2020 PROPERTY TAX REPORT

Focused on the Future: Securing Fair Property Taxes for a Cleaner Energy Grid

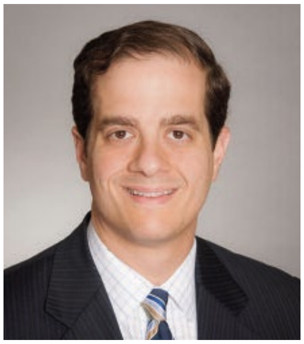
Long Island Power Authority

Table of Contents

Mission Statement

LIPA is a not-for-profit public utility with a mission to enable clean, reliable, and affordable electric service for our 1.1 million customers on Long Island and the Rockaways.

Message from the CEO



LIPA's mission is to deliver clean, reliable, and affordable electricity to our 1.1 million customers. In the wake of the COVID-19 pandemic, keeping electric bills affordable, while continuing to invest in the clean, reliable electric grid Long Island needs for its future remains as important as ever. This annual report is about treating our customers fairly by explaining in an open and transparent manner one of our largest costs: property taxes.

High Taxes On Vintage Power Plants

High property taxes are a significant contributor to energy costs on Long Island. Property taxes fund valuable public services, such as strong schools, public safety, and transportation. But the property taxes on our legacy[1] power plants are disproportionately high and benefit very few of the electric customers of Long Island. They are the result of tax assessors significantly overvaluing a handful of electric sites to favor their local communities, raising the cost of power for all electric customers across Long Island. And that overvaluation is extreme — as high as 15-20 times what the properties are worth.

When it comes to improving affordability and fairness for our customers, LIPA has focused on the four highest taxed properties, which are the vintage fossil-fuel power plants located in Northport, Port Jefferson, Island Park, and Glenwood Landing. These plants are at an advanced age, and have dated technology, high operating costs, and dramatically declining usage. Combined, these plants provide just 21 percent of Long Island's electric needs. The Northport Power Station, for example, is overvalued nearly 17 times by the tax assessor, making it the single highest taxed property in the United States. Its $86 million annual tax bill is higher than the Empire State Building and Disneyland combined. And while Northport's tax bill is up 49 percent over the last 20 years, its energy production has fallen by nearly 72 percent.

Across these four legacy plants, our 1.1 million customers pay over $184 million in property taxes every year. That's almost $2 billion over the next decade, of which approximately two-thirds will go to subsidizing just four of Long Island's 124 school districts, benefiting less than two percent of our customers. LIPA's responsibility to our customers requires us to seek tax bills that are equitable for the benefit of all Long Island homes and businesses.

[1] Legacy power plants are the four steam plants formerly owned by the Long Island Lighting Company (LILCO) and acquired by KeySpan in 1998.

Transition to a Cleaner Electric Grid

New York State's Climate Leadership and Community Protection Act (CLCPA), which was enacted in July 2019, mandates that 70 percent of the State's electricity comes from renewable energy by 2030 and that the electric grid is entirely carbon-free by 2040. That means that all of the vintage fossil-fuel power plants will be fully retired no later than 2040, and most will be retired in phases long before that. This is consistent with the retirements of the Glenwood Landing and Far Rockaway steam power plants in 2012 and the retirement of peaking plants in West Babylon and Glenwood Landing announced earlier this year.

In the face of lower-cost alternatives, the disproportionately high taxes on vintage plants like Northport are not sustainable. Property taxes make up the majority of the costs of the plant. Without relief, the excessive tax burdens will cause the plants to be retired on an accelerated schedule, with the consequent and unfortunate loss of tax revenues to the local communities. LIPA estimates, for example, that the retirement today of even one of the four units at the Northport plant would save electric customers over $300 million without impacting the reliability of the electric grid.[2] And the high taxes at these four sites make redeveloping with new, cleaner energy infrastructure cost-prohibitive.

The Solution

It has been over a decade since LIPA filed its first challenge to these excessive tax bills, and time is running out. LIPA has offered a solution — the gradual transition toward a more sustainable future for each of the communities that hosts these four plants. This transition ensures that there will be hundreds of millions in tax subsidies for years to come, even if the plants close, averting the immediate, drastic increase in residents' tax rates that will result from a valuation of the plants reached by a court.

In December 2018, LIPA reached a settlement with the Town of Brookhaven and the Village of Port Jefferson for the Port Jefferson Power Station for such a gradual transition.

In November 2019, LIPA and Nassau County announced a tentative settlement for the E.F. Barrett Power Station and Glenwood Landing Generating Station, subject to the approval of a payment-in-lieu-of-tax (PILOT) agreement by the Nassau County Legislature. And in March 2020, after a decade of discussions, offers, and court proceedings, LIPA made its best offer to the Town of Huntington and settlement talks concluded on the Northport Power Station.

The Nassau County Legislature and Huntington Town Board have not accepted our offers. It is their right to decide that an independent third party, a court, should determine the fair level of taxes that Long Islanders should pay for these power plants. An adverse court outcome will be much less favorable than our settlement offers, which will no longer be available. However, in these unprecedented times, as communities across Long Island are facing hardships, we believe our settlement offers provide financial certainty for both the host communities and our 1.1 million customers.

Thomas Falcone
Chief Executive Officer

May 2020

[2] A LIPA study to conclude later this year will determine the retirement of 400 to 600 megawatts of steam plants by 2022.

LIPA Tax Certiorari Timeline

This timeline is a guide for our customers and stakeholders to understand the key developments in the decades-long issue of the over-taxed Northport Power Station.

1967

The first unit of the Northport Power Station goes into commercial operation.

Unit 4 was completed in 1977.

1997

Prior to LIPA acquiring the Long Island Lighting Company (LILCO), the Northport East-Northport School District's counsel advises its Superintendent there was nothing in the acquisition documents to prevent LIPA from filing tax certiorari proceedings after the deal closed.

May 1997: In response to requests for additional legal protections, former LIPA Chairman pens a letter stating LIPA will "immediately drop all tax certiorari cases against all municipalities and school districts" if LIPA buys LILCO.

The Public Authorities Control Board approves the LILCO acquisition, without placing limits on LIPA's right to file tax challenges.

1998

LIPA acquires LILCO's electric transmission and distribution (T&D) system. Savings from public ownership cuts electric rates by 20 percent.

LIPA enters into a Power Supply Agreement (PSA) with KeySpan to secure availability of power from the former LILCO power plants.

Operating costs, including property taxes, remain in electric bills.

1999

Northport Power Station operates at **54 percent of its capacity** with a **$58 million property tax bill**.

2007

KeySpan announces a merger with National Grid.

Huntington Town Attorney advises School District that National Grid could initiate future tax certiorari actions with LIPA's approval.

2010

LIPA and National Grid begin filing yearly suits challenging the assessment of the Northport Power Station and the three other legacy plants.

Northport's annual property taxes, paid by LIPA, total over $70 million.

2013

LIPA makes a settlement offer for the Northport Power Station to waive all refunds owed in exchange for annual reductions in taxes from the then $74 million to $30 million by 2025. That offer was not accepted and the Town made no counter offer.

2017

PSEG Long Island releases a long-term energy study stating that renewables and other forecasted changes to the electric grid will reduce reliance on the Northport Power Station to only 11 percent of capacity by 2030.

2018

Northport Power Station operates at **20 percent of capacity** with an **$82 million property tax bill**.

August: The New York State Supreme Court rules that the PSA with National Grid places no limits on LIPA's right to file property tax challenges, and that the former Chairman's "promises" from 1997 "do not contractually bind LIPA."

December: LIPA reaches a settlement agreement with the Town of Brookhaven and the Village of Port Jefferson for the Port Jefferson Power Station.

2019

Northport Power Station operates at **15 percent of capacity** with an **$84 million property tax bill**.

July: Closing arguments are made in the Northport Power Station tax challenge case.

Governor Cuomo signs the New York State Climate Leadership and Community Protection Act, the most ambitious and comprehensive climate and clean energy legislation in the country, into law.

