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Issue(s): Public Interest - Property Taxes  
Witness: Joseph J. LaMacchia  
Type of Exhibit: Surrebuttal Testimony  
Sponsoring Party: Ameren Transmission Company  
of Illinois  
File No.: EA-2015-0146  
Date Testimony Prepared: November 16, 2015

**MISSOURI PUBLIC SERVICE COMMISSION**

**File No. EA-2015-0146**

**SURREBUTTAL TESTIMONY**

**OF**

**JOSEPH J. LAMACCHIA**

**ON**

**BEHALF OF**

**AMEREN TRANSMISSION COMPANY OF ILLINOIS**

**St. Louis, Missouri  
November, 2015**

**SURREBUTTAL TESTIMONY**

**OF**

**JOSEPH J. LAMACCHIA**

**FILE NO. EA-2015-0146**

1           **Q.     Please state your name and business address.**

2           A.     My name is Joseph J. LaMacchia, and my business address is 1901 Chouteau  
3 Avenue, St. Louis, Missouri 63103.

4           **Q.     By whom and in what capacity are you employed?**

5           A.     I am employed as a Sr. Tax Specialist by Ameren Services Company  
6 (“Ameren Services”). Ameren Services provides tax services, including relating to property  
7 taxes, to Ameren Transmission Company of Illinois (“ATXI”) and its affiliates.

8           **Q.     Please provide your educational background and professional work**  
9 **history.**

10          A.     I graduated in 1970 with a Bachelor of Science degree in Accounting from  
11 Southern Illinois University. I was employed by Union Electric Company in 1970 and have  
12 worked for varying lengths of time in the Budget & Cost, Internal Audit, Property  
13 Accounting, Rates, Methods, and General Accounting departments (joining Ameren Services  
14 when Union Electric merged with Central Illinois Public Service to form Ameren  
15 Corporation in the 1990s). In 1992, I joined the Property Tax Section of the Tax Department  
16 and have worked in this group up to the present.

17          **Q.     What is the purpose of your surrebuttal testimony?**

1           A.     The purpose of my surrebuttal testimony is to rebut claims by Neighbors  
2 United Against Ameren’s Power Line (the “Neighbors”) that the Mark Twain Project (the  
3 “Project”) is not in the public interest. In addition to benefits addressed by other ATXI  
4 witnesses, the Project will also benefit the public at large because it will generate significant  
5 property taxes for each of the five counties through which it is to be built, both during  
6 construction and even more so once the line is in-service.

7           **Q.     Please describe your experience with calculating property taxes**  
8 **associated with new construction in Missouri.**

9           A.     Since joining the Tax Department in 1992, I have performed numerous studies  
10 to determine the estimated property tax benefits to local tax authorities, including school  
11 districts, for new construction projects involving generation, transmission and distribution  
12 facilities. My responsibilities in preparing state and local property tax returns in Missouri for  
13 both Ameren Missouri and ATXI have also provided me with experience in determining  
14 property taxes related to new construction. I ensure that all filings are made on a timely basis  
15 and are compliant with Missouri state statutes, the Missouri Constitution, and state  
16 regulations pertaining to property valuation of public utilities. As part of the local valuation  
17 process, I analyze all new construction projects as of January 1 of each assessment year and  
18 report the cumulative original cost of each project to the appropriate county assessor as  
19 Construction Work in Progress (“CWIP”). The assessor then determines the market and  
20 assessed valuations for CWIP. The property tax rate for each tax authority in which  
21 construction occurs is then applied to the assessed value to determine the amount of tax due  
22 each tax authority. If construction occurs entirely within a given school district in a county,  
23 then only that school district receives property tax revenue. Once the facilities are placed in-

1 service, the property is classified as state assessed (distributable) property, and the Missouri  
2 State Tax Commission determines the market and assessed valuations. The total  
3 distributable assessed value is then apportioned to each tax authority based on the number of  
4 pole miles within the tax authority. The tax rate for each tax authority is then applied to the  
5 assessed value to calculate the amount of tax due. For school taxation purposes, the total  
6 distributable assessed value within a county is taxed at the simple average of all school  
7 district tax rates within the county to determine the tax due. This tax is then allocated to all  
8 school districts in the county based on several factors. Tax authorities are required to file  
9 final proposed tax rates and supporting data with the county for each assessment year. The  
10 State Auditor reviews the data and a finding is returned to both the county and tax authority  
11 advising whether the proposed rates comply with Missouri law. The tax rate ceilings are  
12 determined based on the requirements of the Missouri statutes and the Missouri Constitution  
13 (Hancock Amendment).

