

# LET SOLAR COMPETE IN CALIFORNIA

## The Split-Roll Initiative Would Inadvertently Trigger Massive Property Tax Increases on Solar Energy Systems & Jeopardize the Industry

### Background on Solar & Property Taxes in California



Under Proposition 13, enacted in 1978, property value is reassessed in only two limited circumstances:

- **When Property is Sold:** When there's a change in the ownership of the property, it is reassessed to fair market value.
- **New Construction:** The fair market value of new construction is added to the assessed value of property (the overall value of the property is otherwise not changed).

### Exemptions & Exclusions

The State constitution provides for some *exemptions* from property tax for certain entities, including schools and colleges, hospitals, museums and churches.

In 1980, California voters changed the state's constitution and authorized the legislature to *exclude* from the term "newly constructed" the construction or addition of any "active solar energy system". Revenue and Taxation Code Section 73 was then enacted, which **excludes active solar energy systems from "new construction"**. The Section 73 exclusion applies to solar systems installed through 2024.

### Solar Property Tax Incentive

- Effectively, this means that under current law, active solar energy systems, including utility-scale solar plants not owned by public utilities, are not subject to property tax until such time as they change ownership from their original owner.
- The Section 73 solar property tax incentive is credited with helping **drive California's national leadership in solar energy**, having installed more than 27 gigawatts (GW) of capacity through 2019.
- Section 73 has resulted in materially lower energy costs, since the property tax savings are passed through to customers in the form of lower energy prices.

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## 2020 Split-Roll Ballot Initiative

A “split-roll” initiative is expected to be on the ballot in November that will require all commercial and industrial property “that is not otherwise exempt under the Constitution” to be assessed at its full cash value, determined annually. The solar property tax “exclusion” is not an “exemption” from property tax.

If the split-roll initiative passes, the concept of “new construction” will no longer apply to commercial or industrial property. As a result, the exclusion of active solar energy systems from “new construction” becomes meaningless.

## Impacts on Solar Energy Systems

This change would mean that all solar systems currently in place and excluded from property tax would now be subject to property tax at their full fair market value, despite the fact that voters enacted a property tax incentive decades ago to encourage the deployment of solar energy throughout the state.

The passage of the split-roll initiative will alter the economics of solar energy considerably and make that power much more expensive.

### Existing Solar Power Plants

This will jeopardize the equity interests in existing solar power plants. These plants sell their power under long-term power purchase agreements (PPAs), the pricing of which was contractually agreed to on the basis that property taxes would not be imposed. Existing power plants simply cannot absorb this added cost based on their fixed PPAs.

### Future Solar Power Plants

It will similarly jeopardize yet-to-be-built solar power plants, particularly those for which PPAs have already been entered into. The PPA price does not reflect the materially increased property tax cost. Such projects will not be able to get adequate financing and may have to be abandoned. Future solar projects would have to build the cost of the property tax into their PPA bids, increasing the cost of energy to California’s consumers.

