
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair
2021 - 2022 Regular Session

SB 1266 (Borgeas) - Income taxes: credits: designated wildfire zones

Version: April 28, 2022

Urgency: No

Hearing Date: May 16, 2022

Policy Vote: GOV. & F. 5 - 0

Mandate: No

Consultant: Robert Ingenito

Bill Summary: SB 1266 would create a tax credit equal to 50 percent of the cost of (1) a qualified generator, or (2) a solar battery for qualified taxpayers in designated wildfire zones.

Fiscal Impact: The Franchise Tax Board (FTB) estimates that the bill would result in General Fund revenue losses of \$44 million in 2022-23, \$90 million in 2023-24, and \$100 million in 2024-25. FTB's costs to implement the bill have yet to be determined.

Background: Tax expenditure programs (TEPs) are special tax provisions that reduce the amount of revenues the "basic" tax system would otherwise generate in order to provide (1) benefits to certain groups of taxpayers, and/or (2) incentives to encourage certain types of behavior and activities, such as charitable giving. Specifically, current law provides for, among other things, various income and corporation tax credits and deductions, as well as exemptions from the sales and use tax. The Department of Finance is required to publish a list of TEPs (currently totaling several hundred), which currently exceed \$81 billion annually.

Fire activity has increased in the State in recent years, resulting in both tragic loss of life and billions of dollars in damage to property and infrastructure. Fires attributed to power lines and electrical equipment comprise nine of the 20 most destructive fires in California history. State data indicate that 7 million acres burned in the last two years.

In response, investor-owned utilities have implemented Public Safety Power Shutoffs (PSPS) in certain regions. A PSPS is a preventative measure designed to reduce the risk of utility infrastructure starting wildfires by turning off power to distribution lines. No single factor determines whether an electric utility initiates a PSPS; instead, each electric utility reviews a combination of criteria when determining if power should be turned off. Such factors include, but are not limited to:

- High and sustained winds, including red flag warnings issued by the National Weather Service to inform the public, firefighters, and land management agencies that conditions are ideal for wildland fire combustion and rapid spread.
- Low humidity levels and dry vegetation that could serve as fuel.
- Fire threats from electric infrastructure.
- On-the-ground observations from the electrical utilities' safety operation center, field crews, and drones.

However, power loss negatively affects communities; the consequences are especially serious for vulnerable populations that rely on medical devices powered by electricity and important emergency and public services such as fire departments and water agencies. To prepare for such disruptions, some businesses and community members purchase portable or backup electric generators, which are propane, solar, or diesel-powered devices that provides temporary electrical power.

Another alternative for use in a power outage is in home batteries. These batteries are charged using solar panels connected to one's home. Most battery storage systems are capable of providing backup power. The length of time will depend on the size and rating of the battery and on the amount of power drawn. Although generally viewed as a cleaner source of alternative energy, some systems cost in excess of \$20,000.

Proposed Law: For taxable years 2023 through 2028, this bill, would among other things, do the following:

- Provide a credit equal to 50 percent of the amounts paid or incurred by a qualified taxpayer in a designated wildfire zone during the taxable year for a qualified expenditure. The total amount of credit allowed per taxable year would be limited to either of the following: (1) for the purchase of a backup electricity generator, as defined, \$3,500 per residence or commercial property, or (2) for the purchase of a solar battery, \$5,000 per residence or commercial property.
- Require FTB to annually report to the Legislature on the number of tax returns claiming the credit and the total amount of credits claimed through the 2028 taxable year.
- Allow any unused credits to be carried over for up to seven year, or until the credit is exhausted.

Related Legislation:

- SB 295 (McGuire, 2019) would have created two home fire safety tax credits, the Qualified Home Hardening credit and the Qualified Vegetation Management credit. The bill did not pass out of the Assembly by the constitutional deadline.
- SB 1020 (Dahle, 2020) would have allowed a credit up to \$1,500 to taxpayers for costs to purchase a backup power generator for use in a high fire-threat district, as identified on the Public Utilities Commission fire-threat map. The bill did not pass out of the Senate by the constitutional deadline.
- SB 1415 (Borgeas, 2020) would have allowed a credit to qualified taxpayers for 50 percent of the amount paid or incurred to purchase a backup electricity generator for use in a residential or commercial property in a designated wildfire zone. The bill did not pass out of the Senate by the constitutional deadline.