



WASHINGTON
STATE ASSOCIATION
of **COUNTIES**

Clean Energy Property Tax Impacts

INTRODUCTION

Solar and wind farms are critical to Washington State’s goal of sourcing 100% clean or renewable energy by 2045.¹ As of March 2023, there were 22 wind energy facilities in the state, primarily located in rural counties east of the Cascade Slope.² These facilities contribute 3,400 megawatts of capacity (7.3%) to the state’s energy grid.³ Solar energy generation has also increased in recent decades, ranging from small residential installations to utility-sized projects. Additional wind and solar projects have been proposed, including large projects in Benton, Douglas, Yakima, and Kittitas Counties.

The benefits provided to local communities versus the perceived impacts resulting from the development of these projects have long been a source of controversy. However, there will be an increase in property tax revenue for counties and other local taxing districts (e.g. schools, fire, EMS, hospitals, and libraries) in which clean energy projects are sited. The value of the new construction increases the jurisdiction’s overall assessed property values because new construction is not subject to the annual 1% property tax limit.

However, long-term fluctuations in a project’s assessed value and the depreciation of personal property associated with a project may reduce the property taxes paid by the project to local communities. Over time, a large portion of the property tax burden originally borne by the project that benefitted the local community is often shifted to surrounding properties. The problem is further complicated by a lack of required community investment by energy companies, inconsistent property assessment processes, and tax exemptions. Combined, the reductions and exemptions from tax obligations afforded to these projects result in foregone benefits and, in many cases even more damaging, permanent, significant property tax increases for residents in the communities hosting these projects. Left unchecked, this problem will worsen in the coming years under Washington’s rapidly expanding clean energy infrastructure.

This paper outlines the root causes of this issue, the current impacts experienced by counties, and possible solutions that would enable clean energy growth while also maximizing potential benefits to the communities that host them.

TABLE OF CONTENTS

2	Introduction
3	Key Findings
4	Executive Summary
6	Clean Energy in Washington State
7	Clean Energy Project Assessment
10	Clean Energy Project Impacts On Property Taxes
15	Potential Solutions
20	Citations

STAFF CONTACT

Travis Dutton

Policy Analyst

(360) 999-3415

tdutton@wsac.org

Paul Jewell

Senior Policy Director

(360) 489-3024

pjewell@wsac.org

KEY FINDINGS

- 1 | Increased Clean Energy Development**

Washington State’s ambitious climate policies have led to a surge in proposed clean energy production facilities in rural counties. However, much more will be needed to meet the state’s goals.
- 2 | Inconsistent Property Tax Assessment**

The state’s property tax assessment process for centrally and locally assessed clean energy projects results in inconsistent assessed values, posing challenges for fair taxation.
- 3 | Tax Burden Shifts**

Washington’s personal property tax laws create tax burden shifts over time from clean energy projects to other property taxpayers within the same taxing districts, placing an additional tax burden on existing property taxpayers.
- 4 | Fluctuating Assessed Values**

Clean energy project assessed values experience significant fluctuations annually due to assessment methods and over longer periods owing to personal property depreciation. As a result, over half of their property tax responsibility has been shifted to other taxing district property taxpayers, amounting to millions of dollars in property tax shifts.
- 5 | Escalating Problem**

Without proactive changes, the existing property tax burden shifts from clean energy projects to other taxpayers are likely to worsen as the state pursues its climate and environmental goals.
- 6 | Mitigation Strategies**

Some states have created strategies to prevent or mitigate property tax shift issues associated with clean energy projects while ensuring additional benefits to hosting communities.

EXECUTIVE SUMMARY

Washington is a leader in renewable energy generation, including hydroelectric, solar, and wind energy projects, and will continue rapidly expanding its clean energy development strategy.⁴

Arguably, clean energy projects have a wide range of positive benefits and impacts, including on the communities in which they are built. Along with other benefits, projects increase the value of the overall property tax base, providing additional revenue for local government services, including schools, roads, hospitals, fire districts, law enforcement, and other services. However, the overall tax base increase and corresponding revenue may not come without a long-term cost for residents.

While new clean energy project developments increase the overall value of a local jurisdiction's tax base, they may also negatively impact other local property owners through involuntary property tax increases over time. The equipment used for energy production is considered to be part of the construction of a new project and is a significant portion, if not the majority, of the new facility's value. Local government taxing districts add the value of new construction to their tax assessment rolls every year as projects are developed. The new construction value increases the overall tax base and increases local property tax revenue as it is not subject to the current 1% property tax rate growth limitation on existing properties.

The equipment used by clean energy projects for generation and storage (like wind turbines and solar panels) is classified as personal property under Washington's tax codes rather than real property.⁵ Personal property can be depreciated over time. However, the overall tax assessment base does not decline with the depreciation. This may result in a reduction of the tax burden for clean energy projects and a simultaneous increase in the property tax burden for other properties as that burden is shifted. Property tax shifts also occur when the value of a project owned by a publicly held corporation fluctuates as determined by its stock price. As time goes by, clean energy projects may shed a substantial portion of their property tax burden onto the other properties in the county. In the case of the Vantage Wind Farm in Kittitas County, the revenue seen from this project has declined \$503,883 since 2014 – a 52% decrease that has shifted to and is being paid by the other property tax payers in that taxing district.⁶

Many of the potential economic and environmental benefits and impacts of clean energy projects are outside the influence and control of local governments. Project developers can even gain siting authorization without the consent of the local government and without complying with local land use, zoning, and development regulations.⁷ However, changes could be implemented in state law that could grant more authority and create greater opportunity for local governments to deploy strategies to address the impacts of property tax burden shifts to other property in the taxing districts in which renewable energy projects develop.

