

MEMO

Subject: Solar Property Tax
Date: November 8, 2013

Goal:

We have had productive discussions with the Administration, Vermont Association of Listers and Assessors (VALA), and Vermont League of Cities and Town regarding changes to the solar property tax following the implementation of Act 127. There are three goals to this legislative proposal:

1. *Simplification* – take the variables out of determining the tax rate and reduce the administrative burdens and costs on the Vermont Department of Taxes and on municipalities, listers, and assessors.
2. *Predictability* – provide an easy, clear tax rate for prospective net metered solar customers.
3. *Smart Policy* – improve small scale solar deployment, an already highly capital intensive investment, to help meet the state's ambitious renewable energy goals and create local jobs.

While many net metered solar customers and businesses in the solar industry want to see a full solar tax exemption, as Connecticut has done, we are seeking a proposal that can get broad support and near consensus.

The Stowe Reporter wrote: “The exemption threshold — 10 kilowatts — is so low that many small businesses, farms and residences easily exceed it and will have to pay for doing the right thing. That’s bad policy. Raise the exemption to 100 kilowatts or more. Then establish a nominal municipal rate, like the statewide rate, and if a town wants to waive the fee, lovely: such solar towns will reap the benefits.” (7/25/13)

The problem and background:

- Vermont Statute (Title 32, 3602a) treats all energy generation equipment the same, as real property, whether it is a large multi-MW development, hydro dam, or solar system on the roof of a local business, home, or school, rather than as equipment (coffee roaster, machine, etc) or personal property. Most all energy generation sources have alternative taxation methods in lieu of fair market valuation.
- Prior to Act 127 setting a statewide solar capacity tax of \$4/kW and exempting systems under 10kW, net metered systems were rarely, *if ever*, taxed by municipalities. The guidance required by Act 127 to municipalities advising towns on taxation methods, has ushered in a new solar tax on small-scale systems.
- The Sandia Model using discounted cash flows suggested as part of that guidance for municipal valuation is causing major confusion, particularly among towns and solar system owners.
 - A recent Addison County town arrived at an assessed value of 4x the appropriate Sandia valuation and a solar project by the Town of Thetford was nearly abandoned over the confusion.
 - The Sandia Model is based on model assumptions, and doesn't take into account common variables such as actual production, O/M costs, the actual PPA rate, applicable land lease costs, etc... This will be a regular source of contention or even litigation for municipal assessors.
- The combined burden of both the municipal and state tax is acting as a disincentive for solar installation and local investment.
- According the Department of Taxes, the state is *losing money* on the administration and collection of the statewide capacity tax.

Proposal:

- Exempt net metered systems 150kW and below in capacity, and continue to tax all larger systems and multi-megawatt SPEED projects.
- Impose a uniform \$8/kW solar capacity tax administered by the Department of Taxes, with \$4/kW going to municipality where the solar system is located. This frees the burden from the municipality, and is a simple, clearly understood rate.