Novogradac
Journal of Tax Credits
News, Analysis and Commentary On Affordable Housing, Community Development and Renewable Energy Tax Credits

April 2010, Volume I, Issue IV

Published by Novogradac & Company LLP

Community Service Organization Harnesses Wind Energy

By Jennifer Hill, Staff Writer, Novogradac & Company LLP

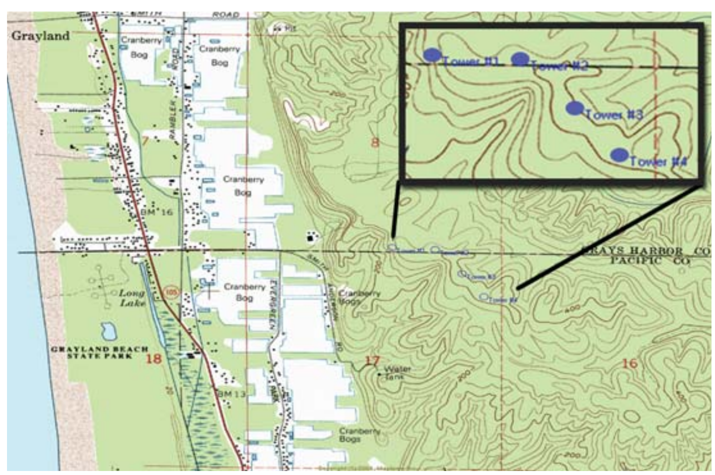
The Coastal Community Action Program (CCAP) of Aberdeen, Wash. gives people the resources they need to achieve independence. Now the not-for-profit CCAP is taking a step toward securing its own self-sufficiency by completing the Coastal Energy Project, a 6 megawatt (mW) wind development near the Washington coastline in Grayland, Wash.

With 165 employees, a $7 million annual budget and a two-county service area, CCAP historically has relied on federal and state funding and charitable donations to administer its programs, including transitional family housing, Meals on Wheels, emergency energy assistance, home weatherization, job training, employment opportunities for persons with disabilities, and school supplies for children.

A Simple Plan

The original idea in 2000 was simple: to place small-scale wind turbines on the houses of lower-income families to help them pay their energy bills. After a $5 million state grant and 10 years, the scope of the project has expanded to encompass a four-turbine wind system that is anticipated to produce 13.5 million kilowatt-hours of electrical energy annually, potentially generating as much as $500,000 a year for 20 years to fund CCAP's programs in Grays Harbor and Pacific counties.

By 2006, word had spread about CCAP's wind farm project, and Craig Dublanko, CCAP's chief finance officer and wind development project manager, was invited to speak to other community service groups throughout the state. "People were really excited about the vision," he said. "For most people it's a renewable energy project, but for us it's a social service project that happens to involve wind energy."



Coastal Energy Project's four wind turbines will be placed near the county line dividing Pacific and Grays Harbor in Grayland, Wash.

When state Sen. Jim Hargrove got wind of CCAP's plan, he secured the state grant that finally gave the project its foothold. "It was just a cool idea until we got the grant from the state," Dublanko said. "We were really going against the grain, trying to finance this project in a very difficult financial environment."

A Change in the Wind

To supplement the grant, the community development entity (CDE) ShoreBank Enterprise Cascadia provided approximately $8 million in new markets tax credits (NMTCs)

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allocation. Wells Fargo agreed to invest NMTC equity and made a leveraged loan. But the project needed more capital and an additional investor that could take advantage of the renewable energy production tax credits (PTCs) for wind energy facilities. A potential PTC purchaser was involved for nearly a year, but ultimately was unable to gain sufficient comfort with the NMTC structure.

Enter United Fund Advisors (UFA), which through its CDE, National Community Fund I (NCF), worked with CCAP in early 2009 to purchase the PTCs and explore the possibility of additional NMTCs. The passage of the American Reinvestment and Recovery Act (Recovery Act) in February 2009 enabled UFA to monetize more than $7 million in grants in lieu of the PTCs, combined with NMTCs. UFA also was able to defer construction risk to the Seminole Companies, which provided a $5 million construction loan.

"Had we not expanded the financing team to include a second CDE, a second investor (US Bank) and Seminole, we probably would have run out of time and CCAP would have been forced to pull the plug," said Michael Goldman of Nixon Peabody, CCAP's attorney, citing the project's high sunk costs and waning local support.

Although Coastal Energy Project is eligible for PTCs, the investors will claim the 30 percent grant in lieu of renewable energy investment tax credits (ITCs) upon the project's completion pursuant to Section 1603 of the Recovery Act. The Recovery Act permits ITCs to be claimed for traditional PTC facilities and also permits a cash grant to be claimed in lieu of the ITCs, which Goldman said was critical to the success of this transaction. He noted that the grant will provide a more certain and immediate return than the 10-year PTCs.

Going Against the Wind

Coastal Energy Project is one of the first deals to use the NMTC and the Section 1603 provision that allows ITCs to be claimed for traditional PTC facilities, according to Tony Grappone, Novogradac & Company partner, and CCAP's Dublanko. When attempting to combine these programs, the project in question must involve renewable energy for the PTC/ITC and create a significant community impact for the NMTC, said UFA principal Chris Hasle. "This project is one of the best examples you can find," he added.

Because the process of using the tax credit programs in tandem was new, the parties had a few wrinkles to iron out before the deal could close. The most challenging issues, Goldman said, were the multiple exit strategies and the allocation of the Section 1603 grant proceeds. (For more information about how these programs were combined, please see the March issue of the Novogradac Journal of Tax Credits.)

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ISSN 2152-646X

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Larry Baker, ShoreBank Enterprise Cascadia's fund manager and senior lender, said the process was extremely time-consuming. Baker's role in the deal began when Dublanko approached ShoreBank in 2005. The transaction didn't close until December 2009. "We pushed forward to close the deal, we all saw it through," Baker said.

As exhausting as the transaction process may have been, Baker said it was well worth the effort to ensure funding for CCAP's much needed services. According to the 2000 Census, 22.2 percent of Aberdeen's individuals were below the poverty line, compared to a national average of 12.4 percent.

"We put together a project that has the potential for huge social and environmental benefits," Hasle said.

The wind farm is scheduled to be placed in service in June 2010.

This article first appeared in the April 2010 issue of the Novogradac Journal of Tax Credits.