Solutions could include new legal authority for local governments or the state to create permanent funds with revenue paid by the projects. These funds would be managed for the benefit of local governments and residents where the projects operate. New taxing authority could also be granted to local governments to provide additional resources for critical government services and reduce

the reliance on property tax revenues, especially for counties. State law could also be changed to compel or strongly incentivize community benefit agreements – voluntary agreements between local communities and project owners that provide tangible benefits to the community and funded by the projects. Finally, it would be an improvement to the overall assessment process for these projects if one, consistent method of assessment was utilized statewide.

Without improvements to the property tax assessment process, the benefits to local communities where these projects exist are often outweighed by property tax shifts resulting in substantial increases to residents and other businesses over time. While this issue is not the only concern of residents where projects are being developed, it may be the most important one in determining whether the state meets its goals for reducing greenhouse gas emissions and achieving a 100% clean energy supply.

CLEAN ENERGY IN WASHINGTON STATE

Washington State has set its sights on a future powered by clean energy. Already a leader in hydropower, recent years have seen legislative action that moves the state towards a 100% clean energy future:

- The Energy Independence Act (EIA) of 2006 requires qualifying electric utilities to source up to 15% of their electricity from renewable energy.⁸
- The Washington Clean Energy Transformation Act (CETA) (SB 5116, 2019) commits the state to a policy that all retail electricity sales to Washington retail electric customers be greenhouse gas neutral by 2030 and 100% from non-emitting or renewable resources by 2045.⁹
- HB 1216, passed in 2023, aims to create efficient and effective siting and permitting of clean energy projects with policies and investments that protect the environment, overburdened communities, and tribal rights, interests, and resources.¹⁰
- HB 1756, also passed in 2023, aims to support clean energy through tax changes that increase revenue to local governments, schools, and impacted communities.¹¹

According to a March 2023 report from the US Energy Information Association, hydropower, solar, and wind made up about 75% of Washington State's total electricity net generation.¹² As the state continues to move towards its clean energy goals and we increase our need for electricity generation through electric vehicles and home electrification, solar, and wind farms will continue to be viewed as critical tools.

As of March 2023, there were 22 wind energy facilities in the state, primarily located in rural counties east of the Cascade Slope. These facilities contribute a 3,400-megawatt capacity to, or 7.3% of, the state's energy grid.¹³ Solar energy generation has also increased in recent decades, ranging from small residential installations to utility-sized projects. Additional wind and solar projects have been proposed, including large projects in Benton, Douglas, Yakima, and Kittitas Counties.¹⁴

CLEAN ENERGY PROJECT ASSESSMENT

How clean energy projects are assessed varies depending on project, type, size, and location. Projects can be assessed centrally by the state or locally by a county or city. Additionally, several appraisal methods can be used by the appraising agency to determine the value of a project.

CENTRAL ASSESSMENT

When a public utility operates across multiple county or state borders, it must be centrally assessed.^{15a, 15b} This means that the Department of Revenue (Revenue) is responsible for assessing its value and apportioning it out to counties where the public utility operates.

Per RCW 84.12.300, Revenue appraisers use a unitary, or market, approach to appraisal. A unitary appraisal considers all aspects of a utility company to determine a single fair market value and then assigns a proportionate value to each jurisdiction where the utility operates.

To accomplish this, Revenue analyzes a utility company's financial records and prepares cost, income, and market-based appraisal estimates for the taxable tangible property. This includes the value of any tangible and intangible assets, stock and debt values, per-unit energy value, revenue, and other characteristics. This information is reconciled into a single taxable value, net of all exemptions. After valuation, the final taxable value is divided across the respective taxing districts where it is located based on the percentage of the historical cost of investment in that area.

LOCAL ASSESSMENT

Projects that are not centrally assessed at the state level are assessed locally by a county assessor. SSB 5910, passed in 2022, requires Revenue to publish guidance for county assessors when appraising renewable energy facilities to include a cost-based appraisal method and industry-specific valuation tables for solar, wind, and energy storage. Per RCW 84.40.420, county assessors may consider one or more additional valuation methods in determining the true and fair value of a property to aid them in appraising new clean energy projects:

Cost

A cost approach analyzes what it would cost to recreate the subject property through new construction and an analysis of losses in value from various sources (physical depreciation and obsolescence). This approach reflects the principle of substitution, i.e., the ability of a buyer to obtain similar property by reconstructing or replicating the features and capabilities of the subject property.

Sales

The sales approach to valuation estimates the value of the subject property by comparison with similar properties, adjusting the comparable sales to compensate for differences between subject property and comparable property. It reflects a buyer's ability to purchase alternative properties to the subject and values the subject based on the asking and sales prices of similar properties.

Income

An income approach estimates the market value of the subject property based on its ability to generate net operating income and to be resold at the end of an investment holding period. This approach is commonly used for commercial real estate and rental properties, providing a valuation based on income potential and investor expectations.

REAL AND PERSONAL PROPERTY

It is also important to understand the difference between real property and personal property when considering property tax assessment issues on clean energy projects. In Washington State, both real and personal property are assessed for tax purposes.

