Ways and Means - Testimony regarding Solar Taxation

January 28, 2014

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History

Thank you members of the Committee for considering the issue of solar property taxes again. In a fast-growing and evolving industry, we appreciate your continued time and energy to ensure Vermont has the foundations of good solar policy to keep our state competitive.

We come supportive of the Administration's position and the language being considered.

I am here on behalf of Renewable Energy Vermont and representing AllEarth Renewables - a local solar manufacturer with solar installer-partners around the state and nationally. Joining us also are Chad Farrell, from Encore Redevelopment, a Burlington-based project development company focusing on community scale projects, who will speak on the project development side, and also Tom Garden, Norwich based solar developer who isn't testifying, but is available should the committee have any questions for him.

All of our companies contribute toward the economic bottom line for Vermont and create jobs and income tax revenues throughout the state based on the significant human capital required to design, permit and construct solar projects in Vermont.

As many of you likely remember, two years ago this Committee set a statewide solar capacity tax in Act 127. It set a rate of $4/kW and exempted systems under 10kW. This was a newly-imposed tax on solar, but one the industry was able to support for the predictability and stability it provided for future growth -- mostly for the larger scale installations.

Prior to Act 127, net metered systems weren't, to any of our knowledge, taxed by any municipalities statewide. However, the guidance Act 127 asked the Tax Department to provide to municipalities on taxation methodology we believe inadvertently ushered in a *new* solar tax on small-scale systems primarily serving homes, small businesses, farms, schools, and many communities. Many customers felt shocked and surprised. Many towns felt obligated and confused. And it's having an impact on the economics and financeability on prospective projects.

We believe 1) raising the exemption to exclude small and medium net metered systems and 2) setting a clear, predictable capacity rate, would be a positive for growing local renewable solar and the combined economic and environmental benefits associated with a healthy local solar marketplace.

150kW exemption:

While we would prefer and even advocate that all net metered systems be tax free, we believe the 150kW exemption, from the capacity tax is a reasonable policy direction to take, and mirrors the well established fast track provisions for interconnection and Certificate of Public Good applications allowed for projects of this scale. We want to be constructive in finding a solution. This would mean a continuation of taxation of all larger systems and multi-megawatt SPEED projects. Further, it would mean the taxation of all underlying land at full value.

To put these systems under the proposed exemption into perspective, these are the small-scale systems in our communities at small businesses, behind schools and town halls, on farms, and supporting non-profits.

- First, as you heard from the Tax Department, there is a significant administrative burden to collect a small amount of taxes on small net metered systems- both at the state and municipal level. Exempting 150kW systems will allow smaller projects to thrive, while efficiently collecting taxes on the larger systems, systems that can both carry a new tax and projects more likely to have a "cash flow" to approach for taxation.
- Second, this tax serves as a direct disincentive for an important and ambitious energy priority of this state -- to achieve getting more energy from in-state, distributed renewables.
- Third, these small scale systems are, fundamentally in our view, more akin to business equipment or personal property: not "energy plants" like Vermont Yankee or McNeil generating station. And yet they are treated the same. For example, why is it that the freezers at Ben and Jerry's, the cask at the Alchemist, or the roasters at Green Mountain Coffee are considered exempt business equipment and yet the solar on their roof is considered something fundamentally different that we tax? *We are taxing above and beyond normal equipment something we as towns and we as a state have said we want to support.*

While it may also be said that towns have the option to exempt these systems already through Title 24 or Title 32, it is far more complex. The Town of Waterbury selectboard recently met where they discussed that the cost in legal fees to determine their options would have far exceeded the project initial revenue from newly taxed solar. We don't want towns across Vermont dealing with this burden. Nor do we want a patchwork of policies that inhibit solar deployment and state and local goals.

$8/kW capacity tax split:

We think imposing a uniform $8/kW solar capacity tax administered by the Department of Taxes, with $4/kW going to municipality where the solar system is located is also a smart direction. This proposal takes the burden of tax collection away from local assessors and listers. And this clearly understood rate will result in a much more financeable approach for new projects. Again, all underlying land will be taxed at full value.

- While there will undoubtedly be an argument that this will take tax revenue from towns, there are a few key points on this issue:
    - First, if you look at nearly every town plan in the state -- it is so for any I've ever seen -- support for local renewable energy is featured in all of them.
    - Second, and consistent with those plans, we have decided it is a statewide priority to have in-state renewable energy-- it is in the public good. So while the taxation rate may be marginally lower than the Sandia Model or a discounted cash-flow, that isn't a benchmark we should measure this change when considering the public good.
    - By and large, this is also a brand new tax, not lost revenue. Many towns have not collected any tax because of the complexity. This would help solve that.
    - Finally, these are systems - small or large - that require no public services.
- Most all energy generation sources have alternative taxation methods in lieu of fair market valuation as do other public interests, such as telecom.
    - This allows for such projects to be financed, which is key for a developing market such as the renewable energy market -
- This \$8/kW, because fixed, will become relatively larger over time when considering a discounted cash-flow for a project. So while \$4/kW to a municipality today may be lower than under other methodologies, over time, it will be a greater burden.

- Making this tax *consistent, predictable and fair* will mean more projects can be financed and built, and also drive down the cost of larger projects in the state's SPEED program, which are now priced based on a market mechanism -- this will benefit all Vermont ratepayers.

- We believe this proposal while it has little by the way of revenue implications, it has major industry impact.

In conclusion -- we believe this change achieves important objectives.

1. *Simplification* – it takes the variables out of determining the tax rate and reduces the administrative burdens and costs on the Vermont Department of Taxes and on municipalities, listers, and assessors.
2. *Predictability* – providing an easy, clear long-term tax rate for prospective net metered solar customers and the financing entities that are required for getting these projects constructed.
3. *Policy Consistent with overall State Policy* – improve small scale solar deployment, an already highly capital intensive investment, to help meet the state's ambitious renewable energy goals and create local jobs.