

Comparison of Property Tax Revenue vs Payment in Lieu of Taxes (PILOT) for Solar Energy Projects

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Property Taxes and Payments in Lieu of Taxes (PILOTs) for Renewable Energy Projects

- Solar installations are considered by the Ohio Revised Code to be Public Utility Tangible Personal Property (PUTPP). The land on which the installation sits is classified as business and commercial real property.
- The value of real property is determined by the County Auditor. The PUTPP value is set by the Ohio Department of Taxation, NOT by the county auditor.
- SB 232 (2010) allows for renewable energy projects (such as Solar projects) to be designated as “qualified energy projects (QEPs).
- If a project is designated as a QEP then the project owner can make Payments in Lieu of Taxes (commonly referred to as “PILOT” payments) instead of paying property taxes based on the valuation of the project equipment’s PUTPP and the value of the land on which it sits.
- SB 232 calls for an annual PILOT payment of \$7,000 per MW to be split across all government taxing authorities where the project is located, with the option for an additional \$2,000 per MW annual payment which would go entirely to the county where the project is located.
- County Commissioners in the county where the project is located must vote to approve the PILOT payment by designating the project as a QEP.

How the Base \$7,000 per MW PILOT Payment Amount is Apportioned Across Jurisdictions

- The \$7,000 base PILOT Payment amount is split across the government taxing jurisdictions in the area where the Solar development is located.
- These taxing jurisdictions include:
 - 1) County
 - 2) School District(s) including Joint Vocational School Districts
 - 3) Townships
 - 4) County Agencies (i.e. County Health Board)
 - 5) Other Local Agencies (i.e. Libraries)
- This apportionment is based upon the the proportion of property taxes collected by each jurisdiction. The calculation is made annually by the County Auditor

