

The Case for the Section 1603 Treasury Program

In Brief:

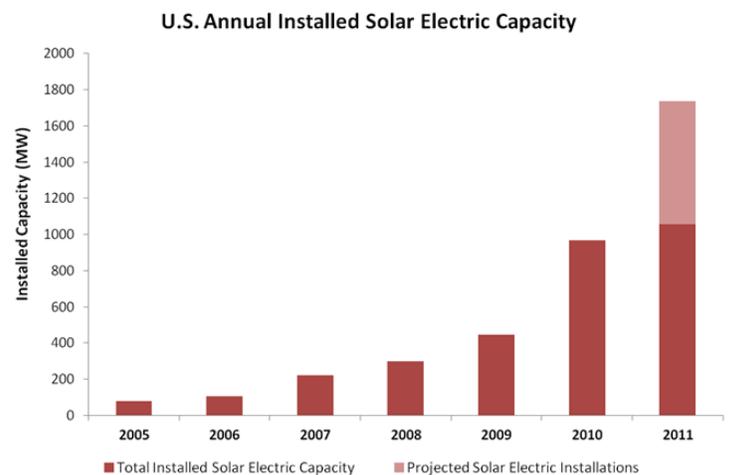
- The market certainty provided by a multiple year extension of the 30% Investment Tax Credit (ITC) for residential and commercial renewable energy projects has achieved worthwhile economic and renewable energy policy objectives.
- By any objective measure, the 2008 economic crisis severely restricted the private sector capital that is typically used to finance renewable energy projects that utilize ITCs. The Section 1603 Treasury Program provides needed marketplace liquidity by allowing taxpayers to receive a direct federal grant in lieu of taking the ITC that they were otherwise entitled to receive.
- The Section 1603 Treasury Program is a proven success, and taxpayers are getting a good return on investment. The U.S. solar industry grew by 140% in Q3 2011 over the same quarter in 2010 and currently employs over 100,000 American workers. Furthermore, the price of a solar panel fell by 50% in 2011 alone, and costs continue to fall.
- To provide marketplace certainty and continue reaping the substantial economic and energy policy benefits associated with renewable energy production, Congress should provide a multiple year extension of the Section 1603 Treasury Program.

Background:

The *Energy Policy Act of 2005* (P.L. 109-58) created tax incentives for solar energy – a new 30% investment tax credit (ITC) for commercial and residential solar energy systems that applied from January 1, 2006 through December 31, 2007. These credits were extended for one additional year in December 2006 by the *Tax Relief and Health Care Act of 2006* (P.L. 109-432). In 2007, global investment in clean energy topped \$100 billion, with solar energy as the leading clean energy technology for venture capital and private equity investment. The solar tax credits helped to create unprecedented growth in the U.S. solar industry from 2006-2007. Solar electric capacity installed in 2007 was double that installed in 2006.

In response to the dramatic downturn in the economy in 2008, Congress enacted the *Emergency Economic Stabilization Act of 2008* (P.L. 110-343). Among other things, this legislation included an eight-year extension of the commercial and residential solar ITC, elimination of the monetary cap for residential solar electric installations, and permitted utilities and alternative minimum tax (AMT) filers to utilize the credits.

The market certainty provided by a multiple year extension of the residential and commercial solar ITC has helped the rate of solar power installations grow by 800% through 2010 since the ITCs were implemented in 2006. Cumulative solar capacity in the U.S. now exceeds 3,650 megawatts (MW), enough to power more than 730,000 homes.



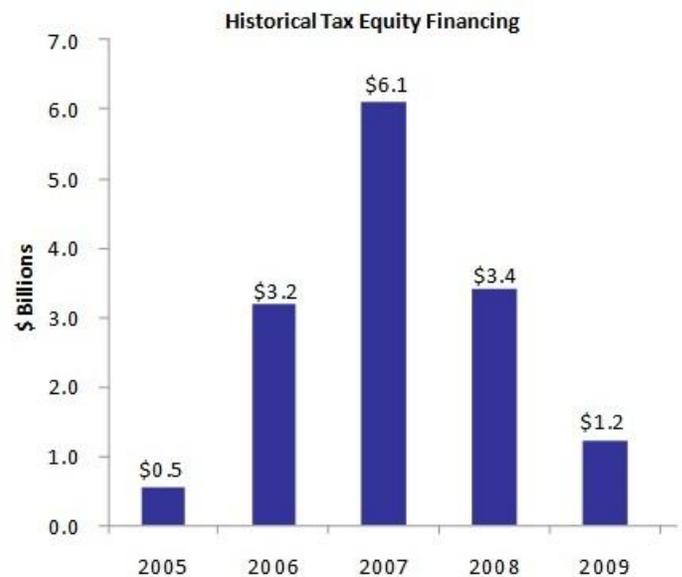
Source: SEIA

Importance of Tax Equity Financing and Credit Liquidity:

The 2008 economic crisis rendered solar and other renewable energy tax incentives of little immediate value. Prior to the financial crisis, many large-scale renewable energy projects relied upon third-party tax equity investors to monetize the value of federal renewable energy incentives. The economic downturn drastically reduced the availability of tax equity, severely limiting the financing available for renewable energy projects.

