



## Legislative Update

### **Oregon's Business Energy Tax Credit (BETC)**

### **Renewable Energy Resource Equipment Manufacturing**

2011-Oct



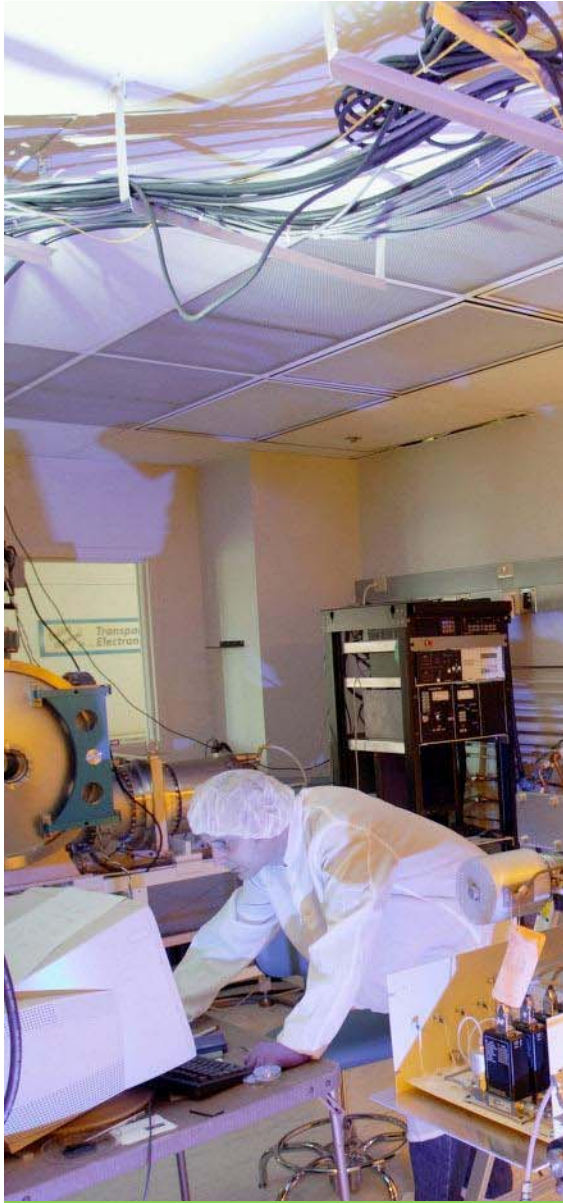
## The Oregon Legislature has recognized the value associated with the Manufacturing BETC

- Oregon facilities that manufacture renewable energy resource equipment, create quality jobs and utilize Oregon's high tech human capital.
- Proven valuable in helping companies offset large capital-intensive expenses incurred by growing and expanding.
- Helped put Oregon on the map as a leader in clean-tech manufacturing.

# Fundamentals of the BETC for manufacturing remain intact

- The tax credit is equal to 50% of up to \$40M in final eligible facility costs
- The credit (max \$20M) is taken against Oregon income tax liability over five years (10% each year – up to \$4M)
- The credit may be transferred to a pass-through partner at a value determined by the State.





## Eligible Costs

Eligible costs may include:

- Land purchase costs
- Structures
- Buildings
- Installations
- Excavations
- Machinery, equipment & devices

Costs incurred must be related to the manufacture of products used exclusively in renewable energy resource equipment and not for other commercial purposes.



## Oregon's Solar Sector - 2007 to Present

<u>Company</u>	<u>Type</u>	<u>Location</u>
Azuray	Micro-inverters	Durham FT Material
Solutions	Crucibles	Fairview
MEI LLC	Wafer cleaning	Albany
MEMC/Solaicx	Ingots/wafers	Portland
Mr. Sun	Solar Water Heaters	Portland PV
Powered	Inverters	Bend
PV Trackers	PV tracking systems	Bend
Sanyo Solar	Ingots/wafers	Salem
SiC Processing	Silicon recycling	Portland
SoloPower	Thin-film modules	Portland
SolarWorld	Ingots/wafers/cells/modules	Hillsboro

Current Est. Total Employment: 1,720

Projected Employment Upon Completion: 2,335 employees

\* List is not meant to be all-inclusive, but representative of existing firm types serving the solar sector. Not all firms have applied for or received a manufacturing BETC.



## Statutory History

- Statute created in 2007 introduced requirements related to economic measures that must be considered by the Director of the Oregon Department of Energy when providing a BETC for a renewable energy resource equipment manufacturing facility.





## Statutory History

- Since that time the Oregon Department of Energy and Business Oregon have since collaborated under an interagency agreement in the evaluation of ODOE's manufacturing project applications and administration of the BETC manufacturing program.