Differences Between Property Taxes and PILOT Payments: PUTPP Depreciation

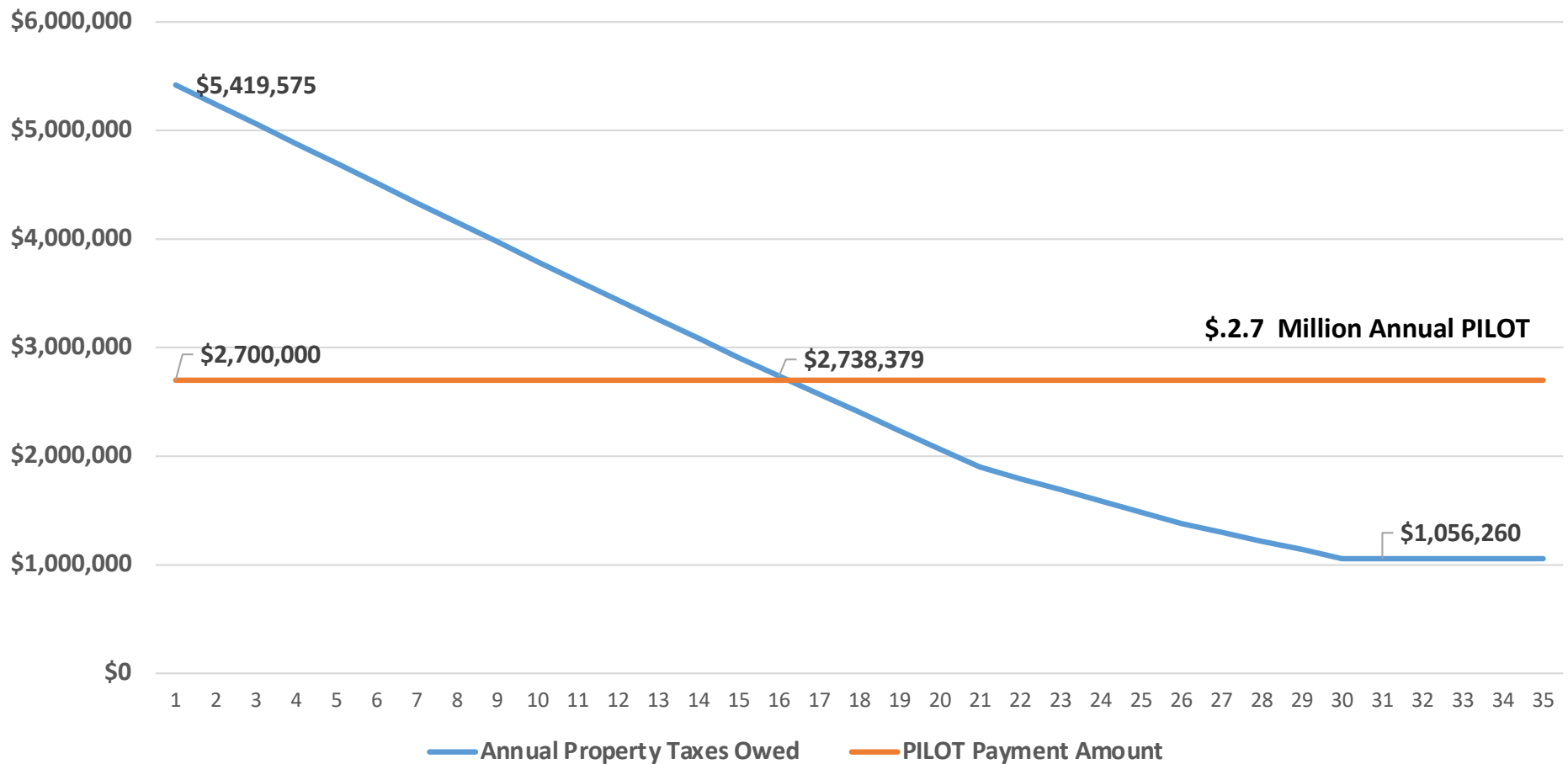
- PUTPP equipment such as that involved in Solar installations is broken into 3 categories:
 - Electricity production equipment (30-year depreciation)
 - Electricity transmission and distribution equipment (30 yr depreciation)
 - General business equipment (15-year depreciation)
- The initial PUTPP valuation is generally based on the construction cost of the project and this value is then reduced for depreciation for up to 30 years.
- Property that depreciates over 30 years has its value reduced by about 3.3% annually for 20 yrs. and then by about 1.7% for 10 yrs.
- Property that depreciates over 15 years has its value reduced by about 6.7% annually for 9 years and by a lesser amount for 6 yrs.
- Ohio does not allow PUTPP property to depreciate below 15% of the initial valuation.

Impact of PUTPP Depreciation: Property Taxes and PILOT Payments Will Differ Over Time

- PUTPP property taxes will decline over time as result of the depreciation applied to the Solar installation's equipment lowering its taxable value.
- This means that property tax payments will start out at a high level and then decline annually until they level off after 30 years.
- Note that PUTPP property taxes can increase if additional voted levies are enacted over the life of the project. However, the increase in millage rate from voted levies will be far less than the decline in the PUTPP value of the Solar property due to depreciation.
- In contrast, PILOT payments remain at a constant level (\$9,000 per MW) over the life of the project.
- The next 2 slides provide an illustration of how property taxes compare to PILOT payments over a 35-year time period.

Illustration of Property Tax Payments vs. PILOT Payments over 35 Years

Hypothetical Example Comparing Annual Property Tax Payments vs PILOT Payments For a 300 MW Project Over 35 Years