Tax equity is the term used to describe the passive financing of an asset or project by large tax-paying entities that can utilize tax incentives to offset future tax liabilities. Tax equity investors in renewable energy projects receive a return on investment based not only on the income from the asset or project, but also on federal income tax deductions (through the utilization of tax credits). Renewable energy developers themselves typically do not have sufficient taxable income to benefit directly from these tax credits and must partner with tax equity investors in order to finance projects. For example, they participate in a partnership structure in which ownership of the project is transferred from the tax equity investor to the developer-owner once the tax benefits are realized. Leasing structures akin to those commonly found in many sectors of the economy are also utilized.

The pool of tax equity investors is typically limited to the largest and most sophisticated financial firms and utilities, and the 2008 economic crisis significantly reduced the market demand among these entities for tax equity. According to a report published by the Bipartisan Policy Center on March 22, 2011, the number of tax equity investors in renewable energy projects declined from approximately 20 in 2007 to 13 in 2008 and only 11 in 2009. The associated decline in overall tax equity financing provided to renewable energy projects was equally dramatic, falling from \$6.1 billion in 2007 to \$3.4 billion in 2008 and \$1.2 billion in 2009.



Sources: U.S. Department of The Treasury, US Partnership for Renewable Energy Finance, and Leading Tax Equity Market Participants

Section 1603 Treasury Program:

In response to the dramatic decline in capital available for renewable energy projects, the *American Recovery and Reinvestment Act* (ARRA)(P.L. 111-5) included important modifications to the ITC and other renewable energy tax incentives to address the lack of available tax equity financing, including the Section 1603 Treasury Program. This program allows solar and other renewable energy developers to receive a direct federal grant in lieu of taking the ITC that they were otherwise entitled to receive.

The goals of this modification were to simplify financing for renewable energy projects and to provide access to capital during a time when project developers' tax burdens were inadequate to capitalize on tax incentives and tax equity financing was both scarce and expensive. The program has been very successful in achieving these goals.

It is important to note that the Section 1603 Treasury Program does not significantly increase the overall cost to the federal government of tax incentives for solar energy projects. Instead, the program primarily affects the timing of when ITCs for solar projects can be utilized.



Section 1603 Treasury Program has been a Resounding Success:

Due in large part to liquidity provided by this important incentive, the solar industry grew by 140% in Q3 2011 over Q3 2010, making it one of the economy's fastest growing sectors. The solar industry employs over 100,000 American workers in all 50 states.

In its preliminary evaluation of the Section 1603 Treasury Program, conducted at the request of the House Ways and Means Committee, DOE's Lawrence Berkley National Laboratory, noted:

[T]he Section 1603 program provides significant economic value to many renewable power projects, relative to the PTC or even ITC. Specifically, the grant program reduces the market's dependence on scarce and/or costly third-party tax equity, and also in many cases provides more direct or face value to renewable power projects than does the PTC. In addition, a number of indirect or ancillary benefits favor the grant from a renewable project developer's perspective, potentially helping to drive additional renewable capacity additions.

The 1603 Program revived the renewable energy industry in 2009 when the lack of tax equity financing in late 2008 brought many projects to a halt. As of January 2012, the 1603 Treasury Program awarded 4,024 grants for more than 22,000 solar projects totaling \$1.76 billion and supported over \$4.1 billion in private sector investment in 47 states.

Cost-Effective Policy Supports Private-Sector Innovation and Efficiencies in the Solar Industry:

The U.S. solar market added 449 MW of installed capacity in Q3 2011, more than the capacity installed in all of 2009.. Cumulative solar electric capacity in the U.S. is now more than 3,650 MW, enough to power more than 730,000 homes. Solar costs continue to decline. In 2011 alone, the cost of solar panels fell by 50%. Solar is a diverse technology, and costs will continue to drop as the industry achieves greater efficiencies and economies of scale.

Congress Should Extend the Section 1603 Program:

Tax equity financing has still not recovered to the levels available prior to the recession and the rates of return that are being demanded in today's marketplace by investors remain prohibitively high. In December 2010, tax equity investors in solar projects required returns from 7.5% to as high as 17% compared to pre-recession levels of 6% to the low teens. Due to global economic conditions, a large gap persists between the total amount of financing renewable energy developers need to build a thriving U.S.-based clean-tech industry and what money is available. Expiration of the 1603 Treasury Program in 2011 is projected to reduce the availability of financing from an estimated \$7.5 billion in 2011 to approximately \$3.6 billion in 2012 – a reduction of more than 50%. Therefore, to continue this successful, job-creating program, SEIA encourages Congress to extend the 1603 Treasury Program and explore ways to improve the liquidity and efficiency of the solar ITC.

About the Solar Energy Industries Association®

Established in 1974, the Solar Energy Industries Association is the national trade association of the U.S. solar energy industry. Through advocacy and education, SEIA® and its 1,100 member companies are building a strong solar industry to power America. As the voice of the industry, SEIA works to make solar a mainstream and significant energy source by expanding markets, removing market barriers, strengthening the industry and educating the public on the benefits of solar energy.

For more information, please visit www.seia.org.