

Tax Credits & Financing for Energy Efficiency & Renewable Energy Projects

Presented by:

U.S. Green Building Council
Organizing Group



Federal Tax Credits

- Renewables
 - Tax Credit equal to 30% of costs with no upper limit:
 - Solar energy systems, residential wind turbines, geothermal systems
 - Tax Credit equal to 30% of costs up to \$500 per .5 kW of power capacity:
 - Fuel cells
 - These credits apply to existing home retrofits and new construction and expire on December 31, 2016



Federal Tax Credits

- Energy Efficiency



- Tax Credit equal to 30% of costs up to \$1,500:
 - Biomass stoves, HVAC, Insulation, Roofs, Water Heaters, Windows & Doors
- Installation costs included in credit for some products (i.e., biomass stoves and HVAC)
- These credits apply *only* to retrofits of the applicant's principal residence and expire on December 31, 2010

Federal Tax Credits

Additional Credits

- **Commercial Properties**

- Businesses can take a tax deduction (up to \$1.80 per square foot) for new or renovated buildings by reducing the energy costs associated with three components—lighting system; building envelope; and heating, cooling and water heating equipment.
- For solar installation, business can take their tax credit as a grant from the federal government and receive cash in hand as well as accelerated depreciation (5-year MACRS)

- **Home Builder Credit**

- Home builders are eligible for a \$2,000 tax credit for a new energy efficient home that achieves 50% energy savings for heating and cooling over the 2004 IECC. At least 1/5 of the energy savings must come from building envelope improvements.
- There is also a \$1,000 tax credit to the producer of a new manufactured home achieving 30% energy savings for heating and cooling over the 2004 IECC and supplements (at least 1/3 of the savings must come from building envelope improvements), or a manufactured home meeting the requirements established by EPA under the ENERGY STAR program.
- This credit expired on December 31, 2009 but is likely to be reinstated.

- **Energy Star Appliance Rebates**

- See handout for federal appliance rebates.
- Also, all states have enacted rebate programs for energy star appliances that will be discussed in later slides.

West Virginia State Tax Credits



Where's the incentives?

- Renewables

- Solar Tax Credit

- 30% of the cost to purchase and install the system; capped at \$2,000. Eligible technologies include systems that use solar energy to generate electricity, heat or cool a residence, or provide hot water or solar process heat for use in the residence

- Appliance Rebates

- Mail in rebate program tentatively set to begin in April 2010 for certain Energy Star[®] Appliances

- Refrigerators, Dishwashers, Clothes Washers & Room Air Conditioners

Financing Energy Projects

- Energy Efficient Mortgage ("EEM")

- An Energy Efficient Mortgage is a mortgage that credits a home's energy efficiency in the mortgage itself. EEMs give borrowers the opportunity to finance cost-effective, energy-saving measures as part of a single mortgage and stretch debt-to-income qualifying ratios on loans thereby allowing borrowers to qualify for a larger loan amount and a better, more energy-efficient home.
- To get an EEM a borrower typically has to have a home energy rater conduct a home energy rating before financing is approved. This rating verifies for the lender that the home is energy-efficient. EEMs are typically used to purchase a new home that is already energy efficient such as an ENERGY STAR qualified home.

- Energy Improvement Mortgage ("EIM")

- An Energy Improvement Mortgage is generally used to purchase existing homes that will have energy efficiency improvements made to them. EIMs allow borrowers to include the cost of energy-efficiency improvements to an existing home in the mortgage without increasing the down payment. EIMs allow the borrower to use the money saved in utility bills to finance energy improvements.

Home Star Program

- HOME STAR is a proposed federal program that would provide direct incentives to American homeowners who invest in improving the energy efficiency of their homes.
- **\$1000-1500 Silver Star rebates**
 - Consumers can receive between \$1000 and \$1500 for each retrofit, with a benefit not exceeding \$3,000 or at least 50% of total project costs (whichever is less).
 - Eligible measures include insulation, duct sealing, water heaters, HVAC units, windows, and doors.
- **\$3000 Gold Star rebates**
 - Consumers interested in whole home retrofits would be eligible for up to \$3000 for a comprehensive energy audit and retrofits tailored to achieve a 20% energy savings in the home. Consumers can receive additional incentives for energy savings higher than 20%. The Gold Star rebate program would build on existing whole home retrofit programs, such as EPA's Home Performance with Energy Star program and DOE's building programs.
- **Direct Rebates**
 - For eligible measures, consumers are eligible for direct rebates at the point of sale.



PACE Bonds

- Property Assessed Clean Energy (“PACE”) Bonds are financing tools which allow municipalities to offer low-interest loans to homeowners and business owners for energy efficiency retrofits and/or the installation of renewable energy systems.
- **How It Works:**
 - State enabling legislation allows for special municipal taxing districts
 - Municipality (city or county) creates a special “PACE” district
 - “PACE” district issues a “PACE” master bond
 - Commercial/residential real estate owners apply for PACE funds to install hyper energy efficiency measures and renewable energy production (e.g. solar)
 - PACE funding treated as senior “property tax lien” and repaid by real estate owner over 20 years as annual property tax surcharge
- **Benefits to Property Owner:**
 - Elimination of “up-front” cost barrier
 - Costs “run with the property”
 - Positive cash flow on retrofits (annual savings>cost) which frees up household income for mortgage payments
 - Lower energy bills and lower vulnerability to spikes in energy price

RENEWABLE  FUNDING



PACE NOW



PACE Bonds

Example

- Building owner has utility costs of \$20,000. An energy audit concludes that a \$300,000 investment in energy retrofits would bring monthly utility bills down to \$13,000.
- Owner takes a \$300,000 loan from the City's PACE program and retrofits the building. Owner repays the loan over 20 years through an increase in the building's annual property taxes – at an 8% interest rate, that means additional property taxes of \$1,400 per month. Owner achieves positive cash flow from Day 1.
- Investors in PACE Bond have a secured interest in the property that will survive foreclosure because it is a senior lien (it is technically a property tax surcharge).
- Politicians like the PACE Bond because it only raises taxes for the property owner that chooses to take part in the program and it means more construction employment in his or her district.

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