



Partnership Flips

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Monetizing Tax Benefits

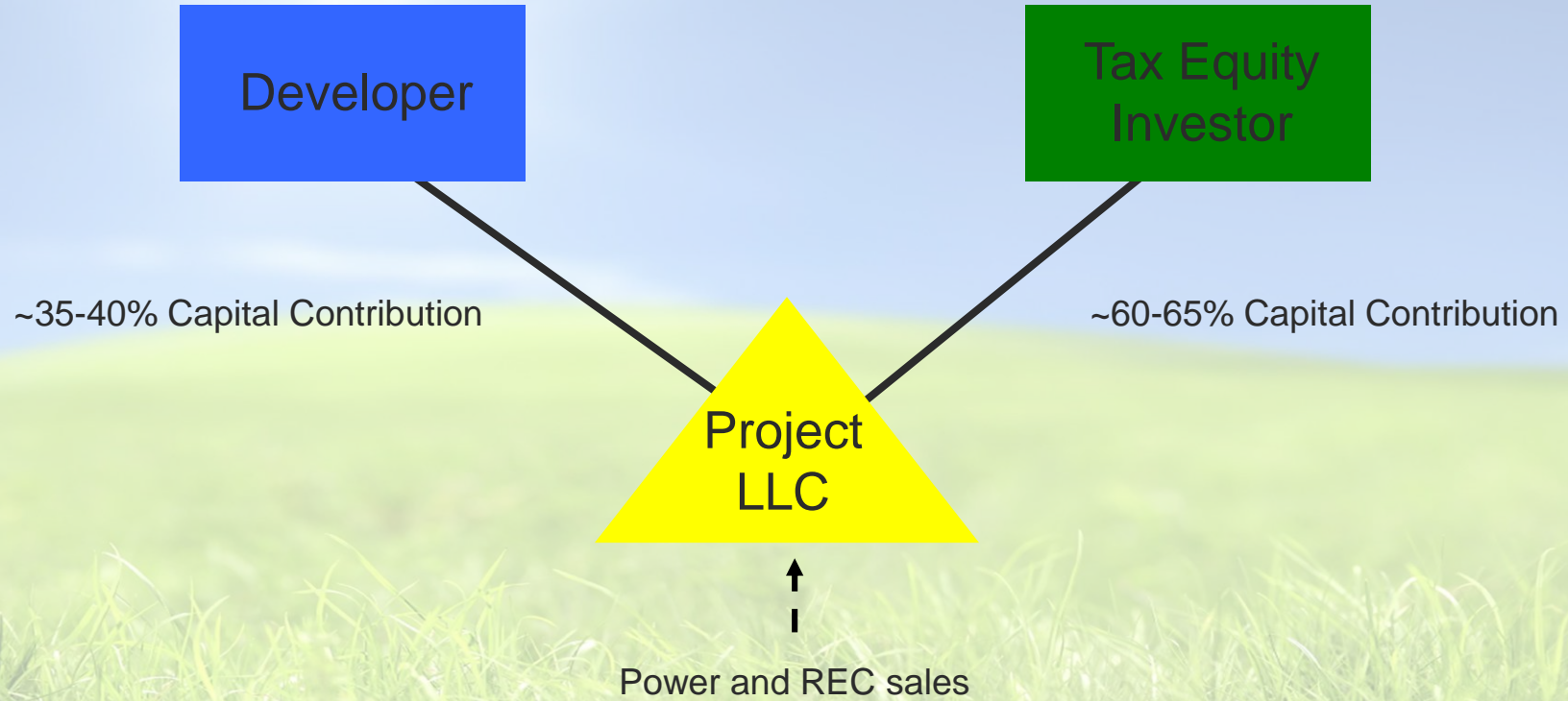
Why do it?

- Developers often cannot effectively utilize the benefits that tax credits provide
- Allows developers to transfer tax incentives to “tax equity” investors, enabling developers to share in the economic benefits

