Renewable Energy in Texas:

Providing Revenue to Local Governments

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Chapter 1 of 6

Executive Summary

With the advent of cost-competitive wind and solar energy, Texas has become a leader in renewable energy. As renewables assume an increasing role in the Texas energy mix, their economic value manifests itself in a variety of ways. One such contribution is in the form of taxes to local governments.

As a capital-intensive industry, renewables pay substantial property taxes, even after incentives are factored into the equation. Our research shows that total local government revenue associated with renewables reached $210.4 million last year, almost double the $115.4 million figure for 2013. These figures are net of incentives, and mask the outsized impact renewable projects can have in smaller, rural counties where they are typically located.

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The growing presence of renewables in Texas also results in increasing tax revenues to counties, school districts, and other jurisdictions. Chapter 313 is the enabling legislation that allows a school district to offer a temporary, 10-year limit (ranging from $10 million to $100 million) on the taxable value of a new investment project in manufacturing, and certain renewable energy projects. The limitation applies only to school district taxes levied for maintenance and operations (M&O); taxes for debt service are not subject to the limitation, nor do business inventories qualify.

Before the school district can approve a limitation, the State Comptroller must issue a certificate of approval that finds the project will generate more tax revenue for the state than the amount of the benefit received by the taxpayer.

Through 2015, the State Comptroller reports that 311 projects have participated in the program, creating 12,321 operations jobs (plus an unreported number of construction and contract jobs), adding $12.1 billion to school M&O tax rolls and $31.7 billion to school debt tax rolls. Overall the Comptroller estimates the program has brought over $80 billion in new investment to the state, creating a total of 50,300 jobs and adding $2.0 billion in personal income.

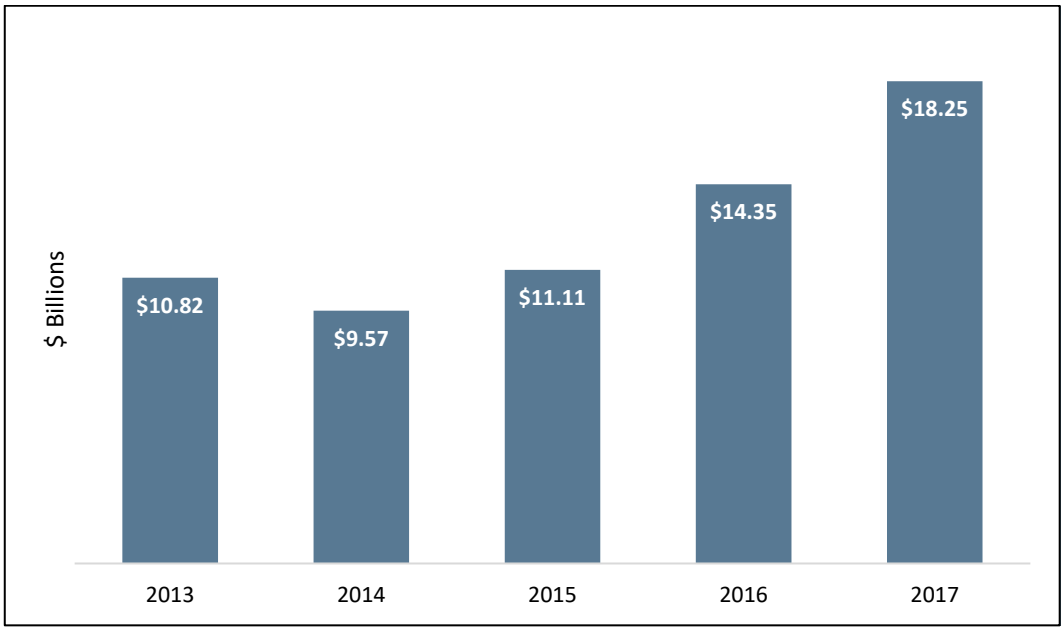
Of the 311 projects, renewable energy accounts for just over half—with 144 in wind and 22 in other types of renewable energy. Manufacturing accounts for almost all of the other projects and for 77 percent of the direct investment.

Taxable capacity in commercial wind and solar projects has been steadily growing over the past five years, with the total taxable value of renewables (wind and solar) almost doubling since 2014.[1] Net of incentives, renewables accounted for a total of $107 million in local government tax revenue last year; $59.7 million to school districts, $27.2 million to counties, and the balance spread among a range of other local jurisdictions (such as hospital districts).[2]

In addition to property tax payments, renewable energy projects oftentimes make PILOT (payments in lieu of taxes) and revenue protection payments under Chapter 313 agreements with local school districts. In 2017, renewables paid $103.4 million in these supplemental payments to school districts, for a total of $210.4 million paid to local governments overall.

