Landowner Considerations for Solar Land Leases

Identifying key questions and potential impacts of leasing land for solar projects.

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Section Contents

1. Community Solar 155

2. Solar For Your Land 155

2.1 Per Acre Lease Rates 155

3. Agricultural Assessments For Your Property 156

3.1 Conversion penalty. 156
3.2 Solar Panels and Taxes 156
3.3 Exemptions from School, County, Town, and Village Taxes. 156

4. Other Potential Impacts 157

4.1 Responsibility of Dismantling Solar Arrays 157
4.2 Selecting your Solar Array Location 157
4.3 Local Solar Laws in your Community. 157

Overview

When deciding to lease land for solar, landowners have many factors to consider before committing. Throughout this section, we provide landowners with the necessary information to take their solar development project to the next step by discussing the topics of: community solar, per-acre lease rates, agricultural assessments, conversion penalties, taxing on solar, and other potential impacts and considerations when in the decision making process.

New York's solar market is growing fast and demand for sites to install large-scale solar electric systems is high. Across New York State, solar developers are contacting farmers and landowners to secure long-term land leases for siting solar arrays. The amount of land desirable for a lease generally ranges from 10 to 30 acres, depending upon the size of the solar array.

Before considering such a lease or contract, you should know installing solar panels on farmland may trigger a "conversion penalty" and may increase the taxable value of the overall property. To fully understand the impact of these factors, landowners are urged to consult with an attorney and their municipal assessor before signing any documents.

1. Community Solar

NY-Sun, Governor Andrew M. Cuomo's initiative to add more than 6 GW of installed solar capacity in New York State by 2025, encourages and supports the installation of solar arrays to generate clean and renewable energy statewide.

Tens of thousands of New Yorkers have already put solar panels on their homes. Many buildings, however, are not suited for solar panels due to shading, roof condition, or other factors. New Yorkers now can subscribe to larger community solar systems. Community solar provides opportunities for renters, homeowners, businesses, and municipalities to subscribe to a portion of community solar energy projects. The siting of these systems is creating an even greater interest in the leasing of farmland.

2. Solar For Your Land

The size of a solar installation is measured by its capacity to produce energy. A 1-megawatt (MW) installation will generate approximately 1,174,000 kilowatt hours (kWh is how electricity usage is measured on your utility bill) each year. A 1-MW system will generally require about six acres of land for 3,000 to 4,000 individual solar panels and will cost $2 million to $3 million to build. Systems built on open land will connect directly to the electric grid and will have their own utility meter. Solar panels are typically warrantied for 25 years, but a system can last longer than that if panels are replaced over time.

2.1 Per Acre Lease Rates

Rates can vary. If you are approached by a developer or have interest in leasing your land, research the going rate for land leases in your area. Contact multiple solar developers to gauge interest in your land. Certain site characteristics are especially attractive for solar development, such as cleared land that is south-facing with road access and in close proximity to the substation. Do research online about solar lease rates in other areas and consider working with a real estate professional. Prior to signing a lease with a solar developer, landowners should examine possible tax consequences and issues associated with the construction of roads, fencing, and electrical poles. Landowners should consider asking an attorney to carefully examine the land lease terms.

3. Agricultural Assessments For Your Property

Under the Agriculture and Markets Law, if a landowner receives an agricultural assessment and converts the land to a nonagricultural use, the landowner may be subject to a monetary payment for converting the land. A conversion of land is "an outward or affirmative act changing the use of agricultural lands" (AML §301(8)).

Municipal assessors are responsible for tracking conversions when they occur. Landowners are also required to notify the assessor within 90 days whenever a parcel receiving an agricultural assessment is converted to a nonagricultural use. A fine of up to $1,000 can be levied against a landowner who fails to report the conversion.

3.1 Conversion penalty

The landowner on record is responsible for paying the conversion penalty. Your assessor can work with you to determine what the conversion penalty may cost. Make sure you know where the solar array will be placed on your property so that a comparative analysis of benefited acres versus total converted acres, by mineral, organic, and farm woodland soil groups can be determined.

