

REPORT OF THE REVENUE POLICY SUBCOMMITTEE

(White, Limehouse, Bingham, Pitts & Herbkersman - Staff Contact: Rena N. Grant)

SENATE BILL 626

S. 626 -- Senators Gregory, Hayes and Reese: A BILL TO AMEND SECTION 12-37-220, AS AMENDED, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO PROPERTY TAX EXEMPTIONS, SO AS TO EXEMPT EIGHTY PERCENT OF THE FAIR MARKET VALUE OF A RENEWABLE ENERGY RESOURCE FOR A PERIOD OF TEN YEARS PROVIDED THE PROPERTY IS OPERATIONAL BY DECEMBER 31, 2020, AND TO EXEMPT A DISTRIBUTED RENEWABLE ENERGY GENERATION PROPERTY FOR RESIDENTIAL USE.

Summary of Bill:

This bill provides a property tax exemption for renewable energy property. The exemption is for 80% of the value of renewable energy property and applies to property taxed as business personal property or utility property.

Additionally, the bill also provides a full exemption for distributed renewable energy generation property for residential use. In order to qualify for the exemption in the case of a residential installation, the energy resource property would not be specifically taxes separately from the owner-occupied home. The renewable property seeking the exemption for residential use would have to be under a lease agreement or other situation in which a business retains ownership of the property.

Estimated Revenue Impact:

The bill is expected to reduce local property tax revenue for tax year 2015 by approximately \$81k in FY 2015-16. Based upon the value of the 110 new commercial installations in 2015 is expected to be \$7.7 million. The value of the 348 residential installations in 2016 is expected to increase by \$24.3 million. Exempting 80% of the above referenced values would reduce property tax revenue by \$216k in FY 2016-17 and by \$682k in FY 2017-18. The total local property tax revenue reduction is expected to increase significantly over the next few years due to the impending growth of qualifying properties (pursuant to the passage of S. 1189, Act 236 of 2014). Ultimately the annual property tax revenue loss would correlate with the actual number of installations in the state.

Subcommittee Recommendation: Pending

Full Committee Recommendation: Pending

"THE BELOW CONSTITUTED SUMMARY IS PREPARED BY THE STAFF OF THE SOUTH CAROLINA HOUSE OF REPRESENTATIVES AND IS NOT THE EXPRESSION OF THE LEGISLATION'S SPONSOR(S) OR THE HOUSE OF REPRESENTATIVES. IT IS STRICTLY FOR THE INTERNAL USE AND BENEFIT OF MEMBERS OF THE HOUSE OF REPRESENTATIVES AND IS NOT TO BE CONSTRUED BY A COURT OF LAW AS AN EXPRESSION OF LEGISLATIVE INTENT".

Other Comments:

Based upon data from the SC Energy Office, 581 solar installations currently exist with a total capacity of 3,682 kilowatts and may be eligible for the exemption. However, with the passage of Act 236 of 2014, the number of installations are expected to increase significantly in the next few years and in anticipation of the federal tax credit expiring December 2016.

According to data supplied by Duke Energy, SCE&G and the PSC, the community anticipates the following installations:

| | | |
|-------|-----------------|------------------|
| 2015: | 110 commercial, | 518 residential |
| 2016: | 348 commercial, | 1693 residential |



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
 (803)734-0640 • RFA.SC.GOV/IMPACTS

Bill Number: S. 0626
 Author: Gregory
 Requestor: Senate Finance
 Date: May 4, 2015
 Subject: Property tax exemption
 RFA Analyst(s): Jolliff and Shealy

Estimate of Fiscal Impact

| | FY 2015-16 | FY 2016-17 |
|----------------------------------|------------|------------|
| State Expenditure | | |
| General Fund | \$0 | N/A |
| Other and Federal | \$0 | N/A |
| Full-Time Equivalent Position(s) | 0.00 | 0.00 |
| State Revenue | | |
| General Fund | N/A | N/A |
| Other and Federal | N/A | N/A |
| Local Expenditure | \$0 | N/A |
| Local Revenue | \$81,000 | N/A |

Fiscal Impact Summary

The Department of Revenue (DOR) has responded that the bill is not expected to impact state expenditures. Because we expect that the exemption will impact utility and/or business personal property taxes, both of which are assessed by DOR, we do not expect a local expenditure impact from the bill.

