LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 705** HLS 13RS 988
Bill Text Version: **REENGROSSED**
Opp. Chamb. Action: **w/ #2 SEN COMM AMD**
Proposed Amd.:
Sub. Bill For.:

Date: June 1, 2013 9:44 AM
Author: PONTI
Dept./Agy.: Revenue
Subject: Changes solar electric system income tax credits
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TAX CREDITS RE2 SEE FISC NOTE GF RV

Provides relative to solar energy systems tax credit and removes wind energy systems tax credit

Current law provides a refundable income tax credit of 50% of the purchase and installation of a residential wind or solar system up to $25,000 ($12,500 in credits) paid from income or franchise tax proceeds. The credit is allowed for single family and multi-family residence installations and is issued to the homeowner, installer, or a third party system lessor. The program cost is not capped and does not sunset. The credit is limited to one system per residence. The Department of Revenue and Natural Resources (DNR) promulgate rules.

Proposed law removes wind systems and apartments, and terminates the credit on January 1, 2018. Systems can be comprised of both a solar and thermal system, and requires licensed contractor status along with ARRA system compliance. For owned systems, base eligible expenses (purchase plus installation) remain capped at $25,000 per system with a rate of 50% (max. credit of $12,500). Leased system credits are reduced substantially each year remaining in both allowable size and credit rate. Credits can be received for installations through tax year 2017 (no costs in FY 19). DNR is no longer consulted for rules. An apparently new eligibility allows the credits to apply to systems installed under energy efficiency programs. Effective July 1, 2013.

EXPENDITURES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2013-14	2014-15	2015-16	2016-17	2017-18	5 -YEAR TOTAL
State Gen. Fd.	UNKNOWN	UNKNOWN	UNKNOWN	UNKNOWN	UNKNOWN	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

The bill generally requires similar administrative duties as the existing credit. Thus, there is no anticipated direct material effect on governmental expenditures as a result of this measure. Any additional expenses will be absorbed as part of normal agency operations.

REVENUE EXPLANATION

The bill's impact cannot be estimated with the assurance required to absolutely predict a positive, negative or neutral impact to the state fisc relative to the program's current parameters.

The LFO was not able to determine the impact of allowing the credit to apply to "systems purchased and installed as part of any energy efficiency implemented in accordance with rules or policies of any state agency, political subdivision or regulatory agency." This provision appears to allow an additional eligibility for the credit to be granted for systems purchased for resale and could cause the cost to the state to increase, potentially by a large amount, if this type of activity is or becomes commonplace before the credit expires. Though not certain, the energy efficiency provision may allow some systems currently eligible as leased systems to fall under the same credit structure as owned systems, which could signficantly offset the savings in this bill.

The following calculation exercise is done without regard to the new "energy efficiency" language added by amendment, and does not apply to that new language. The bill retains the $25,000 cost cap ($12,500 credit) for owned systems, though it allows a system to include both a thermal and electric component, which is not allowed under current law. Since it appears that most system costs, owned and leased, were approaching $25,000, adding two systems but retaining the cost cap for both systems combined is not expected to significantly impact the cost of the credit. The owned system credit has no impact in this bill prior to the elimination of the credit. The credit rate for leased systems is reduced each fiscal year beginning in FY14 (38%), FY15 (30%), FY16, FY17, FY18 (25%). Leased system sizes are limited to 5kw beginning 7/1/13 and to a value per watt in FY 14 ($4.50), FY 15 ($3.50), FY16, FY17, FY18 ($2.0). The credit is reduced from $12,500 under current law to $8,550 in FY14, $5,250 in FY 15 and $2,500 until credit expiration. This note assumes that the FY 18 credits are the same as FY 17, which was implied in testimony. Changes to the leased system credits can only increase SGF by reducing the credits issued by the state. The magnitude of the increase depends on certain assumptions of current system size and the amount of systems that are leased, but the SGF increase is expected to be substantial, possibly more than $10 M by FY 16.

The elimination of apartments could increase SGF by another $2.5 M to $3.75 M. Regardless of the magnitude, eliminating apartments from eligibility will reduce the state's fiscal exposure. There is no anticipated impact from the removal of wind systems since few if any systems were installed under the program. Components allowable as eligible expenses appear to mirror the current program, and the LFO has not been made aware of any differences, in wording or interpretation.

There will be no credits impacting the state fisc in FY 19 and beyond, which will provide savings of the full cost of the credit, including any base growth that may have occurred. The current program is issuing about $25M in credits annually.

Senate	Dual Referral Rules	House
☐ 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		☐ 6.8(F) >= $500,000 Annual Fiscal Cost {S}
☒ 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		☐ 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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