ENHANCED CAPITAL PARTNERS

Renewable Energy Finance Incentive & Tax Credit Programs

CDFA Intro to Energy Finance Course

About Us

- Enhanced Capital Partners, Inc. ("ECP") is a diversified asset management firm that accesses capital through state and federal programs to invest in small and medium-sized businesses in underserved markets.
- Headquartered in New York City with principal satellite office in New Orleans, Louisiana.
- State Sponsored Investment Funds in AL, CT, LA, NY, TN, TX, and Washington DC.
- Community Development Entity ("CDE") that has been awarded $200mm of Federal and State New Market Tax Credit allocation.
- Tax Credit Monetization
  - Historic Tax Credits
  - Renewable Energy Tax Credits
  - State Tax Credits
- Tax Credit Finance Advisory Services

What is a Tax Credit?

- An item that reduces your actual tax liability dollar for dollar.
- Often applicable against various taxes, such as income or premium tax.
- Often granted to encourage investment.
- Often transferable, allocable, or refundable because the entity that earns the tax credits typically does not have liability against which it can apply the tax credits.
- In Federal programs, the tax credits are allocable, requiring that the "purchaser" of the tax credits make an equity investment in the project or other structure.

Renewable Energy – Tax Credits and Incentives

- Federal Renewable Energy Tax credits
  - Section 45 – Production Tax Credit ("PTC")
  - Section 48 – The Energy (or Investment) Tax Credit ("ITC")
- ARRA Section 1603 Treasury Grant in lieu of ITCs
- Accelerated MACRS and Bonus depreciation
- New Markets Tax Credits ("NMTC") – State and Federal
- State tax credits, exemptions, and incentives

ITCs – Overview

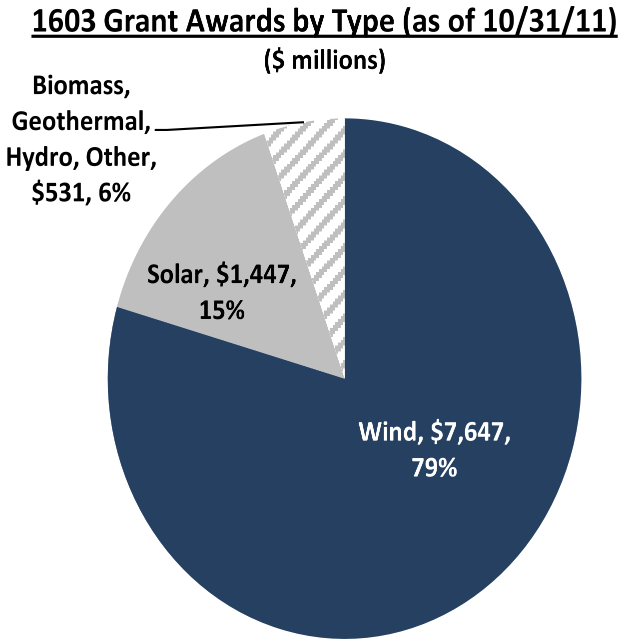
- The ITC program provides for a Federal income tax credit equal to 30% of the expenditures incurred during the construction of a qualified solar, fuel cell, or small wind energy property.
- The 30% ITC program currently exists through 2016, and a 10% ITC commences in 2017.
- ITCs are often purchased through a partnership investment structure:
  - Master Tenant Structure
  - Flip Structure
- The investment is made no later than when the construction is complete and the qualified energy property is "Placed in Service."
- The term of the investment is five years from the date the qualified energy property is placed in service (the "Recapture Period").
- The ITC vests 20% per year following placed in service during the Recapture Period.