The bill is expected to reduce local property tax revenue for tax year 2015 by approximately \$81,000 in FY 2015-16. The total local property tax revenue reduction is expected to increase rapidly in subsequent years due to anticipated large growth in the number of qualifying properties.

Explanation of Fiscal Impact

State Expenditure

The Department of Revenue (DOR) has responded that the bill is not expected to impact state expenditures.

State Revenue

N/A

Local Expenditure

This bill creates property tax exemptions for renewable energy property. Because we expect that the exemption will impact utility and/or business personal property taxes, both of which are assessed by DOR, we do not expect a local expenditure impact from the bill.

Local Revenue

The bill adds subitem 52 to Section 12-37-220(B). This exemption is for 80% of the value of renewable energy property and applies to property taxed as business personal property or utility property. The exemption applies for ten consecutive property tax years after the facility becomes operational so long as the facility is in operation by December 31, 2020. The bill also adds subitem 53 that provides a full exemption for distributed renewable energy generation property for residential use. In the case of a residential installation, the energy resource property would not be specifically taxed separately from the owner-occupied home. As such, in order for property to qualify for the residential exemption, the renewable energy property would have to be under a lease agreement or other situation in which a business retains ownership.

Based upon the most recent data available from the SC Energy Office, approximately 581 solar installations are currently in existence with a total capacity of 3,682 kW and may qualify for an exemption. For your information, the number of installations is expected to increase dramatically in response to Act 236 of 2014 in upcoming years and in anticipation of the federal tax credit expiring in December 2016. Based upon information from the SC Energy Office, Duke Energy and SCE&G have reported on their expectations for renewable energy property in filings with the Public Service Commission (PSC) in response to the requirements of Act 236 of 2014. Combined, they anticipate approximately 110 commercial installations in calendar year 2015 and an additional 348 in 2016. For residential installations, Duke and SCE&G are projecting 518 installations for 2015 and 1,693 for 2016.

The value of the installations depends on the energy generation capacity of the property. According to the Energy Office, Duke Energy estimates for commercial property anticipate an average system capacity of 20 kW at a cost of \$3.50 per watt for an average system value of \$70,000. Residential systems are expected to average 4 kW at a cost of \$4 per watt for a cost of \$16,000 per system.

The Energy Office estimates that 42 of the 581 existing solar installations are commercial installations and 539 are residential based upon the capacity of the installations. As previously stated, we do not anticipate that the exemption will be utilized by privately owned residential installations. We have determined from discussions with assessors that residential installations owned by a homeowner are not taxed separately and cannot feasibly be valued separately from a residence. For the estimated 42 commercial installations and using the value projections provided above, we estimate that the total value is approximately \$2,940,000. At an estimated statewide average millage rate of 329.2 and an assessment ratio of 10.5%, exempting 80% of the value of these properties would reduce property tax revenue for tax year 2015 by approximately \$81,000 in FY 2015-16.

For information, the value of the 110 new commercial installations in 2015 is expected to be \$7,700,000 and will increase by an additional \$24,360,000 for 348 new installations in 2016. These properties then would be included in tax filings for tax years 2016 and 2017. Exempting 80% of this value would reduce property tax revenue by an additional \$216,000 in FY 2016-17 and \$682,000 in FY 2017-18. The annual property tax revenue loss would be incrementally increased each year based upon the anticipated high growth in the number of installations.

Assuming that the projected residential installations are privately owned, we do not anticipate a property tax revenue reduction for the new installations in 2015 and 2016. However, businesses could claim the exemption for residential installations that are leased. If all 518 installations expected for 2015 were leased, the total local property tax revenue reduction would be \$290,000 for FY 2016-17. This would increase by \$948,000 in FY 2017-18 for the anticipated 1,693 additional installations.