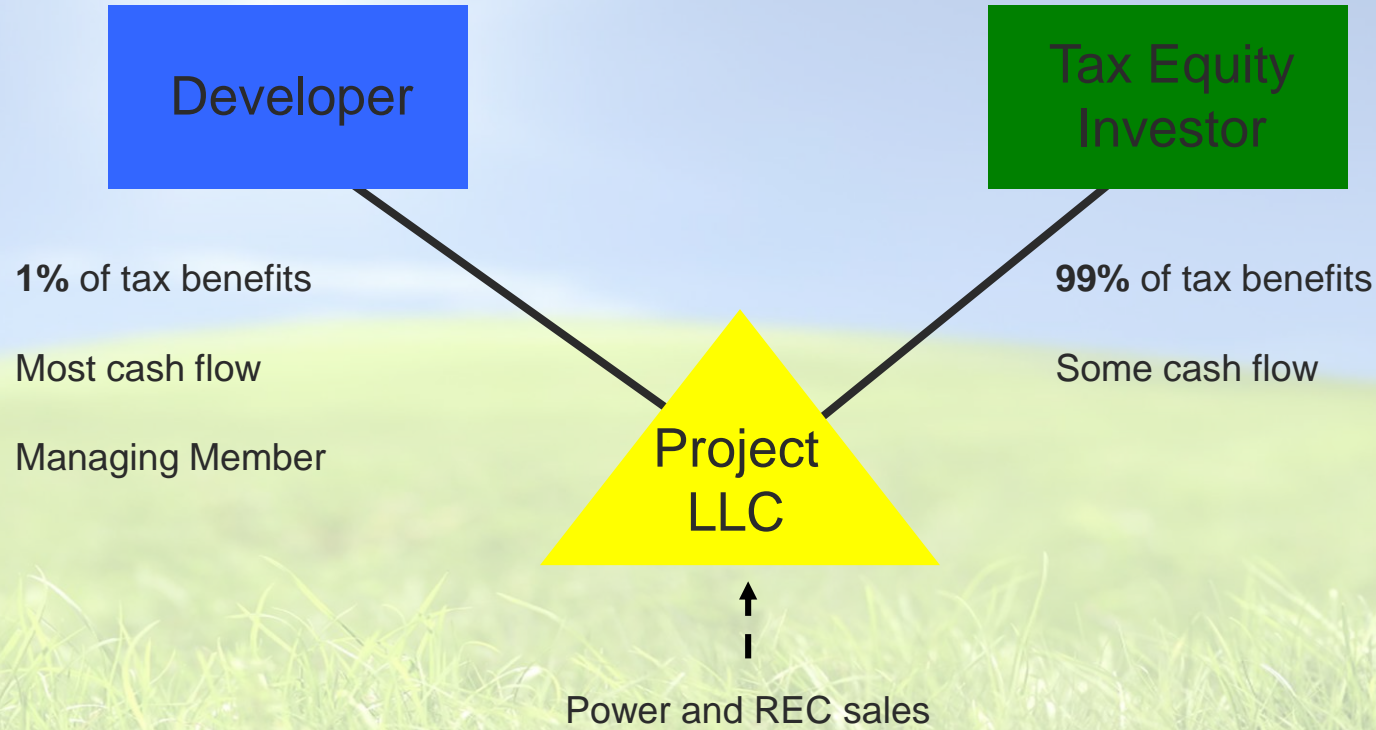
Requires Structuring

- Tax credits cannot be sold
- Structuring goal: Have tax equity investor treated as an owner of the project for federal income tax purposes