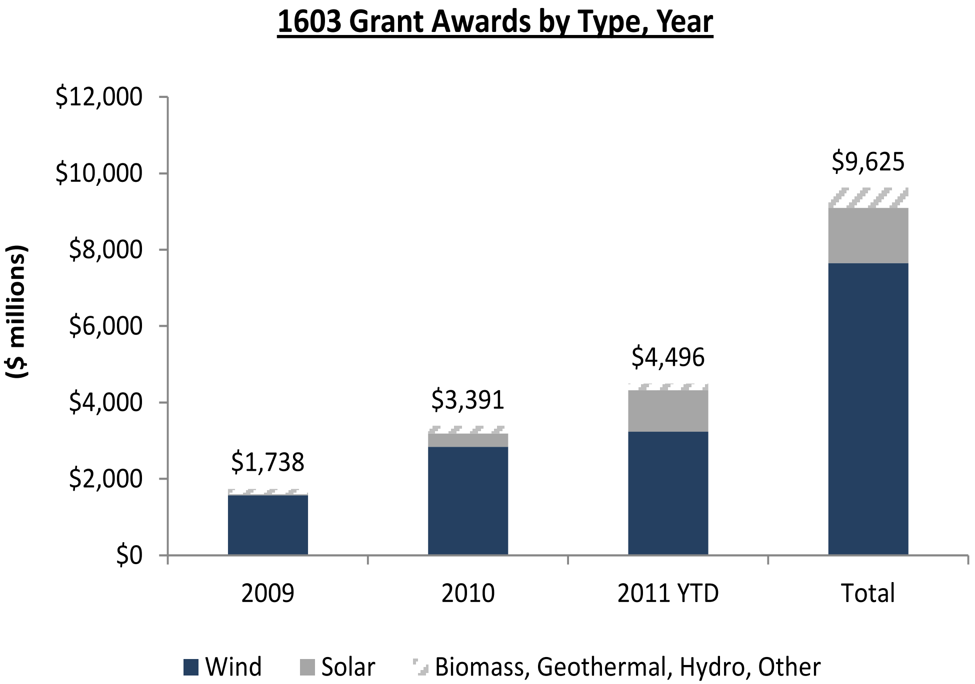
ARRA Section 1603 Grant in lieu of ITCs

- Energy property owners have the option to elect to receive a Section 1603 cash grant from the Federal government in lieu of the ITCs on property placed in service in 2009-2011 or property placed in service prior to 2017 if construction commenced in 2009-2011.
- ARRA Section 1603 Grant option has expired except for 5% safe harbor.
- Entire grant when facility is placed in service; must elect out of the credits and file with the government, which pays within 60 days (but it can delay payment with a request for more information).
- 30% of cost of facility, like the ITC
- 5-year recapture, but not for mere transfer of facility

ARRA Section 1603 Grants

- Since 2009, the Federal government has provided over $9.6 billion of 1603 grants to renewable energy projects.





Source: US Treasury, Solar Energy Industries Association

- Energy project developers are also selling the ITCs to investors when they are available despite the availability of the grant because of better economics.

State Tax Credit and Incentive – Overview

- Often mirror the Federal ITC program.
  - Stand-Alone
  - Piggy-Back
  - State-by-state limits and recapture variations
  - Production credits only
- State tax credits:
  - From 6% to 50% of the expenditures incurred during the construction of a qualified installation
- Structure will vary from state to state; however, transferability of credits is a common method
- Term may be as short as the 5-year ITC term

