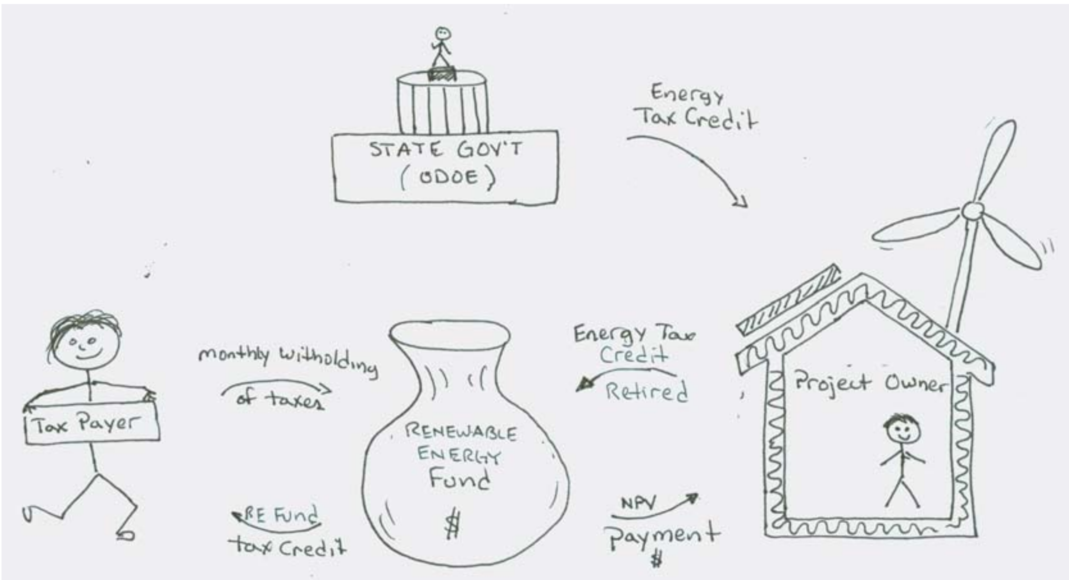
LEGISLATIVE CONCEPT

Proposed to the Renewable Energy Working Group, August 14th, 2008
Title: **BETC Energy Fund**

PURPOSE
To improve access and reduce cost of transacting pass-though payments for Oregon Energy Tax Credits (BETC and RETC). Currently, to attract pass-through partners a small but not insignificant portion of the BETC value must be given to the partner rather than the project owner. This concept would:

- Reduce the transactional cost of BETC program
- Reduce project owner risk by improving surety of pass-through process
- Eliminate the losses caused by third party fee-for-service partners
- Create surety that the tax credit can be transacted for a net present value payment.
- Make it easier for any Oregon tax payer to serve (indirectly) as a pass-through partner.

CONCEPT
Tax payers would voluntarily participate. Their reward would be support of a cause they believe in – energy efficiency and renewable energy solutions. The tax credit provided may need to equal greater than 100% of the contribution to attract participation. The current BETC pass-through process provides the partner with rate of return for their participation; in essence this would allow the state to get the rate of return otherwise given to pass-through partners.



Limits would need to be imposed on the program. Two suggested include: 1) Prepayment contribution would be limited to $1500 per individual in a single calendar year, 2) participation would be limited to non-profit project owners, or other strategic markets.

Example – School Solar Project
A school invests $100,000 to install a solar water heating system, which after technical review by ODOE qualifies for a 50% BETC. (Note: the discount rates shown to generated NPV are approximate and for illustration purposes only.)

Tax Credit issued by ODOE is retired by the pass-through fund
    2010 – 2014 = $10,000 x 5 years = $50,000

The project owner receives a single payment for the project (once it is completed) from the pass-through fund. This amount is discounted to just slightly less than the current BETC pass-through rate of 33.5%.
    2010 = $33,000

Tax payers contribute via a monthly withholding. The amount is increased slightly to compensate for the time value of money (assumption 6% over 12 month annuity)
    2010 = $34,000

The net result is that instead of the state losing $50,000 of revenue over 5 years, it lost only $34,000 in the first year. Because the average tax bracket of a individual contribution is roughly 10% less than that of the current corporate or high net worth individuals, an additional 10% x $34,000 = $3,400.

Advantages
- State general fund saves $16,000 (a 32% reduction in revenue loss).
- State general fund increases by $2,000 - $4,000 from income tax on the ~$30,000 of salary spent on the project employees.
- The local economy keeps $3,400 from becoming absorbed in federal taxes.
- $100,000 are invested in local renewable energy economy of which at least $45,000 is in the form of federal tax incentives for solar energy.
- Projects are assured that a pass-through partner is available and can therefore find necessary project financing.
- 30 year energy savings to school is 2-5 times the net cost of the project, leaving more money for school business.

Disadvantage
- 5-year BETC revenue impact would now occur in first year – over time this will level out and be lower than the 5-year approach. Perhaps this program should be phased in so as to not burden the revenue impact.