November: LIPA reaches a tentative settlement agreement with Nassau County, pending approval of a PILOT agreement by the Nassau County Legislature, for the E.F. Barrett Power Station and Glenwood Landing Generating Station.

2020

Northport Power Station has an **$86 million property tax bill**. PSEG Long Island releases a study forecasting that the Northport Power Station will operate at only 3 percent of capacity by 2035.

New York State Climate Leadership and Community Protection Act

In 2019, Governor Andrew M. Cuomo signed the New York State Climate Leadership and Community Protection Act (CLCPA) into law, adopting the most ambitious and comprehensive climate and clean energy legislation in the country. Highlights of the law include:

85 Percent Reduction In Greenhouse Gas Emissions by 2050, with an interim mandate of 40 percent reduction in emissions by 2030.

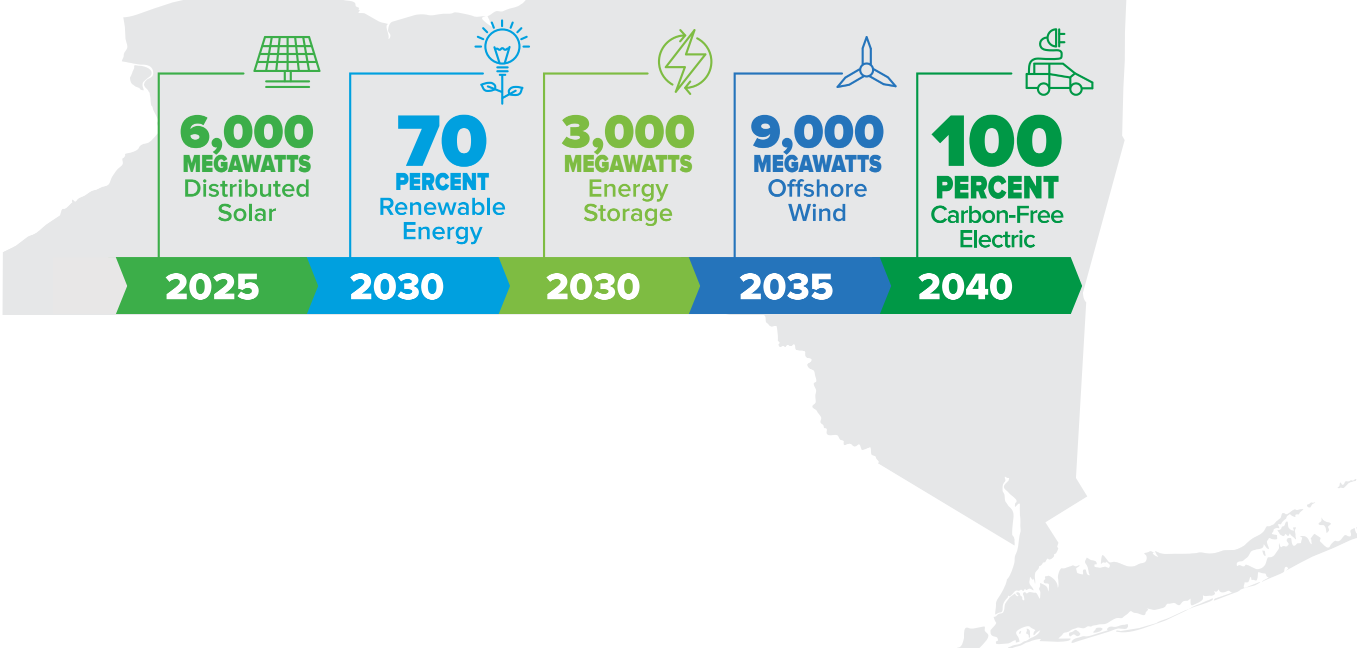
---

70 Percent Renewable Energy by 2030 and Zero-Carbon Emission Electric Sector by 2040. The CLCPA codifies Governor Cuomo's nation-leading goals as called for under his Green New Deal. By 2030, 70 percent of New York's electricity will come from renewable energy sources such as wind and solar, and the State's power system will be 100 percent carbon-free by 2040.

Nation-Leading Clean Energy Investments. The CLCPA also codifies Governor Cuomo's nation-leading commitments to install 9,000 megawatts (MW) of offshore wind by 2035; 6,000 MW of distributed solar by 2025; and 3,000 MW of energy storage by 2030, as shown in Figure 1.

FIGURE 1

New York State's CLCPA Power Sector Goals



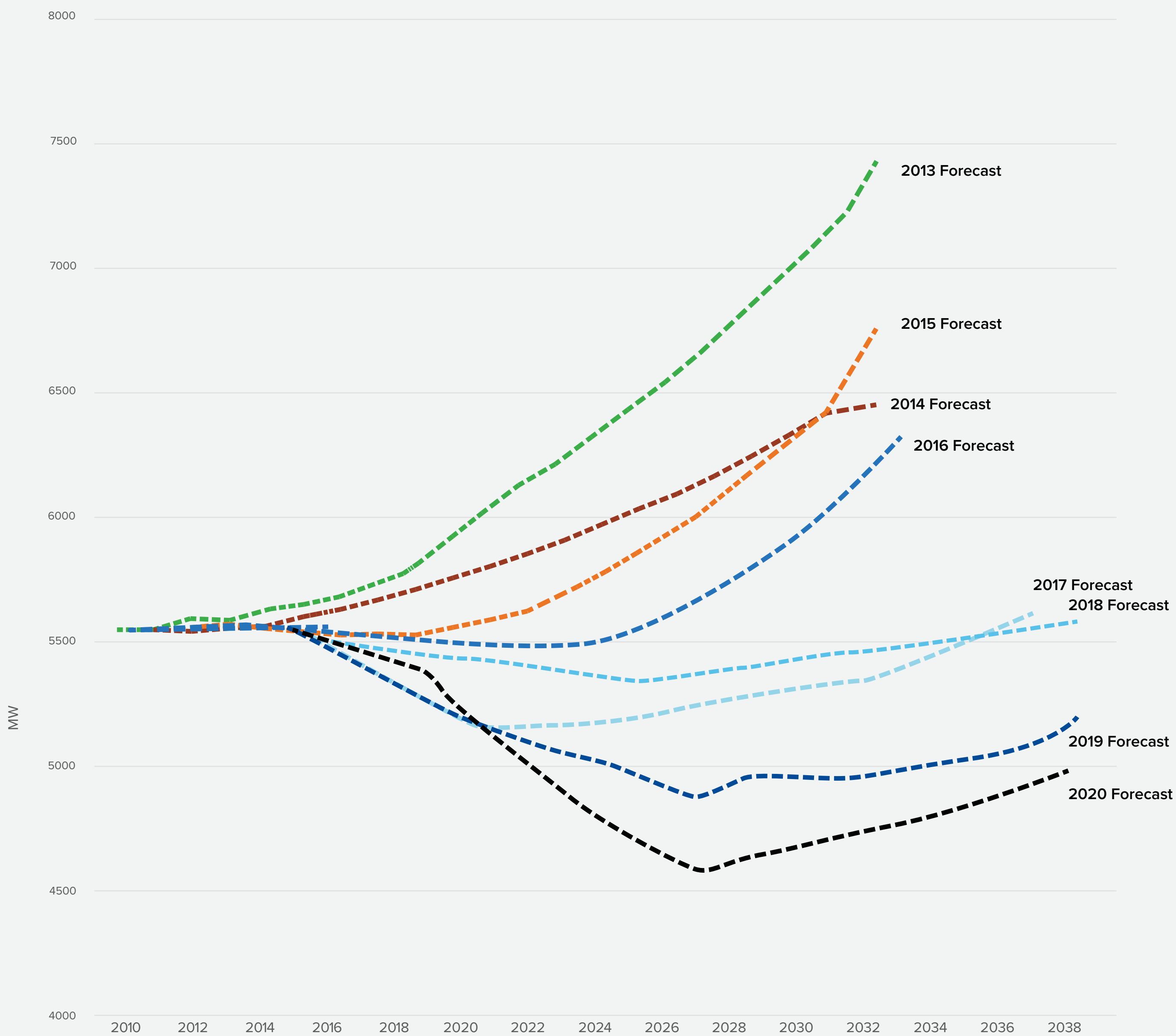
Peak Load Forecast

Electric demand continues to decline as consumers use more energy efficient appliances and self-generate electricity from rooftop solar. The forecasted need for power at peak load in 2030 on Long Island has declined by approximately 2,500 MW since 2013, which is the equivalent of 5-8 large baseload central station power plants, as shown in Figure 2.

