

Renewable Energy Tax Incentives Program

- Calendar Year 2014 Annual Report

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Incentive Overview

The Renewable Energy Tax Incentives Program (the “Program”) seeks to encourage business investments that produce high-quality employment opportunities and enhance Arizona’s position as a center for the production and use of renewable energy products. The Program does so by providing tax credits to businesses in the solar, wind, geothermal and other renewable energy industries expanding or locating in Arizona.

In combination with the Qualified Facility Renewable Energy Tax Incentive Program (A.R.S. § 41-1512), the Arizona Commerce Authority (“Commerce”) is authorized to pre-approve refundable income tax credits of up to \$70 million each calendar year between 2013 and 2019. Preapprovals in respect to any taxpayer in any calendar year are limited to \$30 million.

Refundable income tax credits under the Program generally equal the lesser of:

- 10% of the qualified investment made in renewable energy operations, or
- \$33,333 per qualified job associated with renewable energy operations (or \$20,000 per qualified job associated with a renewable energy business headquarters)

A business is eligible for Program tax credits if it:

- 1) Makes a qualifying capital investment in renewable energy operations *and*
- 2) Creates net new employment positions at the facility at least 51% of which are paid a wage equal to or greater than 125% of the Arizona median wage. The net new employment positions must be:
 - a. Full-time and permanent (1,750 hours per year),
 - b. Filled for at least 90 days by an employee who has not worked for the taxpayer within 12 months before the date of hire (other than an employee relocating to Arizona from another state),
 - c. Primarily performed at the facility, and must also
 - d. Offer health insurance at least 80% of the cost of which is paid by the employer.

If a business satisfies the Program’s eligibility requirements, Commerce will issue a “pre-approval” to and reserve tax credits for the applicant-business. After the qualified facility “begins operations,” the applicant-business must enter into a “written managed review” agreement with Commerce that addresses confirmation by a third party CPA of the extent of the business’s investment and job creation. Following the managed review, the applicant-business can then apply to Commerce for post-approval. If the applicant-business receives “post-approval,” the applicant-business may claim Program tax credits with the Arizona Department of Revenue in five equal annual installments.¹

¹ Through December 31, 2014, the Program also authorized Class Six property tax reclassification in respect to the fixed capital assets of a renewable energy operation if the qualifying investment in renewable energy operations was at least \$25 million. No business in calendar year 2014 qualified for the property tax reclassification benefit.

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:

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 2014 Program Activity

I) Pre-Approvals.

During calendar year 2014, no post-approvals of Program income tax credits were issued by Commerce.

II) Post-Approvals.

During 2014, Commerce issued one Program post-approval – that to Dalsin Industries, Inc. relating to post-approval of \$351,000 in Program tax credits.

Comparison of Program Tax Credits with Qualifying Investments

Based on the data furnished provided in the single 2014 post-approval application, post-approved tax credits in calendar year 2014 represented 9% of the qualifying investment in new renewable energy operations (\$351,000 in post-approved tax credits in relation to \$3,838,432 of capital investment).

Industry Growth Data

Arizona, ranked fifth in the nation in solar energy capacity with nearly 2,000 MW of capacity, added 247 MW of new solar electric capacity in 2014. Additionally, Arizona ranked second in the nation in 2014 in the number of homes powered by solar, with solar generating sufficient energy to power nearly 300,000 homes in 2014. There are more than 370 solar companies in Arizona accounting for 4.7% of the nation's solar companies. The Arizona solar industry employs approximately 9,170 people representing 5.3% of the nation's 173,807 total solar jobs.

The solar energy industry in Arizona is characterized by high investment and a growing customer base due to decreasing prices in installation costs and increased efficiency of solar technology. From 2012 through 2014, private companies invested \$15.5 billion in Arizona to install solar devices on homes and businesses and for utilities. Nationally, solar generation capacity increased by 7,200 megawatts.

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 on-site 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 further propel Arizona startup and expansion of renewable energy companies. In addition, an analysis by the Solar Foundation determined that meeting Arizona’s REST rules will save the state approximately 1.3 billion gallons of water each year. Solar energy generation in excess of the REST standards will further reduce water consumption associated with energy generation.

Forecast:

The 30 percent federal solar investment tax credit is scheduled to expire on December 31, 2016. A survey by the Solar Foundation in published in February 2015 found that approximately 35 percent of Arizona solar employers planned to lay off staff and contractors in 2017 if the federal tax credit expires; however, another 17.5 of Arizona solar employers anticipated additional hiring in 2017 despite the scheduled federal tax credit sunset.

Arizona Solar Employment Forecast			
Sector	2014 Jobs	2015 Projected Employment	Projected Growth Rate
Installation	4,831	6,562	35.8%
Manufacturing	1,884	1,970	4.6%
Sales and Distribution	1,362	1,426	4.7%
Project Development	492	512	4.1%
Other	602	632	5.0%
Total	9,170	11,102	21.1%

Source: Arizona Solar Jobs Census 2014, February 2015

Upcoming Projects:

A variety of solar energy projects were recently 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 supported a significantly 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, with a sample list below, show progression within the industry. As of February 23, 2015, there were 63 MW of large solar generating capacity under construction in Arizona and 2,172 MW of large generating capacity projects under development, according to the Solar Energy Industries Association.

Developer	Project Name	City/ County in Arizona	Online Date	Capacity (MW)	Status
Mojave Sun Power	Hualapai Valley Solar	Mojave County	Not forecasted	340	Under Development
Marisol Energy 2, LLC	Maricopa Solar Park	Maricopa County	Not forecasted	300	Under Development
NextEra Energy Resources	Sonoran Solar Energy	Maricopa County	Not forecasted	300	Under Development
Albiana	Kingman CSP Project	Kingman	Not forecasted	200	Under Development
Developer	Project Name	City/ County in Arizona	Online Date	Capacity (MW)	Status
OHL Industrial	Picture Rocks Solar Farm	Picture Rocks	Not forecasted	200	Under Development
Solar Reserve	Crossroads Solar Energy Project Phase 1	Gila Bend	Not forecasted	150	Under Development
Element Power	Sun Streams Solar Farm	Maricopa County	Not forecasted	150	Under Development
Matinee Energy		Dragoon	Not forecasted	150	Under Development
SolarReserve	Quartzite Solar Energy Project	La Paz County	Not forecasted	100	Under Development
Solar Electric Solutions	SEPV Baja	Yuma County	Not forecasted	36	Under Development

Source: Solar Energy Industries Association "Major Solar Projects in United States", February 23rd, 2015

ARIZONA COMMERCE AUTHORITY
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