The footprint of renewable generation continues to grow. In tax year 2017, there were 156 wind projects and 23 commercial solar projects. In addition, there are 10 wind projects and 26 solar projects projected to be completely online in the next two years.

Figure 1: Texas Major Renewables Taxable Value by Year



Source: various appraisal districts, TXP

[1] Renewable projects often effectively enhance the value of property for initial valuation purposes, as much was previously under agricultural exemption.

[2] Since renewable generation projects are primarily located in rural areas, there is very little municipal tax revenue collected.

Table 1: Taxes Paid to Local Jurisdictions by Wind, 2013-2017 ($Millions)

Wind	2013	2014	2015	2016	2017
School District Taxes	$48.5	$34.0	$53.5	$52.88	$54.5
County Taxes	$16.6	$17.2	$19.8	$22.7	$25.2
Other Local Taxes	$10.7	$8.8	$10.2	$13.8	$17.9
Supplemental Payments*	$35.3	$31.6	$30.3	$60.2	$79.9
Total Payments	$111.1	$91.6	$113.8	$149.6	$177.5

Sources: various appraisal districts, TXP

* Payments in lieu of taxes and revenue protection payments to school districts

Table 2: Taxes Paid to Local Jurisdictions by Solar Projects, 2013-2017 ($Millions)

Solar	2013	2014	2015	2016	2017
School District Taxes	$2.2	$2.5	$3.1	$6.5	$5.1
County Taxes	$0.8	$0.7	$1.0	$1.4	$2.0
Other Local Taxes	$1.2	$1.2	$1.3	$1.8	$2.4
Supplemental Payments*	$0.1	$0.2	$0.8	$2.2	$23.5
Total Payments	$4.3	$4.6	$6.2	$11.9	$33.0

Sources: various appraisal districts, TXP

* Payments in lieu of taxes and revenue protection payments to school districts

Table 3: Taxes Paid to Local Jurisdictions by Wind & Solar Projects, 2013-2017 ($Millions)

Combined	2013	2014	2015	2016	2017
School District Taxes	$50.7	$36.6	$56.6	$59.4	$59.6
County Taxes	$17.4	$17.9	$20.9	$24.2	$27.2
Other Local Taxes	$11.9	$10.0	$11.5	$15.6	$20.2
Supplemental Payments*	$35.4	$31.8	$31.0	$62.4	$103.4
Total Payments	$115.4	$96.3	$120.0	$161.5	$210.4

Sources: various appraisal districts, TXP

* Payments in lieu of taxes and revenue protection payments to school districts

Others have recognized the benefits of the State incentivizing the growth of renewables through facilitation of local incentives. In a report issued in May 2018, Moody's Investor Service (Moody's) describes the local government benefits of renewable generation.[3] The section on Texas is instructive:

> *With over 22,000 megawatts of installed generation capacity, Texas has more wind farms than any other state in the country and over 100 Texas school districts benefit. To promote new wind development, Texas allows school districts to offer property tax incentives to encourage large-scale capital investments. Referred to as "Chapter 313 agreements," individual school districts reduce the market value of a developer's property that is subject to their levy for up to 10 years. In exchange, the developer agrees to a minimum investment or the creation of a minimum number of jobs within the district. To date, these agreements have been used for over 140 wind farm projects and spurred more than $23 billion of investment.*
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> *While a large share of a district's operating levy tends to be abated through the Chapter 313 agreement, a district's debt service levy is applied to the wind farm's full market value. As a result, the districts debt burden as a share of full value can fall significantly as each mill generates more revenue to service debt.*
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> *As an example, Webb Consolidated Independent School District used Chapter 313 agreements to attract four sizable wind farms with a combined market value of $596 million. Under the agreements, the district's debt service levy is applied to the full market value of the projects. Collectively, the four wind farms are paying over 40 percent of the district's annual debt service requirements, significantly reducing the burden on local taxpayers. Operating revenues also grow under the agreements, but not to the same extent because only $110 million (or 19 percent) of the wind farms market value is subject to the operating levy. With the significant abatement, the wind farms look to increase annual operating revenues by about 2.5 percent.*

There are other examples of this type of local benefit. A similar story is found in Nolan County in central West Texas. Home to almost 1,300 wind turbines, the taxable value of renewables in 2016 was $929.4 million, equal to almost half of the County's total appraised value of property. Other counties in the region (such as Howard, Mitchell, and Upton) see a similar pattern, in that renewables account for the equivalent of between 10 and 22 percent of the appraised value of the local property tax base. At the same time, there are hundreds of firms engaged in some element of the renewable industry that are not subject to discrete taxes that can be attributed solely to renewables. This undoubtedly brings additional value to both local governments and the State.

[3] Moody's Investor Service. *Wind Farms Bring Windfalls to Local Governments Across US.* May 7, 2018. Report #1123425