

Renewable Energy Tax Incentives Program

- Calendar Year 2015 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
 - 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.

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 2015 Program Activity

During calendar year 2015, 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 2015.

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 sixth in the nation in 2015 for new installations by solar energy capacity, added 234 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. Arizona also ranked second in the nation in 2015 for the total amount of solar energy generation capacity in the state in the year, with more than 2.3 gigawatts of capacity – enough to power 327,000 homes.² The Arizona solar industry employs approximately 6,922, representing 3.3% of the nation's 208,859 total solar jobs, according to the Solar Foundation.³

Employment in the solar energy industry fell by nearly 25 percent in 2015, as residential installers responded to changes in utilities' net metering policies and residential and non-residential (so-called "rooftop") solar energy projects declined. Further, many utilities have met goals for large-scale solar deployment under Arizona's renewable energy standard (discussed below). The Solar Foundation forecasts that solar installations will further slow in 2016, but that employment in the industry will grow by 580 jobs.

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

² Arizona State Fact Sheet (February 26, 2016)

³ Arizona Solar Jobs Census

Forecast:

Arizona Solar Employment Forecast		
Sector	2015 Employment	2016 Projected Employment
Total	6,922	7,502

Source: Arizona Solar Jobs Census 2015, February 2016

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

Establishments:

Arizona Establishments	
Establishment Type	Number of Establishments
Solar Installation	1,594
Project Development	262
Total Solar Establishments	2,867

Source: Arizona Solar Jobs Census 2015, February 2016

Note: total establishments includes manufacturing, sales and distribution, operations and other establishments not classified separately.

ARIZONA COMMERCE AUTHORITY
April 30, 2016