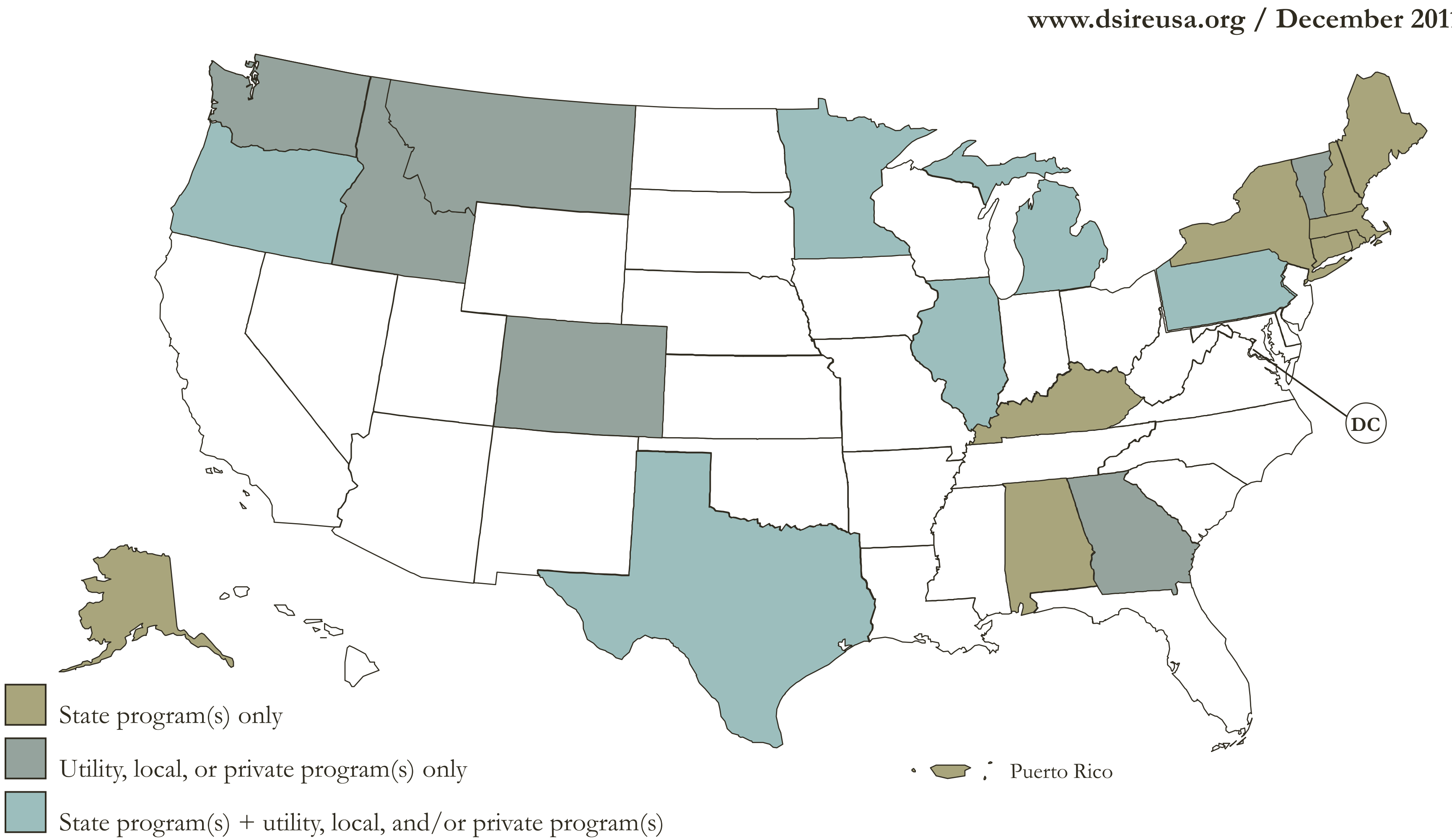
Federal NMTCs – Overview

- Established to attract private investment into operating businesses and real estate projects located in low-income communities.
- 39% Federal tax credit for Qualified Equity Investments ("QEIs") into Community Development Entities (CDEs).
- CDEs use capital from QEIs to make loans to or equity investments in qualified businesses and projects, including renewable energy projects.
- Possible to twin NMTCs with ITCs or ARRA Section 1603 Grants.
- Community Impact and "But for" analysis.
- NMTCs are often purchased through the "leverage" investment structure.
- The investment is made before construction is complete.
