
SENATE COMMITTEE ON APPROPRIATIONS

Senator Sabrina Cervantes, Chair
2025 - 2026 Regular Session

SB 1329 (McNerney) - Real property tax: valuation: active solar energy system

Version: March 23, 2026

Urgency: No

Hearing Date: May 11, 2026

Policy Vote: REV. & TAX. 4 - 0

Mandate: Yes

Consultant: Robert Ingenito

Bill Summary: SB 1329 would revise property tax valuation methodologies applicable to certain active solar energy systems. Specifically, the bill would set forth a specific valuation methodology, and require specific elements be excluded when assessors value qualifying systems.

Fiscal Impact:

- The bill's proposed changes to appraisal methodologies for specified solar energy systems would likely reduce assessed values relative to current law, thereby decreasing local property tax revenues. The magnitude of the revenue loss is unknown but could be significant.

Reductions in local property tax revenues, in turn, can increase General Fund Proposition 98 spending by up to roughly 50 percent (the exact amount depends on the specific amount of the annual Proposition 98 guarantee, which in turn depends upon a variety of economic, demographic and budgetary factors). BOE's administrative costs have yet to be identified.

- By changing the duties of local tax officials, this bill creates a state-mandated local program. To the extent the Commission on State Mandates determines that the provisions of this bill create a new program or impose a higher level of service on local agencies, local agencies could claim reimbursement of those costs. The magnitude is unknown (General Fund).

Background: California's property tax system is governed by Article XIII A of the California Constitution, which establishes that all property is taxable unless expressly exempted by constitutional or federal law. The Constitution limits ad valorem property taxation to 1 percent of assessed value, plus voter-approved indebtedness, and requires reassessment upon changes in ownership or new construction. Within this framework, the Legislature has enacted a series of statutory exclusions and valuation methodologies that shape the assessment of specialized property types, including renewable energy infrastructure.

Article XIII A specifically authorizes the Legislature to exclude active solar energy systems from the definition of "new construction." Since the adoption of Proposition 7 in 1980, the Legislature has repeatedly extended this exclusion through successive enactments, most recently through January 1, 2027. Consequently, the installation of qualifying active solar energy systems generally does not trigger reassessment or increase the taxable value of underlying real property. This treatment places solar energy systems among a limited class of improvements—alongside seismic retrofits,

fire suppression systems, disabled access improvements, and rainwater capture systems—that receive preferential constitutional and statutory treatment for property tax purposes.

State law defines active solar energy systems broadly to include systems used for electricity generation, water heating, space conditioning, industrial process heat, and related energy applications, while excluding passive systems, wind generation, and specified recreational heating systems. Historically, the exclusion has applied uniformly without distinguishing between residential systems and utility-scale or commercial solar facilities operated for energy production and sale.

California property tax law generally requires assessors to determine fair market value based on the price a knowledgeable buyer and seller would agree to in an open market transaction. While purchase price is typically presumed to reflect market value, assessors must rely on alternative appraisal methodologies where no recent sale exists or where the presumption is rebutted. In those circumstances, assessors employ one or more traditional valuation approaches: the cost approach, the sales comparison approach, and the income approach. Guidance issued by BOE directs assessors to select the methodology most appropriate to the nature of the property and the availability of reliable market data.

The cost approach is frequently used for specialized or infrequently traded properties and estimates value based on the current cost to reproduce or replace the property, less depreciation and obsolescence. Assessors may utilize either current replacement costs or trended historical costs adjusted through price indices and depreciation schedules. The income approach, by contrast, estimates value based on the present worth of anticipated future income streams and is commonly applied to income-producing properties where market sales data are limited.

Property tax law further distinguishes between taxable tangible property and non-taxable intangible assets and rights. Although intangible assets themselves are exempt from property taxation, assessors must assume the presence of intangible rights necessary to place property into productive use while ensuring that the independent value of those rights is excluded from the taxable assessment. This distinction has generated significant litigation concerning the treatment of subsidies, contractual rights, regulatory entitlements, and other intangible interests in the valuation process. Recent California Supreme Court decisions have clarified that intangible business enterprise value must generally be excluded from taxable property value, while payments or incentives that directly enhance the income-generating capacity of the property itself may properly be included in an assessment.

