Solar SIDs – Solar Improvement Financing and Federal Programs

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Columbus Green Building Forum

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Ohio House Bill 1

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- Effective 10/15/09; allows <u>municipalities and/or townships</u> and property owners to work together to provide <u>up-front, assessment-based financing for property owners that want to install their own solar improvements but lack the funds to make the investment</u>
- Ohio's law is modeled after the success of Berkeley, California's FIRST ("Financing Initiative for Renewable and Solar Technology") program

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PACE Financing

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PACE means "Property Assessed Clean Energy"

Ohio's PACE Authority is HB1

PACE Policy Framework:

- In October 2009, a Policy Framework was released by the Obama Administration to encourage states and local governments to adopt pilot PACE programs.
- The Policy Framework is designed to provide important safeguards in the creation of PACE programs, including homeowner and mortgage lender protections.
- Current Policy Framework limited to residential programs, but its principles can and have been applied to commercial and industrial projects.

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PACE Financing

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PACE Policy Framework outlines best practices for PACE programs:

- property owners "opt-in" to attach up to 100% of the cost of energy improvements to their real property tax bill;
- assessing local government has the ability to foreclose on delinquent real property
- improvements should "pay for themselves"
- projects should have high return in terms of energy efficiency or renewable energy gains
- energy audits
- mortgage holder protections (clear title, no defaults, no negative equity financings)

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Solar SIDs

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- Solar SID: special type of financing district created under ORC Chapter 1710 for the purpose of financing:
  - solar photovoltaic (i.e., roof-top and ground-mounted solar arrays), and
  - solar thermal systems (i.e., solar water heating systems)
- Solar SID and City/Township will:
  - administer program
  - determine general criteria for eligible solar improvements (including parameters such as cost and size and zoning-related considerations)
  - can pre-qualify installers/PPA providers

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Summary of Solar SID Process

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1. Identify property owners with solar improvements
2. Draft petition (really and application) for SID creation and SID plan
3. Property owners sign Petition
4. City/Solar Developer develops plan for specific solar improvements (SID Plan)
5. City/Solar Developer submits Petition proposing creation of SID and SID Plan to property owners
6. City Council reviews SID Petition and SID Plan
7. City Council approves creation of SID, SID Petition, SID Plan and SID Board Articles

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Summary of Solar SID Process

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8. City Council approves Resolution of Necessity specifying details of special assessment
9. Notice of Resolution of Necessity sent by certified mail to SID property owners
10. SID property owners may file objection to estimated assessment
11. City Council adopts Assessment Ordinance finalizing assessments. City Council certifies special assessments to the County Auditor
12. Notice of first meeting of SID property owners
13. Meeting of SID property owners and election of SID Board
14. SID receives assessments through County Auditor settlement process

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Solar SID Financing

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- Cities and townships have options.
- Financing from Special Assessment Payments from property owners in installments for up to 25 years.
- Department of Energy Loan Guarantee Program
- ITCs and Grants.
- Revolving Loan Funds. Cities have new authority in HB 1 (ORC Section 717.25) to create solar revolving loan funds.

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Solar SID Financing: Debt Options

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- Assessment revenue can pay debt service on “general obligation” bonds.
- Assessment revenue can pay debt service on “special obligation” revenue bonds.

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Solar SID Financing: Debt Options

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- "Special obligation" revenue bonds would be issued by another entity, like an Ohio Port Authority, OAQDA or ODOD.
- Port Authority "Bond Fund" programs may be available.
- It is anticipated that one or more of these entities will apply and become U.S. Department of Energy approved "development finance organizations" and as such special obligation revenue bonds issued by these issuers would be eligible for U.S. Department of Energy loan guarantees.

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Solar SID Financing: Federal Investment Tax Credit

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- Solar improvement owners may be eligible for a federal Investment Tax Credit equal to 30% of the eligible cost of their project.
- Solar improvement owners may be eligible for a 30% federal grant in lieu of the Investment Tax Credit for projects placed in service in 2009 or 2010 (or started by then and placed in service before Jan. 1, 2017).
- The initial owner will be the municipality or township.
- The owner receiving the tax credit or grant could be the property owner or the solar installer/PPA provider.

