

NOTICE OF PUBLIC HEARING ON PROPOSED
PAYMENT-IN-LIEU-OF-TAX (“PILOT”) AGREEMENT

NOTICE IS HEREBY GIVEN that a public hearing, pursuant to § 859-a of the New York State General Municipal Law, will be held by the Tompkins County Industrial Development Agency (the "IDA") on the 6th day of April, 2015 at 5:30 PM, at the Board Room, Town Hall, Town of Lansing, 29 Auburn Road, Lansing, New York 14882 in connection with the following matter:

Cayuga Operating Company, LLC (the "Company"), with offices at 228 Cayuga Drive, Lansing, New York 14882 holds title to the land located at 228 Cayuga Drive, Town of Lansing, State of New York (Town of Lansing tax parcel number 11.-1-3.211) and on Ridge Road in the Town of Lansing (tax parcel number 11.-1-3.212) (“the Land”) and the coal burning electric plant (“the Improvements”) located on the Land (the Land and the Improvements are collectively referred to as “the Facility”).

AES Eastern Energy, L.P., (“AES”) the predecessor in interest of the Company, entered into a Second Amended and Restated Payment in Lieu of Tax (“PILOT”) Agreement with the IDA on June 1, 2012 (“the 2012 PILOT Agreement”), which agreement set forth the valuation of the Facility for real estate tax purposes. In order to implement the terms of the 2012 and earlier PILOT Agreements, the Facility was leased to the IDA by Lease Agreement dated February 27, 2009 and leased back to the Company by Leaseback Agreement dated February 27, 2009.

As a result of the IDA taking a leasehold interest in the Facility, the Facility is exempt from general real property taxation. The Company makes contractual payments in lieu of taxes (“PILOT” payments) for the benefit of tax affected jurisdictions. The PILOT payments are calculated based on the valuation of the Facility set forth in the PILOT Agreement, as amended.

The Company seeks further amendment of the PILOT Agreement, including, but not limited to, a change in the valuation of the Facility for real estate tax purposes, and a formula for calculating additional real property tax payments.

The 2012 PILOT Agreement (and the proposed amendment now under consideration by the IDA), deviates from the IDA’s Uniform Tax Exemption Policy in the following respects:

1. The PILOT payments made by the Company will be based on the valuation of the Facility set forth in the PILOT Agreement. These provisions deviate from the IDA’s standard property tax abatement in that the valuation would otherwise be performed by the Tompkins County Assessment Department.
2. Under the IDA’s Uniform Tax Exemption Policy, the valuation is determined by the Tompkins County Assessment Department. The Company then pays a portion of the taxes that would have been due, starting at 10% in year 1, and increasing to 100% over a seven year period. The proposed amendments to the PILOT Agreement between the IDA and the Company sets the valuation of the company at \$60,000,000 for the 2015 and 2016 assessment rolls.

3. The proposed amendment provides for Additional Property Tax Payment for 2015 and 2016 in the event that the Net Operating Income (“NOI”) of the Facility exceeds \$14,000,000 for any calendar year. In this event, there will be an Additional Property Tax Payment due to the taxing jurisdictions (including a payment to the Town of Lansing Fire District). One half of the NOI in excess of \$14,000,000 will be divided by a capitalization rate of 23.06% to determine the Imputed Value. The Imputed Value will be multiplied by 74% to determine the Imputed Taxable Value. The Imputed Taxable Value will be multiplied by the combined tax rate of the taxing jurisdictions to determine the amount of the Additional Property Tax Payment, which will be distributed proportionally to the taxing jurisdictions. The additional property tax payments (if any) will take effect with the 2015 school taxes and the 2016 Town and County taxes, based on the Imputed Taxable Value of the Facility for 2015.

The proposed exemption from real property taxation deviates from the IDA’s Uniform Tax Exemption Policy for the following reasons:

In the past, valuation disputes led to litigation between the Company and the County of Tompkins, which was costly for both parties and did not resolve the issue of future valuation. The PILOT Agreement, with the proposed amendments, determines the valuation of the Facility. This will result in more reliable tax revenues for the taxing authorities and more reliable expenses for the Company. The valuation of electric generation plants is difficult because of uncertainty about the requirements for handling carbon outputs. As a result, such facilities’ income is unpredictable. This results in appraisal and valuation difficulties, because the income approach is used for appraisal and valuation purposes.

The formula for calculation of Additional Tax Payment provides for payment of additional property tax payments based on the performance of the Company during the preceding calendar year.

Members of the public are invited to review a Resolution calling for a public hearing, which outlines the proposed revisions to the PILOT Agreement, at the offices of Tompkins County Area Development, 401 East State Street, Suite 402B, Ithaca, New York, during regular business hours.

The IDA will, at the above-stated time and place, hear all persons with views in favor of or opposed to the proposed amendment of the PILOT Agreement between the IDA and the Company. In addition, at, or prior to, such hearing, interested parties may submit to the IDA written materials pertaining to such matters.

A report of the hearing will be made available to the Tompkins County Industrial Development Agency Board of Directors. Approval of the PILOT Agreement by the IDA through its Board of Directors is necessary.

Dated: March 20, 2015

TOMPKINS COUNTY INDUSTRIAL DEVELOPMENT AGENCY