## 2010 - House Bill 3680 Changes:

- Manufacturing sunset extended. Manufacturing projects must be Pre Certified before Dec. 31, 2013
- Allowed more than one BETC for manufacturing expansion phases
- Eliminated 10% cost overrun
- Eliminated ability to amend prior year's tax returns for BETC credits
- Placed cap on the tax credits



## Limitations

The amount of tax credits for manufacturing facilities may not, at the time of preliminary certification under exceed:

- (a) \$200 million for the biennium ending June 30, 2011.
- (b) \$200 million for the biennium ending  
June 30, 2013.
- (c) \$50 million for the six months beginning July 1, and December 31, 2013.

## 2010 - House Bill 3680 Added

- Electric vehicles – Credit for manufacturing is capped at \$1.25M. Includes all-terrain-vehicles used for agricultural, commercial, industrial or governmental purposes.
- Renewable energy storage devices – Manufacture of batteries for the storage of renewable energy is now included in program.
- Component parts – Components are distinguished by their absence from conventional vehicles and do not include components that can be used interchangeably in both electric and conventional vehicles.





## More significant changes made in 2011

- HB 2523 transfers the administration of the MFG BETC from the Oregon Department of Energy to the Oregon Business Development Department.

The Act provides the opportunity for the Directors to take any action needed before January 1, 2012 to exercise the duties, functions and powers conferred on them.



## Business Oregon will administer all steps associated with MFG BETC

- Preliminary Intake
- Application For Preliminary Certification
- Due Diligence Review
- Preliminary Certification
- Performance Agreement
- Application For Final Certification
- Final Certification
- Pass-through Assistance

# Intake

## Initial Eligibility Overview

- 1) Proven performance
- 2) R & D - established pilot line
- 3) Strength of key executives
- 4) Adequate financial strength
- 5) Equity partners
- 6) Jobs to be created and description of ramp-up timelines
- 7) Wage levels and benefits
- 8) Technology value opportunity
- 9) Business plan and financial model
- 10) Market Capacity



## Due Diligence Review

- Prior to Preliminary Certification, Business Oregon works with the company to submit the detailed documentation for due diligence review.
- Third-party expert consultant hired by the Department.
- The risk analysis includes review of the manufacturing and product technology, and the company's working financial model and five-year projections.

No.	Required Info	Information*			File Name	Remark	Description
		A	B	C			
<p>To assure the quality of your data for the review, please provide verifiable information such as copies of signed contracts whenever possible. If no contracts are available (e.g. for sales in future periods) please provide your own assumptions in form of written statements. Please ensure that all provided information contains consistent and reliable data.</p>							
<b>1. Company and Staff</b>							
1.1	Company Organizational Chart	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Organization chart of the applicant company to see future structure in operation phase and key positions. Include biographies for key executives.
1.2	Project Organization chart	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Includes all design, construction, and hook-up contractors and key positions of the applicant's project team.
1.3	Staffing Schedule	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Overview of the planned staff hiring by position group.
1.4	Salaries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Overview of monthly salaries by position group.
1.5	Administration Expenses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			To include expenses for: Office, Marketing, IT, Shipping, Insurance, R & D, Taxes, Licenses, etc.
<b>2. Schedules</b>							
2.1	Master Schedule	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Scheduled dates and description for all project milestones.
2.2	Construction Schedule	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Schedule for all construction phases including equipment installation.
2.3	Manufacturing Schedule	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Schedule for manufacturing phases including ramp up.
<b>3. Balance of Plant (BoP)</b>							
3.1	Land	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Cost and Payment Schedule: Purchase or lease. Technical Info: Size, location, infrastructure, polluted areas, wetlands, etc.
3.2	Buildings	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Cost and Payment Schedule: Purchase or lease. Technical Info: Size, floor plan, heights, building description, etc.
3.3	Equipment (HVAC, Electrical, Process Utilities etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Cost and Payment Schedule: Provide if not included in building costs. Technical Info: Quality and capacity of each system.
3.4	Operation (Energy, spare parts, maintenance etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Costs. Technical info: concepts, contractors etc.
3.5	Utility Supplier Contracts / Agreements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Supply/disposal contract/agreement (e.g. energy provider, waste water, etc.)
3.6	Depreciation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Depreciation calculation for the BoP.
3.7	Layout	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Layout of the facility including manufacturing layout.
<b>4. Manufacturing Equipment</b>							
4.1	Investment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Cost and payment schedule per item including rigging, freight and insurance.
4.2	Performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Uptime, throughput, maximum capacity per year.
4.3	Media Consumption	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Media consumption for each equipment unit (electrical, cooling water, gases, exhaust, waste water etc.)
4.4	Operation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Costs: Spare parts, repair, maintenance, etc. Technical Info: Concepts, contractors etc.
4.5	Depreciation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Depreciation calculation for manufacturing equipment.
<b>5. Raw Materials</b>							
5.1	Raw Materials List	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Quantities, specifications, suppliers, prices, etc. of primary raw materials.
<b>6. Consumables</b>							
6.1	List of Consumables	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Quantities, specifications, suppliers, prices, etc. for primary consumables.
<b>7. Sales</b>							
7.1	Product Sales	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Product, quantities, specifications, buyers, sales prices, etc.
<b>8. Financial</b>							
8.1	Production Output	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Monthly output for each product in sale specifications including ramp-up phase.
8.2	Financing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Financial institution, interest rate, amount of debt and equity etc.
8.3	Working Financial Model 5 Year Pro Forma	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Working MS Excel file - Must contain all formulas and linked files. This is crucial to assure ability to execute simulations during the due diligence process. Non-working models will not be accepted.
<b>9. MISC</b>							
9.1	Company Financials	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			The last three years of CPA prepared (complete, reviewed or audited) P&L financial statements with accountant notes and assumptions, containing at a minimum: balance sheet, income statement, and changes in financial position.
9.2	Federal Tax Returns	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Complete copies of company's federal tax return for the last three years.
9.3	Personal Financials (Upon Request)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Upon request - Most recent personal financial statement for each principal owner (owning 10% or more of stock or partnership units) and all guarantors.
9.4	Affiliate Statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Listing of all affiliates or subsidiaries. Last three years' balance sheets for each. Profit and loss statements for each.
9.5	Business Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Executive summary to include: technology, milestone and critical path events, analysis of competition, and market demographics.
9.6	Litigation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>			Summaries, descriptions and current status of any legal proceedings, bankruptcies, consent decrees, orders, investigations, unasserted claims or suits against applicant, any affiliates or guarantors and all principals with 10% or more ownership, which are currently pending or threatened or which were concluded in the 10 years prior to the date of application.