- The term of the investment is seven years from the date of the QEI during which time all of the NMTCs are subject to recapture.

State NMTCs – Overview

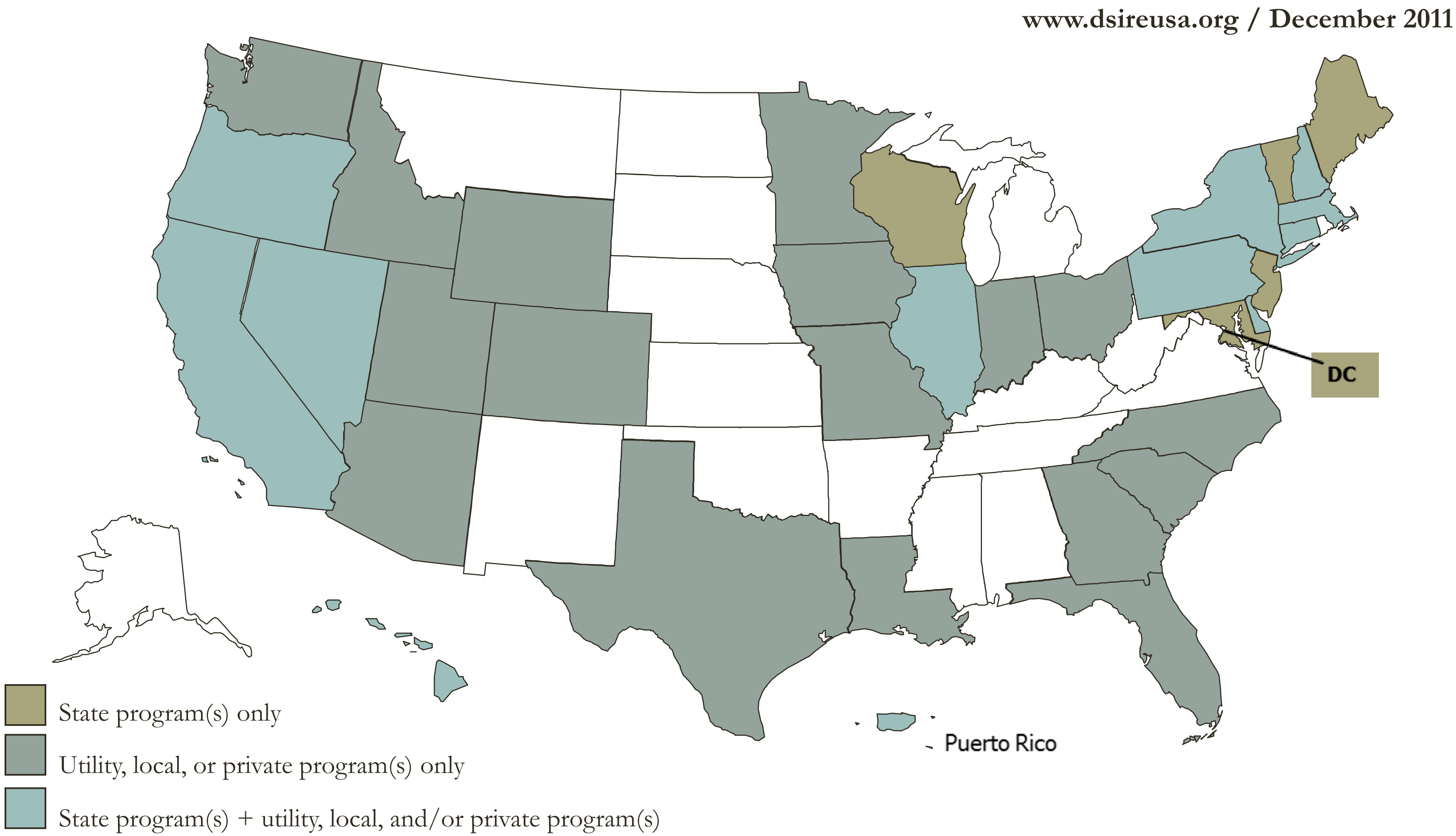
- Often mirror the Federal NMTC program.
  - Stand-Alone
  - Piggy-Back
  - Operating Business Programs
  - Caps on amount of Allocation per Business or Project
- State tax credits for QEIs into CDEs – often 39% tax credit but there are exceptions.
- CDEs use capital from QEIs to make loans to or equity investments in qualified businesses and projects, including renewable energy projects.
- Possible to twin NMTCs with ITCs or ARRA Section 1603 Grants.
- Community Impact and "But for" analysis.
- NMTCs are often purchased through the "leverage" investment structure.

