

Valuation of sPower's Property for Local Taxation

As an electric supplier in the Commonwealth, sPower's property will be annually assessed for taxation by the State Corporation Commission's Division of Public Service Taxation (SCC). The Virginia Constitution requires the SCC to assess property at its fair market value for purposes of taxation¹ and requires that all property taxes "shall be uniform upon the same class of subjects within the territorial limits of the authority levying the tax."² Based on these requirements, the SCC, as approved by the Virginia Supreme Court, applies a uniform method for assessing the values of all electric suppliers to ensure that these mandates are met and there is equity in the taxes applied to these entities.³

For solar generating facilities, the SCC assesses the fair market value of the generating facility based on its original cost and an assumed 25-year useful life. The SCC assesses the original cost of the property based on detailed tax reports filed by the owner every year, which the SCC reviews and verifies to ensure that the values are accurate, consistent with prior assessments, and that any additions or retirements are properly reflected. The SCC then assesses the value of the property based on a set depreciation schedule for electric companies that reflects the assumed 25-year useful life that the SCC applies to all solar generating facilities. Under this schedule, the SCC values the property at 90% of original cost for the first four years, then in subsequent years continues to value the property based on the depreciation table until the value reaches 10% of the original cost (approximately 24 years after the facility is placed in service). The SCC then continues to assess the value of the property at 10% of the original cost for the remainder of the life of the facility. The assessed value is reported to local authorities for purposes of taxation, with the value adjusted, pursuant to Va. Code §58.1-2604, by the ratio that the locality's assessments bear to fair market value, thereby equalizing the valuation with local assessments. Further, where the generating facility is subject to the pollution control exemption mandated by Virginia Code §58.1-3660, which exempts 80% of the assessed value of solar projects from local taxation, the SCC will take into account this exemption in reporting the value to local authorities for taxation.

In the past there have been concerns that the 80% exemption would unfairly impact the way the state "Composite Index" is calculated and thereby affect the amount of state revenues allocated to jurisdictions that include solar facilities subject to the exemption. The multiple agencies that are responsible for calculating and reporting the True Values used in compiling this Composite Index have recently discussed this issue and confirmed that the Composite Index will be calculated using the assessed value, after application of the 80 percent exemption, so as to treat localities fairly and not limit the revenues they would receive based on the portion of the property that is exempt from local taxation.

¹ Va. Const. art. X, §2.

² Va. Const. art. X, §1.

³ See Opinion of the Commission, *Application of Gordonsville Energy, L.P., Application for review and correction of assessment of the value of property subject to local taxation-Tax Year 2002*, Case No. PST-2002-00046, 2004 S.C.C. Ann. Rep. 173 (Dec. 15, 2004), upheld on appeal in *Gordonsville Energy, L.P. v. State Corp. Comm'n*, Record No. 050017 (September 16, 2005) available at: <http://scc.virginia.gov/pst/files/supct.pdf>.