This, combined with the addition of renewable energy sources to the electric grid such as utility-scale solar and offshore wind, is transitioning utilities away from legacy power plants.

FIGURE 2

Long Island's Peak Load Forecast Continues to Decline



Taxes and Payments-In-Lieu-Of-Taxes

Property taxes[3] are a major component of your electric utility bill and a driver of rate increases. Taxes are LIPA's second largest expense at over $687 million or approximately 18 percent of customers' bills.

In New York State, there's a statewide approach to taxation of public utility property that places more of the cost of government services on utility customers than in other states.[4] And the property tax burden embedded into Long Island electric rates is among the highest in the nation — roughly three times the national average.[5]

A common misperception is that the taxes LIPA pays result in lower property taxes for all of Long Island's residents and businesses.

When some local tax assessors inflate the value of utility property, the burden of taxes are shifted from local residents to utility customers in other parts of Long Island. Not every tax assessor does this, but some do. There are 13 property tax assessors[6] in LIPA's service territory, with some assessors valuing utility property at excessively high valuations.

In particular, there are four aging power plants, Northport, Port Jefferson, E.F. Barrett, and Glenwood Landing, under contract to LIPA that are appraised by the local tax assessors at 15 or more times their fair value. Local tax collectors within communities hosting the four legacy power plants ask LIPA to pay about $184 million each year.

This is a significant redistribution of the tax burden from those four communities to the rest of Long Island — benefiting less than two percent of LIPA's customers in communities that host the power plants.

LIPA has been, and will continue to be, transparent about this excessive taxation. In trying to obtain a fair tax bill for everyone, LIPA will pay its fair share but not unjustifiably inflated bills.

Did you know?

When you pay your electric bill, you are indirectly contributing to the taxes that fund local governments.

LIPA pays property taxes to local municipalities and school districts for all utility facilities and electrical infrastructure, including power plants, substations, utility poles, transmission towers, and other utility properties.

These taxes are embedded in customers' electric bills.

---

[3] *The term "taxes" in this report refers to property taxes, payments-in-lieu-of-taxes (PILOTs), and other assessments and fees.*

[4] *LIPA pays gross receipts and property taxes on utility property. Nassau County and New York City additionally have a four-class tax system with separate tax rates for each class, resulting in higher effective tax rates on utilities. By contrast, most states value utility property based on original cost less depreciation, resulting in lower taxes than Replacement Cost New Less Depreciation (RCNLD). And some states, like New Jersey, Idaho, Michigan, Minnesota, and Texas apply gross receipts or corporate business taxes to utilities in lieu of property taxes.*

[5] *American Public Power Association, 2018.*

[6] *LIPA's utility property is separately assessed for tax purposes by Nassau County, the ten towns of Suffolk County, the City of New York, and the State of New York, often with different values for similar property. In addition, the 97 incorporated villages and two cities in Nassau may also assess the value of parcels of real property located within their municipal boundaries.*

LIPA's Annual Tax Payments

In 2020, LIPA is expected to pay over $687 million in taxes, approximately 18 percent of customer bills, as shown in Figure 3.

As shown in Figure 4, LIPA's payments include:

$232 million of local property taxes on power plants owned or under contract to LIPA — 28 power plants total $48 million, while four power plants total $184 million

$298 million of local PILOTs on transmission and distribution (T&D) property

$46 million of state and gross revenue taxes and assessments

$113 million of sales tax

FIGURE 3

Taxes are 18% of Customer Bills - 3x National Average

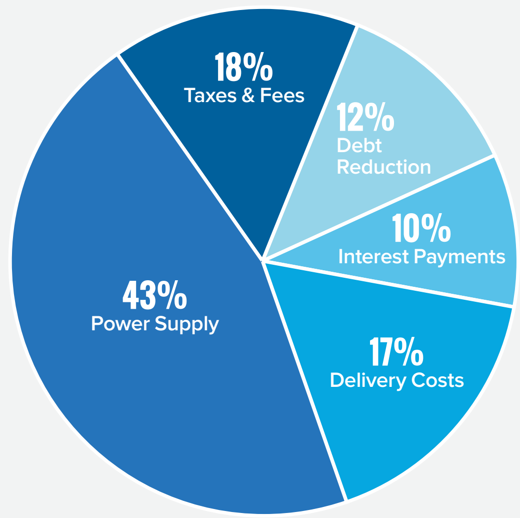
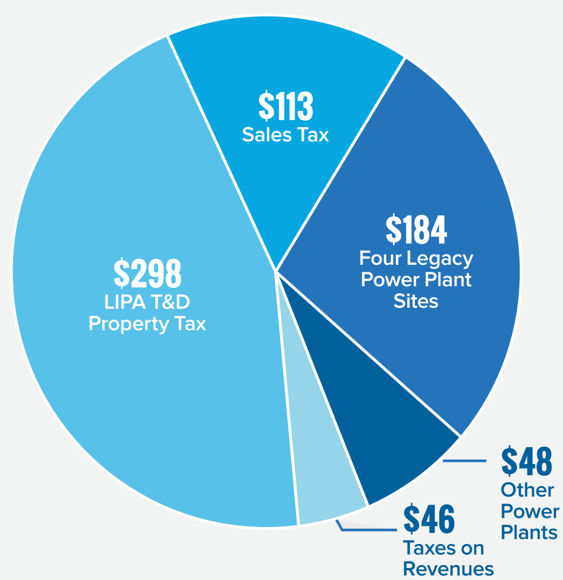


FIGURE 4

LIPA pays over $687 million per year in property taxes, PILOTs, and fees
(dollars in millions)



LIPA Board Policy on Taxes

LIPA's Board of Trustees adopted a Policy on Taxes and PILOTs in 2016 to pay only the reasonable and economically justified level of taxes required by law.

The Policy states that LIPA should:

- Pay only such taxes, payments in-lieu-of taxes, assessments, and fees as are required by law or by agreement
- Avail itself of the lawful right to challenge excessive tax assessments and payment obligations to minimize the cross-subsidization of taxpayers in some taxing jurisdictions by LIPA's customer-owners in other jurisdictions
- Inform customers of the burden of taxes, PILOTs, assessments, and fees in their electric bills

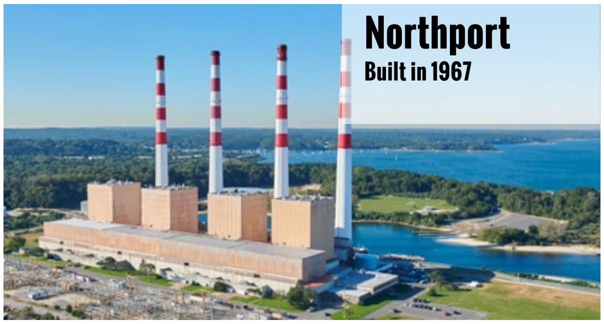
As a publicly owned authority, 100 percent of any tax reductions are directly returned to customers.

