LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **HB 779** HLS 15RS 1112
Bill Text Version: **ENROLLED**
Opp. Chamb. Action:
Proposed Amd.:
Sub. Bill For.:

Date: June 11, 2015 4:30 PM
Author: PONTI
Dept./Agy.: Revenue
Subject: Repeals leased and reduces purchased solar credit
Analyst: Deborah Vivien

TAX CREDITS EN +$19,000,000 GF RV See Note
Provides with respect to the solar energy systems tax credit

Current law allows a refundable income tax credit based on a percentage of the purchase and installation of a solar electric, solar thermal or a combination on a single family residence. One credit is allowed per system per residence. No installations beyond December 31, 2017 will qualify for the credit. For a purchased system, the credit is 50% of eligible expenses up to $25,000 (maximum credit $12,500) and, for a leased system, the credit is 38% up to a certain size which establishes the maximum value ($4,680 per system by the end of FY 16). Systems must be sold and installed by a LA Licensed Contractor and parts must be ARRA compliant, primarily purchased in the USA. A similar federal credit is also available for an additional 30% of these costs. Proposed law repeals the credit for thermal systems and lowers the maximum sales credit to the lesser of $2/kw, 50% of cost or $10,000 per system. For leased credits, FY15 outstanding claims are limited to $19M. The leased and purchased credits are each capped at $10M per fiscal year for FY 16 and FY 17 and $5M during FY 18 for claims filed prior to January 1, 2018. The bill limits a primary residence to a single credit, specifies necessary claim documentation, including notarized statement of system size, and details equipment not eligible for the credit. Electronic filing is mandatory to claim the solar credit. Installer financing is prohibited. LDR Secretary has discretion to withhold a credit if outstanding tax disputes are in place.

EXPENDITURES	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**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	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**5 -YEAR TOTAL**
State Gen. Fd.	$19,000,000	$13,000,000	$23,000,000	$0	$0	**$55,000,000**
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	**$19,000,000**	**$13,000,000**	**$23,000,000**	**$0**	**$0**	**$55,000,000**

EXPENDITURE EXPLANATION

There is no anticipated direct material effect on governmental expenditures as a result of this measure. The Department will continue to operate the program under its current structure until all pending claims are complete. Any net reduction in expenses due to the expiration of the program, expected to be minimal, will be redirected towards other agency activities.

REVENUE EXPLANATION

The bill will increase SGF significantly for several reasons, most prevalent being the $10M annual cap on each of leased and purchased systems for FY 16 and FY 17 and $5M in FY 18. A reduction of the maximum credit for purchased systems to $10,000 is effective 7/1/15. In the bill, the eligible purchased system value is limited to 100% of $2/w times the system size in DC kw, but the credit is capped at $10,000. Current law limits the credit to 50% of purchase and installation costs up to $12,500. The bill also disallows thermal systems, requires more stringent claims documentation, including a notarized statement of system size and codifies the ineligibility of certain equipment, though this equipment appears to be disallowed in current practice. Data is not available to estimate these provisions with precision, but they can only serve to limit the credit further, which would increase SGF. The $19M cap on outstanding claims in FY 15 serves to mitigate an unforeseen leasing program deficit that could offset subsequent year impacts.

Cost estimates of the program are made complicated because the solar program is in the midst of significant reductions to the leased system credits, the market response of which is indeterminable since filings are not complete, though data from net metering installations from the PSC indicates that installations have not slowed to date. According to US DOE data, leased systems make up roughly 75% of all installations and presumably credits claimed. Considering restrictions to the program for both the leased and purchased systems, the bill could increase SGF by roughly $19M in FY 16 , $13M in FY 17 and $23M in FY 18. Actual results could be significantly higher or lower than this depending on the planned utilization of the current credits. Due to the uncertainty, a specific impact is not reliable for budgetary purposes.
The caps of $10M are on a first-come, first-served basis with any excess credits prioritized into the remaining year. Thus, once $25M in system credits are claimed for each of purchased and leased systems, state credits will no longer be available, though the 30% federal credit will remain.
In estimating future program costs, leased system credits decline as the system size constraint brings the maximum leased credit down to $4,560, though it is possible that a higher volume of installations could sustain current credit costs, especially with lower material and installation costs. The responsiveness of leased system claims to the reduction in the credit calculation is extremely uncertain since the 38% credit combined with a federal credit of 30% remains a significant inducement. Though installations are only eligible through tax year 2017 under current law, the last significant fiscal impact is expected in FY 18 as income tax returns are filed. However, some credits may be claimed in FY 19 as systems become operational after December 31, 2017. This note assumes all credits are granted in the same year as the installation and that the federal credit that sunsets on 12/31/16 is renewed through 12/31/17 when the state solar credit expires. Provisions for installer financing and LDR discretion to withhold credits due to pending tax disputes are not expected to reduce program performance below the cost caps established in the bill.

Senate	Dual Referral Rules	House
[ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S&H}		[ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
[x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S&H}		[ ] 6.8(F)(2) >= $500,000 Rev. Red. to State {H & S}
		[ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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