

Tuesday, June 18, 2019
1:00 p.m.

Newkirk, Oklahoma

The Kay County Equalization Board met in special session at 1:00 o'clock p.m. on Tuesday, June 18, 2019, in the Commissioners Court of the Kay County Courthouse in Newkirk, Oklahoma. Notice of the meeting was posted on the 12th day of June 2019, at the Courthouse front door, Commissioners Court, and basement handicapped entrance of the Kay County Courthouse in Newkirk, Oklahoma.

Chairman J. C. Estes called the meeting to order. Those present were as follows: Joe R. Cary, Vice-Chairman; Steve Austin, Member; Brian Hermanson, District Attorney (DA); Billie Chrz, First Assistant District Attorney (ADA); Susan Keen, Kay County Assessor; Janell Leaming, Kay County Deputy Assessor; Jerry Wisdom, Total Assessment Solutions Corp. (TASC); Ryan Simpson, Tax Representative; Derek DeBlues, Tax Representative; Barbara Regier, Deer Creek-Lamont Public Schools Superintendent; Brady Barnes, Newkirk Public Schools Superintendent; Rick Riggs, Blackwell Public Schools Superintendent; Claude Williams, Taxpayers for Transparency; Tammy Reese, Secretary/Kay County Clerk. (See sign-in sheet).

Motion was made by Cary and seconded by Austin approving special meeting minutes of May 23, 2019. Motion carried: Cary, aye; Estes, aye; Austin, aye.

Before the hearing begin, DA Hermanson announced he would need to leave the hearing before 2 p.m. to attend court hearing; he told Billie Chrz would remain in the hearing in his absence.

Formal Appeal Hearings with Ryan Simpson and Derek DeBlues, Tax Representatives for Rock Falls Wind Project, LLC and Jerry Wisdom, TASC, representing Kay County Assessor's office:

Tax Representative Ryan Simpson, Rock Falls Wind Project, LLC, presented handouts to the board; Chairman Estes told two of the pages in the handout were for Thunder Ranch Wind Project and he asked for clarification. Mr. Simpson didn't have the Rock Falls Wind Project correct pages and replied he would be able to explain without the correct valuation model (DCF Model) and the Cost Approach.

Mr. Ryan Simpson, Rock Falls Wind Project, LLC, began by saying he used two approaches, the Cost Approach and Discount Cash Flow (DCF) approach. He said by using the Cost Approach he came up with approximately \$111 million and by using the Income Approach from the DCF Model he came up with approximately \$98 million which reconciles the two values at \$105 million. This lists Kay County's value at approximately \$33 million (this wind farm is also located in Grant County and Grant County is included in reports). Mr. Simpson talked about the Market Value, Mega Watts (MW) and the use of the Income Approach arriving at the \$98 million value. He talked about inflation rate and said that 5 years of inflation rates was taken into consideration; he said they used a capped rate of 9.33%. Mr. Simpson said the risks involved with this type of industry was considered. He referred to OTC-Functional Obsolescence in his handout pointing out that you start with your original cost, excess construction cost and excess operating cost. He said OTC recognizes the excess construction cost and said that is why OTC put the movable parts on the 12-year life and 25-year life on the towers. If you apply that and the trend factor it's arrived from the levelized cost of energy and is used in the unsubsidized cost. He told OTC cap rate on electric is 8.12 derived from Integrated electric power companies and that is how we figured the trend factor using the Cost Approach. Mr. Simpson explained the Construction Cost and said once you implement the 12-year life and the 25-year life plus the Capital Cost using the trend factor to get the Replacement Cost New then we applied the depreciation factor. He told the board to look at the Value Summary handout and said the Cost Approach (Obsolescence Factor) value being \$171,420,000 is the Replacement Cost New less the depreciation. He said no Cost Approach is complete without checking all forms of obsolescence which includes Economic Obsolescence; the External Obsolescence was found to be 35% using the Required Return vs. Actual on the External Obsolescence Indicator. He also talked about the Income Shortfall Method which is the Cost Approach before other External Obsolescence.