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Solar SID Financing: Federal Investment Tax Credit

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Property owners engaged in a trade or business:

- Investment Tax Credit

  OR

- Grant

Residential property owners:

- Investment Tax Credit Only

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Solar SID Financing: Partnership Flip Solar ITC Structure

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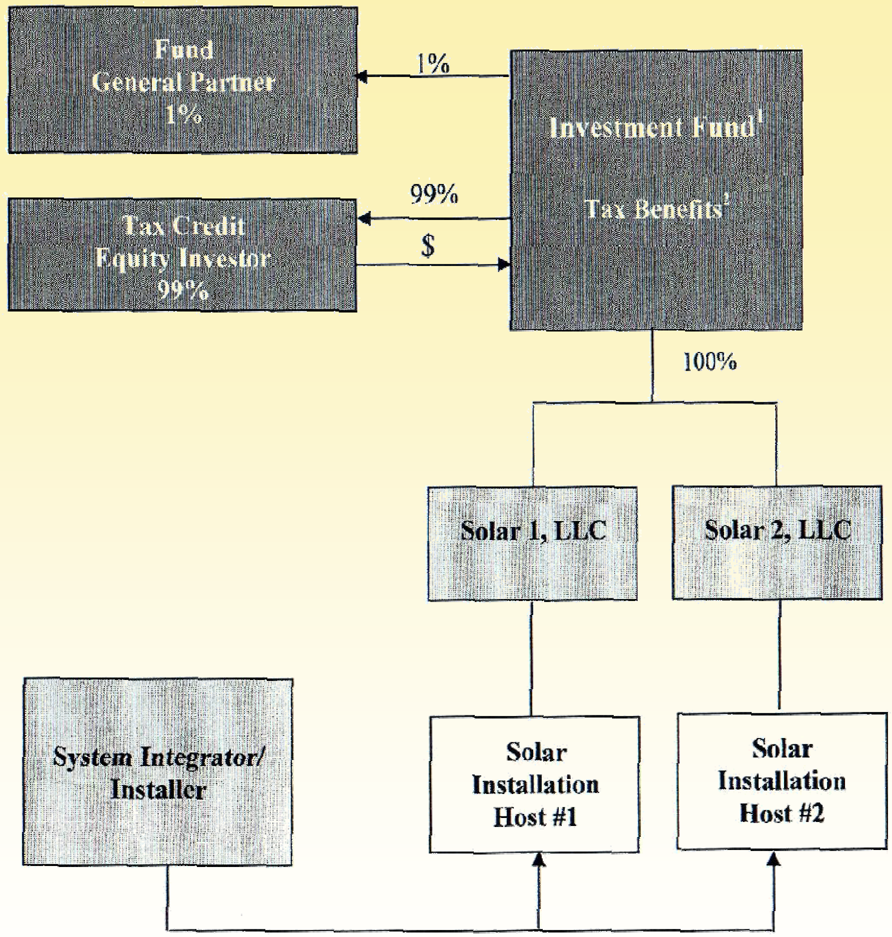

[1] A developer fee may be negotiated to be paid from Investment Fund
[2] Tax Benefits include Tax Credits, Depreciation, Deductions, Cash Flow

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Solar SID Financing: Sale-Leaseback Solar ITC Structure

