

Colorado Legislative Council Staff Fiscal Note

**STATE and LOCAL
REVISED FISCAL IMPACT**

(replaces fiscal note dated January 26, 2009)

Drafting Number: LLS 09-0565

Date: January 27, 2009

Prime Sponsor(s): Rep. Hullinghorst
Sen. Shaffer B.

Bill Status: House Transportation & Energy
Fiscal Analyst: Marc Carey (303-866-4102)

TITLE: CONCERNING INCENTIVES FOR THE DEVELOPMENT OF SOLAR THERMAL ENERGY SYSTEMS.

Fiscal Impact Summary	FY 2009-2010	FY 2010-2011
State Revenue General Fund	(\$313,058)	(\$261,900)
State Expenditures	\$0	\$0
FTE Position Change	0.0 FTE	0.0 FTE
Effective Date: Upon signature of the Governor, and shall apply to systems installed on or after January 1, 2009.		
Appropriation Summary for FY 2009-2010: None required.		
Local Government Impact: See Local Government Impact section.		

** This fiscal note was revised to reflect new information received.*

Summary of Legislation

Beginning in FY 2009-10, this bill makes all sales, storage and use of components used in solar thermal systems exempt from the state sales and use tax. The bill specifies various components for solar thermal systems that are affected, and defines such a system as one that uses the sun to produce heat or cold for:

- heating or cooling a residential or commercial building or water; or
- any industrial, commercial, or manufacturing process.

Finally, the bill allows local governments to provide the same financial incentives for solar thermal installations as are now be provided for solar electric installations.

State Revenue

General Fund. This bill will result in a loss in General Fund revenue of \$313,058 in FY 2009-10 and \$261,900 in FY 2010-11. In addition, passage of this bill would eliminate potential future state revenue from sales tax related to solar thermal systems.

The types of solar thermal systems that qualify for this exemption include residential water heating systems, residential space heating systems, and commercial water heating systems. According to the Colorado Solar Energy Industries Association and Findsolar.com, there are currently 85 solar thermal installers operating in Colorado. These companies reported a total of \$335,000 in state sales tax paid on installations in FY 2007-08. Using this as a base year, estimated revenue reductions for FY 2009-10 and FY 2010-11 are \$313,058 and \$261,900, respectively, based on the following assumptions:

- it is possible that not all of the tax reported by these companies was related to systems affected by this bill. Accordingly, it is assumed that 80 percent of reported sales tax was for affected solar thermal items;
- it is assumed that sales tax collections for solar thermal installations will correlate with overall sales tax trends over time, as represented in the December 2008 Legislative Council Staff (LCS) revenue forecast;
- half of the sales tax collected on systems installed between January and July 2009 will be refunded through the Department of Revenue's sales tax refund mechanism in FY 2009-10.

Based on the December 2008 LCS revenue forecast, there will be insufficient revenue to fully fund the 6 percent spending limit for FY 2009-10. This bill reduces General Fund revenue by creating a new sales tax exemption. Therefore, the decrease in revenue under this bill will further reduce the amount of money available for General Fund appropriations. In FY 2009-10, this amount is \$313,058.

Local Government Impact

HB 09-1126 may fiscally impact counties that currently exempt renewable energy components from their sales tax base. The bill expands the types of renewable energy components that could be exempt, if the county affirmatively moved to exempt such items. Thus, the following 20 counties are conditionally impacted by the bill, assuming they chose to exempt items such as solar thermal system components from their sales tax base.

Adams	Elbert	Mesa	Routt
Arapahoe	El Paso	Montezuma	Saguache
Boulder	Fremont	Otero	San Miguel
Custer	Garfield	Park	Teller
Eagle	Larimer	Pueblo	Washington

Additionally, the state collects sales tax for most non home rule cities and several special districts. The creation of a new sales tax exemption will result in reduced revenue for these entities.

Departments Contacted

Revenue