Personal Property

Personal property refers to assets used in conducting a business. It is defined in RCW 84.04.080 as all "goods, chattels, stocks, estates, or moneys; all standing timber held or owned separately from the ownership of the land on which it stands," etc. Wind turbines, including towers, blades, rotors, drivetrain, and solar panels are defined as trade fixtures and, therefore, are assessed as personal property in Washington State. Trade fixtures are defined by WAC 458-12-005(2)(i) as "machinery or equipment of any commercial or industrial business which operates on leased land or in rented quarters...no matter how firmly it may be attached to the landlord's realty unless it could not be removed without

virtually destroying the building housing it, or otherwise seriously damaging the landlord's realty.”

Additionally, RCW 84.12.280 requires “... all of the operating property other than lands and buildings of electric light and power companies... be assessed and taxed as personal property” for centrally assessed properties.

Wind turbines and solar panels are not considered buildings because they are constructed with the expectation that they will be replaced at the end of their 25-year life span or removed at the end of a lease.¹⁶ Project owners are allowed to depreciate the value of their personal property over a 20-year period.¹⁷

Personal Property Depreciation

Wind turbines and solar panels depreciate at different rates depending on how much energy they generate. The amount of energy each unit generates is also known as nameplate capacity. Depreciation occurs at the following rates:

1. Less than 1 megawatt = 8.5% annually.
2. Greater than 1 megawatt = 4% annually.¹⁸

The average commercial wind turbine installed in Washington State has a nameplate capacity greater than 1 megawatt.¹⁹

Real Property

Real property is defined in RCW 84.04.090. It means the “land itself and all buildings, structures, improvements, or other fixtures.” It also includes standing timber that is grown on the land unless the timber is owned separately and mobile homes, with exceptions.

CLEAN ENERGY ASSESSMENT INCONSISTENCIES

The information available to county assessors is not as detailed as that available to the state for central assessment.²⁰ While the state publishes valuation guidance for counties to use in their assessment processes, the use of consistent and detailed information for all clean energy assessments could result in more consistent valuations and make locally assessed projects less susceptible to tax appeals.

In addition to centrally assessing projects that cross county or state borders, Revenue is required to assist counties in the valuation of industrial property over \$25 million through an advisory valuation.²¹ Counties may also request an advisory valuation from Revenue for projects under \$25 million.²² This assists county assessors in determining the true and fair value of more complex projects.

While a county assessor may request an advisory valuation, they may not request that the state centrally assess a clean energy project that exists solely within a county’s borders. A 1932 Washington State Supreme Court case, *State Ex Rel. State Tax Comm. v. Redd*, found that the state “can not legally assess property within the limits of a county for county purposes.”²³

CLEAN ENERGY PROJECT IMPACTS ON PROPERTY TAXES

Counties in Washington where clean energy projects are sited benefit from increased property tax revenue. However, as the unitary assessments of centrally assessed projects fluctuate and the projects' personal property (such as the wind turbines and solar panels) depreciates, the responsibility to maintain taxing district budgets will fall on the residents. For some smaller counties with overall low property value assessments

where clean energy projects are being developed, the value of the projects can represent a significant portion of the county's overall property tax base. In Garfield County, the Puget Sound Energy owned Lower Snake River Wind Facility is the county's largest taxpayer, contributing nearly half of all local tax revenues collected each year.²⁴ In Columbia County, the revenue generated from three wind farms has ranged from 33% to 49% of the

Property Tax Levy Limits

DESCRIPTION A

In Washington, property tax increases are not based on the increasing value of properties, but rather the amount of the property taxes that were assessed in the prior year. Each year's levy may be increased by no more than 1%, unless:

1. The public votes for a greater increase. Referred to as a "levy lid lift," voters can approve a taxing district proposal to lift the one percent levy limit up to the statutory maximum limit for that district.
2. The jurisdiction uses banked capacity, whereby a taxing district levies less than the maximum amount and can use that capacity at a future date to implement an increase greater than 1%. This strategy is rarely implemented.
3. There are limit-exempt add-ons, such as new construction, changes in state-assessed utility property, or newly annexed property. New construction is defined in WAC 458-19-005 as "construction or alteration of any property for which a building permit was issued, or should have been issued, under chapter 19.27, 19.27A, or 19.28 RCW or other laws providing for building permits, which results in an increase in the value of the property."
4. The increase would exceed the statutorily authorized maximum property tax levy rates (RCW 84.52.043) for county property taxes (\$1.80 per thousand for the county general fund and \$2.25 per thousand for the county road fund, generally).

total county property tax revenue. Because of the high value of these projects and the lower property values in rural communities, fluctuations and decreases resulting from depreciation that shifts property tax burden to other property taxpayers can have a major impact.²⁵

INITIAL PROPERTY TAX BENEFITS

Developing a clean energy project adds to the overall property value within a county. When constructed, the value of these projects falls under the new construction exemption for property tax levy increases, allowing taxing districts to add their value to the tax base and assess them according to the current tax rates, resulting in additional revenue exceeding the 1% limitation (refer to description a) on annual levy growth.²⁶ While taxing districts can choose to bank this increase for a later date, most of these clean energy projects are sited in rural and underserved counties and taxing districts are often already struggling to maintain critical services. These projects are seen as a new source of additional revenue for economically struggling communities with less diverse economies and few options for new financial resources.

LONG-TERM PROPERTY TAX IMPACTS

Personal Property Depreciation

For locally assessed projects, the 20-year depreciation of a project's personal property (wind turbines and solar panels, etc.) reduces the taxable value of a clean energy project annually. For local taxing districts to continue to provide a consistent level of service as clean energy

tax revenue declines, counties must look to other property owners in those tax districts to make up that shortfall. Personal property depreciation may result in a shift of the property tax burden the project created and was responsible for paying to other properties within the taxing district. Property taxes will continue to increase on other private property in the taxing district to make up for the clean energy project's reduced property tax burden over the depreciation period while no improvements or new services are added. In every case, such increases will far exceed the annual 1% growth limitation otherwise required by law.

