

Renewable Energy Tax Incentives Program

- Calendar Year 2012 Annual Report

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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 CREDIT

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 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.

2) REAL AND PERSONAL PROPERTY TAX REDUCTION

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, effectively constituting a 75 percent 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 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

A.R.S. § 41-1511(V) requires that the Arizona Commerce Authority (“Commerce”) prepare and publish an annual report of the information collected under the RETIP program no later than April 30 of each year. The statute requires inclusion of the following:

1. The information provided on applications for renewable energy businesses. This information must include 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
2. Data on growth in Arizona of renewable energy businesses and industry employment and wages.

Information gathered from a renewable energy business is considered confidential taxpayer information, except that Commerce must publish the following information in its annual report:

1. The name of each renewable energy business and the amount of income tax credits pre-approved for each qualifying investment, and
2. The amount of credits post-approved with respect to each qualifying investment.

Calendar Year 2012 Business Activity

Commerce received three applications from renewable energy companies during calendar year 2012, as detailed in the chart below. The three applications received pre-approval from Commerce for \$5.3 million in refundable tax credits from the calendar year “cap” of \$70 million. According to information provided in the applications, the pre-approved companies anticipate spending \$84.8 million in qualifying capital investment for the three manufacturing facilities involved. Once the projects become operational, the pre-approved companies estimate they will employ 289 full-time employees.

Priority Placement Number	Renewable Energy Company	Total Est. CapX	Est. Qualified CapX	Total Est. FTEs	Est. QEPs	Tax Credits Reserved	Status
RE0012012	Gestamp Solar Steel US Inc.	\$29.0M	\$27.2M	112	60	\$2.7M	Pre-Approved
RE0022012	Cosma Power Systems, LLC	\$12.0M	\$12.0M	72	20	\$1.2M	Pre-Approved
RE0032013	Rioglass Solar, Inc.	\$46.7M	\$45.6M	105	22	\$1.4M	Pre-Approved
TOTALS			\$84.8M			\$5.3M	

Comparative

All figures below are based on the estimates submitted by the companies at the time of their applications. Actual dollar amounts of tax credits will be unavailable until tax returns are submitted to the Arizona Department of Revenue upon completion of the renewable energy projects. The amount of tax credits post-approved may be smaller than the pre-approved amounts if the tax credits are not claimed and refunded or if actual qualified expenditures are less than anticipated.

Type of Incentive	Incentive Amount	Estimated Expenditures
Tax Credits	\$5,300,000*	\$84,800,000 AZ costs
Property Tax Reductions	Eligible**	\$84,800,000 AZ costs

* A.R.S. § 41-1511(J) establishes the limit on the amount of tax credits that can be approved.

** Property tax reduction amounts are unknown until the Arizona Department of Revenue begins collection of data, which is generally the year following the reclassification.

Until a pre-approved company completes its project and applies for post-approval, Commerce is unable to provide a true economic and fiscal impact statement of the actual return on investment for the RETIP program.

However, at this time, based on estimates provided by the pre-approved companies, for every \$1 of pre-approved tax credits in 2012, \$16 is projected to be spent in Arizona on qualifying investments. Stated differently, pre-approved credits in 2012 presently represent 6.25% of the anticipated qualified investment in renewable energy facilities in Arizona (\$5.3M in pre-approved credits/\$84.8 M of anticipated Arizona renewable energy qualified investment).

Industry Growth Data

Nationwide, Arizona is the leader in installed solar electric watts per capita, with over 980 solar establishments which account for 5.7% of the nation's total solar establishments. Solar employment in Arizona is estimated to account for approximately 5,265 jobs representing 4.8% of the nation's total solar jobs. The total economic output of both direct and indirect renewable energy in Arizona in 2012 is estimated to exceed \$1.1 billion.

The solar energy industry in Arizona is characterized by (i) high investment and (ii) a growing customer base due to decreases in the price of installation resulting from lower capital costs and increased efficiencies of solar companies. In 2012, \$590 million was invested in Arizona to install solar energy devices on homes and businesses. In 2012, average installed residential and commercial photovoltaic system prices in Arizona fell approximately 20% from the preceding year, outpacing the decline in national prices which have also dropped steadily--by 14% from 2011 and 31% from 2010. In 2012, Arizona installed 710 MW of solar electric capacity including 256 MW in the fourth quarter of 2012. This marks a 33% increase over the preceding quarter and a 41% increase from the same quarter in 2011.

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 in 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 installations); 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	5.00%	30%
2020	10.00%	30%
2025	15.00%	30%

*Percentage of total renewable energy requirement

Source: Arizona Corporation Commission

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

Solar Industry:

The Solar Foundation’s 2012 report ranked Arizona number one in the Mountain region for solar installations, solar manufacturing, sales and product development. Nationwide, Arizona is 5th in the number of solar installations, 8th in number of manufacturing firms, 3rd in sales and distribution and 6th in product development.

Renewable Energy’s Impact in Arizona:

A February 2012 economic impact study by Elliott D. Pollack & Company provides an insightful look into the renewable energy sector’s impact on Arizona’s jobs, wages, and output. The study found that manufacturers and installers comprise the largest portion of the renewable energy sector. The study further reflected that operating renewable energy companies were responsible for a total of some 9,453 jobs within Arizona in 2011 which paid more than \$417 million in wages and generated an overall economic output of more than \$1.1 billion.

Operating Companies			
Impact Type	Jobs	Wages (millions)	Economic Output (millions)
Direct	5,265	\$237.47	\$585.53
Indirect	1,699	\$77.01	\$214.69
Induced	2,489	\$102.72	\$304.64
Total	9,453	\$417.20	\$1,104.86

Source: Elliott D. Pollack & Company

The Pollack study also reflected that Arizona commenced 9 major scale solar projects and 2 wind projects in 2011. Given the significant amount of equipment and components built of out of state or out of country, the study found that the greatest impact of utility-scale operations is the construction induced by the project.

Utility-scale projects were responsible for 6,460 jobs to Arizona in 2011; together with operating companies and operation and management companies, the total number of Arizona jobs associated with the renewable energy industry in 2011 exceeded 16,000. The Pollack study found the total economic impact of renewable energy (including operating companies, operation and management companies and utility-scale projects) in Arizona in 2011 as follows:

Total Economic Impact			
Impact Type	Jobs	Wages (millions)	Economic Output (millions)
Direct	9,128	\$457.15	\$1,165.82
Indirect	2,922	\$142.11	\$390.33
Induced	4,740	\$195.66	\$580.25
Total	16,790	\$794.92	\$2,136.40

Source: Elliott D. Pollack & Company

Forecast:

Arizona is expected to have planned new renewable energy capacity between 2010 and 2025 of 3,735 MW. Taking into consideration an expansion in the Arizona renewable energy manufacturing base (i.e., more components of projects are built in the State), the projected job impact is as follows:

2010-2025 Forecast		
Utility Scale Employment	AZ Jobs at 30% of Total Capital Cost	AZ Jobs at 60% of Total Capital Cost
Average Annual Utility Scale Direct Employment	1,800	3,600
Average Annual Utility Scale Indirect Employment	481	961
Average Annual Utility Scale Induced Employment	939	1,877
Total Annual Jobs	3,220	6,438

Source: Elliott D. Pollack & Company