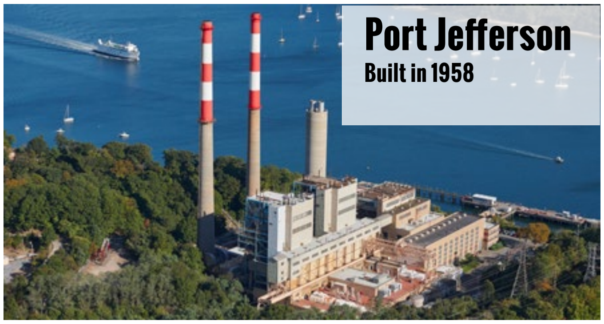
Four Legacy Power Plants

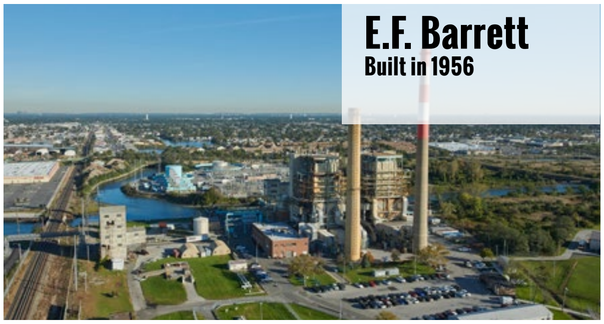
To meet the energy needs of Long Island, LIPA maintains 5,762 MW of generation under contract.[6] The property taxes on the 32 power plants across Long Island are $232 million. Four of these fossil-fueled baseload power plants were constructed between 1956 and 1977.

The four legacy power plants are:

- Northport Steam Plant, Units 1-4
- Port Jefferson Steam Plants, Unit 3 and 4 and Combustion Turbine, Unit 1
- E.F. Barrett Steam Plant, Units 1 and 2 and Combustion Turbines Units 1-6 and 8-12
- Glenwood Landing Combustion Turbine, Units 1, 2 and 3[7]







While well-maintained and reliable, these four legacy power plants are fossil-fueled, outdated, and costly. They supply just 21 percent of Long Island's electricity needs, but account for $184 million or 80 percent of all power plant taxes that LIPA customers pay in their electric bills.

The output of the legacy power plants is sold into the competitive wholesale market operated by the New York Independent System Operator (NYISO). The excessive tax burden on the four legacy plants results in costs that are not competitive with power prices in the electric market. Figure 5 shows the taxes, run time, and capacity factors on the four legacy plants compared to other plants across the State.

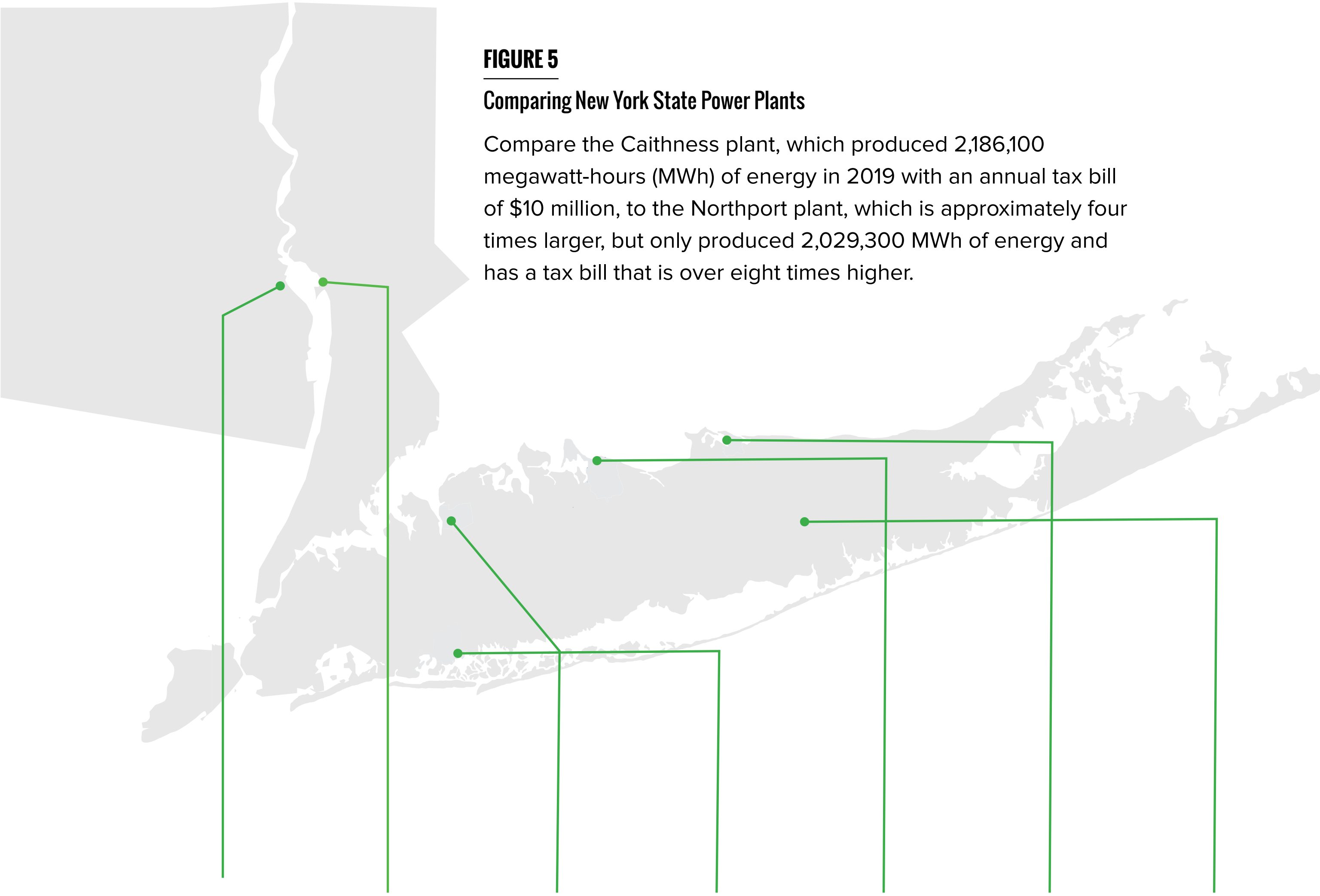
[6] LIPA has committed to purchase power from these plants through a Power Supply Agreement (PSA) that runs through April 30, 2028. Under this PSA, LIPA reimburses National Grid for all costs, including the property taxes assessed by each taxing jurisdiction.

[7] Glenwood Landing is the site of a former 224 MW steam plant that was decommissioned in 2013. Most of the tax burden for this former steam plant has now been assigned to the remaining combustion turbines.

FIGURE 5

Comparing New York State Power Plants

Compare the Caithness plant, which produced 2,186,100 megawatt-hours (MWh) of energy in 2019 with an annual tax bill of $10 million, to the Northport plant, which is approximately four times larger, but only produced 2,029,300 MWh of energy and has a tax bill that is over eight times higher.



							
Power Plant	**Bowline** West Haverstraw, NY	**Indian Point** Buchanan, NY	**Glenwood Landing**	**E.F. Barrett**	**Northport**	**Port Jefferson**	**Caithness** Yaphank, NY
Year Built	**1972**	**1973**	**1967**	**1956**	**1967**	**1958**	**2009**
Homes Powered	**31,867**	**1,854,944**	**45**	**148,578**	**225,478**	**30,433**	**242,900**
Assessed at	**$134 million**	Under fixed PILOT agreement	**$145 million**	**$500 million**	**$3.4 billion**	**$1.3 billion**	Under fixed PILOT agreement
2019 Run Time	**3%**	**93%**	**0.1%**	**25%**	**15%**	**8%**	**77%**
2019 Taxes	**$3 million**	**$32 million**	**$24 million**	**$43 million**	**$84 million**	**$32 million**	**$10 million**

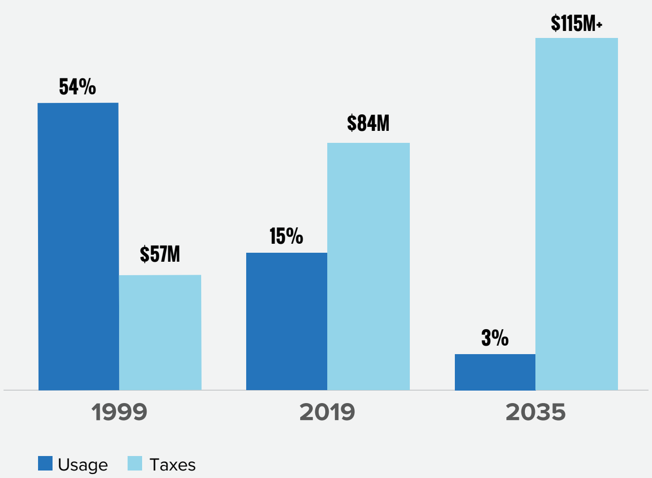
Northport Power Station Energy Production and Taxes

Power plants, like cars, are worth less over time as newer, more fuel-efficient models come to market and major components wear out. The costs to run the plants increase, runtime decreases, and eventually older power plants are retired and worth nothing at all. This trend is evident among all four of the legacy power plants.