Board Member Cary asked how they arrive at percentages. Mr. Simpson said from the Required Return vs. Actual on investment and noted this is done each year to see Actual investment, Industry Comparable (9.33%) and also debt rate for each Triple A Bonds which arrived at 5.45% actual market structures of renewals and combine. Cary asked who works on these figures and stated there based on so many different factors. Mr. Simpson directed the different factors to the OTC methods but said property is riskier than the OTC manual regarding electric power. Cary asked where the risks come from. Mr. Simpson said it comes from Integrated power companies that OTC is using property and independent power companies, and to account for risk you have to get more return on the investment. Chairman Estes asked if they depreciate the value down each year. Mr. Simpson explained the life of the project. Cary said you are using the fixed items of 25-year life and the movable parts at a 12-year life. It was discussed what's parts are movable and what is considered fixed items.

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Jerry Wisdom, TASC, representing for the Kay County Assessor, began by saying he had a 49-page Exhibit and he explained the way he would present his Exhibit. He said Rock Falls Wind was commissioned in December of 2017 with 60 total turbines in Kay and Grant County; EDF Renewables being the owner. Mr. Wisdom referred to a map of the turbines showing location of turbines and what school districts the turbines are located in between Kay and Grant County. He explained this facility is in two counties so when we talk about income or value it is shared proportionately between both counties, but when noting values today it will be proportionate to Kay County. Mr. Wisdom said at the hearing last year Rock Falls reported costs to the Assessor's office of \$143,988,348 Kay County was \$44,818,348, we took issue with that value last year stating there is no possible way that could have been the total cost of the facilities. Mr. Wisdom said the total reported costs at start date was \$210,393,222 (between the 2 counties) as shown on OTC 901 Oklahoma Taxable Fixed Assets and on the financial statement and the actual net book value of property and equipment is \$236,725,356. The property, plant and equipment are \$236,725,356 plus depreciation \$9,521,576 equals a total cost of \$246,246,932. Mr. Wisdom said he started out with \$210,393,222 with the Assessor's office in his methodology and the Assessor had \$246,246,932 and then we go through the theatrics of his depreciation, functional and economic obsolescence and show how he is double dipping in some cases on the functional obsolescence. Mr. Wisdom referred the board to Exhibit 10 showing Rock Falls Valuation Summary on the Cost Approach at \$171,420,000 as base rate and then he gave additional economic obsolescence which is really undocumented the way he went through the capitalization rate, but this really is undocumented and not warranted in this particular case and will prove, and give him an opportunity to prove as well. Mr. Wisdom said he did the income approach (\$95,250,000) and bled the two costs and ended up with \$103,340,000; he said the actual net book value is \$236,725,356. Mr. Wisdom said if it's actually only worth \$103 million as a publicly traded company then why were those assets not documented and they should have done an impairment study. He referred to Exh. 13 Cost Approach and noted it's a 100-200 MW classification; he explained the class ranges of MW's and a different cost to build with each range. He told prices have come down since 2016, told about region cost and noted we are in the lowest cost region, told the average installed project cost in 2017 was \$1.6 million and explained in comparison to a home and so much per acre. Exh. 15 & 16 looking at an Annual Energy Outlook in 2019 determining costs and performance characteristics of a new electricity generating technology. Mr. Wisdom used an EIA Report in 2017 listing a new wind farm was that built similar to Rock Falls and stated there is no functional obsolescence and no need for depreciation. Exh. 18 graphs showing how you arrive at the start rate using 100-200 MW; Wisdom then talked about depreciation and how other wind energy companies are using 30-35-years life instead of the 12 and 25-year life. Wisdom had other reports recognizing 40-year life on wind farms. Cary asked if these units are made to be rebuilt and Wisdom said absolutely. Wisdom gave examples of other energy plants useful life in his Exhibits. Estes asked what caused the increase in useful life of turbines and Wisdom said turbines are lasting and maintaining longer. Mr. Wisdom directed the board to the cost approach method on page 23 and told he derived at \$252,429,169 with Kay County's portion being \$79,007,549. He then explained the assets "Class A" and "Class B" models, talked about Rock Falls selling credits to other companies to buy interest. He said sales of these facilities takes in all forms of depreciation, such as physical, functional and economic. Cary asked how you get a functional depreciation out of a wind generator; Wisdom explained. Wisdom went into detail about the sales approach and provided several exhibits referencing and provided a sales approach on 10 different facilities that sold. He told referring to these sales approach methods is how he arrived at \$73,698,876 with a total of \$235,467,955. On the income approach we disagree with their cap rates and we did not consider the income approach because we didn't have a stabilized income to review; he told when he did the income approach it came up with a negative \$3 million. Mr. Wisdom referred the board to Exhibit 44 the reconciled fair cash value at \$235,467,955 based on the sales approach to value, the cost approach shows the difference between the \$250 & \$235 it shows obsolescence between the two sale prices. He said he is asking the board to affirm the \$73,698,876; he said the net book value for the facility is \$236,467,955 so what we are asking is still under the net book value. Wisdom said June 2018 EDF Rock Falls sold 50% interest of this facility; in June 2018, EDF Renewables announced the signing of Purchase and Sale Agreements (PSA) by which PGGM Infrastructure Fund will acquire a 50% ownership interest in Rock Falls Wind. Wisdom said his question to Ryan Simpson is, what was the selling price for the 50% interest. He asked Mr. Simpson about the selling price, since he is familiar with their records, and Mr. Simpson said he didn't know; he then asked Mr. Simpson if he knew it sold and Mr. Simpson said yes, he did. Mr. Wisdom said if he knew it sold it should have been disclosed to this board. Mr. Wisdom reiterated he would ask the board to affirm the Assessor's value at \$73,698,876.

