



Photo: LCRA archives

Owen Bludau

A Message from the Executive Director

Incentives - Unfortunately They're Here

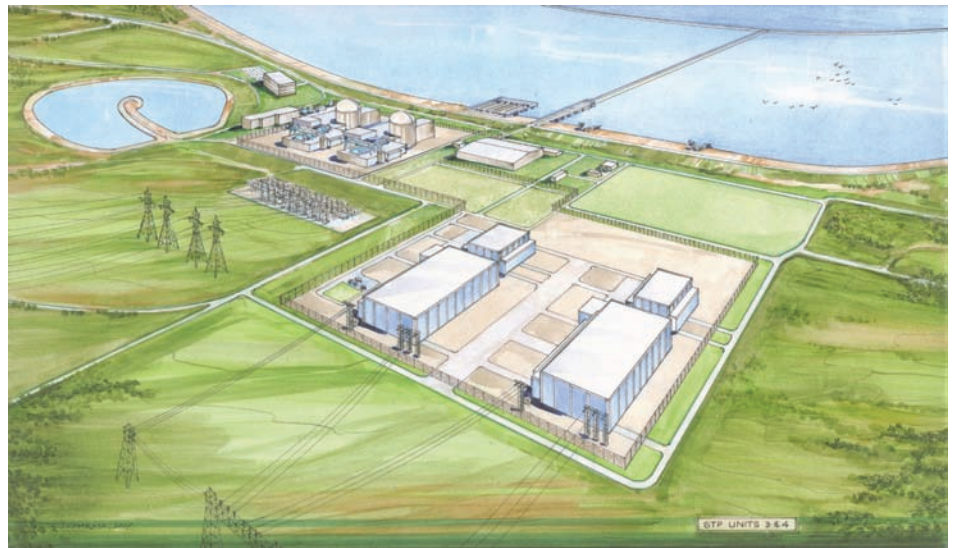
The cat is out of the bag regarding business incentives. The cat has been out for a long time as localities and states aggressively compete for new businesses, jobs and taxable investment. We may wish this was not so. We may prefer that incentives not be needed to attract new businesses. The reality is that incentives are so widely available that almost all businesses seek them, even if they are not deciding factors in the location selection.

The list of incentives offered by communities is long. Free land, free utility improvements, construction loans and grants, tax-free bond financing, tax abatement, training funds, sales tax rebates, elimination of permitting fees, fast-track approvals and many other incentives are available from many localities. Why would a business not seek financial incentives to reduce its new development costs? Site decisions ultimately are based on the best financial alternative for being competitive.

Some prospects say their site decisions will be based solely on the largest amount of incentives offered. Matagorda County does not pursue such

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STP Unit 3 & 4 Expansion *Powering Texas with NRG*



NRG Energy and the South Texas Project (STP) Nuclear Operating Company have filed a Combined Construction and Operating License Application with the Nuclear Regulatory Commission to build and operate two new units at the STP nuclear power station site. NRG owns 44% of the current units (units 1 and 2).

STP's proposed units 3 and 4 expansion will help meet Texas' growing energy needs through increased safe, reliable and cost-efficient base load electrical generation capacity and reduce the state's dependence on fuel sources – such as natural gas – that are susceptible to price volatility. The additional two units will also help protect Texas air quality by providing clean energy without producing the

emissions that contribute to global warming.

STP's site is designed to accommodate four units and the proposed expansion will fulfill the potential of the location. Units 3 and 4 will be constructed adjacent to the existing units 1 and 2 and will utilize the Advanced Boiling Water Reactor (ABWR) design. ABWR technology reflects 50 years of continued evolution

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Why We Want Exelon Nuclear

A recent announcement by Exelon Nuclear of a 1,250-acre Collegeport site in Matagorda County as its preferred location for a new plant was very welcomed. Exelon, the largest owner of nuclear units in the U.S., has 17 units in operation. Economic development and elected officials had been aggressively courting Exelon for nine months to sell them on the benefits of locating in Matagorda County. The \$4+ billion investment makes it the second largest proposed new investment in Texas in the past four years. The STP expansion would be the largest. The combined STP and Exelon investments would equal the combined investments of the eight largest industrial projects built in Texas since 2003.

Major attractions for Exelon were the pro-nuclear attitude of county citizens and government, an excellent emergency management system, the local power line grid, availability of cooling water, large tracts of land and the welcoming attitude of Matagorda County.