Since the late 1990s, energy production at the Northport Power Station has fallen nearly 72 percent, as the power plant's 53-year-old technology requires more fuel, more staff, and more maintenance to operate than modern power plants. However, even though the output of the power plant is anticipated to further decline over the next decade, as shown in Figure 6, the taxes have increased by 49 percent and will continue to rise.

FIGURE 6

Northport Power Station



Glenwood Landing History

The Glenwood Landing Generating Station was decommissioned in 2013, leaving only three 1960's vintage gas turbines totaling 119 MW, for which LIPA paid approximately $24 million in taxes in 2019.

Today, the site of the former steam plant is a large vacant lot. Though the structure and equipment were removed, which caused a 64 percent reduction in the generating capacity of the site, the property taxes decreased by only 19 percent.

In effect, the tax rate per megawatt of the remaining generating facilities more than doubled, from approximately $64,000 per megawatt to $134,000 per megawatt, for gas turbines with little functional remaining life.

In March 2020, LIPA announced the retirement of one of the three remaining gas turbines in 2021. LIPA is also studying the retirement of the other two remaining gas turbines due to their excessive tax bills.

Glenwood Landing Plant Before Decommissioning

Glenwood Landing Generating Station Today

Northport Power Station Assessment

Utility property is assessed differently for tax purposes than most real estate because it is unique. Power plants are valued using a formula reflected below in Figure 7, which calculates the cost to build a brand new state-of-the-art plant and then adjusts for depreciation and other factors.

The Town of Huntington estimated the cost to build an entirely new Northport Power Station to replace the out-of-date Northport Power Station at $2.53 billion. But the town has valued the plant at $3.4 billion for tax purposes, which means the town assessor values the 53-year-old plant at $870 million more than their own estimate for a brand new plant.

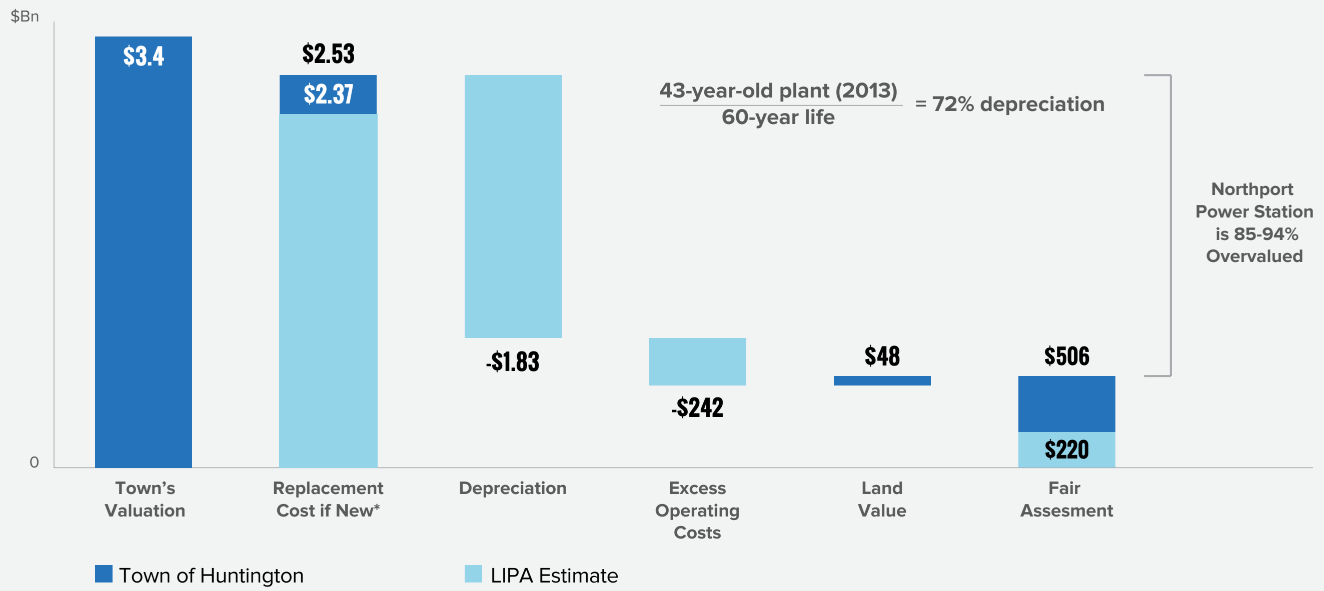
The trial conducted in 2019 at the Suffolk County Supreme Court will value the plant as of July 1, 2013.

Starting with the assumption that the Northport Power Station would last 60 years; the Town of Huntington's estimate to build a brand-new plant of $2.53 billion; subtracting $2.04 billion for depreciation and excess operating costs; and then adding back $48 million for the value of the land; we're left with an estimated total of $506 million, as shown below.

That's how much the power plant would be worth for tax purposes when using the Town of Huntington's number as a starting point. LIPA has its own estimate, which calculates the value closer to $220 million. Either way, the application of the formula shows how overvalued the Northport Power Station is by the Town of Huntington's assessor.

FIGURE 7

Replacement Cost New Less Depreciation Valuation for the Northport Power Station*



*The Town of Huntington and LIPA agreed RCNLD is the appropriate formula to value the Northport Power Station.

Northport Power Station Repowering Study

The Northport plant consists of four separate steam units, each of which can function independently from the other three. The four units, which are fossil-fueled, run less and less each year as they are 30 percent less fuel-efficient than modern power plants. At the end of LIPA's contract with National Grid to buy power from the plant in April 2028, the units will range in age from 51 to 61 years old. By comparison, 95 percent of steam units nationally have ceased operations by the age of 62, as shown in Figure 8. Those steam plants have significantly lower fixed costs than the Northport plant. The high tax bill on the Northport Power Station threatens the ability to keep the units in service.

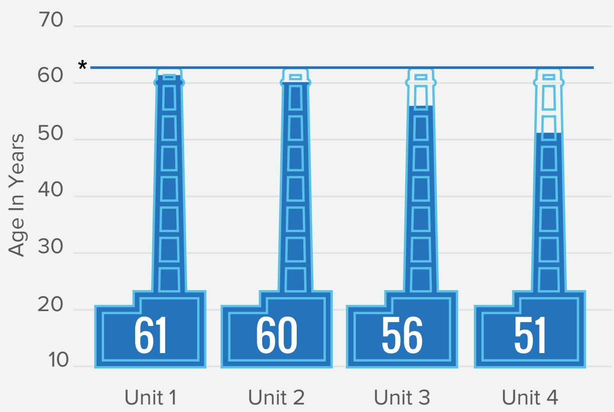
A new study[8] demonstrates that repowering the Northport Power Station is not a viable option and recommends that the most cost-effective approach would be the retirement of the plant in phases. The capacity factor of the plant is forecasted to fall to just three percent by 2035. Retiring even one of the plant's four existing steam units today would save customers more than $300 million, without jeopardizing the reliability of the electric grid.

As LIPA continues to invest in a modern grid, the excessive taxes on legacy plants will be a major consideration for their continued viability.

FIGURE 8

Age of Northport Power Steam Units in 2028

*95% of Steam Units Nationally are Retired by Age 62



[8] "Repowering Feasibility Study Northport Power Station," May 2020.