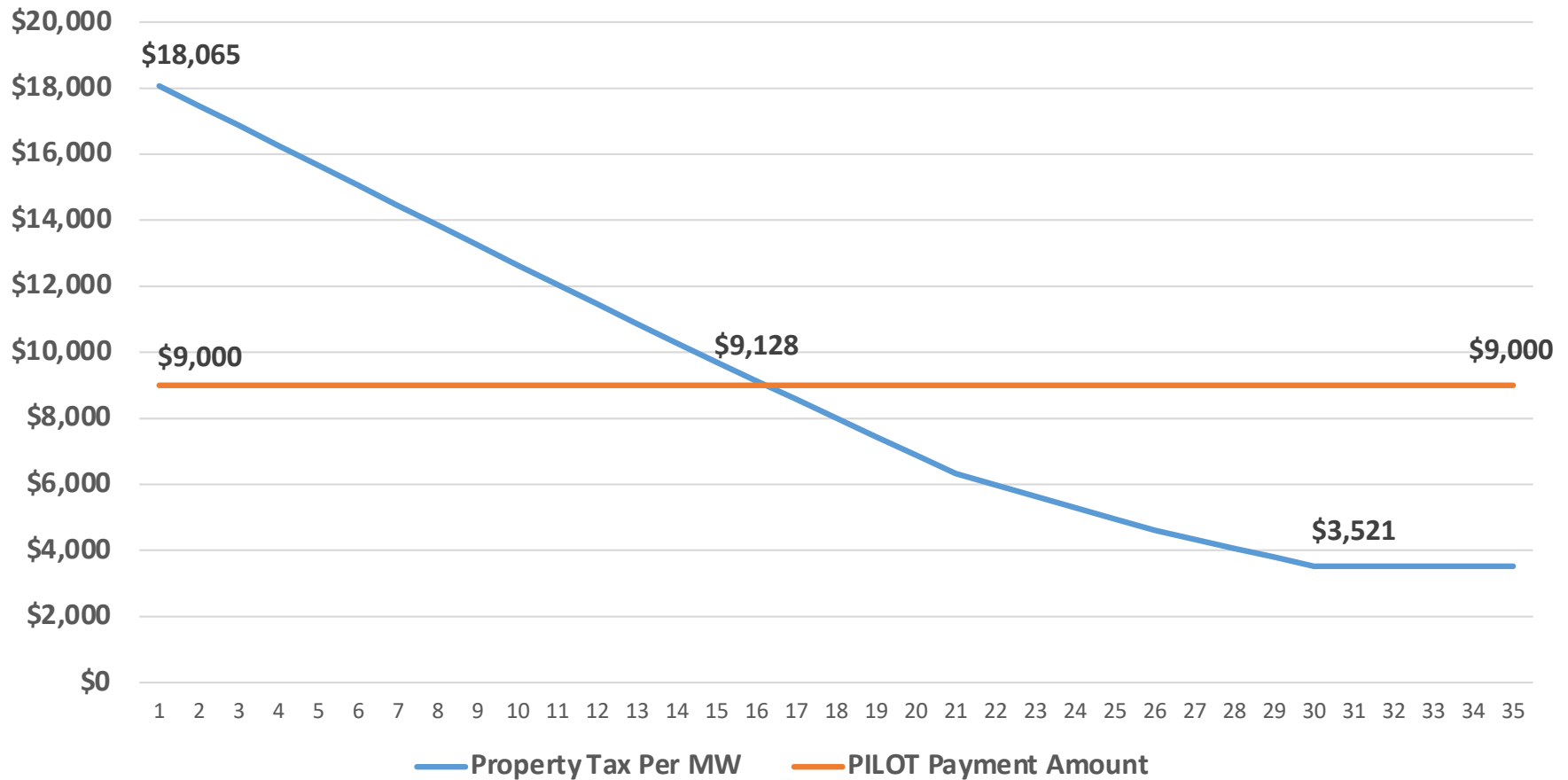


Example of Property Taxes and PILOT Payments Differing Over Time

- The previous slide shows an example of property tax payments and PILOT payment amounts of roughly equal aggregate value over a 35-year timeframe for a 300 MW project.
- Under this example, property tax payments would begin in Year 1 at \$5,419,475. This is more than double the PILOT payment amount in Year 1 of \$2.7 million.
- PILOT payments remain at \$2.7 million throughout the 35-year duration of the project while property tax payments decline annually until they reach \$1,056,260 in year 30 and beyond.
- By year 16 property tax payments are roughly equal to the PILOT amount at \$2,738,379. Property taxes are then lower than the PILOT amount in all remaining years.
- The following slide shows the same example comparing property taxes per MW to the \$9,000 per MW annual PILOT amount.