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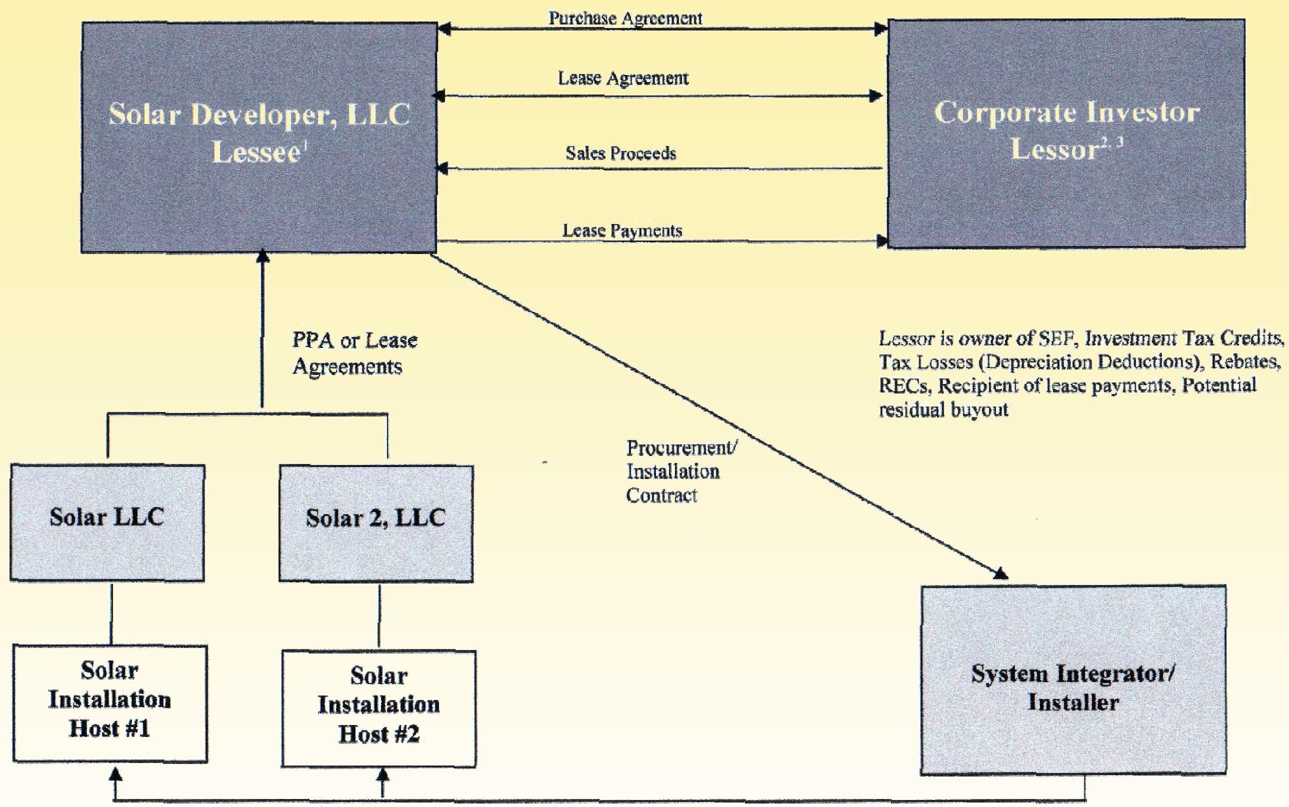

[1] Solar developer to provide guarantees to Corporate Investor for operations, maintenance and perhaps yield with funds held in escrow until guarantees are "burned off"

[2] Developer fee may be paid upon satisfaction of investor or lender covenants.

[3] Lessor is "ownee" for Tax Benefits, including ITC, tax losses (depreciation deductions), RECs, cash flow (lease payments). There is usually a residual buy out option.

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Expansion of SID Law: Senate Bill 223

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S.B. 223 expands authority to other "Special Energy Improvement Projects"

- Wind
- Geothermal
- Biomass
- Gasification
- Energy Efficiency Improvements

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Expansion of SID Law: Senate Bill 223

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Current status of S.B. 223:

- Discussions with Utilities ongoing
  - "Behind the Meter" projects primarily, or
  - 250 kw or smaller
  - RECs still available
  - Helps Utilities meet their RPS targets
- Hearings continue

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New Clean Renewable Energy Bonds ("New CREBs")

