



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: S. 0044 Introduced on January 10, 2017
Author: Gregory
Subject: Property Tax Exemptions
Requestor: Senate Finance
RFA Analyst(s): Jolliff
Impact Date: January 13, 2017

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	See Below	\$0

Fiscal Impact Summary

This bill is not expected to impact state expenditures or revenues for the General Fund, Federal Funds, or Other Funds.

The bill is not expected to impact local expenditures. We estimate that it will reduce local property tax revenue by \$713,000 in FY 2017-18 for commercial renewable energy installations. The total property tax exemption for leased residential installations owned by in-state business would be up to \$829,000 in FY 2017-18, for a maximum reduction of up to \$1,542,000.

Explanation of Fiscal Impact

Introduced on January 10, 2017

State Expenditure

Based upon previous responses by the Department of Revenue (DOR) regarding similar legislation, this bill is not expected to impact the agency's expenditures. The bill creates a value exemption for renewable energy property that can be administered within the current property tax exemption process.

State Revenue

N/A

Local Expenditure

N/A

Local Revenue

The bill creates two new property tax exemptions for distributed energy resources and renewable energy resource property. New Subitem 52 exempts 80% of the value of distributed energy resources and applies to property taxed as business personal property, manufacturing, or utility property. The exemption applies to property in service after tax year 2012. For facilities in service in tax year 2013 or 2014, the exemption applies if the property was not subject to a fee in lieu agreement as of December 31, 2014. Properties that became operational in 2015 or 2016 and were subject to a fee in lieu agreement as of December 31, 2016, may elect this exemption and must notify the other parties of the agreement within thirty days of the effective date of this item. No refunds are allowed as a result of this exemption, and it applies beginning in tax years after 2016 upon approval by the Governor.

The bill also creates full exemption for renewable energy generation property for residential use. In the case of a residential installation, the energy resource property would not be 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 through FY 2015-16, approximately 2,991 solar installations are currently in existence with a total capacity of 25,211 kW and may qualify for an exemption. Additionally, 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 348 commercial installations in calendar year 2016 and an additional 164 in 2017. For residential installations, Duke and SCE&G are projecting 1,693 installations for 2016 and 1,263 for 2017. The Energy Office also noted that other resources such as wind or geothermal electric generation resources would qualify, but at this time they have not been significantly implemented in South Carolina.

The value of 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 \$3.00 per watt for an average system value of \$60,000. Residential systems are expected to average 4 kW at a cost of \$3.50 per watt for a cost of \$14,000 per system.

The Energy Office estimates that 238 of the 2,991 existing solar installations are commercial installations and 2,753 are residential based on the historical trend. This is an increase of 172 commercial installations and 1,988 residential installations since July 2015. Assuming that half of the 348 projected installations for 2016 have yet to be placed in service, the existing 238 commercial installations would increase by 174 to 412 by the end of 2016. Again, if half of the projected 1,693 residential installations for 2016 are still forthcoming, the current 2,753 installations will increase by 847 to 3,600 by the end of 2016.

For the estimated 412 commercial installations expected to be in place by the end of 2016 and using the value projection of \$60,000 provided above, we estimate that the total value is approximately \$24,720,000. Exempting 80 percent of the value would reduce the value by \$19,776,000. At an estimated statewide average millage rate of 343.5 and an assessment ratio of 10.5%, this exemption would reduce property tax revenue for tax year 2017 by approximately \$713,000 in FY 2017-18. The impact may be marginally reduced if any of these properties were subject to a fee-in-lieu agreement as of December 31, 2014. However, since the majority of the installations have been placed in service in 2015 or later, we do not expect a significant reduction.

The total value of all 3,600 residential installations expected by the end of 2016 at approximately \$14,000 per system is \$50,393,000. Exempting 80 percent of the value would exempt \$40,314,000. At an assessment ratio of 10.5% and an average millage rate of 343.5, the local property tax revenue reduction would be up to a maximum of \$1,454,000 in FY 2017-18. 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. Businesses that pay property taxes in South Carolina could claim the exemption for residential installations that are leased. According to Green Tech Media, approximately 57% of installations in 2016 will be leased. If all of the leasing companies are South Carolina based, the property tax exemptions would total \$829,000 in FY 2017-18.



Frank A. Rainwater, Executive Director