14 **Q. Have you estimated the property taxes that are expected to be generated**  
15 **by the Mark Twain Project?**

16 A. Yes, I have. I have prepared two estimates, one in March 2015 and a second  
17 estimate in May 2015.

18 **Q. Why did you prepare two different estimates?**

19 A. I was first asked to prepare a high-level estimate using general data consisting  
20 of an average cost per line-mile based on some assumptions that project engineering had  
21 made about what the Project was expected to cost. This approach will give one a general  
22 idea of the taxes that would be paid in each county, but it has a lower degree of accuracy  
23 because the actual taxes to be paid will depend on actual construction costs in each county

1 and because the cost estimate for the Project was in its early stages. In addition, although I  
2 did not know it at the time, the average cost per line-mile that the project engineering group  
3 provided me at the time included real estate-related costs, which should have been excluded.

4           Once the Project budget was refined and the mistake about the real estate-related  
5 costs was corrected, I performed a second, detailed calculation using budgeted costs specific  
6 to each county.

7           **Q.     Generally, what did the estimates show?**

8           A.     There are separate estimates for the construction phase and for the post-in  
9 service periods, and they both (for the in-service estimates) provide estimates if the line is  
10 “state assessed” for property tax purposes versus “local assessed.” I will discuss state versus  
11 local assessment further below. Focusing on the ongoing, annual property taxes once the line  
12 is in service, the first estimate showed annual property taxes of approximately \$3.1 million  
13 (if state assessed) or \$2.99 million (if locally assessed). The second, more refined and  
14 corrected estimate, shows annual property taxes of approximately \$3.6 million (state  
15 assessed) and \$3.46 million (locally assessed). A copy of my second estimate is attached as  
16 Schedule JJM-SR1.

17           **Q.     Please explain the construction period estimates.**

18           A.     The method used to determine property taxes on construction work in  
19 progress is different than that used for in-service projects, and there is no distinction between  
20 state assessment versus local assessment for CWIP. We estimate property taxes on CWIP  
21 will total over \$700,000, split between the counties as shown on Schedule JJM-SR1.

22           **Q.     Please explain the issue between state versus local assessment.**

1           A.       There was some question early-on regarding whether ATXI was a public  
2 utility for property tax purposes, given that it does not provide electric service to end-users.  
3 After discussing the matter with the State Tax Commission, and given the Commission's  
4 determination that ATXI is a public utility, it is highly likely that the Project will be state  
5 assessed.

6           **Q.       Could the actual property taxes paid vary from these estimates?**

7           A.       Yes, they could and almost certainly will vary, but unless the counties were to  
8 substantially slash their levies, which experience has shown is unlikely, these estimates are  
9 reasonable and the counties can expect to receive property tax revenues that are reasonably  
10 close to these sums.

11          **Q.       Would the impact of easements acquired over land in these counties**  
12 **materially impact these property tax estimates?**

13          A.       No. The property tax estimates on Schedule JJM-SR1 would not be  
14 materially impacted by the easements acquired over land along the transmission line route.  
15 The valuation of the ATXI facilities is determined by the local county assessor during the  
16 construction period, then by the Missouri State Tax Commission after the facilities are placed  
17 in-service. These valuations are not influenced by the valuation of the property of any other  
18 land owner. It is inevitable that property taxes will increase in the tax authorities involved in  
19 these counties due to the increase in assessed value for the ATXI facilities. For example, for  
20 tax year 2015, ATXI will pay to Marion County, MO \$565,000 in new taxes attributable to  
21 the additional \$10 million of CWIP assessed value reported in the county for the ATXI  
22 Illinois River Transmission Project. The Palmyra R-1 School District will receive \$402,000  
23 of these new taxes. For tax year 2014, the total assessed value for all properties in Marion

1 County had been \$386 million. Therefore, the ATXI Illinois River Project has already added  
2 \$10 million of assessed value to the 2014 assessment, and the Mark Twain Project is  
3 estimated to add another \$9.3 million of assessed value to the county for 2019, the first full  
4 year when the facilities are in-service. For the other counties impacted by the Mark Twain  
5 Project route, the 2014 total assessed value in Adair County was \$267 million, in Knox  
6 County \$76 million, in Schuyler County \$44 million, and in Shelby County \$123 million.  
7 For 2019, the first full year the line is in-service, the Mark Twain Project is estimated to add  
8 another \$19 million of assessed value to Adair County, another \$8 million of assessed value  
9 to Knox County, another \$12 million of assessed value to Schuyler County, and another \$11  
10 million of assessed value to Shelby County. These added assessed values attributable to the  
11 Project, compared to any diminution in the value of the property of individual landowners  
12 along the route, would more than offset any negligible impact on assessed value due to  
13 easement acquisition, if there is any impact at all. This is evidenced by the fact that for 2007,  
14 the first full year that the newly constructed Ameren Missouri Callaway-Franks transmission  
15 line was in-service, the county total assessed values for Callaway County, Osage County,  
16 Maries County, and Pulaski County increased over 2006 total assessed values by \$49 million,  
17 \$8 million, \$5 million, and \$45 million, respectively. In my experience, total taxes in  
18 counties where a significant project like this is built always increase substantially after the  
19 project is in-service.