# Verification of the financial model:

- Company and Staff
- Schedules
- Balance of Plant (BoP)
- Manufacturing
- Equipment
- Raw Materials
- Consumables
- Sales
- Financial
- MISC

There are 3 levels of verification of data:

- 1) Signed contracts
- 2) Third-party proposals
- 3) Company statement or other documentation

STATE OF OREGON  
BUSINESS ENERGY TAX CREDIT ("BETC") PEF

**BETWEEN:** State of Oregon, ("State")

and acting by and through **its**

Business Development Department,  
775 Summer Street NE  
Salem, Oregon 97301-1280

**AND:**

[Company]  
[Address]  
[City, State, Zip]

**FEDERAL TAX ID #:**

**PROJECT NUMBER:**

**RECITALS**

WHEREAS, State has established under ORS 469.197 e the Oregon Business Development Department must con an Oregon Business Energy Tax Credit ("BETC") for a re equipment manufacturing facility, including standards rel

Standards relating to the type of equipment, machinery o manufactured and related performance and efficiency sta manufactured products;

Standards, consistent with the definitions in ORS 469.18: single renewable energy resource equipment manufactur (A) Standards establishing what constitutes property that renewable energy resource equipment manufacturing fac (B) The consideration of such factors as phases of devel to existing facilities or product lines, increased production maintained by an applicant;

(c) Standards relating to the minimum level of increased renewable energy resource equipment manufacturing fac (d) Standards relating to indicators of financial viability of certification under ORS 469.205;

(e) Standards relating to the likelihood of long-term opera energy resource equipment manufacturing facility; and

# Performance Agreement

Agreement must be executed prior to application for final certification. Conditions include:

- Creation and maintenance for a minimum # of full-time equivalent jobs and compensation;
- The exclusive manufacture of renewable energy resource equipment;
- Continuous operation during the term of the 5 year performance agreement;
- Documentation that the company is meeting operational benchmarks
- Clawback Provisions

# Final Certification & Pass Through Option

- Option is elected when project completed and application for final certification is submitted
- Pass-through partner (eligible party with Oregon tax liability) pays the project owner lump-sum payment based on the net present value of the tax credit.
- More than one pass-through partner may be used to complete a transfer of tax credit
- Payment made to company before final tax credit Certificate is issued to pass-through partner



## Pass-through Partner

- The pass-through partner is not liable for the success of the project technology, project costs, project completion or success of the project.
- The applicant company is responsible for identifying eligible pass-through partners.
- Role of State in pass-through transactions is under review.



## Pass-through Rate

- The pass-through rate takes into account the value of the money over time and other factors. The net present value of the tax credit is currently set by ODOE and that duty will be transferred to Business Oregon.

# Rule Making Process

- ODOE has created a new rule Division (091) to remove references to the BETC Manufacturing program from the remaining BETC rules, to prevent conflict with the new division.
- Rule language has been duplicated based on existing BETC rules in Division 90
- The restructuring has been prepared for administrative purposes and no policy changes have been made.
- Public Hearing

**Date :** Friday, October 21, 2011

**Time:** 9:00am

**Location:** Oregon Department of Energy  
625 Marion St NE  
Salem, Oregon 97301  
Westerberg Room



# Questions?

## Business Oregon Contact Info:

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