Illustration of Property Tax Payments vs. PILOT Payments Per MW over 35 Years

Hypothetical Example Comparing Annual Property Tax Payments vs PILOT Payments Per MW For a 300 MW Project Over 35 Years



Differences Between Property Taxes and PILOT Payments: Valuation Challenges

- PUTPP property values can be challenged by the taxpayer.
- First the taxpayer contests the valuation set by the Ohio Department of Taxation.
- If this challenge is unsuccessful the taxpayer can then challenge the valuation before the Board of Tax Appeals (BTA).
- If the challenge to the BTA is unsuccessful, the taxpayer can make a legal challenge using Ohio's court system.
- Legal challenges of PUTPP valuations can go as far as the Ohio Supreme Court.
- Ohio's recent history indicates that it is not uncommon for valuations of power generation facilities to be challenged after the property has been sold or when market circumstances change.
- PILOT payment amounts can only be changed if the "nameplate" generation capability (in MW) of the facility changes.

Differences Between Property Taxes and PILOT Payments: Impact on K-12 School Funding

- Ohio has adopted a new state school funding formula for the current 2021-2022 (FY22) school year.
- Like the funding formulas that Ohio has used previously, the current formula provides more state aid to less wealthy school districts and less state aid to wealthier school districts.
- In this way the state “equalizes” the ability of less wealthy school districts to provide a “thorough and efficient” education to their students as spelled out in the Ohio Constitution.
- The FY22 state aid formula takes into account both the total property value of each school district (60% weight) as well as the income of school district residents (40% weight) when determining district’s “local capacity” to provide funding from its own resources.
- A multiplier is then applied to each district’s local capacity to provide their local share of K-12 education funding.

Differences Between Property Taxes and PILOT Payments: Impact on K-12 School Funding

- It is also important to understand that the state school funding formula also functions so that if a school district gets poorer over time it will get more state aid and if school district gets wealthier over time it will get less state aid.
- In the context of this discussion about Solar energy projects, what is crucially important is that school districts will be impacted differently whether a PILOT is granted as opposed to whether property tax payments are made.
- ***If the PILOT payment option is not taken, then the annual taxable property value of the Solar installation within the district's boundaries will be included in the school district's wealth calculation.*** This will typically mean that the school district will get less state aid because it is now wealthier in the eyes of the state aid formula.
- However, if the PILOT is granted the ***Solar valuation is not included in the district's wealth and its state aid is not reduced.***

Differences Between Property Taxes and PILOT Payments: Impact on K-12 School Funding

- There are several caveats to the above discussion.
- First, Ohio's school funding formula also includes a "transitional aid guarantee" which is designed to limit the extent to which districts undergo reductions in state aid from one year to the next. However, this guarantee is intended to work on a temporary rather than permanent basis.
- Second, as discussed above, due to depreciation of PUTPP property the Solar property value will be highest in year 1 and then decline over time. This means that school districts will experience a large increase in wealth initially which will then decline over time.
- This makes it highly likely that districts will end up on the guarantee in the early years of the solar project.
- If a district is already on the guarantee it will be much deeper into the guarantee as a result of the solar project if no PILOT is granted.

Differences Between Property Taxes and PILOT Payments: Impact on K-12 School Funding

- Third, Ohio's funding formula is currently specified over the next 2 years only and could be changed by the legislature in FY24. The fact that the formula frequently changes makes predicting the impact on state aid over a 35-year time period very difficult.
- None of these caveats apply if the PILOT is in place as the PILOT has no impact on the state aid formula.