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## FISCAL IMPACT REPORT

ORIGINAL DATE 3/4/19

SPONSOR Trujillo, J LAST UPDATED 3/9/19 HB 656/aHTRC

SHORT TITLE Gross Receipts On Certain Solar Systems SB \_\_\_\_\_

ANALYST Graeser

### REVENUE (dollars in thousands)

Estimated Revenue					Recurring or Nonrecurring	Fund Affected
FY19	FY20	FY21	FY22	FY23		
	(6,020.0)	(6,020.0)	(6,020.0)	(6,020.0)	Recurring	General Fund
	(2,050.0)	(2,050.0)	(2,050.0)	(2,050.0)	Recurring	Local Governments (primarily counties)

Parenthesis ( ) indicate revenue decreases

### ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY19	FY20	FY21	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
<b>Total</b>		No Fiscal Implications			Recurring	TRD operating

Parenthesis ( ) indicate expenditure decreases

### SOURCES OF INFORMATION

LFC Files

Responses Received From

Energy, Minerals and Natural Resources (EMNRD)

### SUMMARY

Synopsis of HTRC amendment

House Taxation and Revenue Committee Amendment to House Bill 656 adds separate reporting and an annual report to the Legislative Finance Committee and the Revenue Stabilization and Tax Policy Committee. The annual report is expected to report costs and benefits of this expanded gross receipts tax exemption. The amendment also established a delayed repeal date of for installations after July 1, 2029.

Synopsis of Bill

House Bill 656 amends Section 7-9-112 NMSA 1978 to remove a portion of the definition for solar energy system eligibility for gross receipts deduction. HB 656 removes the requirement of heat, hot water, or electricity to be delivered to the property in which solar energy system is installed.

The effective date for HB656 is July 1, 2019.

**FISCAL IMPLICATIONS**

As noted by EMNRD, by removing the requirement that the solar energy provide energy to the property it is installed on, the gross receipts tax deduction would apply to all solar voltaic and solar thermal systems installed anywhere in the state, from small systems under net metering rules to large utility scale systems.

According to the Solar Energy Industries Association (SEIA), New Mexico is a leader in solar energy capacity and installations:<sup>1</sup>

- Solar Installed: 777.1 MW (60.1 MW in 2017)
- National Ranking: 16th (27th in 2017)
- State Homes Powered by Solar: 195,000
- Percentage of State’s Electricity from Solar: 4.87 percent
- Solar Jobs and Ranking: 2,521 (29th in 2017)
- Solar Companies in State: 111 companies total; 15 Manufacturers, 62 Installers, 34 others
- Total Solar Investment in State: \$ 1,681.72 million (\$104.88 in 2017)
- Price Declines: 43 percent over the last 5 years
- Growth Projections and Ranking: 863 MW over the next five years (ranks 23rd)

Notable Projects

- Alta Luna has the capacity to generate 28.1 MW of electricity -- enough to power over 7,035 New Mexico homes.
- At 70 MW, Chaves Solar in Roswell is among the largest solar installations in New Mexico. Completed in 2016, this photovoltaic project has enough electric capacity to power more than 17,525 homes.
- Eubank Landfill Solar is one of the first major corporations to get involved in New Mexico with their 2 MW project in Albuquerque.

