

($482 million in inflation-adjusted 1984 dollars). Over time, the sums exceed the amount now levied on the Shoreham nuclear plant.

Fortunately, Brookhaven, the town most concerned with the loss of Shoreham plant revenue, stands most to gain from LILCO's coal conversion plan. Brookhaven will collect approximately $969 per family from the coal conversion ($341 in 1984 dollars).

As shown in Table D-5, the conversion of the Pt. Jefferson plants alone will provide substantial revenue to the local school district, $494.6 million, a sum lost if the Shoreham plant operates.

LILCO had, until Mr. Uhl's announcement, maintained the need to convert Pt. Jefferson to coal whether or not the Shoreham plant operates. Whether coal conversion is a cost properly attributable to closing Shoreham (LILCO's latest claim) or a possible cost even if Shoreham opens (as calculated by the County), either way, coal conversion revenue will protect Brookhaven's treasury.

Technical note

Our calculation of the tax revenue available from coal conversion

does not constitute an endorsement of the economic value of such conversion nor the need for such conversion for fuel diversity.

In projecting property taxes on the converted property, we have adopted certain conservative assumptions. Our property tax model applies LILCO's effective tax rates in each applicable taxing jurisdiction to a formula based on the state guidelines, as explained in prior sections. We have reduced the projected total tax collections by limiting our calculations to the net addition to plant, excluding the revenues from extension of the life of the underlying plant.

E. PROPERTY TAX LOSSES DUE TO THE DECLINE IN PROPERTY VALUES NEAR AN OPERATING NUCLEAR PLANT

As the operation of the Shoreham nuclear plant will harm local property values, property tax assessments will eventually reflect this decline.

In a companion report -- "Will the Operation of the Shoreham Nuclear Plant Harm Home Values in Suffolk County?" -- Union Associates projects a 7.1% loss in property values within 5 miles of an operating plant on Long Island. Between 5 and 10 miles, homes will lose approximately 6.1% of value compared to similar homes in similar communities not located near a nuclear plant. The effects extend a great distance: between 10 and 20 miles from the plant, property values are projected to lose 4.1% of their value.

The Shoreham plant will provide only one school district, Shoreham/Wading River, with property tax payments on the plant. As shown in **Table E-1**, eleven other school districts will actually lose more revenue due to a higher total loss in property values than Shoreham/Wading River will lose. Homeowners in Rocky

Table E-1, page 1

PROPERTY VALUE LOSS AND RESULTANT PROPERTY TAX LOSS

GIVEN SHOREHAM NUCLEAR OPERATION

Per Year at Present Millage Rates.

School Districts	Property Value Loss	Property Tax Loss
Brookhaven:		
Rocky Point	$14,311,716	$ 479,586
Shoreham/ Wading River	9,024,450	179,226
Pt. Jefferson	6,972,867	178,993
Mount Sinai	7,655,292	263,878
Miller Place	10,691,325	286,634
Middle Island	38,467,539	1,143,640
West Manor	160,749	2,506
Three Village	27,690,520	834,315
Middle County	37,939,528	1,292,220
Sachem	50,190,360	1,400,311
Patchogue - Medford	31,524,592	826,890
South Country	14,668,324	41,113
South Haven	473,512	1,255
William Floyd	22,472,956	63,598
Center Moriches	3,621,068	10,849
East Moriches	10,939,720	30,369
Eastport	1,660,604	22,865
Riverhead Town:		
Riverhead	22,532,928	47,059
Laurel	1,102,244	2,042
Remsenbourg - Speonk	2,105,244	1,687
West Hampton Beach	6,071,648	4,696
Quogue	1,346,268	450
East Quogue	4,433,792	5,476
Smithtown:		
Smithtown No. 1	29,905,348	94,591

Fragmentary property value and property tax losses in other districts including those in portions of Islip and Southampton.

PROPERTY VALUE LOSS AND RESULTANT PROPERTY TAX LOSS
GIVEN SHOREHAM NUCLEAR OPERATION

Per Year at Present Millage Rates.

Township	Property Value Loss	Property Tax Loss
Brookhaven	$283,802,570	$1,650,880
Riverhead	21,223,864	1,650,878
Smithtown	67,791,108	254,050
Islip	13,768,744	589,647
Southampton	7,728,116	115,010
Suffolk County	**$409,625,465**	2,047,656
Special County Assessments		72,546
TOTAL PROPERTY TAX REVENUE LOST		**$11,968,000**

Point School District, for example, can be expected to see their home values decline a total of $14.1 million.

The losses reach into all or parts of 5 towns, totalling $12 million in tax revenues per year at today's tax rates. See **Table E-1.** The ultimate tax losses per school district are relatively small. Nevertheless, a loss of 4% to 7% of the tax base will press the budgets of school districts when combined with the direct and indirect economic distress created by electric rate increases which LILCO would impose for Shoreham's operation.