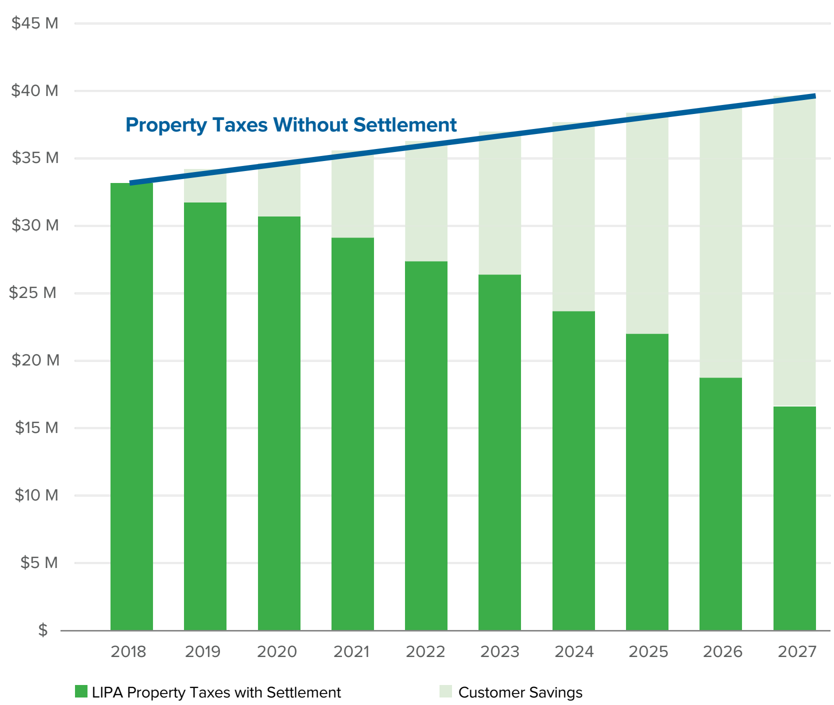
The Solution – Settlement Agreements

Town of Brookhaven and the Village of Port Jefferson

In December 2018, the Town of Brookhaven and the Village of Port Jefferson came to an agreement with LIPA to gradually lower taxes on the Port Jefferson Power Station each year through 2027. The settlement allows the Port Jefferson community to retain among the lowest school tax rates compared to towns in the surrounding area, waives over $225 million in tax refund liability owed by the town and village, and reduces taxes by 50 percent. The settlement will save LIPA customers $109 million in tax payments over the term of the agreement, as shown in Figure 9.

FIGURE 9

Port Jefferson Power Station Settlement Savings



Brookhaven Town Supervisor Ed Romaine

"This deal puts an end to the uncertainty of this plant over the course of nine years and gives finality to this issue. LIPA has said throughout this process that savings from the lower assessment will be returned to the ratepayers in the form of lower electric bills, which will benefit all Brookhaven residents. I have always believed that all property assessments should be fairly based on property value."

Village of Port Jefferson Mayor Margot Garant

"The power plant has been supplementing this community and even at the end of the agreement we will still be equivalent or below the taxes of our neighbors. If we put this off further, it will have a greater impact."

Case Study: Port Jefferson

Figure 10 shows the Port Jefferson School District's estimate[9] that taxes will remain more than 20 percent lower than its neighboring districts (Comsewogue, Three Village, and Mount Sinai) by the end of the agreement in the 2026-27 school year.[10]

FIGURE 10

Port Jefferson School District Retains Lowest Tax Rates with Settlement

School Year	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	Actual	Actual	Est	Est	Est	Est	Est	Est	Est	Est
Port Jefferson	**148**	**152**	**159**	**165**	**172**	**182**	**194**	**208**	**225**	**243**
Comsewogue	253	257	262	267	272	278	283	289	295	301
Mount Sinai	256	260	265	270	276	281	287	293	299	305
Three Village	268	273	279	284	290	296	302	308	314	320
Average of Neighboring School Districts	259	263	269	274	279	285	291	296	302	308

[9] *Port Jefferson School District 2019-20 Budget Presentation. January 24, 2019.*
[10] *Port Jefferson School District calculations assumes an annual levy increase of two percent with peaker plants and no program reductions.*

Nassau County Executive
Laura Curran

"This settlement is in the best interest of Nassau County residents. It safeguards us from paying hundreds of millions of dollars of tax refunds. The facts support the claim that these plants have been overassessed. This common-sense agreement protects our taxpayers from costly litigation, which would have resulted not only in substantial refund payments, but also devastating tax hikes to the affected school districts. Finally, I want to see utility rates go down for all of Long Island when these tax cases are resolved."

Nassau County

In November 2019, LIPA and Nassau County reached a tentative settlement on the E.F. Barrett and Glenwood Landing power plants to reduce total payments through a gradual PILOT phase-in of 50 percent through 2027. The gradual reduction in payments allows the community to adjust to a sustainable level of taxes over time, keeps Island Park and North Shore district taxes among the lowest in Nassau County, and waives over $625 million in potential tax refunds for all Nassau County residents. As part of the agreement, a community advisory board will be created to seek and provide input on the highest and best use of the properties. The settlement is contingent on approval of the PILOT agreement by the Nassau County Legislature.

In March 2020, LIPA announced the retirement of one of the three Glenwood Landing peaking units. However, if the settlement is implemented, it will provide time for the community to adjust by maintaining payments over the next seven years despite the retirement.

If the Nassau County Legislature does not approve the PILOT agreement, an independent third party, a court, will determine the fair level of taxes for these two peaking units.

E.F. Barrett Power Station

Glenwood Landing Generating Station

Trial Decision Nears for the Northport Power Station

LIPA presented a settlement proposal to the Northport community, similar to the one accepted by the Town of Brookhaven and the Village of Port Jefferson, that would reduce taxes on the plant by 50 percent over seven years, keep school tax rates low, and waive over $650 million in tax liability from Town of Huntington residents.

As the Huntington Town Board has not yet accepted LIPA's settlement offer, the final option is to have an independent third party, a court, determine the fair level of taxes that Long Islanders should pay for this power plant. The outcome will likely be less favorable than LIPA's settlement offers, which will no longer be available after a court decision.

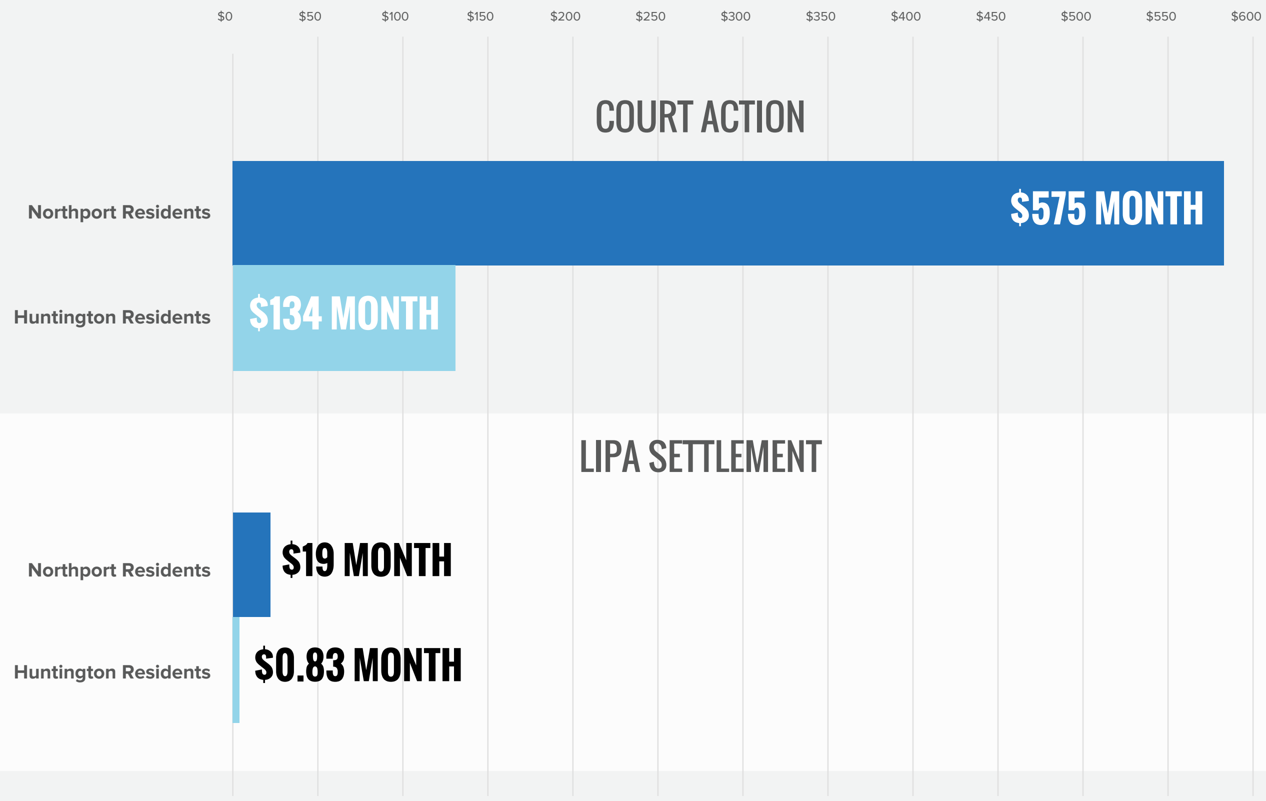
A court decision could result in an immediate property tax increase, costing about 30 times more than a settlement, for residents within the Northport-East Northport School District. Figure 11 shows a monthly estimated settlement increase versus an increase for the local community from a potential court action.