State Renewable Energy Grant Programs



Notes: This map only addresses grant programs for end-users. It does not address grants programs that support R&D, nor does it include grants for geothermal heat pumps or other efficiency technologies. The Virgin Islands also offers a grant program for certain renewable energy projects.

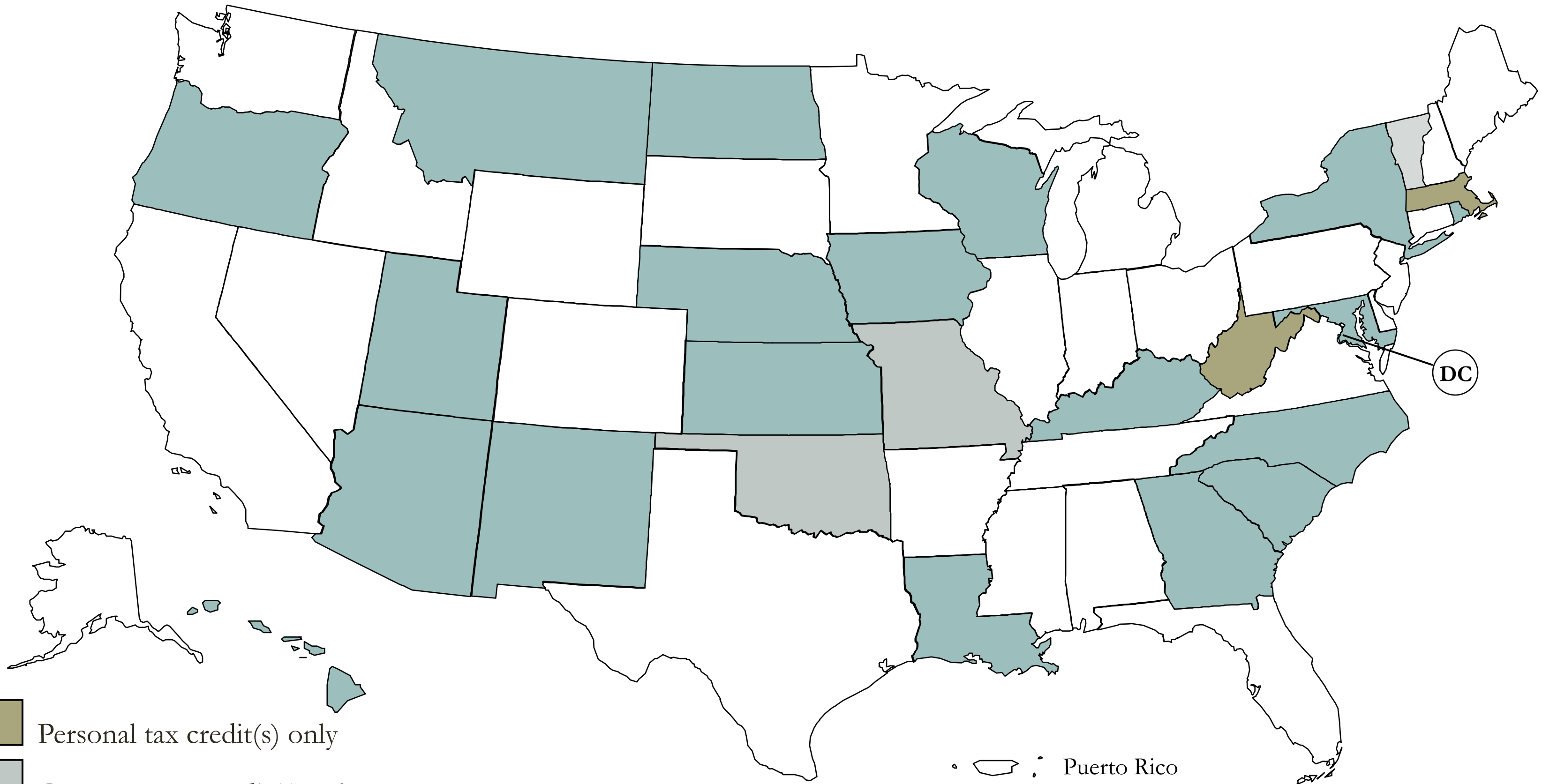
State Renewable Energy Rebate Programs



Notes: This map does not include rebates for geothermal heat pumps , daylighting or other energy efficiency technologies. The Virgin Islands also offers rebates for certain renewable energy technologies

State Renewable Energy Tax Credits

www.dsireusa.org / December 2011



Personal tax credit(s) only

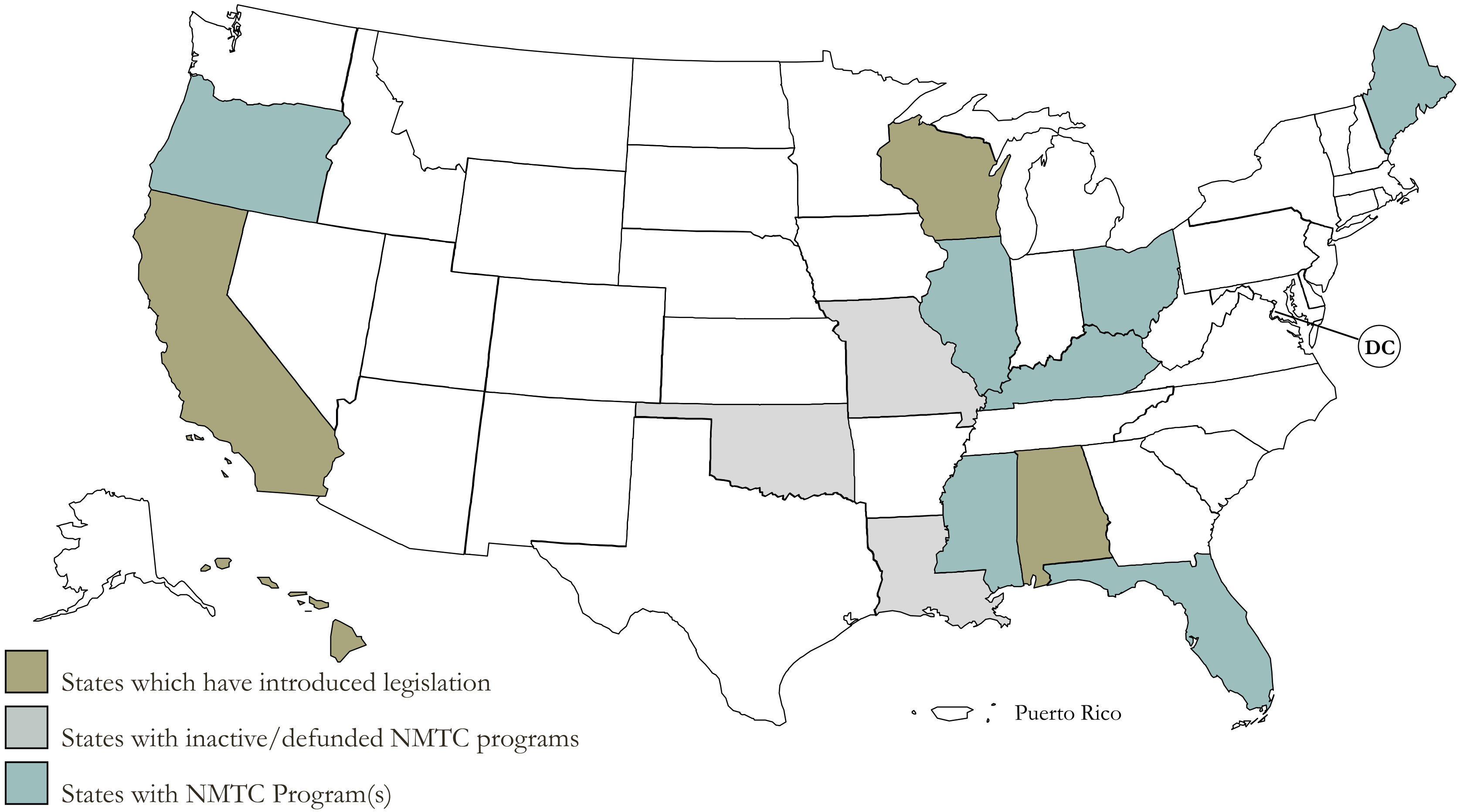
Corporate tax credit(s) only

Personal + corporate tax credit(s)

Notes: This map does not include corporate or personal tax deductions or exemptions; or tax incentives for geothermal heat pumps.