Brookhaven Township will suffer the greatest revenue loss, $8.7 million per year -- $67.37 to $138.68 per family, depending on the school district. See **Table E-2.**

Should Shoreham operate we expect to see a relative decline in housing values of totalling $410 million in the area within 20 miles of Shoreham. Brookhaven is affected most. The loss in property values alone outweighs any putative property tax benefits promised by Shoreham's operation.

Table E-2

PROPERTY VALUE LOSS AND RESULTANT PROPERTY TAX LOSS

GIVEN SHOREHAM NUCLEAR OPERATION

- Per Household -

Per Year at Present Millage Rates.

Brookhaven School Districts	Property Value Loss Per Home	Property Tax Loss Per Home
Rocky Point	$3,539 per home	$119 per household
Shoreham/ Wading River	"	70
Pt. Jefferson	$3,033	78
Mount Sinai	"	105
Miller Place	"	81
Middle Island	"	90
West Manor	"	48
Three Village	$2,068	62
Middle County	"	70
Sachem	"	58
Patchogue - Medford	"	54
South Country	"	58
South Haven	"	55
William Floyd	"	59
Center Moriches	"	61
East Moriches	"	57
Eastport	"	36

Figures available for other towns.

F. PROPERTY TAX PROJECTIONS BY LILCO AND LILCO CONSULTANTS

We have adopted neither LILCO's nor Coopers & Lybrand's method of projecting property tax levies on the Shoreham plant. The "method" employed by each results in projected tax collections which far exceed any conceivable receipts. We also reject the findings of the Hudson Institute which purport to project future property taxes on both the Shoreham plant and replacement coal plant.

Coopers & Lybrand

Coopers & Lybrand (C&L), in its April 1983 report on the impact of closing Shoreham, predicts "rises" in property taxes per family in Shoreham/Wading River. To determine revenue loss, C&L merely asserts that property taxes on the plant will rise at a steady 10% per year. This would indicate property tax revenues of $7.2 billion dollars over the claimed life of the plant for the school district alone. This is approximately three times the amount projected by LILCO itself.

C&L does not provide any justification for this simplistic shortcut for projecting property taxes. C&L's projections do not contain any calculation of the assessments on which these revenues are based. Such a calculation would require consideration for economic revaluation of the plant, depreciation, and other factors.

C&L's prediction of property tax increases for Brookhaven can only be described as disingenuous. C&L, in Schedule 4 of its report, assumes that Brookhaven Township will have to take over the entire budget of the Shoreham/Wading River School District should Shoreham close. Thus, the figures for increases for Brookhaven residents are not limited to the levies now received on the plant by the town but triple that amount, reflecting levies collected by the school district.

The C&L report also errs for reasons already discussed in this study:

> C&L wrongly assumes that loss of the future property tax windfall on the plant requires property tax increases.

> C&L ignores the great tax revenues for Brookhaven from conversion of the Port Jefferson oil plants to coal should Shoreham not operate.

> In its tables, C&L excludes the revenues from replacement generating plant which would provide revenue to the County and Town, and probably, the School District.

> C&L assumes no assessment of Shoreham after its abandonment.

> C&L also fails to distinguish between tax levies on the Shoreham construction site from levies on the operating plant -- when the assessment formula is different for each.

LILCO

Throughout this study, we examine the fallacies in LILCO's calculations and assumptions regarding property taxes. We wish to add one observation here: LILCO apparently relies on the Regulatory Accounting Model (RAM) for its property tax projections. While the RAM is a useful tool for calculating total electric rates, it is a crude and inaccuratge method for projecting property taxes. The RAM was neither designed nor intended for that purpose. The RAM does not, in fact, calculate property taxes based on projected assessments. Rather, it

includes as data LILCO's guess that property taxes will rise by 10% annually for a few years then rise at a lesser rate thereafter. In contrast to the Union Associates model, LILCO does not project a future assessment on the plant taking into account local tax rates, depreciation and economic revaluation of the property.

Also, LILCO does not appear to distinguish property taxes incorporated in rates from property taxes actually levied in any year. The sums are quite different.

While Coopers & Lybrand and the Hudson Institute adjust LILCO figures somewhat, their own calculations ultimately rely on LILCO's assumptions. LILCO's assumptions are wrong, such as the failure to account for depreciation in assessment; therefore, the consultants' reports based on these assumptions are wrong.

Hudson Institute

The Hudson Institute's August 8 report, "The Potential Impact of Failure to Open Shoreham," prepared for LILCO, contains serious errors, wrong data and incorrect formulas -- all of which reflect Hudson's unsupported and unjustified adherence to LILCO methods, data and assumptions.

