

GREEN ENERGY/ GREEN DOLLARS

Incentives, Equity and Debt for Renewable Energy Projects

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“GREEN ENERGY” INCENTIVES

- Rewards for conservation
- Rewards for investment

“REAL LIFE”, “THIS WEEK” EXAMPLE

“Choate Construction Co. plans to install a solar array system at its Atlanta headquarters....The system will generate about 50 kilowatts of power Choate signed an agreement with Georgia Power Co. that includes a plan to have the solar array up and running within six months.... The construction firm is an anchor tenant in a six-story building off Georgia 400 at 8200 Roberts Drive. The solar array can power about 5 percent of the building.” Atlanta Business Chronicle, July 23- 29 2010

POSSIBLE INCENTIVES

- “[The solar array will] save the construction company about \$11,000 a year in energy costs.” ABC article.
- Federal income tax credit equal to 30% of the cost of the solar array
- Georgia income tax credit equal to 35% of the solar array’s costs up to \$500,000.

HOW CAN YOU WIN?

- LOOK AT THE MATRIX
- SPOT YOUR INVESTMENT
- MEET THE REQUIREMENTS
- GET A CREDIT OR INCENTIVE

IT'S AS SIMPLE AS THAT!

THE MATRIX

PART 1

FEDERAL COMMERCIAL BUILDING INCENTIVES

Property		Eligibility Information	Amount of Incentives	Years Covered	Notes
Commercial Building		The savings must be certified (relative to ASHRAE 90.1-2001) by a licensed and qualified professional before the deduction may be claimed.			
	Whole building	50% savings	Deduction of \$1.80 / sq.ft.	2006-2013	
	Lighting, HVAC or envelope	16 2/3% savings	Deduction of \$.60 / sq.ft. per system	2006-2013	Eligibility under the “permanent rule”
	Special rule for building envelope	10% savings	Deduction of \$.60 / sq.ft. per system	2006-2013	Requires 20% savings for lighting or HVAC eligibility
	Interim rule for lighting savings	25% LPD reduction	Sliding scale: \$.30 / sq.ft. @25% LPD reduction to \$.60 / sq.ft. @40% LPD reduction	2006-2013	Lighting Power Density (LPD) is the maximum lighting power per unit area of a building classification of space function.

THE MATRIX

PART 2

FEDERAL INVESTMENT TAX CREDITS

Property	Eligibility Information	Amount of Incentives	Years Covered	Notes
Investment Tax Credit				
				Claimed on <u>Form 3468</u> , Investment Credit
Solar energy property		30%	2006-2016	Used to generate electricity, heat, or process power or distribute light
Geo-thermal heat pumps and geothermal energy property	Must meet Energy Star® standards	10%	2006-2016	
Qualified fuel cell		30%	2006-2016	Limited to \$1,500 for each 0.5 kilowatt of capacity
Microturbine property		10%	2006-2016	Limited to \$200 for each kilowatt of capacity
Combined heat & power	20% heat/20% power/ 60% efficiency	10%	2006-2016	Limited to first 15MW and systems up to 50 MW in capacity
Wind energy property		30%	2006-2016	