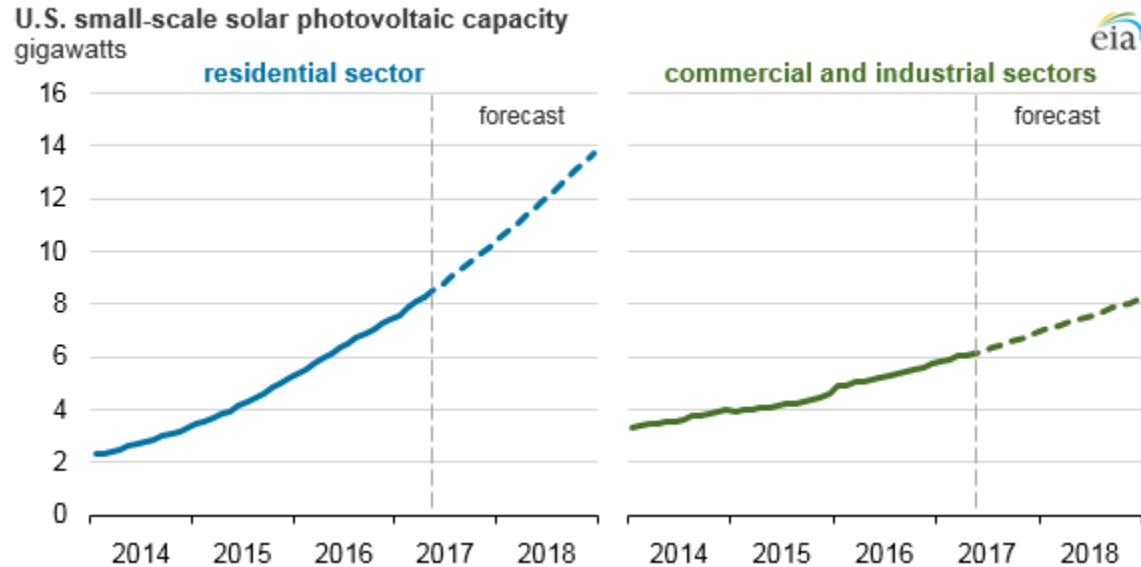
Note that the SEIA estimate of 195,000 homes powered by solar includes residential on-site systems and the estimated number of homes powered by electricity obtained from utility-scale installations.

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<sup>1</sup> [https://www.seia.org/sites/default/files/2018-12/Federal\\_2018Q3\\_New%20Mexico\\_1.pdf](https://www.seia.org/sites/default/files/2018-12/Federal_2018Q3_New%20Mexico_1.pdf). All data from SEIA/GTM Research U.S. Solar Market Insight unless otherwise noted: <http://www.seia.org/research-resources/ussolar-market-insight> ii Energy Information Administration, Electric Power Monthly: <http://www.eia.gov/electricity/monthly/#generation> iii The Solar Foundation, State Solar Jobs Census: <http://www.thesolarfoundation.org/solar-jobs-census/states/> iv SEIA, National Solar Database: <http://www.seia.org/research-resources/national-solar-database> v SEIA, Major Solar Projects List: <http://www.seia.org/research-resources/major-solar-projects-list> vi Ibid vii SEIA, Solar Means Business: <http://www.seia.org/campaign/solar-means-business-2016>

While rooftop and ground-mount solar installations cost approximately \$2,500 per kilowatt, industry sources indicate that utility-scale installations cost about \$800 per kilowatt. Using the SEIA projection for the next five years and an installation cost of \$800 per kilowatt, with a rough estimate of 15 percent of costs that are already deductible, LFC staff expect an annual cost to the general fund and to local funds as shown in the table.

These projections are approximately consistent with DOE’s *Short Term Energy Forecast* for the nation, as shown in the following graphic.



Utilities are currently required by PRC to meet a renewable energy portfolio standard (RPS) of 20 percent by 2020. A substantial portion of this RPS will be met with wind generation. However, if SB496 of this session passes and is signed into law, the utility scale solar installations will dramatically increase in capacity. The goal for an increase in New Mexico’s RPS as proposed by advocates mirrors Lujan Grisham’s campaign platform for electricity powered by renewables: 50 percent by 2030 and 80 percent by 2040.

This bill creates or expands a tax expenditure and narrows the gross receipts tax (GRT) base. As noted above, the cost of this GRT deduction is difficult to determine but could easily become significant. LFC has serious concerns about the risk to state revenues from tax expenditures and the increase in revenue volatility from erosion of the revenue base. At minimum, this proposal should include targets, goals, and milestones, and the proposal should include adequate separate reporting and a delayed repeal date.

### SIGNIFICANT ISSUES

As noted above, the provisions of this bill narrows the gross receipts tax (GRT) base. Many of the efforts over the last few years to reform New Mexico’s taxes focused on broadening the GRT base and lowering the rates. Narrowing the base leads to continually rising GRT rates, increasing volatility in the state’s largest general fund revenue source. Higher rates compound tax pyramiding issues and force consumers and businesses to pay higher taxes on all other purchases without an exemption, deduction, or credit.

