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To: Senator Burdick and Representative Nathanson, Co-Chairs, Joint Committee on Tax Expenditures

From: Senator Beyer, Chair Senate Energy

Date: March 30, 2021

Subject: Senate Bill 154 – Solar Fee in Lieu of Tax

BACKGROUND

In 2015, the Legislative Assembly enacted House Bill 3492 which created the Solar Fee in Lieu of Tax Program. The Solar Fee in Lieu of Tax Program authorizes, a solar project, pursuant to executing an agreement with the county and city, if inside one, (local government) to be exempt for up to 20 years, contingent on an annual payment to the local government of a fee equal to $7,000 per MW of the project's nameplate capacity. The Solar Fee In Lieu of Tax Program is scheduled to sunset January 2, 2022.

POLICY QUESTIONS

1. What is the public policy purpose of the tax expenditure?

The public policy purpose for the Solar Fee in Lieu of Tax Program is to provide large commercial solar developers additional financial certainty when developing projects. Having a consistent fee rather than property taxes, that change over time, make it easier to secure project financing. In addition, the program is a benefit to local governments that they have a stabile revenue stream rather than a declining one.

2. What is the expected timeline to achieve the policy goal?

The Solar Fee in Lieu of Tax program was initially enacted in 2015 and limits the agreements between a developer and a local government from lasting more than 20 years. The Committee did not receive testimony on when solar energy development incentives would no longer be necessary.

3. Who are the direct beneficiaries?

The direct beneficiaries of the Act are the developer and the local government.

4. Is it an effective and efficient way to achieve the policy goal?
The Solar Fee in Lieu of Tax Program is an efficient way to encourage large solar developments. It is an optional program that local governments and developers can choose to use to provide additional financial certainty. Because it is not required, local governments and developers can jointly decide when it is appropriate.

5. What information is available from other states with a similar policy?
The Committee did not discuss other state policies that encourage solar development.

6. Are there suggested changes to make the tax expenditure more effective or efficient?
The Committee adopted amendments that would amend the existing program which sets the annual fee payed to a local government in lieu of a tax at $7,000. The amendment adopted by the Committee establishes an allowable range of no less than $5,500 and no more than $7,000 per megawatt of nameplate capacity. In addition, the Act clarifies that the fees are apportioned and distributed among the taxing districts that have jurisdiction over the property. The Committee also amended the program to clarify that if an agreement is entered into that it the agreement indicates how the land will be treated with respect to the exemption and fee in lieu of property taxes. Finally, the Committee recommends that the sunset be extended to January 2, 2028.

An issue that the Committee discussed but did not chose to include is an expansion of the program to apply to community solar programs. The Committee heard testimony about the additional barriers to developing community solar projects but ultimately did not choose to include an allowance for community solar projects.

7. What other direct and indirect expenditures does Oregon make to achieve the same or similar policy goal?
Prior to this program passing small project developers would utilize the rural energy renewable energy zone program (Red Zone). The Red Zone program allowed developers in certain areas to not pay any taxes for the first five years.

8. Would a direct appropriation be more efficient?
This program is a way to encourage development by providing local governments and developers a tool that can be used to provide additional certainty. This program encourages the investment of private funds to build large solar projects. The Committee supports continuing to make this tool available.

9. What other kinds of incentives might achieve a similar policy goal?
The Committee did not discuss an alternative policy proposal.

10. What are the consequences of allowing the tax expenditure to sunset?

If this program was no longer available solar developers may have a more challenging time securing funding for their projects, which would reduce the amount of renewable energy generated in Oregon.