3.2 Solar Panels and Taxes

A solar energy system is "real property" once it has been permanently affixed to land or a structure [Real Property Tax Law (RPTL) § 102(12)(b); 8 Op. Counsel SBEA No. 3]. The definition of "real property" also includes a "power generating apparatus" [RPTL §102(12)(f)]. As such, it is taxable unless it qualifies for an exemption (RPTL § 300). The assessor must determine the contributory value of the solar array to the value of your property. If the value of the converted acreage devoted to the solar array increases, it may affect your taxes. An increase in taxable value may affect your county, town, village, and school taxes as well as other taxes that may be levied, such as highway, fire, ambulance, library, lighting district, drainage district, and other taxes and levies. It may also affect special district taxes for municipal water and sewer districts if the land is no longer predominantly used for agricultural purposes.

3.3 Exemptions from School, County, Town, and Village Taxes

There is an exemption statute in State Law that applies specifically to solar energy systems: Section 487 of the RPTL. Section 487, which also covers wind power systems and farm waste energy systems, provides a 15-year exemption from real property taxation for the increase in value resulting from the installation of a qualifying system. However, the statute allows municipalities and school districts to opt-out of this exemption. To find out if your county, town, village, and/or school district has opted out, talk to your local tax assessor. Leases beyond 15 years will likely have an effect on your tax liabilities going forward. Absent the exemption, the local government may seek to value the solar array at full value. This assessment would again depend upon the contributory value of the solar array on your property at year 16. This question should be discussed with your local tax assessor.

4. Other Potential Impacts

Solar arrays must be connected to the electrical grid, which may require the installation of power poles. Landowners should make sure that pole placement and the height of the wire will not interfere with their ability to farm the land. The same can be said concerning the siting of access roads. Make sure the access road is constructed so that it does not shed water onto your fields and that the finished grade does not interfere with normal drainage patterns. Also, ask about the material used to finish the surface of the access road. Will the size of the stone interfere with the operation of your equipment if some of it ends up in your field? See if the access road can be used by you and your farm equipment to access your property. Design the road so that it also serves both your needs and that of the solar company. Be sure to discuss these aspects of the construction of the solar project with the developer before you sign the lease.

4.1 Responsibility of Dismantling Solar Arrays

In the contract, make sure that there are provisions that determine who is responsible for dismantling the facility if the company is no longer in business or if the solar array ages out and is no longer viable, ensuring the property is returned to its pre-leased condition.

4.2 Selecting your Solar Array Location

If you are interested in the possibility of a lease to a solar company, talk to them about the siting of the solar arrays on your property. Does it have to be placed on your best farmland (such as on Soil Groups 1-4)? Can the solar arrays be placed on land that is not suited for agricultural production, such as support land, sloping pasture, or underutilized areas of the farm? Can the land beneath the solar arrays be planted with crops or grazed by non-climbing animals? There are a number of possibilities that should be explored. Think about how the siting of a solar array on your property can benefit your farm operation and ask questions.

4.3 Local Solar Laws in your Community

Some municipalities have provisions in their zoning code to address the siting of solar arrays within the community. Other municipalities have placed a temporary freeze on the siting and installation of such facilities until they have decided on the best method to review and/or regulate the use within the town or village. Some municipalities are also in the process of drafting amendments to their zoning code to address this issue.

Influence the Local Process

If you do not participate in the local process, your point of view cannot be heard. Also, speak with your assessor to determine what impact the siting of a solar array may have on your farm or property and the bottom line (taxes versus lease payments).

Questions?

If you have any questions regarding solar land leases, please email questions to cleanenergyhelp@nyserda.ny.gov or request free technical assistance at nyserda.ny.gov/SolarGuidebook. The NYSERDA team looks forward to partnering with communities across the state to help them meet their solar energy goals.