One example of the shift in property tax responsibility is the Vantage Wind Farm in Kittitas County. The property tax payments from this wind farm were \$972,364 in 2014 and \$468,480 in 2023 – a 52% reduction. The responsibility for this \$502,882 reduction has shifted to the other property taxpayers in the taxing district. Table 1 shows the property tax payments from the Vantage Wind Farm between 2014 and 2023.²⁷

These shifts are especially impactful in smaller counties where the property tax revenue generated by clean energy projects can make up a majority of their property tax income. For example, 49% of Columbia County's 2018 total property tax revenue came from its three clean energy projects. Due to the depreciation of the personal property and various reductions in market value, these same projects made up only 33% of their 2023 property tax revenue.²⁸

Similarly, for centrally assessed clean energy projects, the annually fluctuating fair market value of a clean energy project

Vantage Property Tax Payment History

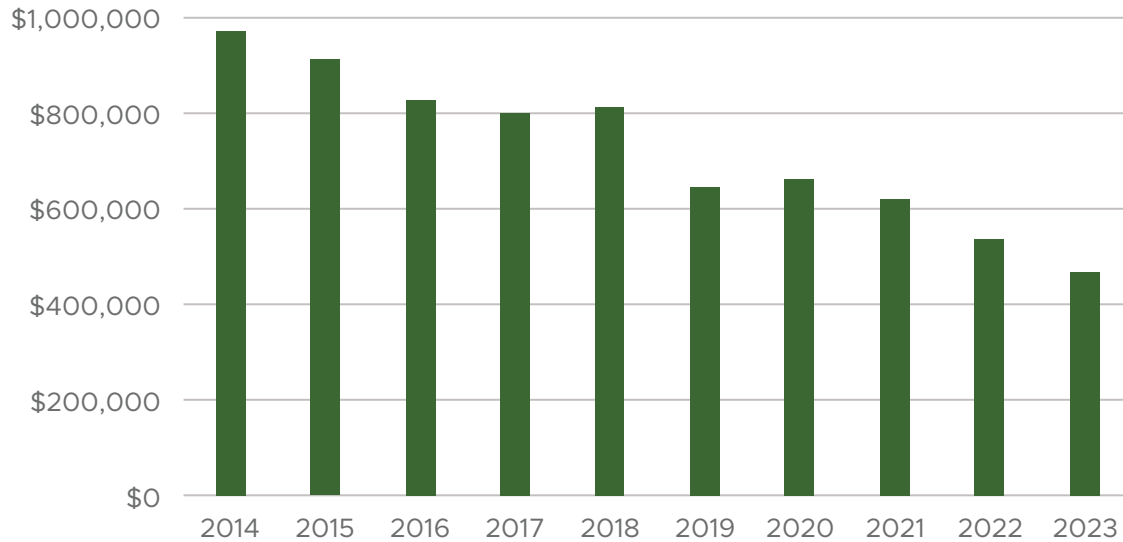


Table 1 – Vantage Wind Farm Property Tax Payments (Kittitas County)

may also cause property tax burden shifts to other properties within the taxing district as a project’s tax burden reduces with a reduced valuation. Fluctuating valuations of centrally assessed clean energy projects can create significant uncertainty as property taxpayers may face varying property tax bills yearly.

Assessment Methods Inconsistencies

The difference in assessment methods between centrally and locally assessed projects creates inconsistent outcomes, sometimes between projects in the same county. Both central and local assessment processes are impacted by the depreciation of personal property, such as wind turbines. However, the central assessment process conducted by

Revenue also includes proprietary financial data not available to counties that helps create a true market value for each project. Evidence suggests that centrally assessed projects are less likely to see value reductions as dramatic or as quickly as locally assessed projects.²⁹ While centrally assessed projects can also experience value fluctuations, they don’t appear to result in the long-term tax burden shifts attributable to locally assessed projects.³⁰ Some annual value fluctuations for centrally-assessed projects can create uncertainty for taxpayers, however, if the swings are significant. At times, such fluctuations can be dramatic.

Annual Fluctuations

Centrally assessed clean energy project valuations are updated annually. As the unitary assessment approach depends on value information that is impacted by markets and other changing factors, the value of clean energy projects can change considerably.

In Columbia County, the total unitary assessed value of their three centrally-assessed wind farms has fluctuated year to year (see Table 2). As a result, the property tax burden of the remaining taxpayers and taxing district budgets need to be adjusted. Table 2 shows property tax revenue generated since 2018 from clean energy projects in Columbia County.

Tax Appeals

County assessors have access to fewer data inputs and, as a result, are more susceptible to appeals. While a property owner can file an appeal for both centrally and locally assessed projects, the difference in assessment approaches may make locally assessed values more likely to be appealed. This process can take time

and result in property tax reimbursements, credits, or back payments to the property owner and create a property tax shift from the clean energy project property to the remaining taxpayers.

Kittitas County has experienced three appeals on the local assessment of clean energy projects. One of those appeals is currently underway and would result in a \$350,000 annual reduction in property tax payments from the project.³¹ If this appeal is successful it will lead to a 9.9% increase in the levy rate for the taxing districts in which this clean energy project is built.

Secondary Impacts

Significant spikes in property taxes not only impact home affordability in a district but also make it more difficult to get support for future levy increases. Voters are less likely to support more taxes when they're already adjusting to recent hikes, leading to a drop in confidence in how the property tax system is run.

