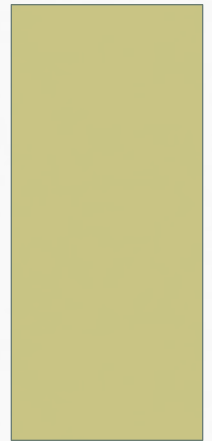


**TRIBAL OWNERSHIP &
CAPTURING THE GOVERNMENT
TAX BASE - 3 PROJECTS**

MICHAEL CONNOLLY

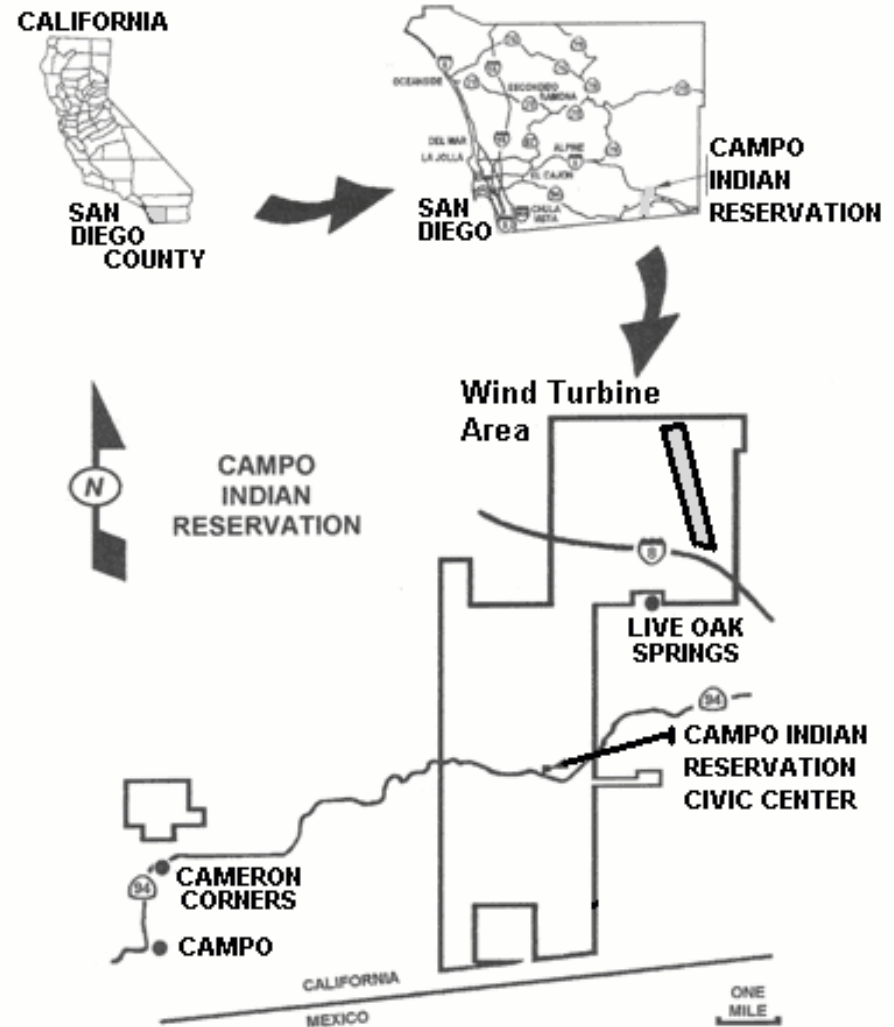


CAMPO BAND OF KUMEYAAAY

Southeast San Diego County

24 square miles

Population: 365



GENERAL PARAMETERS

- 66kV line on Reservation with substation
- 500 kV line with substation 15 miles from Reservation
- Interstate highway through Reservation
- Railway line through Reservation
- 3 MM in-County customer base
- Average 30% capacity factor on ridge tops

THREE APPROACHES

- Kumeyaay Wind
 - 50 MW passive lease
 - 25 year lease
 - Operation 10 years
- Casino Net Meter Turbine
 - 1.5 MW downgraded to 1 MW
 - California Incentive Program
 - Operation 1 year, option to buy at year 5
- Shu'luuk Wind
 - 160 MW lease with 20 MW ownership option
 - Voted down by General Council

WHY OWNERSHIP?

- More long term value
- Tribal policies
- Spin off opportunities, opportunity costs of passive participation
- Capturing both landlord and government shares of revenue

Problem: Tribal ownership interferes with realizing incentives

CAPTURING TAX REVENUES

- Negative support from State or County
 - Kumeyaay Wind governmental revenue losses
 - \$ 4 MM sales tax
 - \$ 500 K annual property tax/possessory interest
- Governmental services provided by tribe
 - Security, Emergency Services, Environmental
- Transferring incentives & “Pickle Rule” too narrow (IRS private letter ruling)
- Department of Interior property tax ruling too weak, also requires Interior involvement.

ILLUSTRATION OF PROJECT FINANCIALS

- Consider a 100 MW wind project for 30 years
 - PPA of \$70 per MW-hr
 - Capacity factor of .30
 - Construction 250 MM
 - Royalty 6% to tribe
 - Property tax 1%
 - Sales tax 7.5%
 - Possessory Interest 1%

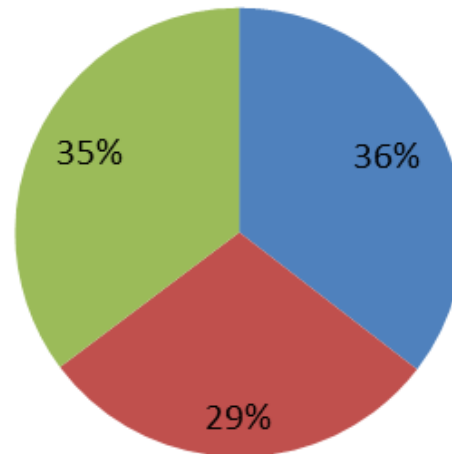
SAMPLE SCENARIO

- Royalty revenue to tribe = \$1,103,760 per year
- Sales tax .075 (67% of costs) = \$12,562,500 year one
- Property tax .01 (67% of costs) = \$1,675,000 depreciated to 0 in 30 years. Yields average of \$837,500 per year.

SAMPLE RESULTS

Net Present Value

■ Royalty ■ Sales Tax ■ Property Tax



- Royalty \$15,193,070
- Sales Tax \$12,562,500
- Property Tax \$15,107,727

SHU'LUUK WIND

- Drop in PPA price to \$50 made royalty/sales/property tax ratio worse
- Unwillingness of State/County to negotiate
- Willingness of developer to negotiate contingencies on taxes does not overcome the threshold issue.

SUMMARY

- Tax issues can have a dramatic impact on the potential for tribal ownership.
- Current case law is in flux and makes it difficult to determine the best course of action.
- Flexibility within the deal terms can help to ensure that as the laws change, the tribal community can get the most out of the project, but it can't overcome the bottom line threshold issue.
- Rankle factor