

Department of Legislative Services  
Maryland General Assembly  
2009 Session

FISCAL AND POLICY NOTE

House Bill 699  
Ways and Means

(Delegate Hecht, *et al.*)

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Wind Energy - Tax Incentives

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This bill exempts wind energy equipment used to generate electricity for a structure from the State sales and use tax and wind energy property used to generate electricity for a structure from State and local real property taxes.

The bill takes effect July 1, 2009.

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Fiscal Summary

**State Effect:** General fund and Transportation Trust Fund (TTF) revenues may decrease by a minimal amount beginning in FY 2010. The actual decrease will depend on the number of wind energy systems installed by Maryland residents and the cost of the equipment. Potential special fund revenue decrease, resulting from the property tax exemption, though the amount of the decrease cannot be reliably estimated, it is assumed to be minimal.

**Local Effect:** Local government revenues may decrease, resulting from the property tax exemption, though the amount of the decrease cannot be reliably estimated, it is assumed to be minimal. Expenditures are not affected.

**Small Business Effect:** Potential meaningful. Small businesses that sell and install wind energy equipment may benefit to the extent the increased tax incentives under the bill increase demand for their services.

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## Analysis

### **Current Law:**

#### *Current Sales and Use Tax Exemption*

The following purchases are exempt from the State sales tax: (1) solar energy equipment which is used to heat or cool a structure, generate electricity to be used in a structure, and provide hot water for use in a structure; and (2) geothermal equipment, which uses ground loop technology to heat and cool a structure, for either residential or commercial use.

#### *Assessment of Real Property*

Solar energy and geothermal heating and cooling systems installed in a building without a conventional heating and cooling system may not be assessed for property tax purposes at more than the value of a conventional heating and cooling system. If a solar energy or geothermal heating and cooling system is installed in addition to a conventional system in a building, the combined system may not be assessed at more than the value of a conventional system.

With the exception of those provisions, solar energy property is not subject to real property tax. Solar energy property is defined as equipment installed to use solar energy to generate electricity to be used in a structure or to provide hot water for use in a structure.

#### *Local Property Tax Credits*

Counties and municipalities are authorized to grant tax credits against county or municipal property taxes for the use of a solar energy, geothermal energy, or qualifying energy conservation device in a structure for the purposes of heating and cooling, electricity generation, or the provision of hot water. The law allows local governments to establish definitions of solar energy devices, geothermal energy devices, and qualifying energy conservation devices in determining eligibility for the credit. Currently five counties, Anne Arundel, Harford, Howard, Montgomery, and Prince George's, provide property tax credits for the residential use of solar energy and/or geothermal systems.

**Background:** The Maryland Energy Administration (MEA) administers a Windswept Grant Program that offers grants of \$2,500 per kW for small scale wind energy systems (capped at \$10,000 per system); however, this program is not established in statute. The grants are available for residential systems of at least 1.0 kW and nonresidential systems of at least 1.5 kW. The program has been funded so far in

fiscal 2009 with \$50,000 from the Energy Overcharge Restitution Fund (EORF). EORF, which contains federal court settlement monies from oil and gas producers that have violated federal regulations, has provided a significant portion of MEA's overall funding in the past, but is now nearly depleted. MEA has proposed using a portion of funding generated from RGGI auctions to supplement existing solar, geothermal, and wind grant programs in fiscal 2009.

MEA and the Maryland Environmental Service also administer a program that loans a limited number of wind anemometers (measuring devices) to landowners, allowing them to quantify and characterize the wind resources available at their properties to assess the economic feasibility of installing wind energy systems.

Maryland law also provides for net energy metering that can allow utility customers that generate electricity using biomass, solar, or wind energy to receive credit for electricity distributed to the grid in order to offset the customer's use of electricity supplied by the grid.

**State Fiscal Effect:** Potential minimal decrease in State sales tax and property tax revenues based on current demand and potential for wind energy systems. However, if large wind turbine farms are constructed in Maryland, the decrease in sales tax revenues may be significant.

#### *Sales and Use Tax Exemption*

The sales and use tax exemption proposed by the bill will reduce general fund and TTF revenues beginning in fiscal 2010. However the actual revenue decrease depends on the number of wind energy devices purchased by Maryland residents and the price of these devices.

Data from MEA indicates that a small wind turbine can cost between \$3,000 to \$50,000, installed, depending on the size, application, and service agreement with the manufacturer. The American Wind Energy Association indicates that an average home wind energy system costs approximately \$32,000, for 10kW.

As of August 21, 2008, MEA provided Windswept grants to 12 Maryland homeowners for the installation of small scale wind energy systems. In addition, there have been two proposals to build wind farms in Maryland – one in Garrett County (100 turbines) and the other 11.5 miles offshore from Ocean City in Worcester County (150 turbines). Neither proposal has been approved.

As a point of reference, State sales tax revenues could decrease by \$6,000 for each \$100,000 of equipment exempt from the sales and use tax. General funds would decrease

by 94.7% (\$5,682) of the total decrease and TTF revenue would decrease by 5.3% (\$318). *For illustrative purposes only*, if 15 homeowners purchased \$20,000 worth of wind energy equipment, general fund revenues would decrease by \$17,046 and TTF revenues would decrease by \$954.

### *Property Tax Exemption*

The property tax exemption proposed by the bill may decrease State property tax revenues for the Annuity Bond Fund. However, the amount of the State revenue decrease cannot be reliably estimated and depends on (1) the number and value of wind energy systems that exist in the State that generate electricity for use in a structure; and (2) the extent to which the value of these systems is added to a property for assessment purposes.

The State Department of Assessments and Taxation (SDAT) indicates that it is not currently aware of any properties with wind devices. In addition, to the extent that there are, SDAT would not add value to any property that has a wind energy device for property tax assessment purposes.

In addition, SDAT has indicated that at least some of the components that make up each wind turbine for the wind farms projects discussed previously would be assessed as personal property for property tax purposes. As such, the bulk of these projects, to the extent they move forward would not be exempt under this bill.

**Local Fiscal Effect:** The property tax exemption proposed by the bill may decrease local property tax revenues. However, the amount of the local revenue decrease cannot be reliably estimated and depends on (1) the number and value of wind energy systems that exist in the State that generate electricity for use in a structure; and (2) the extent to which the value of these systems is added to a property for assessment purposes. As noted, SDAT indicates that it is not currently aware of any properties with wind devices, and to the extent there are, SDAT would not add value to any property that has a wind energy device for property tax assessment purposes.

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## **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Allegany County, State Department of Assessments and Taxation, Office of the Comptroller, Maryland Energy Administration, Department of Legislative Services

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