SUBJECT: Appraisal method of ad valorem taxes for solar energy property

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 8 ayes — Hilderbran, Otto, Bohac, Button, Eiland, Gonzalez, Ritter, Strama

0 nays

1 absent — Martinez Fischer

WITNESSES: For — Maura Yates, SunEdison; (*Registered, but did not testify*: George Christian, Texas Taxpayers and Research Association; Daniel Gonzalez, Texas Association of Realtors; Matthew Heartner, Public Citizen; Chris Hughes, Solar Energy Industries Association; Sara Kemptner, NRG Energy; Colin Meehan, Environmental Defense Fund; Luke Metzger, Environment Texas; Cyrus Reed, Lone Star Chapter - Sierra Club; Susan Ross TRIEA; David Weinberg, Texas League of Conservation Voters)

Against — None

BACKGROUND: Tax Code, sec. 11.27(c)(1) defines a solar energy device as an apparatus designed or adapted to convert the radiant energy from the sun into thermal, mechanical, or electrical energy; to store the converted energy, either in the form to which it was originally converted or another form; or to distribute radiant or converted radiant solar energy.

DIGEST: CSHB 2500 would direct the chief appraiser of an appraisal district to use the cost method of appraisal to determine the market value of a solar energy property. The appraiser would use cost data obtained from generally accepted sources, make an appropriate adjustment for physical, functional, or economic obsolescence, and calculate the property's depreciated value using a maximum useful life of 10 years.

The appraiser could not determine in any tax year the depreciated value to be less than 20 percent of the value computed after making appropriate adjustments for obsolescence and other justifiable factors to the value determined by using cost data from generally accepted sources.

The bill would take effect January 1, 2014, and would apply to solar energy property constructed after January 1, 2014.

SUPPORTERS SAY:

CSHB 2500 would clarify the methodology used to assess ad valorem taxes on solar energy property, which would remove ambiguity that keeps investors from putting money into projects that currently have an unclear estimated tax bill. The bill would seek only to provide guidance to chief appraisers — it would not create an incentive nor propose an abatement.

Texas is geographically ideal for solar projects, but the state needs to clarify the Tax Code regarding solar energy property to give investors the ability to plan for property taxes associated with such a facility. The bill would remove the ambiguity surrounding property assessment for new solar projects and pave the way for the growth of a young industry in Texas.

Industrial-scale solar projects are relatively new in Texas, and the technology they employ is rapidly changing. In order to encourage further development, the Tax Code must include a tailored assessment method to account for technological changes, which adjust the value of the property as technical efficiency improves.

As Texas' demand for electricity and scarce water resources increases, the state must act quickly and efficiently to employ a variety of generation methods, including energy from solar sources. Solar electricity projects can be built in only 12 months. They produce electricity during peak demand times and use no water to generate electricity. Solar can help meet Texas' resource adequacy needs now.

Concerns about the potential fiscal impact to local communities fail to recognize that clarity in assessing utility-scale solar projects could attract and increase new solar development in Texas and even enhance the local tax base for school districts.

OPPONENTS SAY:

While directing local authorities to appraise solar energy properties at below-market value would create a tax advantage for property owners, it is not clear that the benefits of such a proposal would outweigh the costs. According to the Legislative Budget Board, the bill would have a negative impact on local property taxes, which pay for schools. In addition,

incoming businesses and their employees would require more local services.

NOTES:

According to the fiscal note, the bill would create an unspecified cost to the state through the operation of the school finance formulas in response to the calculation of depreciated solar energy property values.