

Department of Legislative Services
Maryland General Assembly
2020 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 954

(Senator Hershey, *et al.*)

Budget and Taxation

Property Tax - Solar Energy Systems

This bill alters the assessment and taxation of solar energy personal property by (1) exempting a community solar energy generating system installed on the rooftop of a structure from the county or municipal personal property tax; (2) establishing certain solar energy property as a new subclass of personal property; (3) enabling county governments to impose a different personal property tax rate on solar energy property; and (4) prohibiting the State Department of Assessments and Taxation (SDAT) from considering the value of income attributable to the installation of a community solar energy generating system when determining a personal property assessment. **The bill takes effect June 1, 2020, and applies to taxable years beginning after June 30, 2020.**

Fiscal Summary

State Effect: None.

Local Effect: Local personal property tax revenues decrease by a significant amount beginning in FY 2021. Based on the existing accepted capacity of community solar generating systems, local revenues may decrease by approximately \$242,200 in FY 2021 and by \$2.7 million in future years once projects that are currently approved become operational. The potential revenue decrease in future years does not include the impact of any community solar generating system that may be approved in the future. Local expenditures are not significantly affected. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: Minimal.

Analysis

Current Law: Local governments have the authority to impose personal property taxes on solar photovoltaic property. SDAT indicates that local governments collected approximately \$3.1 million in personal property tax revenues from solar energy property in fiscal 2018.

Personal property is divided into the following subclasses: (1) stock in business; (2) distilled spirits; (3) operating personal property of a railroad; (4) operating personal property of a public utility that is machinery or equipment used to generate electricity or steam for sale; (5) all other operating personal property of a public utility; (6) machinery and equipment, other than operating personal property of a public utility, that is used to generate electricity or steam for sale or hot or chilled water for sale that is used to heat or cool a building; and (7) all other personal property that is to be assessed.

The county tax rate applicable to personal property and the operating real property of a public utility may not exceed 2.5 times the rate for real property.

Background:

Community Solar Energy Generating System Pilot Program

Chapters 346 and 347 of 2015 required the Public Service Commission (PSC) to establish a three-year Community Solar Energy Generating System Pilot Program, subject to specified conditions. Such a system, in addition to other requirements, must have at least two subscribers, but a subscriber limit is not specified in statute. Under PSC regulations, a system may have up to 350 accounts, unless the electric company has developed an automated billing function, in which case there is no limit. PSC regulations also increase authorized capacity additions each year. According to PSC, the program, if fully subscribed, would add about 200 megawatts under the existing 1,500-megawatt net metering cap. Chapters 461 and 462 of 2019 extended the Community Solar Energy Generating Systems Pilot Program through December 31, 2024.

