

# Renewable Energy Tax Incentives Program

- Calendar Year 2013 Annual Report

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## Incentive Overview

The Renewable Energy Tax Incentive Program (“RETIP”) was established to encourage business investments that produce high-quality employment opportunities and enhance Arizona’s position as a center for production and use of renewable energy products. The program accomplishes this goal by providing tax incentives to businesses in the solar, wind, geothermal and other renewable energy industries expanding or locating in Arizona.

*The following is a brief summary of the two tax incentives provided under RETIP:*

### 1) REFUNDABLE INCOME TAX CREDIT

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#### **Who is eligible? How does my company qualify?**

Businesses making new qualifying investments in manufacturing and/or headquarters facilities in Arizona renewable energy industries are eligible for a tax credit if they meet the following requirements:

- At least 51% of the net new full-time employment positions at the facility are paid a wage that is 125% or more than the state’s annual median wage, and
- The business pays 80% of the employee’s health insurance costs for all net new full-time employment positions at the facility.

#### **What is the amount of tax credits available under the RETIP program?**

Qualifying businesses may receive a refundable tax credit of up to 10% of the total qualifying investment (not to exceed \$30,000,000 per taxpayer per year) for projects that meet the following employment requirements:

- **For renewable energy manufacturing operations:** At least one and one-half new full-time employment positions are created for each \$500,000 increment of capital investment. **1.5 new FTE / \$500,000**
- **For renewable energy business headquarters:** At least one new full-time employment position is created for each \$200,000 increment of capital investment. **1 new FTE / \$200,000**

If the business is eligible, the Arizona Commerce Authority (“Commerce”) will issue pre-approval and reserve tax credits for the applicant-business. Once the facility “begins operations” the applicant-business must enter into a “written managed review” with Commerce and a third party CPA. Following the managed review, the applicant-business can apply to Commerce for post-approval. If the applicant-business receives post-approval from Commerce, the tax credits are claimed with the Arizona Department of Revenue in five equal annual installments.

### 2) REAL AND PERSONAL PROPERTY TAX REDUCTION

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#### **Who is eligible? How does my company qualify?**

All real and personal property primarily dedicated to renewable energy manufacturing and/or headquarters operations can be reclassified as Class 6 property, which is approximately a 75% annual savings in property taxes. Businesses making new qualifying investments of \$25 million or

more in manufacturing and/or headquarters operations in Arizona in renewable energy industries are eligible for:

- **10 years** of property tax savings, if the business pays at least 51% of the net new full-time employment positions between 125% and 199% of the state’s annual median wage, or
- **15 years** of property tax savings, if the business pays at least 51% of the net new full-time employment positions at least 200% of the state’s annual median wage.

There is no limitation on the amount of property tax savings available to a qualified business in any calendar year under RETIP. Property tax benefits, however, cannot be claimed until a project is operational.

## Reporting Requirements

Under A.R.S. § 41-1511(U) and (V), Commerce is required to prepare and publish an annual report on RETIP, no later than April 30 of each year, with the following information:

1. The name of each renewable energy business and the amount of income tax credits pre-approved for each qualifying investment,
2. The amount of credits post-approved with respect to each qualifying investment,
3. A percentage comparison of (i) the annual amount of monies exempted or credited by Arizona to qualifying renewable energy businesses in relation to (ii) the estimated amount of monies spent in Arizona in the form of qualifying investments, and
4. Data on growth in Arizona of renewable energy businesses and industry employment and wages.

## Calendar Year 2013 Business Activity

In combination with the Qualified Facilities Tax Credit Program (A.R.S. § 41-1512), Commerce is authorized to pre-approve refundable tax credits of up to \$70,000,000 each calendar year between 2013 through 2019. Details on the amounts pre-approved under the Qualified Facilities Tax Credit Program can be viewed on our website at [www.azcommerce.com](http://www.azcommerce.com).

I) Pre-Approvals.

During 2013, Commerce received one application for pre-approval from a renewable energy company.

Renewable Energy Company	Tax Credits Reserved (Pre-Approved)	Status
Dalsin Industries, Inc.	\$351,000	Pre-Approved

II) Post-Approvals.

