

Renewable Energy Tax Incentives Program

- Calendar Year 2016 Annual Report

Prepared by the:

ARIZONA
COMMERCE AUTHORITY

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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.

The tax credit amount is based on the total qualifying investment made and the number of jobs being created by the company. To generate tax credits, a renewable energy manufacturing company must create 1.5 new full-time jobs for every \$500,000 of capital investment. Alternatively, a renewable energy headquarters operation must create 1 new full-time job for every \$200,000 of capital investment. The tax credit is then calculated as 10% of the amount of capital expenditure based on the above requirements.

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 2016 Program Activity

During calendar year 2016, 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 2016.

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 seventh in the nation in 2016 for new installations by solar energy capacity, adding 638.6 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. 441,000 homes in Arizona are powered by Solar. The Arizona solar industry employs approximately 7,310 people, representing 2.8 percent of the nation's 260,077 total solar jobs, per the Solar Foundation.

Employment in Arizona's solar energy industry increased by 6 percent in 2016, and the Solar Foundation forecasts that employment in the industry will grow by 1,240 jobs in 2017.

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

Forecast:

Arizona Solar Employment Forecast		
Sector	2016 Employment	2017 Projected Employment
Total	7,310	8,553

Source: Arizona Solar Jobs Census 2016, March 2017

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

* 2016 wage updates not yet available.

Establishments:

Arizona Establishments	
Total Solar Establishments	3,888

Source: Arizona Solar Jobs Census 2016, March 2017

Note: Total establishments include installation, project development, manufacturing, sales and distribution, operations and other establishments not classified separately.

ARIZONA COMMERCE AUTHORITY
April 30, 2017