THE MATRIX

PART 3

GEORGIA TAX CREDITS

Property		Amount of Incentives	Years Covered	Notes
Georgia Clean Energy Property				In order to claim clean energy property tax credits, prior approval must be obtained from the Georgia Environmental Finance Authority and the Georgia Department of Revenue.
	Solar	35% of cost up to \$500,000	2008-2012	solar energy used for water heating, active space heating and cooling, passive heating, daylighting, generating electricity, distillation, desalinization, or the production of industrial or commercial process heat, as well as related devices necessary for collecting, storing, exchanging, conditioning, or converting solar energy to other useful forms of energy
	Wind	35% of cost up to \$500,000	2008-2012	required to capture and convert wind energy into electricity or mechanical power as well as related devices that may be required for converting, conditioning, and storing the electricity produced by wind equipment
	Lighting efficiency & retrofits	\$0.60 / sq. ft; with a limit of \$100,000	2008-2012	reduce annual energy and power consumption by 30 percent compared to the American Society of Heating, Refrigerating, and Air Conditioning Engineers 2004 standard (ASHRAE 90.1.2004)
	Energy efficient buildings	\$1.80 / sq. ft; with a limit of \$100,000	2008-2012	certified to exceed the standards set forth in the American Society of Heating, Refrigerating, and Air Conditioning Engineers 2004 standard (ASHRAE 90.1.2004) by 30 percent
	Geothermal heat pump	35% of cost up to \$100,000	2008-2012	Meets Energy Star® standards
	Biomass equipment	35% of cost up to \$500,000	2008-2012	Must be used to convert wood residuals into electricity through gasification and pyrolysis

“GREEN” EXPANSION OF POWERS OF DEVELOPMENT AUTHORITIES

Statutory DDA and statutory city or county development authority, “project” definition amended to include-

“ The provision of financing to property owners for the purpose of installing or modifying improvements to their property in order to reduce the energy or water consumption on such property or to install an improvement to such property that produces energy from renewable resources;” HB 1388

STRINGS STILL ATTACHED

Even after HB 1388, in order to issue bonds-

- All statutory authorities
 - their bonds must promote economic development or redevelopment
- Statutory city and county authorities
 - employment must be increased or maintained

CONSTITUTIONAL DEVELOPMENT AUTHORITY

- Check your local constitutional amendment

WHAT IF YOU'RE "IN THE INDUSTRY"?

FOR YOUR NEW RENEWABLE ENERGY PLANT
YOU NEED TWO THINGS

- EQUITY
- DEBT

THE BEST EQUITY- FREE MONEY

- TAX CREDIT EQUITY IS “FREE MONEY”
- The American Recovery and Reinvestment Act of 2009 allows taxpayers to elect the investment tax credit for “Qualified Facilities”
- What does this mean to a renewable energy company?
 - The tax credit is based on the “eligible cost basis” of the project instead of the amount of electricity sold
 - Allows the owner to value (and monetize) the credit with greater certainty

MONETIZING TAX CREDITS

- Often the developer of a renewable energy facility does not have sufficient taxable income to benefit from tax credits
- The most common techniques for monetizing tax credits involve:
 - sale and leaseback transactions
 - “flip partnerships”
 - management contracts and development fees
- Lenders can treat “tax credit equity” as equity, depending on when funded

AMOUNT OF THE CREDIT

- 30% credit
 - solar energy property
 - qualified fuel cell property
 - qualified small wind energy property
 - “Qualified Facilities”
- 10% credit
 - for microturbine property
 - combined heat and power system property
 - geothermal heat pump systems

REQUIREMENTS

- Original use must commence with the taxpayer
- Must be depreciable property

THE BEST DEBT IS CHEAP DEBT

Bonds are the best way to borrow money

- rate
- term
- interest-only period

TAX-EXEMPT BOND FINANCING FOR RENEWABLE ENERGY FACILITIES

IN THE BOND WORLD, THIS MEANS

- MANUFACTURING PLANTS
- SOLID WASTE DISPOSAL PLANTS

MANUFACTURING PLANTS

- WOOD PELLETS FROM BIOMASS
- ETHANOL FROM GRAIN
- CELLULOSIC ETHANOL
- BIO-DIESEL
- CRUDE OIL FROM BIOMASS
- BIOMASS PYROLYSIS

SOLID WASTE DISPOSAL PLANTS

- BIOMASS FIRED POWER PLANTS
 - IF BIOMASS IS WASTE
- CELLULOSIC ETHANOL
 - IF FEEDSTOCK IS WASTE
- WASTE-TO-ENERGY PLANTS
 - IF FEEDSTOCK IS WASTE SUCH AS TIRES
- METHANE EXTRACTION AND PROCESSING
 - IF FUNCTIONALLY RELATED AND SUBORDINATE TO A SOLID WASTE DISPOSAL FACILITY

TAX-EXEMPT BONDS FOR MANUFACTURING FACILITIES

- Manufacturing facility
- Spending requirements and restrictions
- Used property
- Capital expenditures limit
- National limit on tax-exempt bonds

WHAT QUALIFIES AS A MANUFACTURING FACILITY?

