F I S C A L   I M P A C T   R E P O R T

SPONSOR SCONC **DATE TYPED** 03/18/05 **HB**

SHORT TITLE Solar Thermal Systems Tax Credit Act **SB** 334/cs SCONC

ANALYST Padilla-Jackson

APPROPRIATION

Appropriation Contained		Estimated Additional Impact		Recurring or Non-Rec	Fund Affected
FY05	FY06	FY05	FY06		
	$150. 0			Recurring	EMNRD
	$50.0			Recurring	EMNRD

(Parenthesis ( ) Indicate Expenditure Decreases)

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY06	FY07			
($500.0)	($4,000.0)		Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From
Air Quality Bureau
Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

The Senate Conservation Committee substitute for Senate Bill 334 contains two sets of provisions. The first part of the bill would make a number of changes in the present law renewable energy production tax credit. The second part of the bill would create a new Solar Thermal and Photovoltaic Systems Tax Credit Act.

Changes to the Renewable Energy Production Tax Credit

- Provide an increased credit rate of $0.02 per kilowatt-hour (vs. $0.01 under present law) for the first 200 thousand megawatt-hours of electricity produced using solar-light or solar-heat-derived resources;
- Minimum size of an eligible facility is reduced to 1 megawatt from 10 megawatts;
- Total eligible electricity generation by all eligible facilities is reduced to 1.6 million megawatt-hours from 2 million;
- For facilities placed in service after January 1, 2007, the credits would be refundable, i.e. any credits in excess of a taxpayer's liability would be paid to the taxpayer.

Senate Bill 334 provides a tax credit against personal or corporate income tax liability for 15 percent of the installation cost of a solar thermal system at a residence in New Mexico, not to exceed $1,500. Additionally, the bill caps the total tax credits provided at $1 million. This tax credit is available during tax years from January 1, 2006 through December 31, 2015. The taxpayer can rollover any unused portion of the tax credit for seven years, or if the person claiming the credit has no tax liability, then the tax credit may be refunded to that person.

Section four of this bill allows an additional tax credit against personal income and corporate income tax liability. The credit for personal income is $3.50 per nameplate direct current wattage of the photovoltaic system provided that: (1) the maximum tax credit shall not exceed $10 thousand; and (2) the total tax credits do not exceed $2 million.

The credit for corporate income tax is $1.50 per nameplate direct current wattage of that photovoltaic system, not to exceed $75 thousand per credit and not to exceed a total of $1 million for all credits provided by the department. This tax credit is also allowed during tax years from January 1, 2006 through December 31, 2015. The taxpayer can rollover any unused portion of the tax credit for seven years, or if the person claiming the credit has no tax liability, then the tax credit may be refunded to that person. A "photovoltaic system" is a stand-alone or a grid-connected energy system that collects or absorbs sunlight for conversion into electricity. It defines "solar thermal system" to mean an energy system that collects or absorbs solar heat energy for conversion into electricity.

The bill would appropriate $50 thousand from the general fund to Energy, Minerals, and Natural Resources Department (EMNRD) in FY06 for the purpose of administering the provisions of this act. The bill would appropriate an additional $150 thousand from the general fund to EMNRD in FY06 to provide training to installers, inspectors, and the public on the tax credits allowed pursuant to the act and on installation and operation of solar thermal and photovoltaic systems. Any unencumbered balances of either of these appropriations at the end of FY06 would revert to the General Fund.

The provisions of this bill apply to taxable years beginning on or after January 1, 2005.

<u>Significant Issues</u>

According to the Air Quality Bureau, the state is obligated to report every five years to the U.S. Environmental Protection Agency its progress in achieving the renewable energy goal of 10 percent of the regional power needs by 2005 and 20 percent by 2020. They agency believes that implementation of Senate Bill 334 will help the state achieve these renewable energy goals and better address regional haze in New Mexico's national parks and wilderness areas.

PERFORMANCE IMPLICATIONS

According to the Air Quality Bureau, one of its performance measures is improvement of visibility at all monitored locations in New Mexico. Air pollutants from power plants contribute significantly to reductions in visibility. Implementation of energy efficiency and renewable energy technologies could reduce demand for energy derived from combustion of fossil fuel. This could potentially reduce air pollution and help the Air Quality Bureau meet its target for improving visibility in New Mexico.

FISCAL IMPLICATIONS

According to TRD, the total fiscal impact of this bill is -$500 thousand in FY06 and -$4,000 in the subsequent fiscal year to the General Fund.

Solar Energy Tax Credits
TRD impacts are primarily attributable to the new solar energy tax credits. The maximum total credit amounts of $1 million for solar thermal, $2 million for residential photovoltaic and $1 million for commercial photovoltaic -- are assumed to apply on an annual basis. Since the credits are refundable, the use would not be limited by the level of tax liabilities. Combined utilization of all the new credits is assumed to be $1 million in tax year 2006 – with 50 percent of that amount accruing in fiscal year 2006. Credits would increase as more people become aware of the availability of the credit. *The new solar energy credits are recurring until the credits expire in 2015; however, carry forward measures may extend the credits for seven years beyond the year 2015.

Renewable Energy Production Tax Credits
TRD notes that the smaller size threshold and increased credit rate for solar power could increase utilization of the renewable energy production tax credit in the near term. The fiscal impacts are limited, however, until the refundability provision takes effect in 2007. In the longer-run, the bill could actually reduce the fiscal impacts of the credit, because it reduces the aggregate amount of power production eligible for the credit. These effects are uncertain because the total credit claims are not likely to exceed the new cap in the bill for a number of years.

ADMINISTRATIVE IMPLICATIONS

According to TRD, provisions of the bill may be complex to administer by TRD, depending on the rules adopted by the Energy Minerals and Natural Resources Department ("EMNRD"). A new application and claim form would need to be developed. Changes to instructions and publications would required. Manual review, approval and tracking of the credit claimed and the carry-forward amounts would be required. Audit and compliance procedures must be developed. Depending on the number of claimants for the new credits, the department may need as many as 1 to 2 FTEs to administer the credits. Thus, TRD's administrative costs could be comparable to amounts appropriated to EMNRD by the proposed statute.

The bill would require the EMNRD to adopt rules no later than September 30, 2005. Additionally, the bill's provisions would require EMNRD to provide an update of the act and recommend changes to the appropriate interim legislative subcommittee every two years.

OPJ/lg