Tuesday, June 18, 2019
1:00 p.m.

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Chairman Estes asked Mr. Simpson if he had any rebuttal. Mr. Simpson said Mr. Wisdom was weighing all his information on the sales approach method and he stated those aren't actual values those are his estimates/guesstimates on what it is actually worth. Regarding the sale of Rock Falls, all that sold was the interest and cash flow and he gave a scenario. He said what sold was just a percentage of the cash flow. Regarding the cost approach, Mr. Simpson pointed out the replacement cost on the MW's as capturing the facility as a whole, he said this includes the substation, transmission lines, not just turbines. Discussion about how Wisdom arrived at his numbers was made again and disagreement with how it was adjusted. Wisdom discussed the start rate, Simpson said Wisdom presented old information and that is why there is such a difference. Chairman Estes discussed the market value on the Assessor's report and Wisdom explained and told the value for Kay County. Chairman Estes asked what the assessment rate was and Assessor Keen replied it was 14%. Discussion/differences continued between Simpson and Wisdom and questions were asked.

Ryan Simpson, Thunder Ranch Wind Project, LLC: Mr. Simpson presented handouts to the board. Estes asked if Thunder Ranch was located south of Tonkawa and Simpson said, yes. Mr. Simpson began by saying this was done similar to Rock Falls by using the discounted cash flow method. He gave the 2019 Market Value Estimate of \$230,300,000 and then referred the board to the Wind Farm Valuation Model page in his handout. Simpson said they used the income approach on these newer projects because it captures the whole project, talked about fluctuation, tax credits and market value of energy; he then referred them to the forecasted revenue and explained how it is figured and how they arrived at numbers using the income approach. Simpson talked about the cost approach, using cost of project new less depreciation, both forms of functional obsolescence, operating cost or excess construction costs, 12-year life on movable parts are all taken into consideration to arrive at the replacement costs. He talked about cost approach/income approach, different forms of obsolescence; he then talked about the return on investments all the while giving percentages. Chairman Estes asked if the \$438 million was the total involved with all the counties and was told Kay, Noble and Garfield were included. Estes said now let's discuss the actual return and the income shortfall. Simpson said there are two ways to measure economic obsolescence of a particular property. We did a minimum required return and he continued to explain the process. He started using percentages to explain how he arrived at figures for the income shortfall method. Simpson then began telling about trend factors and global price of wind turbines and talked about the drastic changes over the last decade; he said both examples shows the substantial downward trend in the actual cost of turbines. Estes asked what was causing the decline. Simpson said two things, one is the turbines are becoming longer, height is higher and able to capture more energy with one turbine. He talked about the number of MW's they are producing and the need for less turbines as a whole, and technology. Estes asked if turbines are being made to be more efficient and Simpson said yes because one turbine is able to capture a whole lot more energy than before. Estes asked if the number of turbines in Rock Falls was greater or less than Thunder Ranch; Simpson stated Thunder Ranch has more turbines than Rock Falls. Jerry Wisdom told that Thunder Ranch is a 300-MW facility and Rock Falls was 154-MW facility.