A “manufacturing facility” means “any facility which is used in the manufacturing or production of **tangible** personal property (including processing resulting in a change in the condition of such property).”

WHAT OTHER RULES APPLY?

- Spending rules
- New property
 - substantial rehabilitation
- Capital expenditure limits
- National limit

SOLID WASTE DISPOSAL BONDS

- Tax-exempt private activity bond
- Used to provide “solid waste disposal facilities”

Solid Waste Disposal Facilities

- Prior regulations required that solid-waste must be property that is useless, unused, unwanted, or discarded solid material “that has no market or other value at the place where the property is located” (the “No-Value Test”).

FINAL REGULATIONS

- The Final Regulations eliminate the **No-Value Test**, and instead define solid waste to mean, with certain specific exclusions, garbage, refuse, and other solid material derived from any agricultural, commercial, consumer, governmental, or industrial operation or activity if the material is either a “used material” or a “residual material”.
- “**Used material**” means any material that is a product of an agricultural, commercial, consumer, governmental or industrial operation or activity or a component of any such operation or activity.
- “**Residual material**” is any residual byproduct or excess unused raw material that remains from the production of any agricultural, commercial, consumer, governmental, or industrial operation or activity.
- Exclusions
 - virgin material
 - solids within liquids and liquid waste
 - precious metals
 - most hazardous material
 - most radioactive material

WHAT IF MY FACILITY HAS MORE THAN ONE FUNCTION?

- In the case of property which has both a solid waste disposal function and another function, the portion of the cost of the property allocable to the function of solid waste disposal is taken into account as an expenditure to provide solid waste disposal facilities.
- Example, a biomass-to-energy plant at some point would commence the generation of electricity.

SOLID WASTE AND MANUFACTURING FACILITY

- Two issues of tax-exempt bonds:
 - an exempt facilities issue for the solid waste disposal portion
 - a “small issue” manufacturing bonds for the manufacturing portion
- No dollar limit on the issue size of a tax-exempt issue for the solid waste disposal portion
- The proceeds of the solid waste disposal bonds would count as capital expenditures for purposes of the capital expenditures limit that is applicable to the bonds for the manufacturing portion

GREEN BONDS

- RENEWABLE ENERGY AND “GREEN” PROJECTS
 - QUALIFIED ENERGY CONSERVATION BONDS” (“**ENERGY CONSERVATION BONDS**”)
 - ▶ FINANCE RESEARCH IN SUCH AREAS AS NONFOSSIL FUELS; ALSO CAN FINANCE SUCH PROJECTS AS BIOMASS PLANTS IF QUALIFIED UNDER THE PRODUCTION TAX CREDIT (SOME EXCEPTIONS APPLY)
 - NEW CLEAN RENEWABLE ENERGY BONDS (“**CREBS**”)
 - ▶ FINANCE ENERGY FACILITIES FOR GOVERNMENTS, PUBLIC POWER PROVIDERS, AND NONPROFIT REAL UTILITIES
 - THESE GENERALLY ARE FACILITIES THAT QUALIFY FOR THE FEDERAL PRODUCTION TAX CREDIT (ANOTHER SOURCE OF TAX CREDIT EQUITY)

CONCLUSION

BY TAKING ADVANTAGE OF THESE INCENTIVES, YOU ARE PROMOTING -

- ENVIRONMENTAL BENEFITS
- AVAILABILITY AND RELIABILITY OF FUEL
- OUR ECONOMY
- OUR ENERGY POLICY

QUESTIONS?

If you have any questions or comments on Green Energy, please do not hesitate to let me know.

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MORE INFORMATION

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