LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On:	**SB 231** SLS 13RS 456
Bill Text Version:	**ORIGINAL**
Opp. Chamb. Action:	
Proposed Amd.:	**w/ PROP SEN COMM AMD**
Sub. Bill For.:	

Date: May 17, 2013 11:01 AM		**Author:** MARTINY
Dept./Agy.: Revenue		
Subject: Changes solar income tax credits		**Analyst:** Deborah Vivien

TAX/TAXATION OR SEE FISC NOTE GF RV

Deletes the tax credit for wind energy systems and changes the credit for solar "energy" systems to a tax credit for both solar "electric" systems and solar "thermal" systems. (gov sig)

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). 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.

Proposed law restricts the credit by eliminating wind systems, reducing credit rates from 50% to 45% in FY14-17, lowering the rate to 35% in FY 18 and FY 19, limits the cost of apartment systems to $15,000 and terminates the credit by tax year 2019. However, the bill also expands the credit by increasing the maximum base eligible expenses for owned systems from $25,000 to the smaller of total energy needs or $54,000, as determined by an "alternating current energy delivery model" (limited to $10,000 on thermal)and valued at $4.50 per watt. The bill explicitly allows multiple systems per residence, though the total cost of the systems must fit under the stated caps per residence. Department of Natural Resources no longer consults on rules.

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

There is no anticipated direct material effect on governmental expenditures as a result of this measure. The Department of Revenue administers this credit and will essentially administer the program in the same manner if the alternating currency energy delivery model (electric) and the Solar Rating and Certification Corporation (thermal) are accepted as submitted to set an accurate limitation of system size for the residence, thereby establishing the amount of the credit.

REVENUE EXPLANATION

The bill has offsetting impacts on state revenue. Areas that may restrict the credit include lowering of the credit rate from 50% to 45% in FY 14-17 (and to 35% in FY 18-19) and lowering the maximum eligible cost for apartments from $25,000 to $15,000. The credit sunsets with tax year 2018, which impacts beyond the fiscal note horizon but will increase SGF by the full amount of the program upon expiration, (current cost is $24 M). Areas that increase the exposure to the state include increasing the cost cap on owned solar electric systems from $25,000 to $54,000 (a 12kw system valued at $4.50/watt). While certain scenarios can be estimated at or or better than state fiscal neutrality, the bill's impacts cannot be estimated with the precision required to absolutely predict a positive, negative or neutral impact to the state fisc relative to the program's current parameters.

The size of the systems installed for owned solar electric systems is a main driver of the impact to the state fisc. If systems installed are held close to those allowed under the current cost cap of $25,000 (5.5kw at $4.50/watt), net state general fund revenue would be greater due to the credit rate decrease from 50% to 45% on all credits. However, the only safety net keeping the cost of the systems from reaching the maximum of $54,000 is a limitation of the size of the solar electric system to a measurement of the energy needs of the home. To determine the appropriate size of these systems, the new bill references an "alternating current energy delivery model" provided by the installer and to be submitted with the credit claim for solar electric systems, which will set an acceptable kw use for each residence, valued at $4.50, to establish the cost basis of the credit. This "model" has not been defined in the bill and the LFO has been unable to locate information about it. Relying on this model to protect the state fisc may move the estimate closer to the maximum exposure for these types of systems which increases the likelihood that a net decrease in SGF revenue occurs from this bill. Allowing a thermal system to be combined with a solar electric system also increases the chances eligible costs exceed those currently permitted. In the instance of all owned solar electric systems valued at $54,000 (assuming 25% of systems are owned), the other measures in the bill, a 5% credit rate decrease or lowering costs on apartment systems (assuming 25% of systems are in apartments and all are currently valued at $25,000 each) may offset the increased exposure from this component of the bill, with the impact of these changes approaching neutrality to the state fisc in FY 14-17. However, a further reduction of the credit rate to 35% would move the analysis closer to a likely savings, which occurs in FY 18 in this bill.

Lowering the cost cap for apartments from $25,000 to $15,000 may provide an increase in net state general fund but this depends fully on the size of systems currently being installed in apartments. The actual data is not readily available. If apartment systems are currently about 3.3kw, which is the size implied by $15,000 valued at $4.50/kw, there is no impact to the state fisc since there are no savings to realize. (Continued on Page 2)

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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Chief Economist

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CONTINUED EXPLANATION from page one:

Revenue Explanation (Continued)
Removing wind systems from credit eligibility is not expected to materially affect program costs because wind systems are not typically installed in Louisiana.

Credits issued in FY 12 were $24.4 M and, through April 18, 2013 credits issued were $19.4 M. Without program cost constraints, it is expected that this level of credit exposure will continue under current law, and likely continue to grow with improved technology, lease arrangements and multi-family opportunities.

NOTE: The state solar credit can be combined with a federal income tax credit granting 30% of basically the same cost components, allowing those eligible to purchase and install a system at an 80% discount (50% state, 30% federal). For a limited time due to the ARRA federal stimulus program, federal grants were available that paid out immediately instead of against a federal tax liability. That program has expired, but the federal income tax credits are in place until December 31, 2016.

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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