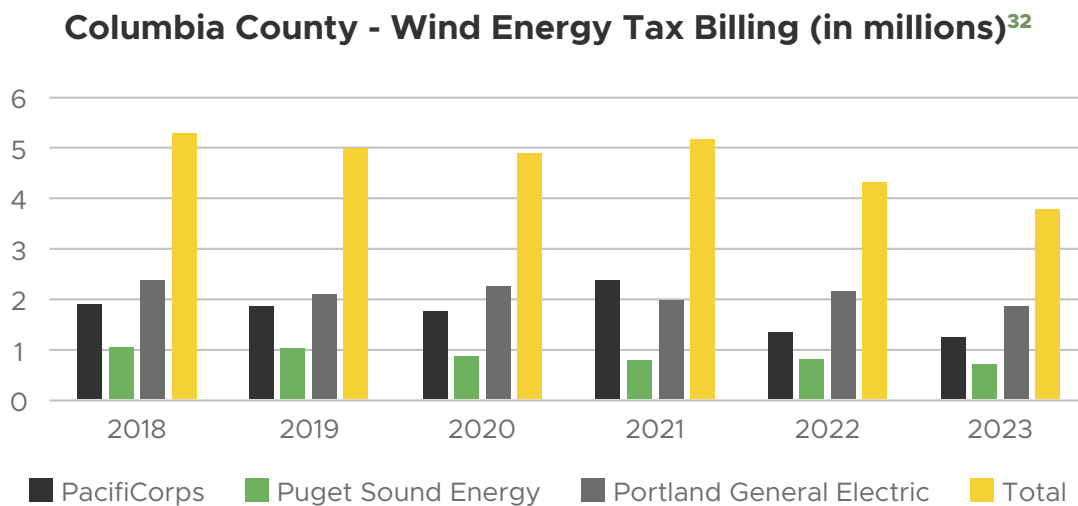


Table 2 – Columbia County Wind Energy Tax Billing

CLEAN ENERGY PROJECT IMPACTS ON PROPERTY TAXES (continued)

Table 3 provides greater detail on a single windfarm in Columbia County, Marengo I & II, showing annual property tax payments and annual differences.

Year	Property Tax Payment	Difference from Previous Year
2018	\$1,893,256.46	N/A
2019	\$1,867,416.79	\$25,839.67
2020	\$1,754,311.63	\$113,105.16
2021	\$2,383,383.47	\$629,071.84
2022	\$1,351,603.28	\$1,031,780.19
2023	\$1,234,851.47	\$116,751.81

Table 3 – Marengo I & II Annual Property Tax Payments

Lastly, as more projects are developed in Washington State, and costs are more widely spread, the fair market value of solar and wind farms will decline. Like the impacts of personal property depreciation

in locally assessed projects, the other property taxpayers within the taxing district will be forced to bear the burden of making up for that reduction in property tax revenue.

POTENTIAL SOLUTIONS

While clean energy projects provide benefits statewide and locally, addressing the concerns with long-term tax burden shifts from projects to property tax owners living in the county in which the projects are constructed and operate is critical to public support for increased deployment of such facilities. Without addressing the tax burden shift issue, property taxpayers in these communities may see their property tax burdens increase substantially over the next several years at rates that far exceed the current 1% annual growth rate limitation. Such increases will likely undermine local support for projects while undermining a communities' ability to pass other property tax measures intended to benefit schools, fire services, healthcare services, etc. The growing opposition may also make it extremely difficult for the state to meet its goals for reducing greenhouse gas emissions and converting to a 100% clean electricity supply.

COMMUNITY BENEFITS AGREEMENTS

One way to address this issue is to require or strongly incentivize community benefits agreements (CBA) between local governments and project owners. A CBA is a voluntary, but legally binding, contract between a developer and community representatives committing the developer to fulfill specific obligations for the benefit of the community in connection with a development project. Developing a CBA can mitigate long-term property tax impacts, reduce the impact of fluctuating unitary assessments, and create relationships between developers, community members, and elected officials that can help avoid costly legal disputes and public protests.

A CBA may stipulate the benefits that the developer agrees to fund or furnish in exchange for community support of a project. This could include monetary benefits, such as reducing local energy bills, constructing community facilities or infrastructure, investing in local taxing districts like fire departments, parks, or schools, or direct payments to residents. They can also include non-monetary benefits such as local hiring, job training, living wage agreements, or emergency access to energy.

Requirements can be imposed by statutory changes requiring a CBA as part of the development application process. If an incentive approach is preferred, the incentive would need to be of significant value, like an exemption from the project's state business & occupation tax.

POTENTIAL SOLUTIONS (continued)

There are limitations, however, to the extent a county can negotiate community benefits. Depending on the location, size, and type of project, the negotiating leverage will vary from county to county. For example, a county near existing energy transmission infrastructure may have greater leverage and negotiate greater benefits than a county where a developer must invest in new transmission infrastructure.

Some examples of clean energy project community benefits requirements include:

Oregon's Strategic Investment Program

The Strategic Investment Program (SIP) was adopted by the Oregon Legislature in 1993. It allows businesses and local governments to negotiate alternative property taxing agreements if these businesses are willing to invest at least \$100 million at an urban site or at least \$25 million at a rural location in Oregon. This program aims to attract and keep companies that provide good jobs in Oregon, particularly capital-intensive, high-technology employers.