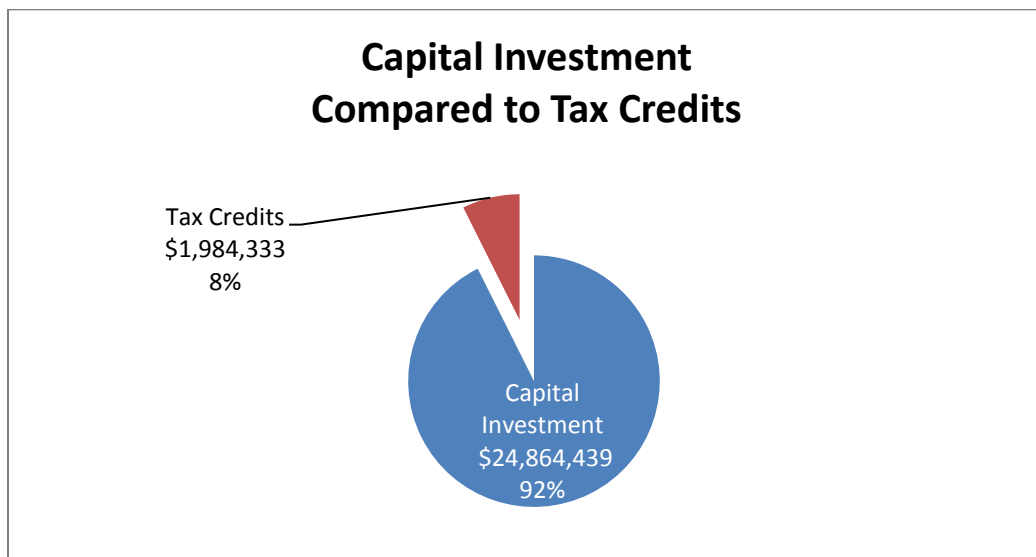
During 2013, Commerce received one application for post-approval. Based on audit findings performed by an independent third party CPA, Gestamp Solar Steel received post-approval. Gestamp Solar Steel received pre-approval in CY2012 reserving up to \$2,700,000 in tax credits for the project.

Renewable Energy Company	Tax Credits Reserved (Pre-Approved)	Tax Credits Awarded (Post-Approved)
Gestamp Solar Steel	\$2,700,000	\$1,633,333

## Comparasion

Based on the data provided by the pre-approved applicant-business and the post-approved applicant-business, tax credits represent 8% of the anticipated qualifying investment in new and expanding renewable energy facilities (\$1,984,333 in tax credits / \$24,864,439 of capital investment).

The comparison above is based on the estimates submitted by the applicant-business at the time of pre-approval and the actual submitted by the applicant-business at the time of post-approval. A true comparison based on the actual dollar amounts of tax credits claimed is unavailable until post-approvals are obtained and tax returns are submitted to the Arizona Department of Revenue following commencement of each of the facilities. (The post-approved tax credit dollar amount may be less than the pre-approved amount but never higher.)



## Industry Growth Data

Arizona has the second highest installed solar energy capacity in the nation with 1,822 MW of capacity. Arizona **installed 701 MW of new solar electric capacity** in 2013. There are over 280 solar companies in Arizona accounting for 4.7% of the nation’s total solar companies. The Arizona solar industry employs approximately 8,558 people, 6% of the nation’s total solar jobs, despite being only the 15<sup>th</sup> most populous state.

The solar energy industry in Arizona is characterized by (i) high investment and (ii) a growing customer base due to decreasing prices in installation costs and increased efficiency of solar technology. Nationally, average installed residential and commercial photovoltaic system **prices** have dropped steadily – by 12% from last year and 31% since 2010. In 2013, **\$1.3 billion was invested in Arizona** to install solar on homes, businesses and utility.

In 2006, the Arizona Corporation Commission adopted the Renewable Energy Standard and Tariff (REST). The REST rules require that regulated electric utilities generate a specified percent of their total energy from renewable energy technologies: as reflected by the chart below, by 2025, regulated utilities must generate at least 15% of their total energy from renewable energy technologies. The REST rules also require a growing percentage of the total renewable energy resource portfolio to come from distributed generation (i.e., residential or non-utility owned installation); as reflected in the chart below beginning in 2011, at least 30% of the total renewable energy resource portfolio must come from distributed generation.