In 2019, a trial to determine the assessed value of the plant for the 2014 tax year was completed in Supreme Court, Suffolk County, and is awaiting a decision.

FIGURE 11

Settlement vs. Court Action

For a typical Northport-East Northport home valued at $565,000, a likely court action could result in an immediate monthly increase of $575 (including refund liability), while LIPA's settlement plan would phase-in increases in school taxes by approximately $19 per month (annually), reaching $133 per month by 2028.



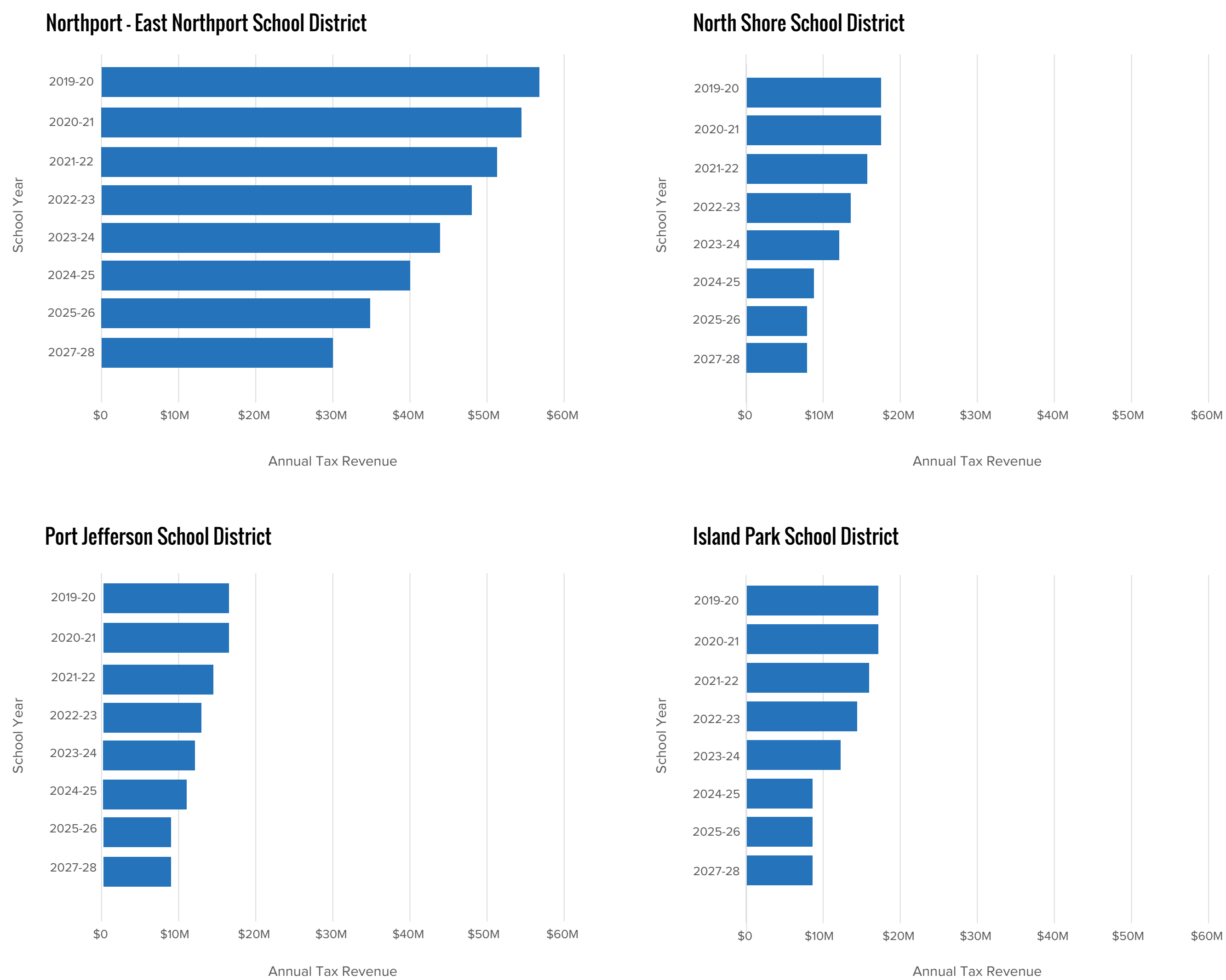
Power Plant Taxes Support Four Local School Districts

The property tax burden embedded in customers' electric bills subsidizes four of the 124 school districts on Long Island. As a result, the communities that host the legacy power plants have tax rates that are significantly below those in the neighboring school districts. Out of LIPA's 1.1 million customers, an estimated 25,000 customers in these communities benefit.

LIPA's settlement offers a phase down of the taxes by 50 percent over the remaining term of LIPA's contract to purchase power from the power plants, which expires in April 2028. While total taxes are being reduced over time, the host communities and school districts will continue to benefit from substantial tax payments, as shown in Figure 12.