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- New CREBs are tax credit bonds similar in form to CREBs whose termination date was extended to December 31, 2009 (only New CREBs are now available to issuers without a preexisting CREBs volume cap award)
- 100% of the available project proceeds of New CREBs are to be used for capital expenditures incurred by governmental bodies, public power companies or cooperative electric companies for one or more types of renewable electric generation facilities (e.g. wind, solar, biomass, municipal solid waste, hydropower, etc.) for which a production tax credit (IRC Section 45) can be claimed, without regard to placed in service date
- Qualified issuers of New CREBs include utilities, cooperative electric companies, a state or any political subdivision thereof

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New Clean Renewable Energy Bonds ("New CREBs")

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- New CREBs are not interest-bearing obligations
- The holder of a New CREB on a credit allowance date is entitled to a tax credit
  - The amount of the credit is determined by multiplying the bond's credit rate by the face amount of the bond
  - The credit rate on the bonds is determined by the Secretary of the Treasury and is set at a rate that permits the issuance of New CREBs without discount or interest
  - The amount of the annual credit will be 70 percent of the amount of the credit as determined above
  - In practice, New CREBs will likely require the issuer to pay supplemental interest or sell the New CREBs at a discount in order to adjust the credit rate set by the Treasury to the market risk of an investor purchasing a New CREB

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New Clean Renewable Energy Bonds (“New CREBs”)

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- “Available project proceeds” definition limits costs of issuance financed by the issue to 2 percent
- Requirement for capital expenditures (no refunding)
- National volume cap now $2.4 billion per 2009 Stimulus law
  - 1/3 awarded to qualified projects of public power providers (state utilities)
  - 1/3 awarded to qualified projects of governmental bodies
  - 1/3 awarded to qualified projects of cooperative electric companies like AMP-Ohio

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New Clean Renewable Energy Bonds (“New CREBs”)

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- Applications for New CREBs volume cap allocations for 2009 were due on August 4, 2009
- Allocations of volume cap for both governmental and cooperative owned projects will be awarded based upon the “smallest to largest” request methodology as used for CREBs.
- 2010 and future allocations of New CREBs will be based upon further Congressional allocations of authority to issue New CREBs

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Qualified Energy Conservation Bonds ("QECBs")

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- QECBs are tax credit bonds similar to New CREBs
- QECBs however are issued only by a state and local government
- 100% of the available project proceeds of QECBs are to be used for "qualified conservation purposes"

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Qualified Energy Conservation Bonds (“QECBs”)

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- “Qualified Conservation Purposes” includes capital expenditures incurred for:
  - Reducing energy consumption in publicly owned buildings by at least 20%
  - Implementing green community programs
  - Rural development
  - Electric generation facilities that qualify for the PTC

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Qualified Energy Conservation Bonds (“QECBs”)

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- The State of Ohio has received an allocation of $119,160,000 in QECB volume cap to be divided among the state and “large local governments” with populations of 100,000 or more.
- QECB volume cap was allocated among the Ohio Air Quality Development Authority and large counties and cities pursuant to H.B.1 and a resolution of the OAQDA.
- Most of the allocation has been returned to OAQDA; for reallocation.

Other Techniques

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DOE Loan Guarantee Program

- Department of Energy Loan Guarantee Program
  - For all major renewables (wind, solar, biomass, geothermal, hydro)
  - For all types of borrowers; but initial solicitations for commercial
  - Up to $100 billion in loans will be guaranteed

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DOE Loan Guarantees

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- Primarily for Developers
  - Bank loans qualify
  - Loans from development finance governmental agencies qualify
  - Up to 80-90% guaranteed
  - Ohio banks will qualify as lenders
  - Ohio port authorities will qualify as lenders

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DOE Loan Guarantees

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- Minimum fee $50,000
- NEPA (Federal environmental review) or waiver required
- PACE programs, including solar SIDs will qualify

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DOE Loan Guarantees

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- Available for project loans right now
- Development finance organizations (DFO's) can review and underwrite loans
  - – Five port authorities designated as DFO's
  - – OAQDA and Ohio DOD also designated

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Questions?

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