“This is not a final site or project decision,” stated William Scott, Exelon’s Manager of Public Affairs

in Texas. A year of extensive site environmental testing is required before a construction and operating

“These two projects could provide 1600-2000 new permanent jobs.”

permit application can be filed. The Collegeport site and a secondary site in Victoria County are being tested. “Factors to be considered before making a final site selection and decision to proceed include the financial feasibility of the project, future power demand and supply projections, environmental considerations, and having a federally approved method for permanent disposal of spent nuclear fuel rods,” stated Scott.

Local officials see that Matagorda County can become a major electrical power generation center with the expansion of STP and a new Exelon facility. The two projects could provide 1600-2000 new permanent jobs. Matagorda County is also being examined by other power generation companies.

The Bay City Synergy Training Center can provide the education and

technical skills needed for our adults and youth to prepare themselves for these well-paying positions. These plants can also attract other companies that require large and guaranteed power supplies. The two construction projects would require 3,000-6,000 workers each, with some overlap in schedules projected. “We hope that having two nuclear plants will help attract companies to locate here to provide maintenance services needed for their regularly scheduled outages” said Owen Bludau, MCEDC Executive Director.

Exelon Corporation is one of the nation’s largest electric utilities with more than \$15 billion in annual revenues. The company has one of the industry’s largest portfolios of electricity generation capacity, with a nationwide reach and strong positions in the Midwest and Mid-Atlantic. In Texas, the company owns or controls about 3,700 megawatts of natural gas fired generation within the Electric Reliability Council of Texas (ERCOT) system. Exelon is headquartered in Chicago and trades on the NYSE under the ticker EXC.



Benefits of Nuclear Energy

Energy Security:

Nuclear power can help ease America’s dependency on foreign fuels and help preserve our nation’s natural resources. Using uranium pellets instead of traditional fuel to generate electricity for our homes, business and industries, the two new units at STP will annually save the nation from using 33.6 million barrels of oil, 9.8 million tons of coal (which would fill 98,000 railroads cars), or 215.6 billion cubic feet of natural gas (that would fill approximately 3,000 domed stadiums) a year.

The Environment:

A nuclear power plant does not emit greenhouse gases. If fossil-fueled plants were used to produce the same power as the STP expansion, they would emit 15.8 million tons of carbon dioxide, 38.8 thousand tons of sulfur dioxide and 10.7 thousand tons of nitrogen oxide into the atmosphere each year.

STP Unit 3 & 4 Expansion Continued:

in design combining the best features from the worldwide Boiling Water Reactor fleet with advanced technology enhancements that improve safety, performance and longevity. It is the most advanced nuclear technology in operation in the world today with a track record of reliable and safe operation and a history of on time, on budget construction. Four units are currently in operation in Japan with another three under construction and nine more planned.

Construction of the two new units will last approximately six years, employ 4,000 to 6,000 construction workers, and cost more than \$6 billion. STP's proposed expansion project will bring training and educational opportunities, construction and permanent jobs, and economic growth to the County.

Each unit will create more than 2,000 construction jobs during the peak construction period. Once both



units are online, approximately 900 new operating staff positions will be employed by the plant.

Based on a study prepared for NRG, the new nuclear units are expected

to generate more than \$9 billion of economic activity for the state and result in more than 5,500 permanent, direct and induced jobs.

\$150 Million Natural Gas Storage Facility

Tres Palacios Gas Storage to Begin Construction

Tres Palacios Gas Storage LLC received its Certificate of Public Convenience and Necessity for construction to begin on a \$150 million natural gas storage facility and pipelines in Matagorda County. Construction will start this month, according to company president Laura Luce. The plant should begin operations in mid-2008 and create 10 new jobs. Annual payroll should exceed \$600,000. Matagorda County taxing entities should receive \$5-\$7 million in new taxes at full development of the phased facility.

Tres Palacios Gas will use three salt dome caverns at Clemville to store natural gas for gas distribution companies. The facility will be linked by 40 miles of dual pipelines to 13 major gas distribution pipelines.

County Commissioners Court and six other taxing entities agreed to support a request by Tres Palacios Gas for Foreign Trade Zone (FTZ) designation at its 20-acre Clemville site. The federal FTZ designation will exclude 17 billion cubic feet of "cushion gas" owned by the company from local taxes. That was a major incentive sought by Tres Palacios Gas. It waived tax abatement in lieu of support of the FTZ designation. Cushion gas provides pressure on stored customer gas and maintains the integrity of the

caverns. Texas is the only state that taxes cushion gas at the value of natural gas on December 31st of each year. Receiving FTZ designation would allow Tres Palacios Gas to avoid taxes on the cushion gas for the life of the FTZ. That major incentive helped make a more even "playing field" for the Clemville site in comparison to salt dome sites in Mississippi and Colorado that Tres Palacios was also considering for gas storage projects. It will be a year before Tres Palacios knows if the FTZ designation will be granted.