FIGURE 12

Tax Payments to School Districts Continue with LIPA's Settlement Offers



Taxes on Transmission and Distribution Property

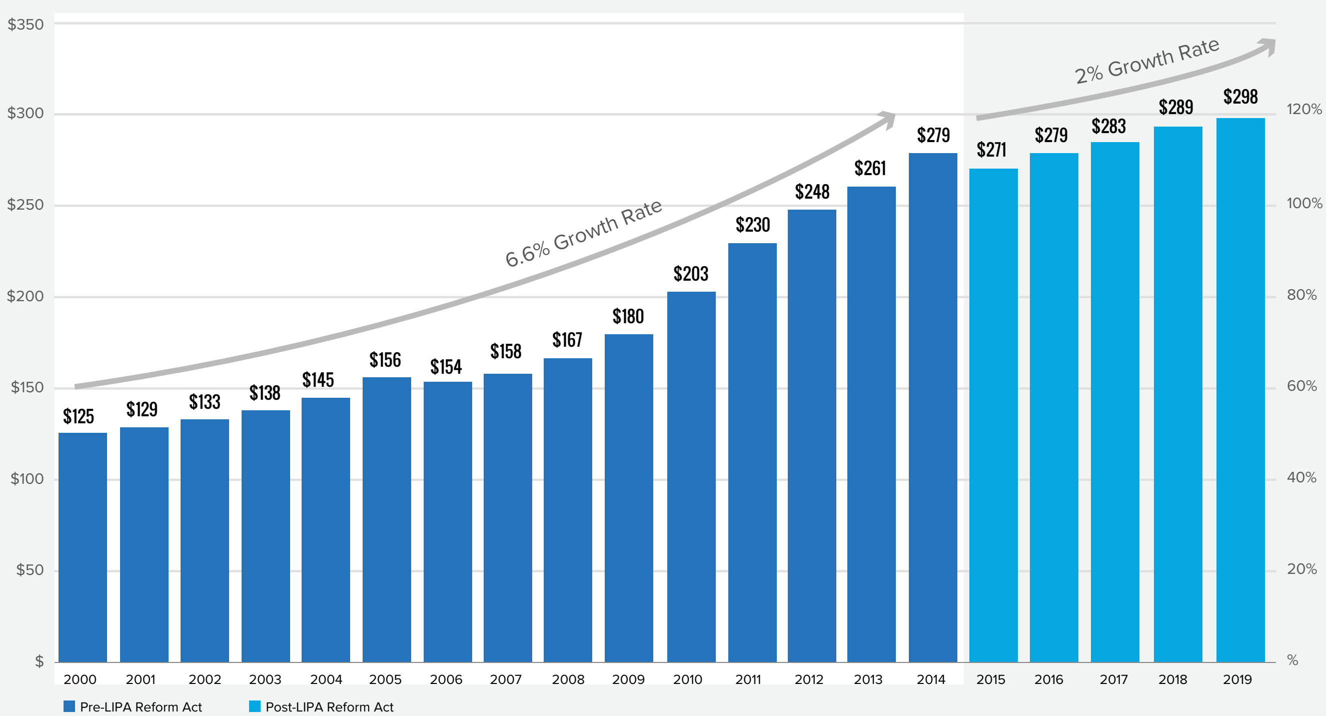
In addition to taxes on power plants, LIPA also makes payments-in-lieu-of-taxes (PILOTs) on its transmission and distribution (T&D) facilities. The T&D property consists of power lines, substations, and transformers used to bring electricity from power plants to customers. Similar to power plant property taxes, overassessed T&D property contributes to higher Long Island energy costs. LIPA has over 180 substations, and approximately 19,000 transmission poles and towers and 310,000 distribution poles.

PILOTs on LIPA-owned T&D Property

As illustrated in Figure 12, in the years following the acquisition of the Long Island Lighting Company (LILCO), property PILOT payments to local governments grew at a rapid pace, on average 6.6 percent per year between 2004 and 2014, including increases in excess of 10 percent per year in 2010 and 2011. This high rate of growth more than doubled the amount of hidden taxes on LIPA's T&D property from $125 million in 2000 to $293 million in 2019. This high tax burden was partially addressed with the LIPA Reform Act of 2013 (LRA), which effectively capped annual future increases of property tax payments on any parcel to no more than two percent over the payment made in the prior calendar year. The LRA also eliminated a portion of LIPA's revenue tax obligation, which saved an additional $40 million per year for customers. The benefit of these changes has been substantial.

FIGURE 12

Transmission & Distribution Property Taxes (millions)



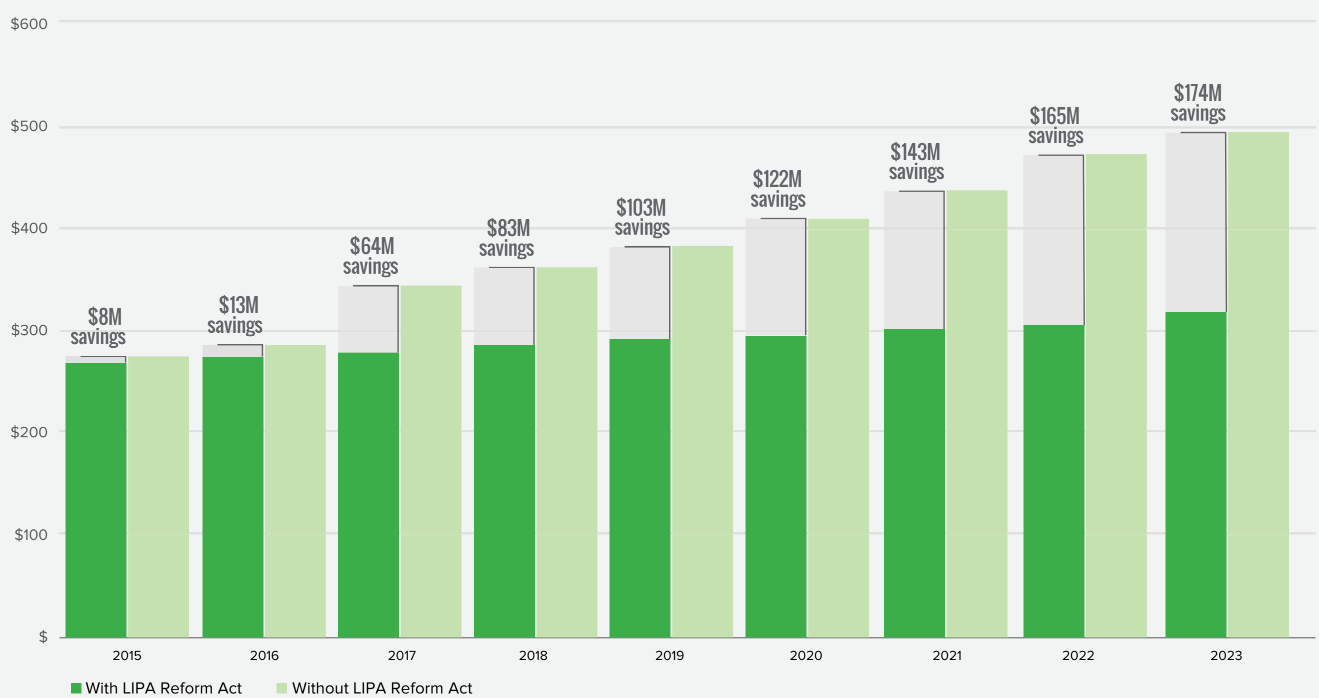
As noted in Figure 13, the LRA is anticipated to produce cumulative savings of $513 million through 2021, compared to the growth rate in T&D PILOTs before New York State stepped in to provide relief to LIPA customers.

Monitoring the Two Percent Tax Cap on Annual PILOT Payments

LIPA's efforts to pay only the fair PILOT payments on T&D property include ensuring that all taxing jurisdictions abide by the two percent cap of the LRA. LIPA reviews the PILOT payments sent by local tax jurisdictions to ensure compliance with the two percent cap. All taxing jurisdictions in Nassau County and the City of New York follow the two percent cap. However, many municipalities in Suffolk County continue to bill LIPA for increases in excess of the amounts permitted by law. In these situations, LIPA limits its remittance to the statutory amount it is authorized to pay and informs the taxing authorities. A lawsuit filed in January 2016 by 45 Nassau County school districts reached a settlement that affirms LIPA's tax calculations and the implementation of the two percent tax cap. LIPA continues to urge certain Suffolk County municipalities to comply with the two percent tax cap and filed suit in 2018 to prohibit Suffolk County from taking actions that ignore this statutory requirement. LIPA has now sued the Suffolk towns to enforce the LRA two percent PILOT cap. LIPA continues to meet and work with municipalities across the service territory to ensure proper implementation of the two percent cap.

FIGURE 13

Transmission & Distribution Taxes with and without the LIPA Reform Act



Conclusion

LIPA's mission is a Long Island electric grid that is clean, reliable, and affordable. As electric demand continues to decline, and as we implement our long-term strategies to increase energy efficiency and clean energy, older, fossil-fueled power plants will retire.

To date, the legacy power plants located in Northport, Island Park, and Glenwood Landing continue to decrease in value and operate less, but the taxes continue to rise. This extreme tax burden is placed on LIPA's 1.1 million customers who pay these taxes through their electric bills and the situation is no longer sustainable. LIPA will continue to pursue a fair solution for all its customers.

This strategy is defined in the Policy on Taxes and PILOTs that LIPA's Board of Trustees approved in 2016, which acts in the interest of LIPA's 1.1 million customers and represents the only path for these legacy generation sites to remain a viable component of Long Island's energy future.

Long Island Power Authority
www.lipower.org