Fiscal Note

BILL # HB 2493

TITLE: ~~appraisal methods; solar energy devices~~ S/E: same subject

SPONSOR: Cobb

STATUS: As Amended by Senate FIN

PREPARED BY: Adam Golden/Hans Olofsson

Description

The bill would value solar energy devices at their taxable original cost minus the 10-year accelerated depreciation schedule. In addition, businesses that own such devices would be required to annually report the cost for property valuation purposes. The bill would also strike existing statutory language that provides that solar panels have no taxable value.

The appraisal methods specified in the bill for would be applied to solar energy devices for all tax years preceding the bill's effective date. In practice, this would be for tax years 2015 through 2018.

Estimated Impact

The bill would increase Basic State Aid (BSA) costs by up to an estimated $1.1 million annually due to more favorable depreciation of <u>leased</u> solar panels than is currently allowed. These costs would, however, be partially offset by valuation of <u>commercially-owned</u> solar panels, which are not currently assessed but would be so under the bill. While the magnitude is unknown, it is unlikely that the property values of commercially-owned panels would generate sufficient revenues to fully offset the increased costs caused by the new depreciation schedule for leased panels under the bill.

The JLBC Staff is unable to quantify the potential level of refunds under the bill. If the Department of Revenue (DOR) is required to recalculate the value of the refunds in compliance with the bill, the agency estimates that the recalculations would cause a one-time increase of administrative costs of $7.6 million. The JLBC Staff is unable to verify this cost estimate but believe that this cost may be overstated.

Analysis

Laws 2006, Chapter 333 amended A.R.S. § 42-11054 such that solar energy devices used for on-site consumption were considered to have no value and to add no value to property. Because of this statute, neither the state nor the counties attempted to tax solar panels until 2015. In that year, DOR issued a notice that leased panels would be centrally assessed under A.R.S. § 42-14151 and 42-14155 as "renewable energy equipment" used to operate an "electric generation facility". Litigation was subsequently filed against DOR for its notice and continues to date.

HB 2493 would provide specifications for how solar energy devices, such as solar panels, are to be assessed. The solar panels are currently valued using a 30-year depreciation schedule. Under the bill, the panels would instead be valued using an accelerated 10-year depreciation schedule.

In tax year (TY) 2018, the Maricopa County Assessor's Office (MCAO) valued leased solar panels in the county at $624.4 million. When DOR centrally assessed all leased solar panels, the value of panels in Maricopa County made up 57.9% of the value statewide. Using this percentage and MCAO's assessment, the statewide total full cash value (FCV) is estimated to be $1.08 billion.

Using information provided by MCAO, the bill's 10-year accelerated depreciation schedule is estimated to cause the statewide FCV to fall by $(1.03) billion to $45.3 million. Because business personal property is assessed at 18%, the $(1.03) billion reduction in FCV would cause the net assessed value (NAV) of the solar panels to decrease by $182.4

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million. Such a reduction would result in a direct increase of the state share of K-12 funding by approximately $6.9 million annually. The assessed value reduction would also have an impact on the state's Truth-in-Taxation (TNT) program.

Under TNT, both the Qualifying Tax Rate (QTR) and the State Equalization Tax Rate (SETR) are adjusted each year to offset the statewide annual valuation change of existing property. This rate change occurs automatically unless the Legislature decides to forego the TNT adjustment. As a result of the $(182.4) million assessed value loss, the TNT adjustment would cause the weighted average QTR to be an estimated 0.8¢ higher under the bill's appraisal method than under the business personal property valuation method currently used by the counties. The SETR would likewise increase by 0.1¢. The higher QTR and SETR would generate an offsetting TNT savings of $5.8 million. Therefore, under TNT, the cost would decrease from $6.9 million to $1.1 million beginning in FY 2021.

The bill also adds language that provides for the taxation of commercially-owned solar panels as business personal property. Presently, such panels are not assessed or taxed. Under the bill, commercially-owned solar panels would now be subject to taxation as business personal property. The taxation of these panels would increase property tax collections and thereby offset the increased BSA costs resulting from the more favorable depreciation schedule applied to leased panels. Because owned panels have not been previously assessed, the magnitude of this offset is unknown. The increased property valuation, however, is unlikely to fully offset the costs resulting from the more aggressive depreciation of leased panels.

Under the Arizona Constitution, personal property owned by households and used for non-commercial purposes is exempt from taxation. For this reason, residentially-owned solar energy devices would remain untaxed under the bill.

The Arizona Supreme Court recently ruled that DOR did not have the authority to centrally assess the leased solar panels when it did so in tax years 2015 through 2018. If further court rulings determine that DOR must issue refunds for taxes collected in those years, the bill may affect the level of those refunds. The JLBC Staff has insufficient information to quantify the impact of potential refunds.

If DOR is required to recalculate the value of those refunds in compliance with the bill, the agency estimates that nearly 5,300 tax accounts would have to be corrected at 6 hours per account per year. Since refunds would likely be issued for each of the 4 years that taxes were collected, DOR expects that recalculation would take 126,600 hours to complete at a cost of $7.6 million. The JLBC Staff is unable to evaluate the reasonableness of this estimate but believe that this cost may be overstated.

Local Government Impact

The bill would shift the tax burden to property owners not affected by the legislation and/or result in property tax losses for local governments.

4/15/19