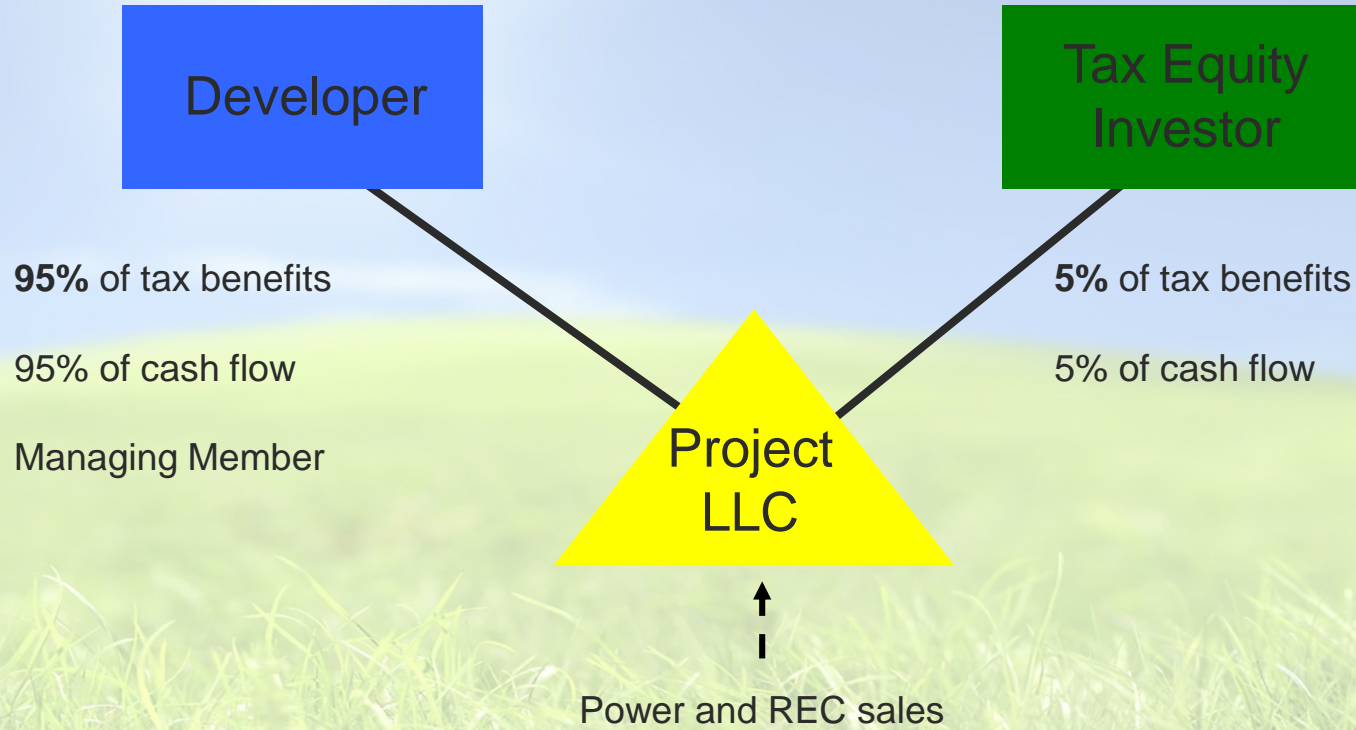
Pre-Flip



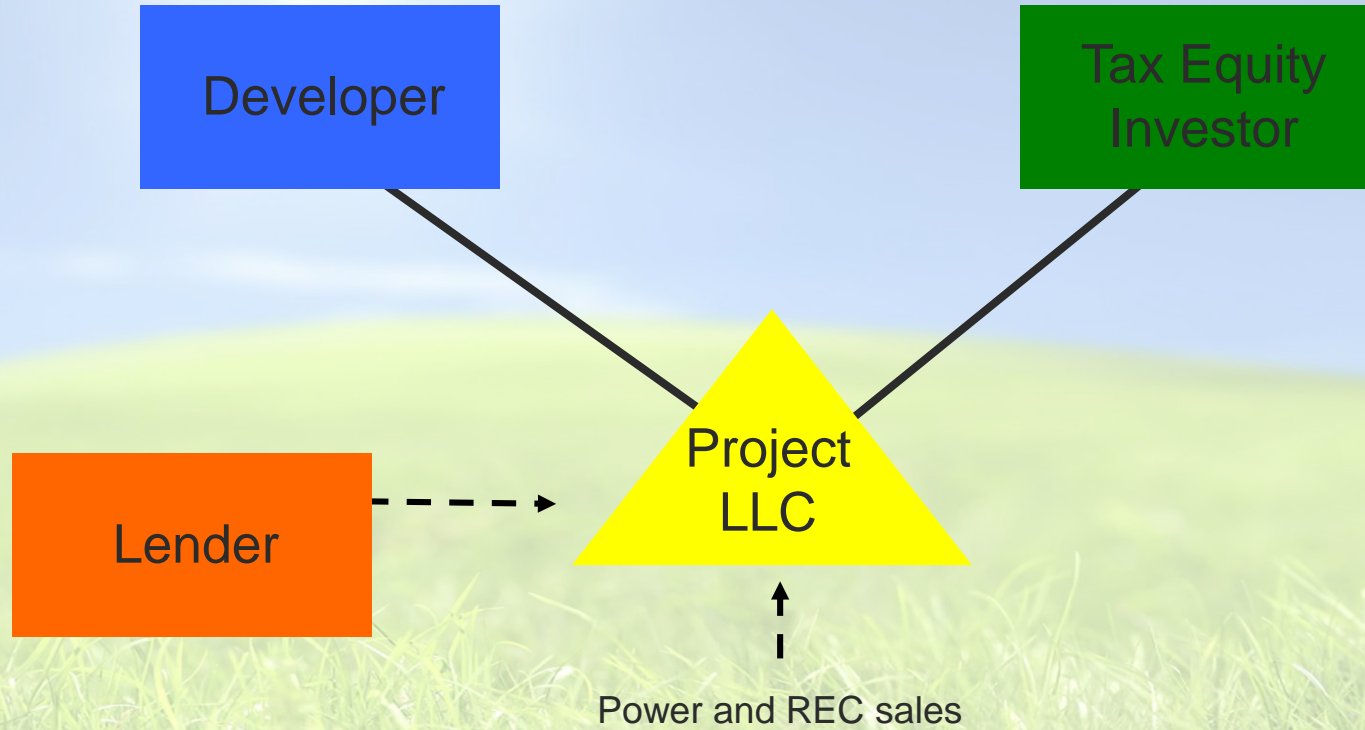
Pre-Flip



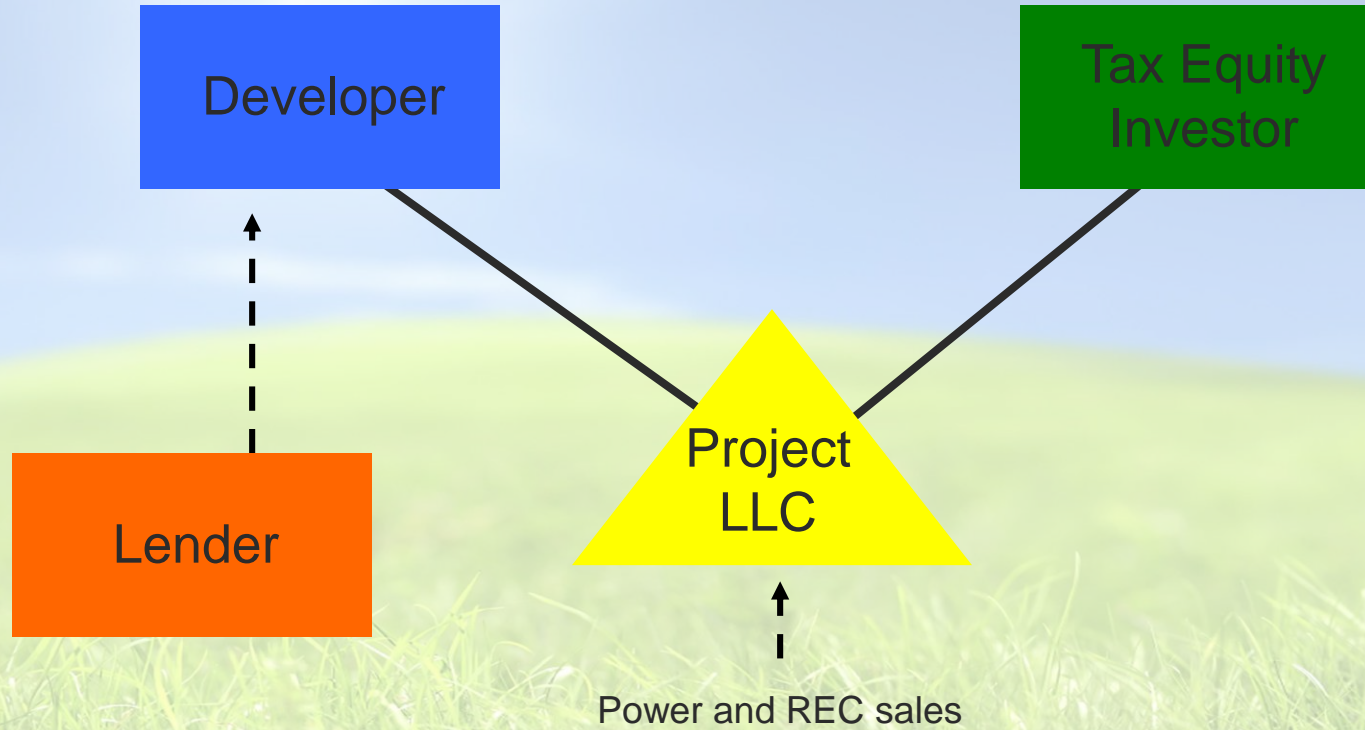
Post-Flip



Project Level Debt



“Back-leveraged” Debt



Revenue Procedure 2007-65

- Safe Harbor for partnership flip structure utilizing PTCs for qualified wind facilities
- Deviations from safe harbor do not necessarily invalidate the partnership; however, safe harbor no longer available

Pros and Cons: Developer's Perspective

- + Less costly for developer to acquire asset than in sale leaseback structure
- + Even without exercising call right, significant (95%) ownership interest following flip
- + Retain control over project (subject to major decision rights)
- Requires upfront equity contribution from developer
- Potentially limits participation in project upside until flip
- Partnership structure typically more complex than other structuring options

Pros and Cons: Investor's Perspective

- + Less upfront equity contribution from investor
- + Provides investor with short-term ownership benefits, without the risk of holding on to asset (other than 5% interest) for long-term
- Construction risk
- Accounting issues
- Indemnification usually more limited

Common Structuring Concerns

- Will the investor be respected as an owner?
- Will allocation of credits and other tax benefits be respected?

Thank You!

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