Commissioners Court received concessions from Tres Palacios in exchange for support of the FTZ application. Up to 34 billion cubic feet of customer gas stored in the caverns will be taxable. The \$150 million investment in facilities and pipelines will be taxable. All plant employees will be required to live in Matagorda County. Tres Palacios Gas will seek to hire its employees from Matagorda County. Laura Luce stated that she hoped to expand storage capacity into additional caverns as the project is successful. All gas stored in future caverns would be taxable by the county and other local taxing entities.

The Matagorda County Economic Development Corporation (MCEDC) Board represents all of Matagorda County and consists of 11 appointed members from five public entities - Matagorda County, the Bay City Community and Palacios Economic Development Corporations, Navigation District #1, and the Port of Bay City Authority - and the four Chambers of Commerce from Bay City, Matagorda, Palacios and Sargent.

The MCEDC is focused on recruiting new industrial and commercial businesses and tourism infrastructure developers to Matagorda County. The Bay City Community Development Corporation recruits retail businesses to Bay City and helps existing retailers expand.

MCEDC Board Members:

Ken Johnson - Palacios EDC - President
Mayor Richard Knapik - BCCDC -VP
V.L. Bowers - Palacios Chamber - Secretary
George Harrison - Port of BC - Treasurer
John Connor - Palacios EDC
Councilman Joe Enoch - Bay City CDC
Judge Nate McDonald - Comm. Court
Susan Mitchell - Matagorda Area Chamber
Phill Richman - Navigation District #1
Muriel Tipps - Sargent Chamber
Mitch Thames - Bay City Chamber

Owen Bludau - Executive Director
Lisa Tew - Communications Director

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For Retail and Land Development:
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The MCEDC promotes economic development using the county's assets of multiple natural gas lines, rail service by two providers, barge service on the Intracoastal Waterway and Colorado River channel, a nuclear power plant and large transmission grid, abundant river and groundwater supplies, large tracts of flat land, no zoning, air quality attainment and a business welcoming attitude. For more information go to www.mcedc.net.

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Executive Director Continued:

prospects. We pursue companies that prefer to be here. We discuss incentives when it is necessary to make us more comparable to other site options they have. None of our location features are unique to Matagorda County. We look for ways to make us a more attractive choice than other locations with similar features. Those ways are not always financial. Tres Palacios Gas Storage preferred local support for a Foreign Trade Zone designation in lieu of tax abatement. It would provide Tres Palacios a longer term financial benefit. Matagorda County agreed to support the request in lieu of tax abatement.

We identify appropriate sites and work with owners to sell to good prospects. We offer employee recruitment and training assistance through the Work Source, Wharton County Junior College or Texas State Technical College. We work with utility providers to help prospects. We have obtained legislative support that benefited prospects. We can apply for state loans and assistance programs for industries locating in rural areas. These incentives do not come from our local taxes.

Matagorda County has a tax abatement policy. It is intended to help new businesses during their first years when development costs are highest and production and sales are ramping up. It is the county's major recruitment incentive. It is limited to industrial businesses investing at least \$1 million and creating at least 10 new jobs. It is also available to local industries that expand and meet the same criteria.

Can Matagorda County successfully recruit industry without incentives? If you look long-term, it is better to give up some taxes early on to gain a 30-50 year taxable facility. Some will say that tax abatement gives up the highest value before depreciation is taken. However, any industrial plant will make major investments over its life time to remain economically productive. The value of the plant will increase and decrease several times over its lifetime. New jobs will also produce long-term taxes as employees purchase land, houses, vehicles and pay sales tax. It is certainly better to have the long-term jobs and tax base than to not get them. If it takes tax abatement to get a good company to commit to Matagorda County, then it is a good long-term decision for the county.

Taxes and jobs are not the only benefits new businesses bring to the county. Our charitable and non-profit organizations, museums and libraries would not survive without the support of our industrial businesses. They provided tens of thousands of dollars in scholarships for our children. Most importantly, their employees strengthen our community through their presence and participation. Recruiting good industrial businesses is good for our local economy, our workers and our communities. If it takes tax abatement to attract these public benefits, then the returns are worth the investment.