Funding Sustainable Communities and Alternative Energy Projects

Godfrey & Kahn S.C. Attorneys at Law

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John Clancy

Godfrey & Kahn, S.C.

jclancy@gklaw.com

414-273-3500

Overview

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- Numerous incentives for renewable energy and energy efficiency projects.
- Key issue: maximizing combined value from various overlapping incentives.

Types of Incentives

- Federal, state, and utility grants.
- Renewable energy credits/carbon offsets.
- Tax credits.
- Grants in lieu of tax credits.
- Tax deductions.
- Bond financing opportunities.
- Loan programs.

Federal Grants

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- DOE competitive grants.
- USDA grants, including Rural Energy for America Program.
- U.S. EPA grants, including brownfield, climate showcase community, and others.
- DOI grants, including Indian Energy and Economic Development Program.
- BIA road, water, and wastewater grants.

HUD Grants

- Indian Community Development Block Grant.
- Indian Housing Block Grant.
- Rural Innovation Fund.

State Grants

- Public benefits programs.
  - Energy efficiency grants.
  - Renewable energy grants.
- Contact local utility or public utility commission regarding your state's public benefits programs.
- Other grants through departments of commerce and/or departments of natural resources/environmental protection.

Utility Grants and Tariffs

- Many electric/natural gas utilities provide grants for renewable energy and energy efficiency projects.
- Many also provide special buy-back tariffs for renewable energy production.

RECs and Offsets

- RECs are the green attributes of renewable energy.
- Can be separately sold from “brown” energy.
- Carbon offsets also can provide value for green projects.

Tax Credits and Deductions

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- The tax code has many incentives for renewable energy and, to a lesser degree, energy efficiency projects.
- A key issue is often structuring the development to get the tax incentives to those who can use them.

Energy Credits from Renewable Sources

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Energy Source	Credit	When is Credit Claimed?	Expiration	30% ITC Election in Lieu of	Grant in lieu of PTC or ITC - Placed in service 2009 to 2011 or begin construction by 12/31/11 and In service by:
Wind - PTC	2.1 cents per kwh*	10 years	12/31/2012	2009 through 2012	1/1/2013
Closed-loop biomass - PTC	2.1 cents per kwh*	10 years	12/31/2013	2009 through 2013	1/1/2014
Geothermal - PTC	2.1 cents per kwh*	10 years	12/31/2013	2009 through 2013	1/1/2014
Open-loop biomass - PTC	1.0 cent per kwh*	10 years	12/31/2013	2009 through 2013	1/1/2014
Landfill gas - PTC	1.0 cent per kwh*	10 years	12/31/2013	2009 through 2013	1/1/2014
Qualified hydropower – PTC	1.0 cent per kwh*	10 years	12/31/2013	2009 through 2013	1/1/2014
Marine and hydrokinetic – PTC	1.0 cent per kwh*	10 years	12/31/2013	2009 through 2013	1/1/2014
Solar, fuel cell, small wind - ITC	30%	Placed in service	12/31/2016	N/A	1/1/2017
Geothermal, gas microturbine, cogeneration - ITC	10%	Placed in service	12/31/2016	N/A	1/1/2017

*Indexed for inflation

Production Tax Credit

- 1.1 – 2.2¢ per kWh of energy produced from certain renewable resources.
- 10 years beginning on date facility is placed in service.
- Facility must be placed in service before certain dates.

Investment Tax Credit

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- 10% or 30% of basis in certain renewable energy property.
- Property must be placed in service before certain dates.

ITC in Lieu of PTC

- New concept introduced by ARRA.
- If project is eligible for PTC, it is also eligible for ITC, at 30%.
- Choice will depend on renewable resource, level of power production, level of capital cost.

Credits: Monetization Strategies

- Both PTC and ITC can be monetized through a “partnership flip” structure.
- ITC can potentially be monetized through a sale-leaseback structure or inverted lease.

