



The Oregonian

Tax breaks turn solar power into cold cash

Green - The state makes it easy to switch to alternative energy; critics say the cost to public coffers is too much

Sunday, March 16, 2008

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Tax breaks and cash rebates have done what the most gung-ho green talk has not: ignited a solar power boom in Oregon.

Oregon officials expect the amount of solar power in the state to jump more than eightfold this year as businesses, nonprofits and government agencies install rooftop and ground-mounted photovoltaic systems at record rates.

The surge is courtesy of the taxpayer, who foots the bill in this effort to go green.

Beefed-up state and federal incentives make building solar almost irresistible. A business can recoup an investment in a million-dollar array in five years, then post thousands of dollars annually in electricity savings. A little extra icing: The installations are exempt from property taxes through 2012.

Nonprofits and government entities are equally enthusiastic. They're allowed to transfer the incentives to investors on the hunt for tax breaks, then put up a solar array for little if any out-of-pocket expense.

"It's not just for do-gooders," said Christopher Dymond, a senior energy analyst with the Oregon Department of Energy. "There's actually a financial reward, and that's what drives industry."

The red-hot response underscores Gov. Ted Kulongoski's claims that he can strengthen the economy as he does battle with climate-warming carbon dioxide emissions. More solar installers, engineers, designers and investors, the thinking goes, fatten company payrolls just as other parts of the economy are weakening.

But the solar push highlights how crucial subsidies have become to the clean-energy calculation. Solar systems are expensive, three times the cost of wind energy, for example. A business, no matter how green its rhetoric, isn't likely to invest seriously in solar unless it can find assistance, state officials and industry leaders say.

Skeptics don't like the size of the subsidies, which are expected to reduce the state budget by almost \$96 million annually by 2013 -- money that otherwise would be available for schools, health care and other government-funded services.

Besides, they note, even such furious development isn't going to make solar energy a significant part of the state's overall power supplies anytime soon.

"It's window dressing," said Jeff King, a senior resource analyst with the Northwest Power and Conservation Council who tracks the region's power supplies and finds solar just a blip -- well under 1 percent -- in the accounting. "If the objective is to reduce CO₂, there are better ways to do it."

Cashing in on tax breaks

A south-facing rooftop in Northeast Portland stretches as big as two football fields. It's a perfect setup for solar, and soon it's going to get it -- 4,800 solar modules with an 870-kilowatt capacity.

Once the power starts flowing, the solar array will be the largest in the state -- almost double the size of the current record-holder. It will increase the state's solar capacity by 35 percent.

The modules will produce an estimated 870,000 kilowatt hours of electricity annually, despite Portland's cloudy weather. That's enough to meet all the electricity demands of the 110,000-square-foot manufacturing building or enough to light up 72 average Portland homes.

That's a lot of light bulbs. It's also a lot of intricate financing.

Portland Habilitation Center, which trains and employs individuals with disabilities, is a nonprofit that doesn't pay taxes and is hardly flush with cash. John Murphy, the organization's president, knew he wanted to go solar when he began planning for a new manufacturing facility 18 months ago. But he quickly realized that a \$7 million price tag and restrictive utility rules blocked his way.

"A whole lot of laws and regulations had to change to make it happen," Murphy said.

By this year, an expanded state tax credit -- 50 percent of eligible costs spread over five years -- had settled into place. So had utility regulations that allowed projects as big as 2 megawatts to hook into the main grid.

Energy Trust of Oregon Inc., funded by payments from Portland General Electric and Pacific Power customers, offered custom grants -- more than \$1 million for the habilitation center.

A 30 percent federal tax credit -- taken entirely in the first year -- and accelerated depreciation schedules topped off the available incentives.

To tap the rich pool of tax credits, the center began looking for an outside investor, a corporate taxpayer eager to reduce its payment to the IRS. Eventually, a deal with U.S. Bank Community Development Corp., one of the largest tax credit investors in the country, began to take shape.

The nonprofit will end up putting about \$556,000 into the deal. The investor will take care of the rest. It will own the project and, therefore, be able to use all the tax breaks. It expects to make 7 percent to 10 percent annually on its money.

U.S. Bank Community Development will sell the power to the habilitation center for about 7 cents a kilowatt hour, but the tax breaks are what make the deal a moneymaker.

In six years, after the incentives have played out, the nonprofit can regain ownership in what has become known as the "flip" financial model. From then on, the Portland Habilitation Center gets its solar power for free, saving about \$75,000 annually in electricity costs.

"We wanted to own it," Murphy said. "This is the way to make it financially viable."

Oregon is considered a testing ground for this financing technique for solar projects.

But the "flip" is not the only way for nonprofits or government agencies to get a solar deal done. They can contract with companies that specialize in financing and selling renewable energy, agreeing to buy the power on a long-term, 20-year contract. Here, too, the company gets the tax credits and the tax-exempt entity gets the solar energy. Unlike the flip model, ownership remains with the energy provider.

Public officials praise this arrangement. They don't have to come up with any cash for construction; their only obligation is to buy the power at a set rate with an annual increase of between 2 percent and 4 percent. The best part, they say, is the ability to rely on OPM -- other people's money.

Honeywell Energy Services has jumped into this niche, sealing deals with Hillsboro, Medford, Pendleton

and Lewis & Clark College.

Boom could go bust

The solar surge has been a boon to a wide variety of companies, from the developers and consultants who package the deals to the installers who erect the modules.

"I've never seen anything like it," said Len Ralston, renewable energy project manager for Dynalectric Oregon, which will install the Portland Habilitation Center's panels.

Clean energy advocates applaud the growth, arguing that the state is on track to become a national leader in the advancement of solar energy. "Green-collar" jobs will add thousands of workers to the employment ranks, they say, and that means more taxpayers, who will more than make up for losses tied to the tax credits.

Critics counter that businesses and the industries they strengthen shouldn't have to rely on government largesse to survive, especially at the expense of state services.

State revenue officials expect the annual cost of the renewable energy credits to plateau at \$95.6 million in 2013. That's about 1 percent of the total general fund projection for that year. Put another way, it means about \$50 per tax-filer will be used to pay for those tax credits.

The debate has yet another wrinkle. The federal tax credit will drop from 30 percent to 10 percent at the end of the year unless Congress passes an extension. Advocates are confident of eventual revival, but acknowledge that delays could mean the solar boom goes bust for a while.

"We've cut back to projects we know we can absolutely finish by the end of the year," said Sandra Walden, director of Commercial Solar Ventures, which specializes in matching up tax-exempt entities and tax-paying corporations. "Everything else is on hold or has been dropped."

In short, she said, "We need government support that's consistent."

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