Sherman County, Oregon entered into a 15-year SIP Agreement with Golden Hills Wind Farm in 2009. This allowed Sherman County to mitigate revenue impacts by negotiating a one-time payment of \$1 million for a county fair arena, \$100,000 annually for housing improvements, ongoing per megawatt payments to the county and schools, and \$590 annual payments to residential households.³³

Sherman County is located near the energy transmission infrastructure for the John Day Dam on the Columbia River, which was an important element in negotiating these benefits.

New York's Climate Leadership and Protection Act

The State of New York's Climate Leadership and Protection Act requires at least 35% of the overall benefits of clean energy and energy efficiency projects to go to disadvantaged communities and invested in housing, workforce development, pollution reduction, low- and moderate-income energy assistance, transportation, and economic development.³⁴ This requirement provides resources statewide and is not tied to the community where the project is developed.

SPECIAL VALUATION METHODOLOGY

In Iowa, IAC 427B.26 allows counties to adopt an ordinance that allows for a special valuation process for wind energy installations. This process uses the net acquisition cost, which includes the total costs of the property and the energy system's installation.³⁴ The property is valued at 0% of the net acquisition cost for the first year after installation. This means that a clean energy project with a net acquisition cost of \$50 million would be assessed at \$0 in its first year and not generate any property tax revenue. However, under this model the valuation increases by 5% annually until it reaches a maximum of 30% of the net acquisition cost. In its second year, that \$50 million wind farm would be valued at \$2.5 million, \$5 million in its third year, and continue to increase by 5% annually until it reaches the maximum 30% of net acquisition cost at \$15 million. The wind farm will then remain at that assessed value level so long as it is in operation or when the facility is repowered. This allows counties and developers the ability to forecast their finances more accurately as the schedule is known in advance.

Clean Energy Financing - SHB 1756 (2023)

Passed in 2023, SHB 1756 initiates the following actions with the intent of supporting clean energy by increasing local revenue:

Personal Property Tax Exemption

Beginning with tax levied for collection in 2025, all personal property for wind and solar energy is exempt from state property tax.

Production Excise Tax

Taxpayers granted the personal property tax exemption developed in SHB 1756 are subject to a production excise tax. A per megawatt tax rate varies depending on the project type and the personal property exemption duration.

Renewable Energy Local Benefit Account

The Account must be apportioned in the following amounts:

- 42.5% of excise taxes paid by a clean energy facility located in a county must go to that county.
- 15% to a qualified recognized Indian tribe with rights or lands potentially impacted by a clean energy project.
- 42.5% to qualified school districts in the county where a clean energy facility is located, distributed based on school district student numbers.

SHB 1756 is a good strategy for addressing the tax shift. However, the state share of a property taxpayer's bill represents only about 25% of the total amount annually.

NAMEPLATE CAPACITY TAX

A nameplate capacity tax is a fixed tax on energy facilities based on their maximum output capacity, usually measured in megawatts and does not account for the facility's actual energy production or economic performance. This tax offers a predictable revenue stream for local governments and simplifies taxation for facility owners.

Nebraska has a tax of \$3,518 per megawatt of capacity for wind and solar projects.³⁵ Additionally, South Dakota imposes both a nameplate capacity tax (\$3.00 per kilowatt of nameplate capacity) and a generation tax on wind and solar projects.³⁶

PRODUCTION TAX

A production tax for clean energy projects is levied based on the actual amount of energy produced, typically measured in megawatt-hours (MWh). Unlike property or capacity-based taxes, this tax model aligns the government's revenue with the facility's operational performance. It provides local or state governments with a variable income stream that directly correlates with the energy output of the renewable project. This approach incentivizes efficient operation of the

facility while ensuring that the community shares in the economic benefits of higher production.

Minnesota imposes a production tax for both wind and solar energy projects.³⁷ A per-MWh fee of \$1.20 is charged to solar energy projects over 1MWh and wind energy projects over 12MWh. The production tax charged per MWh is reduced for smaller clean energy projects.

LOCAL EXCISE TAX

The state could also consider authorizing a local excise tax to be imposed by local governments on projects that produce energy from wind, solar, and other natural resources in the state. This tax could be utilized by local governments as a general fund resource to provide revenue for general government services to assist local governments in diversifying their overall revenues to reduce dependence on property taxes.

The tax could be structured as a percentage of the value of the product produced that is then sold. Washington State already has similar taxes that benefit local governments. Examples include the Real Estate Excise Tax.

PERMANENT FUND

Another strategy to address this issue could be creating a permanent fund to benefit the communities in which these projects are developed. Projects could pay a percentage of the value of the electricity they produce into the fund with the payments invested for the benefit of hosting residents. The earnings from investments could then be utilized for various public benefits. The fund would be managed for long-term sustainability as a permanent benefit. At least eight states currently have permanent funds in place, primarily funded by natural resource extraction industries, that serve various purposes, including supplementing government expenditures.

Examples of permanent funds include:

Alaska Permanent Fund

The Alaska Permanent Fund was created by the people of Alaska in 1976 as a way to save a portion of the state's oil revenues for the needs of future generations.³⁸ It uses royalties to invest in bonds, stocks, real estate, infrastructure, and private entities. The returns on these investments are used to grow and finance the Fund. Additionally, since 1983, the Alaska Permanent Fund Dividend Division has distributed a portion of the earnings to Alaskans annually as a dividend.