In practice, assessors typically value real property as an integrated economic unit, rather than separately valuing constituent elements such as land, improvements, and fixtures. However, statutory and regulatory exceptions permit separate appraisal treatment in limited circumstances, including certain disaster-related reassessments. Establishing separate appraisal units may materially affect taxable value by preventing appreciation in one component of the property from offsetting depreciation or obsolescence in another component, such as a solar energy installation.

Absent further legislative action, the statutory exclusion for newly constructed active solar energy systems will sunset after January 1, 2027. At that point, while current law will continue to exclude systems where construction has been completed, and some systems with construction in progress, newly constructed systems that have historically been excluded from assessment for more than four decades will become subject to standard property tax valuation methodologies.

Proposed Law: This bill would set forth a methodology for the assessment of active solar energy systems, consisting of four major components: (1) preferred method of assessment, (2) specific definitions for “obsolescence” and “replacement cost new,” (3) treatment of intangibles, (4) separate appraisal unit. Among other things, it would do the following:

- **Method of Assessment:** Provide that assessors should value active solar energy systems under current law, including using the cost, comparative sales, and income methods. However, it states that the replacement cost new, less depreciation, is the preferred method.
- **Specific Definitions.** Provide that obsolescence must include the amount of any United States duties and tariffs. The assessor must also reduce replacement cost new by the amount of any government subsidies in the form of tax credits or other similar subsidies, as defined. Assessors must then multiply that value by a depreciation percentage “good factor” and inflation cost index factor. The bill would (1) limit replacement cost to the actual cost of the system to build, excluding developer step-ups and other costs, and (2) require equipment cost index factors to be derived from specific publications, except that assessors must also reduce factors by amounts attributable to import customs and duties.
- **Intangibles.** Require assessors to only include the tangible property comprising the active solar energy system in the taxable value and not include intangible rights and assets relating to the going concern value of the business. The measure then specifies that those rights and assets include (1) federal and state tax credits, cash grants, direct payments, or similar federal subsidies received or to be received, (2) contracts for energy, resource adequacy, ancillary services, or related market products, (3) renewable energy credits, as defined, and (4) environmental commodities, including, but not limited to, carbon credits and emission credits.
- **Appraisal Units.** Provide that an active solar energy system or portion thereof is a separate appraisal unit from any other property that is not excluded.

Related Legislation:

- SB 710 (Blakespear, Chapter 328, Statutes of 2025) provides that instead of the new construction exclusion for active solar energy systems being repealed as of January 1, 2027, it is no longer in effect after that date.
- AB 2389 (Irwin) would extend the repeal date of the exclusion by five years and limit the active solar energy systems that qualify for the exclusion to a “customer-sited” system that either has a “system size” of ten kilowatts or less, or is sited on

the property of a “public entity customer.” The bill is currently pending in the Assembly Appropriations Committee.

- SB 1340 (Hertzberg, Chapter 425, Statutes of 2022), among other provisions, established a valuation methodology similar to this bill for “nonqualified” active solar energy systems, as defined.

Staff Comments: Specifically, assessors have discretion in determining the taxable value of real property. SB 1329 would establish statewide valuation rules for active solar energy systems constructed after January 1, 2027 that prefer a cost-based approach — specifically “replacement cost new less depreciation and obsolescence” — and would expressly limit taxable value to the tangible equipment itself while excluding intangible assets, contractual rights, and other nonphysical value components.

In practical terms, this could lower assessments for taxable solar facilities because assessors would no longer be able to include certain elements in the property tax base, and would have to overcome the bill’s preferred method if they wanted to use the income method instead. The bill also requires that excluded solar systems be treated as separate appraisal units from the rest of the property, which may further constrain how much value can be attributed to the real property as a whole.

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