



AMERICAN RECOVERY AND REINVESTMENT ACT (H.R.1)

February 19, 2009

The American Recovery and Reinvestment Act (H.R.1), also known as the stimulus bill, was signed into law by President Obama on Tuesday February 17, 2009. The focus of this \$787B program is to restore stability to the American economy through direct spending, tax subsidies and job creation. A portion of this broad package addresses renewable energy and establishes measures to support the industry during these tough economic times. In addition, the federal energy bill that is scheduled to begin debate soon will include additional topics not covered in the Stimulus bill such as a national renewable energy standard.

Provisions passed in the stimulus bill

The solar energy industry achieved several key victories in the outcome of the stimulus bill legislation. These results are summarized below.

1. Grant Program – The grant program was priority number one for the solar industry. The program offers grants to commercial projects through the Treasury Department (as an alternative to the ITC) equal to 30 percent of the cost of solar property to address current renewable energy credit market concerns. To be eligible for the program, the project must commence construction in 2009 or 2010 and be placed in service by January 1, 2017. Applications must be filed by October 1, 2011.

Solar impact – The lack of tax appetite among traditional tax equity partners has made it difficult to take advantage of tax credit financing. To address this issue, tax credit refund-ability was proposed and evolved into the grant program. The disbursement of grants represents 30% cash towards a project and reduces the need for tax equity partners. The program could take several months before it is ready to accept applications. Entities must choose between claiming the ITC and receiving a grant; they may not receive both.

2. Loan Guarantee - Establishes a temporary DOE loan guarantee program for commercial renewable energy and electric power transmission projects. Eligible projects must begin construction by Sept. 30, 2011. The program is funded at \$7 billion which will be used to pay for the credit subsidy costs. It would expand the existing loan guarantee program by allowing “commercial” or “proven” technologies to qualify whereas the current program limits applicants to “new” and “innovative” technologies. The \$7B used to pay for the credit subsidy costs will enable approximately \$70B in loan guarantees.

Solar impact- With the government guaranteeing loans financial institutions should be more willing to lend money to renewable energy projects and on more favorable terms.

Under a loan guarantee, the government guarantees that the repayments on the company's loans are met. Should the company default, their obligations to the lender are transferred to the government. The government's (expected) cost of issuing a loan guarantee must be budgeted as a cost at the time of the disbursement; hence the coverage of the subsidy costs.

The subsidy cost is the expected value of the guarantee in a statistical sense. Credit subsidy costs cover defaults, delinquencies, interest subsidies, and other payments less payments already made to the government. Congress must appropriate the subsidy cost before an agency can enter into obligations to disburse direct loans or guarantee loans made by others.

3. Subsidized Financing - This provision repeals the penalty for financing solar projects and allows businesses and individuals to qualify for the full amount of the solar tax credit, even if projects are financed with local development bonds or other subsidized energy financing.

Solar impact – Previously most forms of government loans or subsidy financing distributed to renewable energy project developers would lower the tax credit basis used to apply to the investment tax credit. This provision allows the full cost of the system to be applied towards the tax credit regardless of if a project received money from local development bonds for other subsidized energy financing.

4. Bonus Depreciation - Last year, Congress temporarily allowed businesses to recover the costs of capital expenditures made in 2008 faster than the ordinary depreciation schedule would allow by permitting these businesses to immediately write off 50% of the cost of depreciable property (e.g., equipment, tractors, wind turbines, solar panels, and computers) acquired in 2008 for use in the United States. This policy has been extended into 2009 with the passage of this bill.

Solar impact – This provision can provide 1%-2% additional internal rate of return on a project. Because depreciation is a non-cash expense, depreciation lowers the company's reported earnings thus requiring the asset owner to have positive earnings to fully take advantage of depreciation.

5. Clean Renewable Energy Bonds - Authorizes an additional \$1.6 billion of clean renewable energy bonds to finance facilities that generate electricity at systems owned by states, tribes, localities, public power and electric coops.

Solar impact – CREBs are used by state, local, and tribal governments; public power providers and electric cooperatives to finance investments in renewable energy. CREBs are a way for these entities to take advantage of tax credit financing since the lender receives tax credits instead of repayments of principal and interest.

6. Investment Credit Cap Removals – The bill removes the investment tax credit cap for small wind and solar thermal systems. It also removes the \$4000 cap on commercial small wind.

Solar impact – Removal of the cap improves the return on projects since the 30% credit will now be applied to the full system cost.

7. Solar on Federal Property - The bill appropriates \$5.5 billion to be deposited into the Federal Buildings Fund for expenditures to construct, repair and make alterations on federal buildings to increase energy efficiency, including installing solar energy equipment. Also appropriates \$1 billion for non-recurring maintenance on Veterans Affairs facilities, including energy projects. The GSA estimates that 75% of the anticipated projects will include a solar component.

Solar impact – There have been an increasing number of solar projects on Federal Government property. This provision will expand those opportunities to projects of all sizes.