Permanent Wyoming Mineral Trust Fund

The Permanent Wyoming Mineral Trust Fund is an investment fund owned and managed by the state of Wyoming. It was established in 1975 and is used to help run the state. Funded with severance taxes on natural resources within the state, the Fund invests in stocks and bonds. Only the Fund's earnings – not the principal balance – can be spent. It is a type of permanent fund called a sovereign wealth fund.³⁹

PAYMENT IN LIEU OF TAXES

Payment in Lieu of Taxes (PILT) for clean energy projects would be an agreement between the project developer and local government. Instead of paying traditional property taxes, the developer would make annual payments based on agreed-upon terms, such as a fixed rate per installed megawatt. This offers predictable costs for the developer and stable revenue for the local government. The agreement would outline payment structure, duration, and other conditions.

CITATIONS

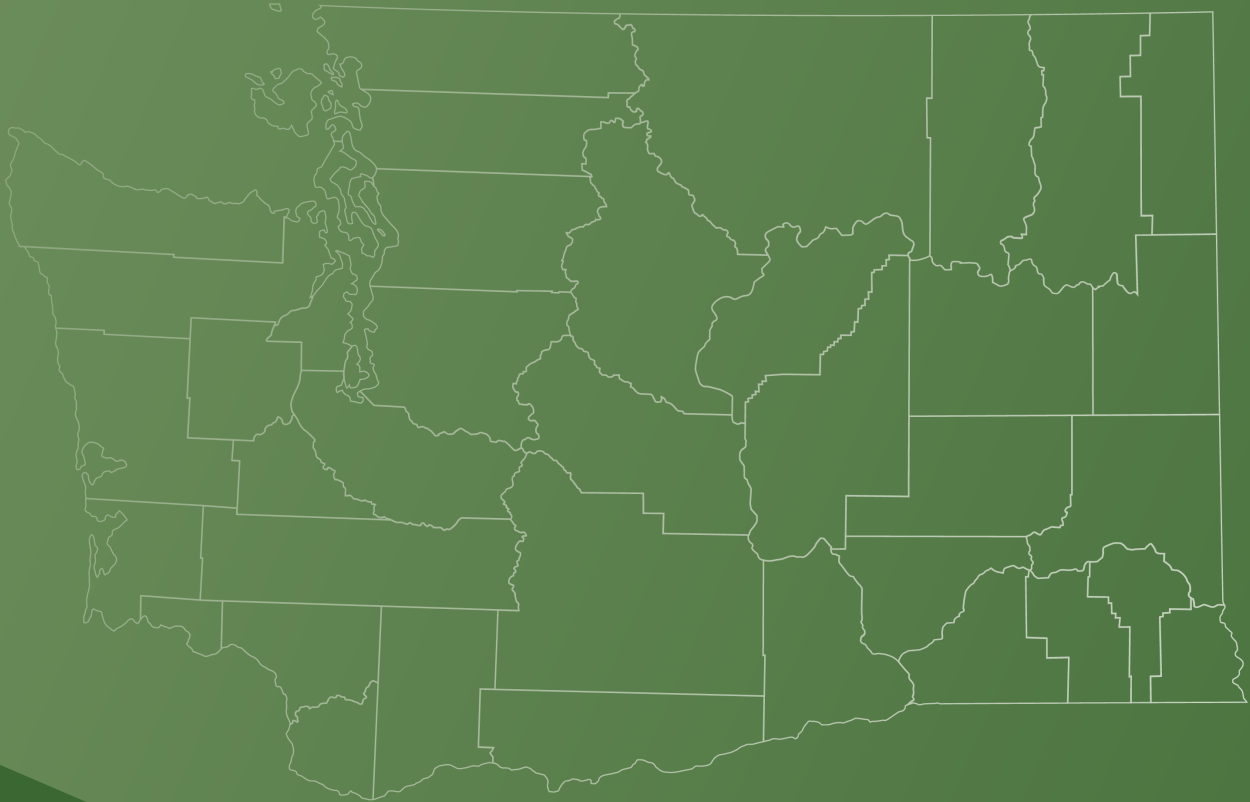
1. Washington State Engrossed Second Substitute Senate Bill 5116 (2019).
<https://lawfilesexternal.wa.gov/biennium/2019-20/Pdf/Bills/Session%20Laws/Senate/5116-S2.SL.pdf?q=20210822161309>
2. U.S. Office of Energy Efficiency and Renewable Energy, United State Wind Turbine Database (Accessed 11/2023).
<https://eerscmap.usgs.gov/uswtodb/>
3. Washington State Profile, US Energy Information Administration
<https://www.eia.gov/state/analysis.php?sid=WA#:~:text=As%20of%20December%202022%2C%20Washington,megawatts%20of%20wind%2Dpowered%20capacity.&text=The%20state's%20largest%20wind%20farm,capacity%20of%20about%20343%20megawatts>
4. Washington State Profile, US Energy Information Administration
<https://www.eia.gov/state/analysis.php?sid=WA#:~:text=As%20of%20December%202022%2C%20Washington,megawatts%20of%20wind%2Dpowered%20capacity.&text=The%20state's%20largest%20wind%20farm,capacity%20of%20about%20343%20megawatts>
5. Washington Revised Code 84.12.280
<https://app.leg.wa.gov/rcw/default.aspx?cite=84.12.280>
6. Data provided by Kittitas County.
7. Washington State House Bill 1216 (2023)
<https://app.leg.wa.gov/billsummary?BillNumber=1216&Initiative=false&Year=2023>
8. Washington State Department of Commerce, Energy Independence Act Site.
[https://www.commerce.wa.gov/growing-the-economy/energy/energy-independence-act/#:~:text=The%20Energy%20Independence%20Act%20\(EIA,sold%20to%20Washington%20retail%20customers](https://www.commerce.wa.gov/growing-the-economy/energy/energy-independence-act/#:~:text=The%20Energy%20Independence%20Act%20(EIA,sold%20to%20Washington%20retail%20customers)
9. Washington State Engrossed Second Substitute Senate Bill 5116 (2019).
<https://lawfilesexternal.wa.gov/biennium/2019-20/Pdf/Bills/Session%20Laws/Senate/5116-S2.SL.pdf?q=20210822161309>
10. Washington State House Bill 1216 (2023)
<https://app.leg.wa.gov/billsummary?BillNumber=1216&Initiative=false&Year=2023>
11. Washington State House Bill 1756 (2023)
<https://app.leg.wa.gov/billsummary?BillNumber=1756&Initiative=false&Year=2023>
12. Washington State Profile, US Energy Information Administration
<https://www.eia.gov/state/analysis.php?sid=WA#:~:text=As%20of%20December%202022%2C%20Washington,megawatts%20of%20wind%2Dpowered%20capacity.&text=The%20state's%20largest%20wind%20farm,capacity%20of%20about%20343%20megawatts>

