

Renewable Energy Tax Incentives Program

- Calendar Year 2017 Annual Report

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ARIZONA
COMMERCE AUTHORITY

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Incentive Overview

The goal of the Arizona Renewable Energy Tax Incentive Program (RETIP) is to encourage business investment that will 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 incentives provided under the RETIP program:

1) REFUNDABLE INCOME TAX CREDIT¹

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 of 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.

Qualifying businesses may receive a refundable tax credit of up to 10 percent of the total qualifying investment 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**

Once a project is operational, the tax credits are claimed by a qualifying business in equal annual installments over a five-year period. The amount of annual tax credits available under the RETIP program is currently "capped" at \$70 million per year. This cap is shared with the Qualified Facility Program.²

2) REAL AND PERSONAL PROPERTY TAX REDUCTION

All real and personal property primarily dedicated to renewable energy manufacturing and/or headquarters operations can be reclassified as Class 6 property, effectively constituting a greater than 75 percent annual savings in property taxes. Businesses making new qualifying investments of \$25

¹ The income tax credit part of RETIP sunsets on 12/31/2017.

² Beginning in Calendar Year 2018, the \$70 million cap is no longer shared with the RETIP and will all be available for Qualified Facility credits.

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 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 annual median wage.

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

Reporting Requirements

Pursuant to A.R.S. § 41-1511(U) and (V), Commerce is required to prepare and publish an annual report, not later than April 30 of each year, providing the following Program information in respect to the preceding calendar year:

1. The name of each renewable energy business receiving pre-approval and the amount of income tax credits pre-approved for each business's qualifying investment,
2. The amount of income tax credits post-approved with respect to each qualifying investment,
3. A percentage comparison of (i) the annual amount of monies credited by Arizona to qualifying renewable energy businesses with (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 2017 Program Activity

During calendar year 2017, no pre-approvals or post-approvals of Program income tax credits were issued by Commerce.

Comparison of Program Tax Credits with Qualifying Investments

No activity for the program occurred during calendar year 2017.

During the tenure of the Program, Commerce has issued one post-approval in which the post-approved tax credits represented approximately eight percent of the qualifying investment in new renewable energy facilities: \$1,633,333 in aggregate post-approved credits in relation to \$21,354,439 in aggregate qualifying investment.

Industry Developments

Arizona, ranked seventh in the nation in 2017 for new solar installations based on solar energy capacity, adding 416.6 MW (direct current) of new solar capacity in the year, according to GTM Research and the Solar Energy Industries Association’s U.S. Solar Market Insight. 506,000 homes in Arizona are powered by Solar. The Arizona solar industry employs approximately 8,381 people, representing 3.3 percent of the nation’s 250,271 total solar jobs, per the Solar Foundation.

Employment in Arizona’s solar energy industry increased by 15 percent in 2017, and the Solar Foundation forecasts that employment in the industry will decline by 353 jobs (4%) in 2018.

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 percentage of their total energy from renewable energy technologies. As reflected in the chart below, by 2025, regulated utilities must generate at least 15 percent 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 on-site installation); as reflected in the chart below, beginning in 2011, at least 30 percent 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

Forecast:

Arizona Solar Employment Forecast		
Sector	2017 Employment	2018 Projected Employment
Total	8,381	8,028

Source: Arizona Solar Jobs Census 2017, March 2018

Wages:

Arizona and U.S. Wages		
Position	Arizona Median Wage	U.S. Median Wage
Solar Installer	\$18.00	\$21.00
Solar Sales Representative	\$36.06	\$28.85
Solar System Designer	\$22.00	\$26.92

Source: Arizona Solar Jobs Census 2015, February 2016

* 2016 wage updates not yet available.

Establishments:

Arizona Companies	
Total Solar Companies	432

Source: Arizona Solar Jobs Census 2017, March 2018

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April 30, 2018