Jerry Wisdom presented his Exhibit to the board. He began by saying the total power is 300,00 KW which is 300 MW and was commissioned in 2017. He told the actual cost of the facility from the EIA report was \$448,980,000 which is \$1,507,6556 per MW; he compared Rock Falls and told the number of MW's; substation cost and transmission cost determines the overall cost. He explained Ryan Simpson's shortfall and how he determined LLC Assumptions and the percentages he used; Wisdom said he used the 25-year life and in the cost approach he used the 12-year life which lowers the value it's self on the cost side. Wisdom said he feels Simpson should use the 30-year life because that's how long the turbines are going to last. He told the board if you lower the cap rate you raise the value if you raise the cap rate you lower the value. Wisdom referred to Exh. 9 utilizing 12-year life (Ryan Simpson report) showing the actual cost of \$448,980,000, Ryan's cost \$404,927,862 and Wisdom explained Simpson's calculation process. Wisdom said let's talk about an important issue, Enel has \$448 million total investment in this facility and they sold the tax equity agreement for \$330 million when they sold the \$330 million that gave the other \$23 per MW's production tax credit income to a different company rather than Enel, gave an increased depreciation expense so Enel has invested from the \$330 to the \$448 \$120 million. Wisdom referred to the cost approach and told what the MW were coming in at per MW's and said these are calculated by class. He explained how he arrived at the start rate by using the EIA 2016 Generator Costs plus Enel Thunder Ranch plus EIA Annual Energy Outlook 2019 and it came in at \$1,493,069, replacement costs new and no functional obsolescence cost is included. He then talked about depreciation rates at a 30, 40, 25-year life. Wisdom went to his Exhibit 2019 Cost Approach and said because we have substation, this is breaking out by school districts, in Kay County there are two different school districts involved. He said he believed the fair market value for Kay County to be \$67,786,740, by using the cost the approach. Wisdom then mentioned the sales approach, he said Ryan is saying our analysis didn't capture any high-dollar PPA peaks and he explained. He talked about the wind farm sales approach, purchase price allocation per MW's and tangible assets.

Tuesday, June 18, 2019
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Wisdom said he didn't consider the tangible assets. GE sold, after the lien date, on March 26th, 650 MW back to Enel and own 50% interest in those facilities. The company said it has an enterprise value around \$900 million. Wisdom told what this included. He said Cimarron Bend had approximately \$610 million invested, Lindahl had a \$220 million investment. He explained how this broke down by MW. Wisdom explained how he arrived at the sales approach to value and arrived at the market value for Kay County at \$58,478,681. He said he disagreed with Ryan's cap rate at 9.33% and gave different reasons all in his Exhibits. Wisdom's Exhibits included a balance sheet as of December 31, 2018, income expenses, income approach to value and total reconcile approach. Wisdom said he asking the board to affirm for Kay County \$59,111,066 for 2019. Wisdom said Budweiser is a proud sponsor of this facility and 51% of its generated power is purchased by Anheuser-Busch for Budweiser brewery operations. He said Ryan's \$219 million value does not represent the market value and believe \$376,880,076 would be more reflective and even though Enel's net book value is \$421,356,976 is recognized in some obsolescence and a market change from last year. Wisdom said he thinks this is reasonable from the county assessor's prospective and asked the board to affirm.

Board Member Cary told both gentlemen he was very impressed with the amount of time and labor put into these presentations.

Chairman Estes said it is obvious a decision will not be made today, he said it will take some time to analyze this much information. He said a decision will be made by the last of this month and the County Clerk will advise you of once the decision has been made.

Mr. Simpson said he would email the pages that were missing in his Rock Falls handout.

Motion was made by Austin and seconded by Cary to adjourn (2:36 p.m.). Motion carried: Cary, aye; Estes, aye; Austin, aye.

Approved this 28th day of June, 2019.

J. C. ESTES, CHAIRMAN

JOE R. CARY, VICE-CHAIRMAN

STEVE AUSTIN, MEMBER

ATTEST:

TAMMY REESE, COUNTY CLERK
COUNTY OF KAY, STATE OF OKLAHOMA
SECRETARY, COUNTY EQUALIZATION BOARD
(SEAL)