Net Metering

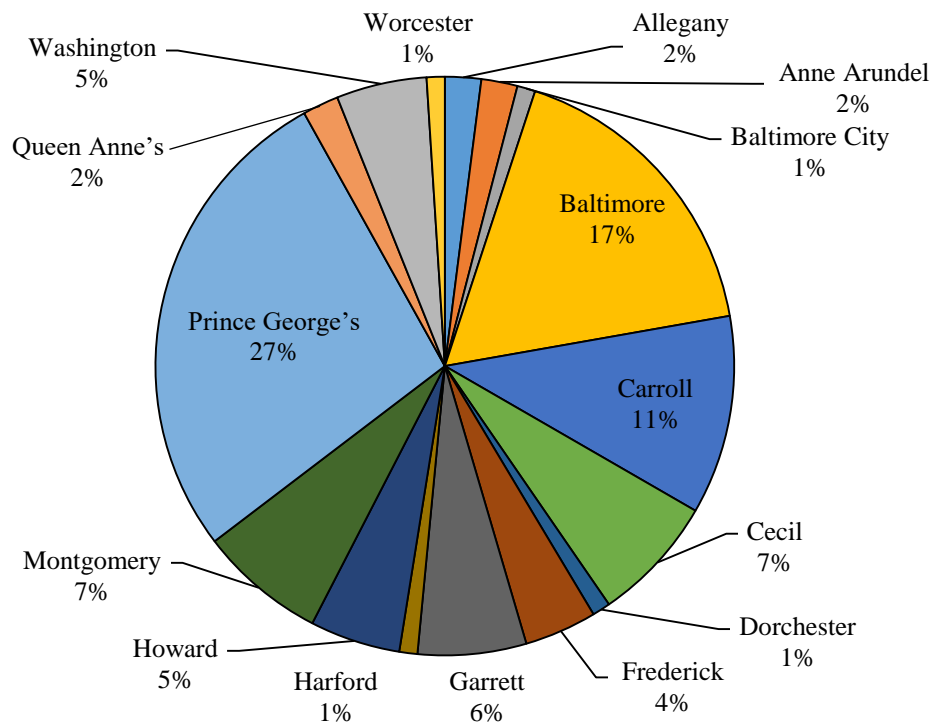
Generally, net energy metering is the measurement of the difference between the electricity that is supplied by an electric company and the electricity that is generated by an eligible customer-generator and fed back to the electric company over the eligible customer-generator's billing period. As of June 30, 2018, the amount of net metered capacity in the State was approximately 772 megawatts, or about one-half of the statewide 1,500-megawatt limit. This is more than seven times the capacity in June 2013. Most net metered capacity is solar.

Local Fiscal Effect: Local personal property tax revenues decrease by a significant amount beginning in fiscal 2021 due to the tax exemption for community solar energy generating systems and other assessment changes. The actual revenue decrease depends on the number of community solar generating systems located in each jurisdiction, the value of personal property, and local personal property tax rates.

Personal Property Tax Exemption

PSC indicates that 106.8 megawatts of community solar generating system capacity has been approved in jurisdictions across Maryland (**Exhibit 1**). Of this amount, 9.6 megawatts was operational as of September 2019.

Exhibit 1
Accepted Capacity of Community Solar Generating Systems
County Share of Statewide Total Capacity
As of September 1, 2019



Note: Total may not add up to 100% due to rounding.

Source: Public Service Commission

Data from the National Renewable Energy Laboratory (NREL) indicates that the average cost to install a commercial solar generating system in Maryland totals \$1.77 per watt. NREL data also indicates that equipment and hardware make up approximately 45% of the total installation costs. Based on this information, the personal property base for each one megawatt community solar generating system would total approximately \$800,000.

Based on the approved megawatt capacity of community solar generating systems and cost data detailed above, it is estimated that construction costs for these projects when completed will total approximately \$189.0 million. Of this amount, equipment and hardware (personal property) will total \$85.1 million.

Assuming a weighted average local personal property tax rate of \$3.1675 per \$100 of assessment, local government revenues will decrease by approximately \$242,200 for community solar generating systems currently in operation and \$2.7 million in future years once the projects that are currently approved become operational. This potential revenue decrease does not include the impact of any community solar generating system that may be added in the future. As solar energy generating systems become more viable and utilized as a renewable energy source, the potential decrease in local property tax revenues from the personal property exemption will be substantially higher than currently estimated.

Personal Property Tax Rate Differential

Under the bill, county governments are authorized to impose a personal property tax rate on solar energy property that is different than the rate imposed on other personal property. However, the tax rate cannot exceed 2.5 times the rate for real property. This provision may result in a decrease in local personal property tax revenues assuming that counties impose a lower personal property tax rate on solar energy generating systems.

Additional Information

Prior Introductions: None.

Designated Cross File: HB 1106 (Delegate Cardin, *et al.*) - Ways and Means.

Information Source(s): Baltimore City; Calvert, Caroline, Howard, Montgomery, and Prince George's counties; Maryland Association of Counties; Maryland Municipal League; State Department of Assessments and Taxation; Public Service Commission; Department of Legislative Services

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