

SUBJECT: Creating property tax exemptions for certain energy storage systems.

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 8 ayes — Hilderbran, Otto, Bohac, Button, Eiland, N. Gonzalez,
Martinez Fischer, Strama

0 nays

1 absent — Ritter

WITNESSES: For — Amanda Brown, Xtreme Power; Suzi McClellan, Texas Energy Storage Alliance (*Registered but did not testify*: Sandra Haverlah, Environmental Defense Fund; Susan Ross, Texas Renewable Energy Industries Association)

Against — (*Registered, but did not testify*: Mark Mendez, Tarrant County)

On — David Hodgins, Pasadena ISD; Donald Lee, Texas Conference of Urban Counties; Jim Robinson, Texas Association of Appraisal Districts; Bennett Sandlin, Texas Municipal League; (*Registered, but did not testify*: Brad Domangue, Tax Exemption School Coalition; Donna Huff, Texas Commission on Environmental Quality; Tim Wooten, Comptroller of Public Accounts)

DIGEST: CSHB 2712 would add Tax Code, sec. 11.315, to allow local governments in air pollution nonattainment areas to offer property tax exemptions for energy storage systems. An energy storage system would be defined as a device capable of storing energy to be discharged at a later time, including a chemical, mechanical, or thermal storage device. The tax exemption would have to be adopted by the local government, and the governmental entity could opt to discontinue it.

Qualifying for the exemption. In order to qualify for the exemption, the energy storage system would have to:

- be used, constructed, acquired, or installed wholly or partly to meet or exceed local, state, or federal rules for monitoring, control, or reduction of air pollution;

- be located in an air nonattainment area;
- have a capacity of at least 10 megawatts; and
- be installed on or after January 1, 2014.

School district exemptions and state reimbursement. A school district would be entitled to additional state aid to compensate the district for property tax revenue lost due to the exemption. The education commissioner, using information provided by the comptroller, would compute the amount of additional state aid to which a district was entitled. The commissioner's decision would be final and could be appealed. For the purposes of computing state aid for the 2014-15 school year, the taxable value of property in a school district would be determined as if the exemption for energy storage systems had been in effect for the 2013 tax year.

CSHB 2712 would amend Government Code, sec. 403.302(d-1) to establish that an energy storage system that received an exemption in the year that was the subject of the comptroller's study of property values for school finance purposes would not be considered taxable property for the calculation used in the study to determine the taxable value of property.

Other provisions. The bill would make conforming changes to Tax Code, sec. 11.43(c) and sec 26.012(6).

CSHB 2712 would take effect January 1, 2014, and would apply only to property taxes imposed for a tax year beginning on or after that date.

**SUPPORTERS
SAY:**

CSHB 2712 would encourage the development of electric grid-scale energy storage systems in air nonattainment areas, benefitting the environment and promoting the reliability of the electric grid. Also, the development of energy storage systems would make Texas a national leader in this new, emerging technology vital to the use of all forms of electric generation. To address the concerns of local governments, the bill would give them the option to grant the exemption, and also the ability to discontinue it.

Energy storage would promote the stability of the electric grid and lessen the likelihood of electricity disruptions. In areas such as Houston, electric grid stability is important to large industrial and petrochemical plants, where a power failure can lead to plants' experiencing temporary shutdowns of their industrial processes, forcing them to release or burn

partially processed chemicals. This increases air pollution, and it can take a day or two for a plant to get back online and stop the release of the pollution caused by the power disruption.

For example, one plant in 2012 lost power and was forced to send tens of thousands of pounds of chemicals to the plant's emergency flare. In a short period of time, air quality went from "good" to "unhealthy for sensitive groups."

Energy storage is especially important in air nonattainment areas because permitting new air emissions from traditional generating facilities, such as natural gas-fired power plants, is increasing difficult.

CSHB 2712 would promote economic growth. Texas has already made investments through the Emerging Technology Fund in companies such as Xtreme Power, which is developing grid-level energy storage.

The bill would continue Texas' investment in an emerging technology, but in no way would it dictate the energy generation mix. Improvements in grid-level storage would benefit all forms of energy. The technology would allow for storage of solar and wind energy, as well as energy from traditional power sources like coal and natural gas.

Those who argue that the state would be subsidizing an energy source are correct. The bill would do just this, through tax exemptions implemented in partnership with local governments. However, all forms of energy have received or currently receive some form of government support. The state continues to provide exemptions for pollution control equipment, and should provide one that would have a positive environmental benefit by directly benefitting power production and offsetting some of the need for new power production.

The property tax exemptions provided by CSHB 2712 would be shared by local governments and the state. Local governments would have the option of offering the exemption. In the case of a school district opting to provide the tax exemptions, CSHB 2712 would ensure that the state reimbursed the school district for lost revenue.

While critics argue that the bill would create an inequity in the tax system, the LBB's tax/fee equity note foresees "no statistically significant impact on the overall distribution of a state tax or fee burden among individual

and businesses” as a result of the bill.

OPPONENTS
SAY:

Property tax exemptions are costly corporate subsidies that result in millions of lost tax dollars every year. All too often, local governments hand out tax exemptions as a matter of course to businesses that demand them.

CSHB 2712 would impose a cost to all taxpayers in requiring the state to compensate local school districts for lost tax revenue. According to the fiscal note, exemptions “create a cost to the state through the operation of the school funding formula and additional state aid.”

The bill, through the school finance system, effectively would shift tax burdens to parts of the state that would not benefit from the energy storage systems. Such a tax shift would be unfair, requiring other businesses and individuals to make up for the lost revenue through an inevitable increase in property taxes.

NOTES:

CSHB 2712 differs from the bill as introduced in that it would give local governments the option to grant or discontinue the exemption for energy storage systems.