20 **Q. Would additional property taxes generated by this project require any**  
21 **tax levies, for example, for a school district, to be reduced?**

22 A. No, the additional property taxes generated by this project would not result in  
23 the reduction of any tax levies. Each tax levy rate ceiling is determined annually and is

1 adjusted to ensure revenue neutrality. For this reason, only if the assessed valuation of  
2 existing property increases, then tax levy rate ceilings can generally decrease, dependent on  
3 the amount of the valuation increase. New construction is excluded from this calculation.  
4 The resulting tax levy rate, though, is applied to the new construction assessed valuation.

5 **Q. Please explain.**

6 A. The Commission is probably familiar with the Hancock Amendment, which  
7 was adopted in 1980. Under it, local tax officials must determine the revenues that were  
8 billed, or could have been billed, the prior year. This is determined by taking the assessed  
9 valuation times the operating tax levy rate. An increase is permitted over those prior year  
10 revenues, equal to the rate of inflation certified by the State Tax Commission or five percent,  
11 whichever is lower, provided assessed valuations increased by at least that percentage. The  
12 tax rate may not exceed the rate in effect in 1984, or the highest levy voted since then, except  
13 that, as explained below, certain revenues are excluded for purposes of making the  
14 calculation.

15 The permitted new revenue total is divided by the current year's valuation, except for  
16 new construction and improvements. The resulting tax levy rate is applied to total valuation,  
17 including new construction and improvements, to determine actual revenues. Thus, revenue  
18 increases are allowed both for inflation and for new construction and improvements.

19 **Q. Does this mean that other property tax revenues that the counties, and**  
20 **any taxing districts within them, would have received will not be reduced in any way**  
21 **because of the additional taxes generated by the Project?**

22 A. Yes, it does.

23 **Q. Can you provide an example that illustrates why this is so?**



1           A.     Yes. Assume you have a school district with property tax revenues allowed  
2 the prior tax year of \$500,000. Assume further there is a 2% cost of living adjustment,  
3 allowing it to set its tax levy rate based on revenues of \$510,000. Assume further that the  
4 current valuation is \$25 million, of which \$800,000 is in the form of new construction. To  
5 determine its rate, you would divide \$24,200,000 into the \$510,000 allowed revenues. That  
6 would give it a tax levy rate of \$2.11. Applying that tax levy rate to the total valuation of  
7 \$25,000,000 would result in \$527,500 in taxes levied for the current year. Of the \$27,000  
8 increase in revenues over the prior year, \$10,000 is the result of its cost of living allowance,  
9 and \$17,500 comes from taxing new construction and improvements, but that \$17,500 is not  
10 subject to any cap, and it does not lower the \$510,000 that was otherwise allowed. The exact  
11 same thing will happen once the Project starts generating annual taxes after it is in service.

12           **Q.     Does this conclude your surrebuttal testimony?**

13           A.     Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Application of Ameren Transmission )  
Company of Illinois for Other Relief or, in the Alternative, )  
a Certificate of Public Convenience and Necessity )  
Authorizing it to Construct, Install, Own, Operate, ) File No. EA-2015-0146  
Maintain and Otherwise Control and Manage a )  
345,000-volt Electric Transmission Line from Palmyra, )  
Missouri, to the Iowa Border and an Associated Substation )  
Near Kirksville, Missouri. )

**AFFIDAVIT OF JOSEPH J. LAMACCHIA**

STATE OF MISSOURI    )  
                                  ) ss  
CITY OF ST. LOUIS    )

Joseph J. LaMacchia, being first duly sworn on his oath, states:

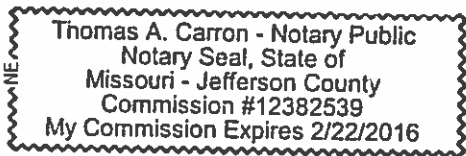
1.     My name is Joseph J. LaMacchia. I work in the City of St. Louis, Missouri, and I am employed by Ameren Services as a Sr. Tax Specialist.
2.     Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony on behalf of Ameren Transmission Company of Illinois consisting of 8 pages, and Schedule(s) JJM-SRI all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3.     I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

  
\_\_\_\_\_  
Joseph J. LaMacchia

Subscribed and sworn to before me this 16<sup>th</sup> day of November, 2015.

  
\_\_\_\_\_  
Notary Public

My commission expires:



**ATXI**

**Mark Twain Project**

Date Prepared: 5/7/2015

**Property Tax  
Estimates**

<u>Construction Period</u>	Adair County	Knox County	Shelby County	Marion County	Schuyler County
2017	\$37,305	\$10,063	\$14,235	\$26,493	\$13,291
2018	\$225,405	\$60,376	\$85,412	\$158,957	\$79,744

**In-Service (Annual)**

2019 (State Assessed)	\$1,155,280	\$504,336	\$614,506	\$534,479	\$816,051
2019 (Local Assessed)	\$1,353,004	\$403,473	\$572,093	\$600,514	\$532,140