Section V of the Hudson report, which evaluates the impact of abandonment on property taxes, contains serious errors. Out of either ignorance of local tax assessment practices, or to save itself the trouble of learning Long Island's complex tax system, Hudson based its entire analysis on the following assumptions, assumptions which are dead wrong:

> Hudson assumes, apparently by guessing, that taxes on the Shoreham plant will increase by 10% per year from this year's assessment.

> Hudson fails to consider the effect of depreciation on the assessment of utility property as required by New York law.

> Hudson fails to properly account for the substantial taxes that will be collected during the construction of plant that will replace Shoreham.

> Hudson fails to properly account for the substantial taxes that Island Park and Port Jefferson will receive during the construction phase of planned coal conversions.

> Hudson assumes that Jamesport has the same tax rate as Shoreham and that Port Jefferson and Island Park share

the same tax rate.

> Hudson assumes the same tax collections on coal plants as on Shoreham 25 years from now.

> Hudson calculates no assessment on Shoreham after its termination.

> Hudson raises the spectre of LILCO recapturing past property tax payments made to the Shoreham/Wading River School District, the Town of Brookhaven and the County of Suffolk.

The 10% guess. On page V-18 of its report, Hudson indicates that it **assumes** a 10% increase in tax payments each year on Shoreham between 1984 and 1992 and a 6% per year increase thereafter. The figures are no more than a guess and a wrong guess at that.

No depreciation figured. Hudson attempts to justify its 10% guess by noting that the historical rise in tax levies on Shoreham has exceeded that sum. Here Hudson displays ignorance of tax assessment guidelines. Taxes are assessed on the reproduction cost of existing plant less depreciation. During the construction phase, taxes grow enormously as investment increases and depreciation remains nil. Thus, the historical

growth rate provides no basis for projecting future tax rates. Hudson's calculations evidence no recognition at all of the important role of depreciation in assessments.

Taxes during construction. As opposed to applying the correct assessment guidelines, Hudson's treatment of taxes on the plant that LILCO assumes would replace Shoreham -- two new coal plants and conversion of two oil units to coal -- appears designed to save time or support a pre-conceived conclusion. While knowing full well that LILCO has paid property taxes on Shoreham during its construction, Hudson's Table V-3 excludes any sum for tax payments during the construction phase of the coal conversions. Table V-2 seems to repeat this error: Hudson forgets to include the enormous property taxes that will be paid on coal plants during their years of construction. The difference completely undermines Hudson's conclusion that, over the next decades, Shoreham's termination will reduce property tax collections.

Tax rate assumptions wrong. While it makes calculations easier and neater to assume equal tax rates across taxing jurisdictions, it is wrong. Hudson assumes that taxes on new coal plant would be the same whether the plant is sited at Shoreham or Jamesport or anywhere else. In fact, placing the plant in Port Jefferson, for example, would substantially increase the levy on the plant -- by about $1 billion over siting the plant at Shoreham.

Hudson repeats its error of convenience in projecting assessments on the oil plants converted to coal. Hudson assumes that the assessment rates in Island Park (location of the Barrett plants) and Port Jefferson are the same, an assumption which simply is wrong.

Future coal plant taxes.

Hudson states that,

> Various tax rate assumptions about the cost of coal plants are utilized to **force** the two streams of tax burdens [coal and nuclear] to be equal after the first 800 megawatt coal unit is installed in 2009. Page V-22. Emphasis added.

While it eases the work to "force" data into a pre-conceived pattern, forced data cannot be used as a basis for Hudson's claims about future property taxes -- especially given that its assumption contradicts state assessment rules. State guidelines require a provision for depreciation which would produce quite different tax revenue streams for a coal and nuclear plant. Hudson's failure to account for depreciation in assessing property leads to its incorrect conclusions. In fact, the coal plants will produce greater tax revenue than Shoreham in most of

those later years.

Hudson's tax holiday for Shoreham.

Hudson opines that, "a closing of Shoreham reduces taxes by $40.85 million (the nonviable site would carry some low tax burden.)" Page V-22. From the Hudson tables, it appears that Hudson finds this tax on the abandoned plant too meager to incorporate in its analysis. Hudson does not provide any justification for this tax holiday for the Shoreham plant following its abandonment.

The recapture threat. At page V-21, Hudson raises questions about the financial security of Shoreham/Wading River School District and the Township of Brookhaven by asserting that LILCO could recapture all the taxes assessed over the past decade on Shoreham's construction. Year after year, LILCO has led (unsuccessful) legal assaults on the assessment of Shoreham but has yet to invoke this new, frivolous threat. We respectfully suggest that local residents not fear this unsupported claim.