13. Washington State Profile, US Energy Information Administration
<https://www.eia.gov/state/analysis.php?sid=WA#:~:text=As%20of%20December%202022%2C%20Washington,megawatts%20of%20wind%2Dpowered%20capacity.&text=The%20state's%20largest%20wind%20farm,capacity%20of%20about%20343%20megawatts>
14. Washington Energy Facility Site Evaluation Council, Energy Facilities Applications Under Review Milestones Chart (accessed September, 2023)
<https://www.efsec.wa.gov/energy-facilities>
15. a. Revised Code of Washington 84.12.350 (intercounty)
<https://app.leg.wa.gov/RCW/default.aspx?cite=84.12.350>
 b. Revised Code of Washington 84.12.300 (interstate)
<https://app.leg.wa.gov/RCW/default.aspx?cite=84.12.300>
16. Washington Revised Code 84.12.280
<https://app.leg.wa.gov/rcw/default.aspx?cite=84.12.280>
17. Washington State Department of Revenue, Personal Property Valuation Guidelines 2023.
<https://dor.wa.gov/sites/default/files/2022-12/2023Guidelines.doc>
18. Washington State Department of Revenue, Personal Property Valuation Guidelines 2023.
<https://dor.wa.gov/sites/default/files/2022-12/2023Guidelines.doc>
19. Washington State Profile, US Energy Information Administration
<https://www.eia.gov/state/analysis.php?sid=WA#:~:text=As%20of%20December%202022%2C%20Washington,megawatts%20of%20wind%2Dpowered%20capacity.&text=The%20state's%20largest%20wind%20farm,capacity%20of%20about%20343%20megawatts>
20. Revised Code of Washington 84.12.240
<https://app.leg.wa.gov/RCW/default.aspx?cite=84.12.240>
21. Revised Code of Washington 84.41.030
<https://app.leg.wa.gov/rcw/default.aspx?cite=84.41.030>
22. Washington State Department of Revenue, Valuation Advisories Site (accessed September, 2023).
<https://propertytax.dor.wa.gov/programs/valuation/valuation-advisories>
23. Washington State ex rel. State Tax Commission v. Redd, 166 Wn. 132, 6 P.2d 619
<https://casetext.com/case/state-ex-rel-state-tax-comm-v-reddz>
24. Data provided by Garfield County.
25. Data provided by Columbia County.
26. Revised Code of Washington 84.55.010
<https://app.leg.wa.gov/rcw/default.aspx?cite=84.55.010>
27. Data provided by Kittitas County.
28. Data provided by Columbia County.
29. Data provided by Kittitas County and Columbia County.
30. Data provided by Kittitas County and Columbia County.

CITATIONS (continued)

31. Data provided by Kittitas County.
32. Data provided by Columbia County.
33. Information provided by Sherman County, Oregon
34. Center for Rural Affairs, Iowa Wind Energy Tax Revenue Fact Sheet (2019)
<https://www.cfra.org/sites/default/files/publications/iowa-wind-energy-tax-revenue.pdf>
35. Nebraska Department of Revenue, Nameplate Capacity Tax FAQ (Accessed September, 2023)
<https://revenue.nebraska.gov/about/frequently-asked-questions/nameplate-capacity-tax-faq#:~:text=The%20nameplate%20capacity%20tax%20is,generation%20facility%20is%20in%20operation>
36. South Dakota Department of Revenue, Renewable Energy Facility (Wind & Solar) (October 2022)
<https://dor.sd.gov/media/riuhxv2u/renewable-energy-facility.pdf>
37. Minnesota Department of Revenue Solar Energy Production Tax Page (Accessed June, 2023)
<https://www.revenue.state.mn.us/solar-energy-production-tax#:~:text=The%20Solar%20Energy%20Production%20Tax%20rate%20is%20%241.20%20per%20megawatt,nameplate%20capacity%20exceeding%201%20megawatt>
38. Alaska State Constitution Article IX, Section 1.
<https://ltgov.alaska.gov/information/alaskas-constitution/>
39. Wyoming Taxpayers Association, The Permanent Wyoming Mineral Trust Fund Facts & FAQ's (2015)
https://wyotax.org/wp-content/uploads/2020/08/PWMTF-Combined_2015.pdf





WASHINGTON
STATE ASSOCIATION
of **COUNTIES**

**WASHINGTON STATE
ASSOCIATION OF
COUNTIES**

206 Tenth Ave SE
Olympia, WA 98501
(360) 753-1886
wsac.org