State New Markets Tax Credit Programs

www.novoco.com / January 2012

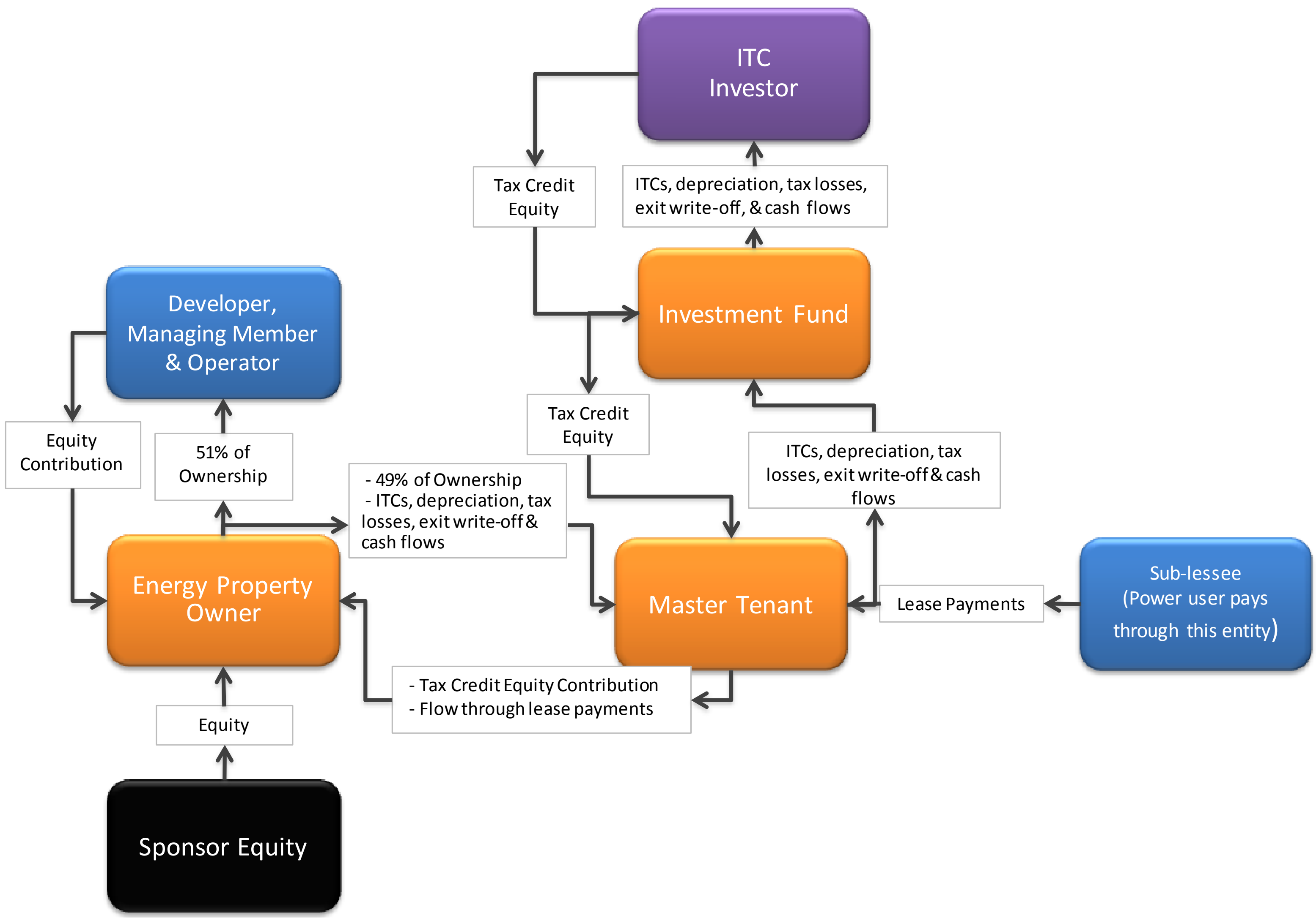


Notes: This map does not include corporate or personal tax deductions or exemptions

Master Tenant Structure – the Players

Participants	Roles
ITC Investor	• Possesses sufficient taxable income to monetize tax benefits, including ITCs, depreciation, ordinary income losses, capital loss write offs, and cash flows through the Master Tenant investment structure. • Funds up to 45% of the total costs of the solar project. • ROI earned through allocation of 99% of the ITCs and 49% of tax losses/income. • Typically exits the project after the Recapture Period upon exercise of the "put" option.
Developer	• Funds the balance of the total project costs through developer equity, bank debt, and/or other sources of capital. • ROI earned through cash flows from lease income and long term ownership of the energy project. • Possesses a "call" option to purchase the ITC investor's residual interest in the project if the ITC investor fails to exercise its put option.