Requirements for ACC Regulated Electrical Utility Companies		
Year	Total Renewable Energy Requirement	Distributed Energy Requirement*
2010	2.50%	20%
2015	5%	30%
2020	10%	30%
2025	15%	30%

\*Percentage of total renewable energy requirement

Source: Arizona Corporation Commission

The REST mandates will potentially further propel Arizona startup and expansion of renewable energy companies.

### Forecast:

A report released by the Solar Foundation in February 2014 projects that over one-third of Arizona solar firms will add employees by November 2014 (34.1%) and only 5.3% are expected to shed workers statewide. This represents the addition of 475 solar jobs. Arizona is expected to have a planned new renewable energy capacity of 3,735 MW by 2025.

Arizona Solar Employment Forecast			
Sector	2013 Jobs	2014 Projected Employment	Projected Growth Rate
Installation	3,311	3,465	4.6%
Manufacturing	1,465	1,172	-20.0%
Sales and Distribution	1,472	1,705	15.8%
Project Development	1,874	2,152	14.8%
Other	436	540	23.7%
<b>Total</b>	<b>8,558</b>	<b>9,033</b>	<b>5.6%</b>

Source: Arizona Solar Jobs Census 2013, February 2014

### Upcoming Projects:

A variety of solar energy projects have recently been completed in Arizona, most notably the Solana CSP 280 MW facility. Currently Arizona's largest operating solar electric project, the Solana plant is estimated to have created more than 2,000 new jobs, and to have supported a large number of indirect jobs, since construction began in late 2010. A number of large solar energy installation projects in Arizona have been announced in recent years and are currently underway. These projects show progression within the industry.

Major Solar Projects Under Construction/ Development in Arizona						
Developer	Project Name	Electricity Purchaser	City/ County in Arizona	Date Announced	Capacity (MW)	Status
Arizona Public Service	Foothills Solar Plant	Arizona Public Service	Yuma County	Apr-12	18	Under Construction
Gehrlicher Solar American Corp	Rio Rico Phase 2	Unisource Energy Services	Rio Rico		3	Under Construction
Solon		Unisource Energy Services	Kingman		1	Under Construction
SunEdison	Chino Valley Solar Plant	Arizona Public Service	Chino Valley		20	Under Construction
Albiosa	Kingman Project		Kingman	2009	200	Under Development
Arizona Public Service	Hyder Solar Plant II	Arizona Public Service	Hyder	Sep-12	14	Under Development
Arizona Public Service	Gila Bend Solar	Arizona Public Service	Gila Bend		32	Under Development
Arreva	TEP's Sundt Boost Project	Tucson Electric Power	Tucson	Jan-12	5	Under Development

**Major Solar Projects Under Construction/ Development in Arizona**

<b>Developer</b>	<b>Project Name</b>	<b>Electricity Purchaser</b>	<b>City/ County in Arizona</b>	<b>Date Announced</b>	<b>Capacity (MW)</b>	<b>Status</b>
Element Power	Sun Streams Solar Farm		Maricopa County		150	Under Development
GSW Technologies	Florence Solar Farms		Florence		6	Under Development
LS Power	Arlington Valley Solar Project		Arlington	2008	125	Under Development
Matinee Energy			Dragoon		150	Under Development
Matinee Energy			Cochise County		25	Under Development
Mohave Sun Power	Hualapai Valley Solar Project		Mohave County		340	Under Development
NextEra Energy Resources	Sonoran Solar Energy Project		Maricopa County	2007	300	Under Development
OHL Industrial	Picture Rocks Solar Farm		Picture Rocks	Nov-12	200	Under Development
Pacific Blue Energy Corporation	Sunshine Solar Farm		Coconino County		20	Under Development
Recurrent Energy	RE Hassayampa I		Maricopa		20	Under Development
Solar Electric Solutions	San Luis Solar	Arizona Public Service	San Luis	Dec-12	20	Under Development
SolarReserve	Quartzite Solar Energy Project		La Paz County		100	Under Development
SolarReserve	Crossroads Solar Energy Project		Gila Bend	2011	65	Under Development
SolarReserve	Crossroads Solar Energy Project		Gila Bend	2011	150	Under Development
	Solar 1	Arizona Public Service	Tonopah		15	Under Development

Source: Solar Energy Industries Association "Major Solar Projects in United States", March 6<sup>th</sup> 2014