## PERFORMANCE IMPLICATIONS

The LFC tax policy of accountability is not met since TRD is not required in the bill to report annually to an interim legislative committee regarding the data compiled from the reports from taxpayers taking the deduction and other information to determine whether the deduction is meeting its purpose. In particular, there are no goals, targets or milestones included in the bill, there are no reporting requirements, and there is no provision for separate reporting of the deduction to TRD.

## ADMINISTRATIVE IMPLICATIONS

EMNRD has no role in administering this GRT deduction. TRD has not been assigned any special duties or procedures, such as separate reporting or annual disclosure to an interim legislative committee. Neither agency should experience any impact on operating budgets. Note: per HTRC amendment, the deduction is to be separately reported and TRD is required to prepare an annual report to the legislature of costs and benefits. TRD and EMNRD will have to work together to estimate the number of Megawatts of solar power installed subject to this new GRT deduction.

## CONFLICT, DUPLICATION, COMPANIONSHIP, RELATIONSHIP

Several bills this session have proposed deductions, credits, abatements and financing arrangements for solar installations. These include HB520, which proposes a property tax exemption for residential solar installations and HB 210, the Community Solar Act. Searching the legislative website for “SOLAR” yields the following list:

<a href="#">HB 15</a>	RURAL ELECTRIC COOP RENEWABLE STANDARDS
<a href="#">HB 210</a>	COMMUNITY SOLAR ACT
<a href="#">HB 283</a>	INCREASE RENEWABLE PORTFOLIO STANDARDS
<a href="#">HB 289</a>	FUND INVESTMENT IN RENEWABLE ENERGY
<a href="#">HB 426</a>	RENEWABLE ENERGY TRANSMISSION AUTHORITY STUDY
<a href="#">HB 432</a>	AFFORDABLE SOLAR ENERGY ACT
<a href="#">HB 440</a>	SOLAR ENERGY IMPROVEMENT ASSESSMENTS
<a href="#">HB 520</a>	PROPERTY TAX ON CERTAIN SOLAR SYSTEMS
<a href="#">HB 547</a>	WORKFORCE CLEAN ENERGY ECONOMY STUDY
<a href="#">HB 647</a>	LIMITS ON VALUATION OF CERTAIN PROPERTY
<a href="#">HB 656</a>	GROSS RECEIPTS ON CERTAIN SOLAR SYSTEMS
<a href="#">SB 39</a>	SOLAR MARKET DEVELOPMENT TAX CREDIT
<a href="#">SB 275</a>	INCREASE RENEWABLE PORTFOLIO STANDARDS
<a href="#">SB 281</a>	COMMUNITY SOLAR ACT
<a href="#">SB 468</a>	CLEAN ENERGY FOR NEW GENERATION FACILITIES
<a href="#">SB 489</a>	ENERGY TRANSITION ACT
<a href="#">SB 518</a>	NEW SOLAR MARKET DEVELOPMENT TAX CREDIT

## TECHNICAL ISSUES

~~This bill does not contain a delayed repeal date. LFC recommends adding a delayed repeal date.~~

~~LFC also recommends the bill add separate reporting, goals, targets, and milestones and annual reporting by TRD. [LFC note: both of these recommendations are included in the HTRC amendment.]~~

As noted in the conflict, duplication, companionship, relationship section, there have been an unusually large number of bills relating to renewable energy introduced this session. LFC staff recommend the state update its energy policy plan and documentation. This responsibility can be assigned by the governor to EMNRD or the Legislature can convene an interim task force to update this policy. A comprehensive energy policy that includes all aspects of energy policy, including transition to a largely renewable energy standard, supporting tax policies, recommendations and statute for PRC. This policy should include recommendations for coal, natural gas, carbon dioxide and crude oil production with associated recommendations for venting and flaring, fracking and other aspects of the interface between production and the environment. Whether SB489 Energy Transition Act passes and is signed into law will be material and a key element in reshaping the state's energy future. The City of Farmington has recently announced productive discussions that might lead to keeping the Four Corners power plant and associated coal mines operating after 2022. This would also be a material element in a comprehensive energy plan.

LG/sb