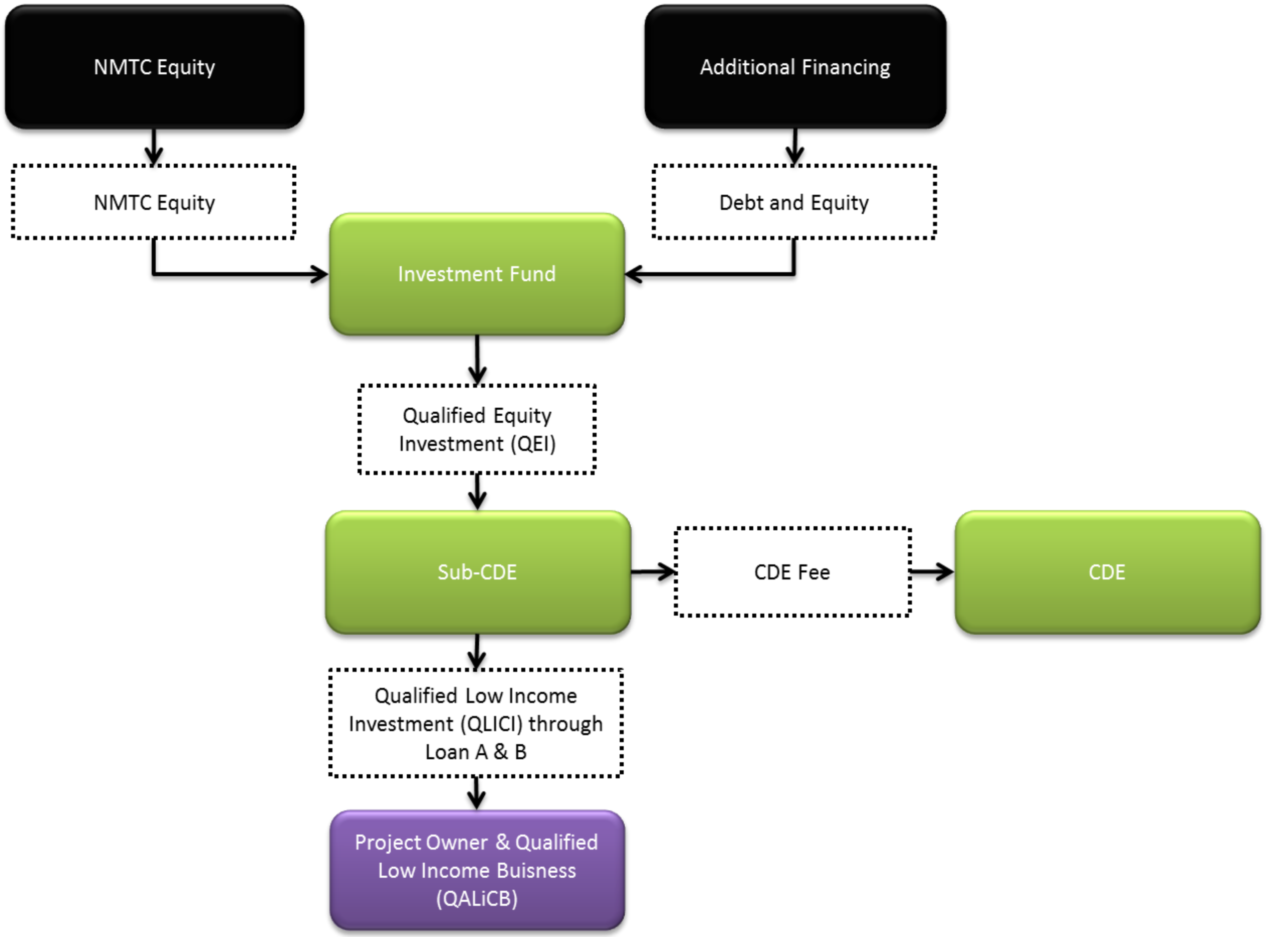
Master Tenant Structure – Diagram



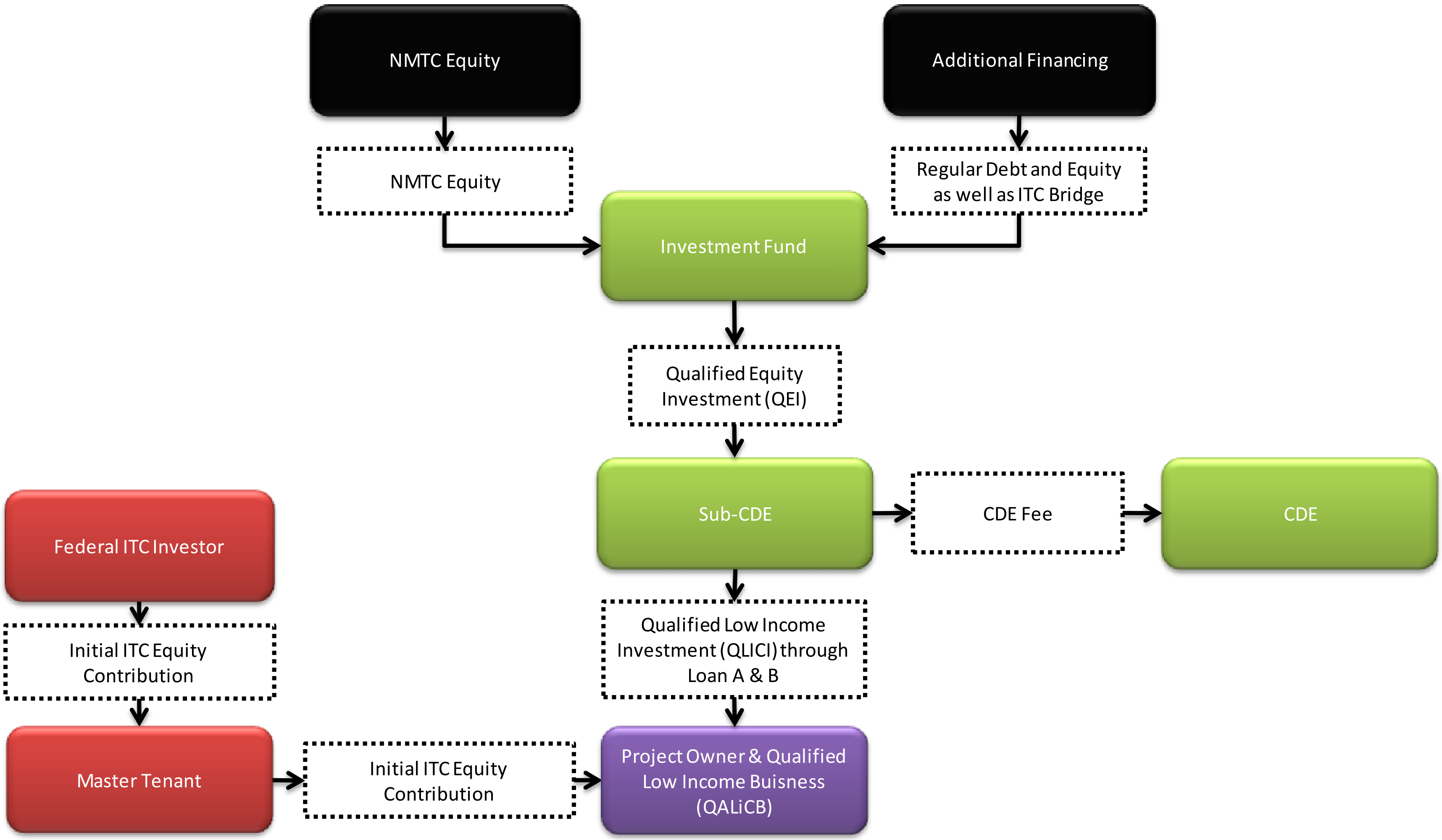
Sample Transaction – Solar Project

- Developer through the Energy Property Owner obtains long term roof lease rights and installs solar panels on the roofs of a retail store.
- The ITCs are being acquired by the ITC Investor through the Master Lease/Lease-Pass-through Structure.
- Energy Property Owner leases the solar energy property to the ITC Investor-owned "Master Tenant" and passes the ITCs through to the ITC Investor.
- Developer "sells" the electricity through the Master Tenant to the Sub Lessee (the retailer in this sample transaction).
- The energy payments from the end user provide the capital necessary for payment of the preferred return and the lease payment owed to the Energy Property Owner.
- Developer serves as managing member and operator of the Energy Property Owner and the Master Tenant.

Leverage NMTC Structure - Diagram



Combined Structure – Diagram



Today's Market Considerations and Pricing

- ARRA Section1603 Grant expired on December 31, 2011.
- Uncertainty about adequate amount of ITC investors in light of expiration of ARRA Section1603 Grant.
- Impact on pricing and economics for projects?
- $3.5 billion of NMTC allocation awarded in February 2012.
- Uncertainty about future of Federal NMTC program – applications for $5 billion of NMTC allocation due September 12th.
- State NMTC Programs
  - Maine
  - Florida
  - Oregon
  - Mississippi

Thank You!

Questions?

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