Frank A. Rainwater, Executive Director

South Carolina General Assembly
121st Session, 2015-2016

S. 626

STATUS INFORMATION

General Bill

Sponsors: Senators Gregory, Hayes and Reese

Document Path: I:\council\bill\3078sa15.docx

Introduced in the Senate on March 26, 2015

Introduced in the House on March 3, 2016

Last Amended on March 1, 2016

Currently residing in the House Committee on **Ways and Means**

Summary: Property tax exemption

HISTORY OF LEGISLATIVE ACTIONS

| <u>Date</u> | <u>Body</u> | <u>Action Description with journal page number</u> |
|-------------|-------------|---|
| 3/26/2015 | Senate | Introduced and read first time (Senate Journal-page 11) |
| 3/26/2015 | Senate | Referred to Committee on Finance (Senate Journal-page 11) |
| 2/17/2016 | Senate | Committee report: Favorable with amendment Finance (Senate Journal-page 8) |
| 3/1/2016 | Senate | Committee Amendment Amended and Adopted (Senate Journal-page 7) |
| 3/1/2016 | Senate | Read second time (Senate Journal-page 7) |
| 3/1/2016 | Senate | Roll call Ayes-32 Nays-0 (Senate Journal-page 7) |
| 3/2/2016 | Senate | Read third time and sent to House (Senate Journal-page 10) |
| 3/3/2016 | House | Introduced and read first time (House Journal-page 12) |
| 3/3/2016 | House | Referred to Committee on Judiciary (House Journal-page 12) |
| 5/3/2016 | House | Recalled from Committee on Judiciary (House Journal-page 22) |
| 5/3/2016 | House | Recommitted to Committee on Ways and Means (House Journal-page 22) |

View the latest [legislative information](#) at the website

VERSIONS OF THIS BILL

[3/26/2015](#)

[2/17/2016](#)

[3/1/2016](#)

1
2
3
4
5
6
7
8
9
10

A BILL

11 TO AMEND SECTION 12-37-220, AS AMENDED, CODE OF
12 LAWS OF SOUTH CAROLINA, 1976, RELATING TO
13 PROPERTY TAX EXEMPTIONS, SO AS TO EXEMPT EIGHTY
14 PERCENT OF THE FAIR MARKET VALUE OF A
15 RENEWABLE ENERGY RESOURCE FOR A PERIOD OF TEN
16 YEARS PROVIDED THE PROPERTY IS OPERATIONAL BY
17 DECEMBER 31, 2020, AND TO EXEMPT A DISTRIBUTED
18 RENEWABLE ENERGY GENERATION PROPERTY FOR
19 RESIDENTIAL USE.

20 Amend Title To Conform
21

22 Be it enacted by the General Assembly of the State of South
23 Carolina:

24
25 SECTION 1. Section 12-37-220(B) of the 1976 Code, as last
26 amended by Act 259 of 2014, is further amended by adding items at
27 the end to read:

28
29 “(52) eighty percent of the fair market value of a renewable energy
30 generation property required to be returned, pursuant to Section
31 12-37-970, or to be appraised and assessed pursuant to Section
32 12-4-540. For purposes of this item, ‘renewable energy generation
33 property’ means property that generates electric power by the use of
34 a renewable energy resource, as defined in Section 58-40-10(F).
35 This exemption only applies for the ten consecutive property tax
36 years after the facility becomes operational, provided, however, that
37 the property became operational after property tax year 2012 and
38 before property tax year 2021. For property that became operational
39 in property tax year 2013 or 2014, this exemption applies for ten
40 consecutive property tax years beginning in property tax year 2016
41 so long as the property was not subject to a fee in lieu agreement as
42 of December 31, 2014, pursuant to Chapter 44 of the title, or Chapter

1 12 or 29 of Title 4. For property that became operational in property
2 tax year 2015, if the property was subject to a fee in lieu agreement
3 as of December 31, 2015, pursuant to Chapter 44 of the title, or
4 Chapter 12 or 29 of Title 4, then the property is eligible for the
5 exemption so long as the taxpayer notifies the other parties to the
6 agreement of such election no later than thirty days after the
7 effective date of this item, and, upon the expiration of the
8 exemption, at the taxpayer's discretion, the provisions of the
9 applicable pre-existing agreement may apply. This exemption
10 applies only if the property does not meet the exemption of
11 distributed renewable energy generation property for residential use
12 provided by item (53). A taxpayer claiming an exemption allowed
13 by this item also may not claim the exemption, pursuant to Section
14 12-37-220(A)(7);
15 (53) distributed renewable energy generation property for
16 residential use. For purposes of this item, 'distributed renewable
17 energy generation property' means property that generates electric
18 power by the use of a renewable energy resource, as defined in
19 Section 58-40-10(F), that has a nameplate capacity of no greater
20 than twenty kilowatts."

21

22 SECTION 2. This act takes effect upon approval by the Governor.

23

----XX----

24