Monetization Structures

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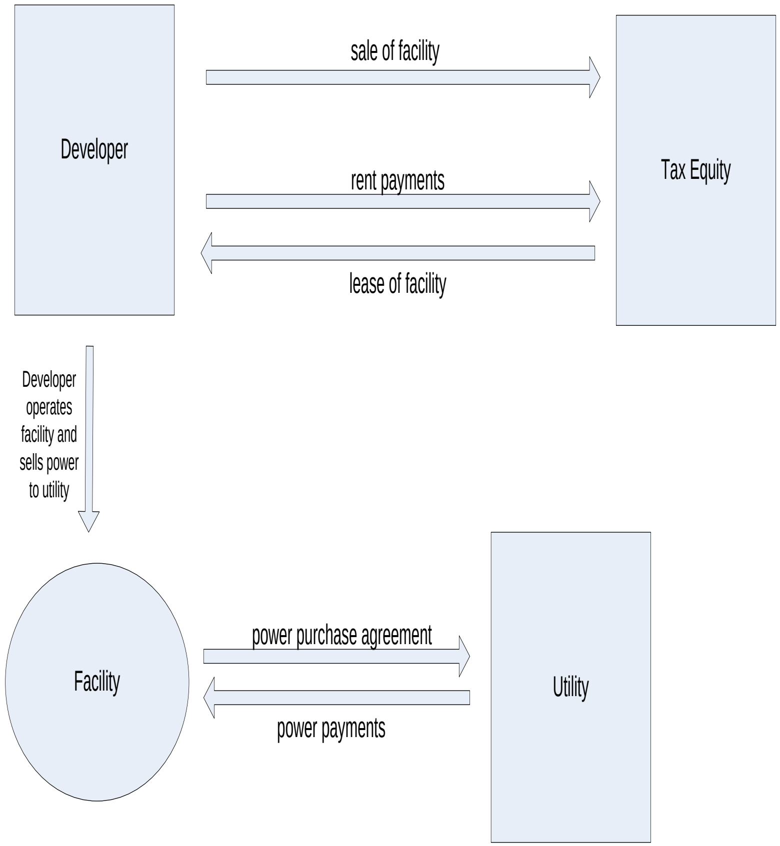
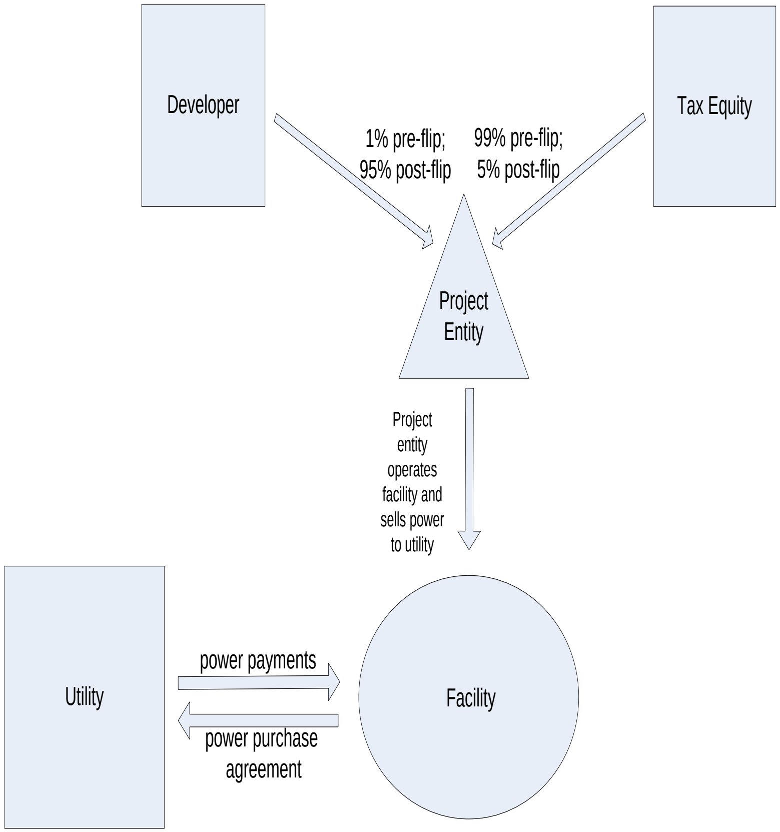
Sale/Leaseback



Partnership Flip



Credits: Problems and Pitfalls

- Who buys the credits? Need C corporations with tax liability or individual investors with passive income.
- Small pool of investors leads to demand for high ROI.

Treasury Grants

- New concept introduced by ARRA.
- Cash grant from Treasury in lieu of PTC or ITC.
- 10% - 30% of basis.
- Begin construction or meet 5% safe harbor by end of 2011.
- In service by PTC/ITC date.
- Key problem: tribes cannot receive these grants.
- Potential solution: formation of Tribally-owned C-Corp.

New Market Tax Credit

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- Less “traditional” credit for renewable energy projects.
- Project must be in qualified low-income community or hire lower income workers.
- Below-market financing from CDE or essentially free equity for project.
- Investors in CDE get 39% credit.

Bond Financing

- Renewable energy projects can be financed with tax credit bonds.
- Two types: CREBs and ECBs.
- Tax credit bonds entitle holders to tax credits – rate set by Treasury.
- ARRA allows for “double dipping” – CREBs/ECBs and ITC.

Clean Renewable Energy Bonds

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- First introduced in 2005 - $800m.
- $800m more authorized in 2008; ARRA authorized additional $1.6b.
- $800m to governmental entities, $800m to electric cooperatives, $800m to utilities.
- Used to build PTC-eligible facilities.
- All $2.4b of CREBs have been allocated, but proposals have been made to authorize additional amounts.

Energy Conservation Bonds

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- First introduced in 2008 - $800m.
- ARRA authorized additional $2.4b.
- Much broader array of projects.
- Automatically allocated amongst states; 30% of allocation can finance private activities.

Loan Guarantees

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- DOE, USDA, BIA, and other agencies provide loan guarantees for certain green energy and other projects.
- DOE provides largest potential guarantees, but other programs may be more simple to use.
- States often also provide loan guarantees and/or low-interest loans.

Questions