

# The Oregon Department of Energy Tax Credits

**April 2006**

# History

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## Oregon Revised Statute

### ORS 469.010 Policy

It is the goal of Oregon to promote the efficient use of energy resources and develop permanently sustainable energy resources.



# History

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## The Oregon State Legislature:

- ◆ 1977 - Created Residential Energy Tax Credit Program
- ◆ 1979 - Created Business Energy Tax Credit Program
- ◆ 2001 - Created Pass-through Option Program



*Stateline Wind Project*

# Residential Energy Tax Credit

First issued tax credits for:

- ◆ Solar heating systems
- ◆ Geothermal heating systems
- ◆ Wind electric generation



# Residential Energy Tax Credit

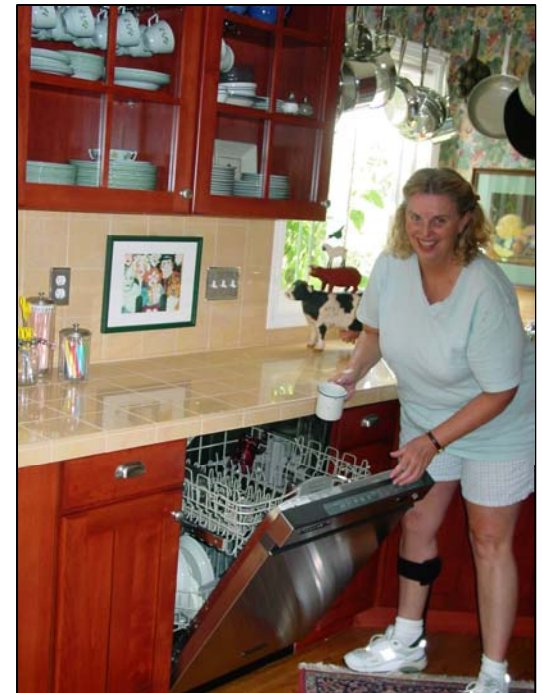
1989 - 2001 added tax credits for:

- ◆ Premium efficient appliances – dishwashers, clothes washers, refrigerators, water heaters
- ◆ Duct testing and sealing
- ◆ Heat pumps and air conditioning systems and diagnostics
- ◆ Furnaces, boilers and air handlers
- ◆ Hybrid/alternative fuel vehicles



# Residential Energy Tax Credit

- ◆ 32,000 appliance tax credits issued to Oregonians in 2005
- ◆ Appliances are most popular tax credit
- ◆ Amount of tax credit varies depending upon energy savings during first year and cost of appliance
- ◆ Dishwashers - \$50  
Clothes washers - \$115-180  
Refrigerators - \$50-70





# Residential Energy Tax Credit

## Performance-based credits

- ◆ 1<sup>st</sup> year energy yield (kWh) X 60 cents (renewables)
- ◆ 1<sup>st</sup> year energy yield (kWh) X 15 cents (solar pool/spa heaters)



# Residential Energy Tax Credit

## Performance-based credits

Appliances – Premium level

Washers – \*top 35%

Dishwashers – \*top 42%

Refrigerators – \*top 3%

\*Approximate % of all market models based on current program criterion

This Model has been Tested using the 2004 Test Procedure. Compare only with Models displaying this statement.


Based on standard U.S. Government tests

# ENERGYGUIDE

Clothes Washer  
Capacity: Standard

Sears, Roebuck and Co.  
Model(s): 4282\*, 4283\*,  
4482\*, 4483\*  
Cat. 9FLGOSK(4C)

Compare the Energy Use of this Clothes Washer only with other Models tested using the 2004 Test Procedure.

This Model Uses <b>268</b> kWh/year	 ENERGY STAR® A symbol of energy efficiency
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Energy use (kWh/year) range of all similar models

Uses Least Energy <b>177</b>	Uses Most Energy <b>1298</b>
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kWh/year (kilowatt-hours per year) is a measure of energy (electricity) use. Your utility company uses it to compute your bill. Only standard size clothes washers are used in this scale.

**Clothes washers using more energy cost more to operate. This model's estimated yearly operating cost is:**

<b>\$22</b> when used with an electric water heater	<b>\$10</b> when used with a natural gas water heater
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Based on eight loads of clothes a week and a 2000 U.S. Government national average cost of 8.03¢ per kWh for electricity and 68.80¢ per therm for natural gas. Your actual operating cost will vary depending on your local utility rates and your use of the product.

Important: Removal of this label before consumer purchase violates the Federal Trade Commission's Appliance Labeling Rule (16 CFR Part 305).

KEN-MID 4619 702 20471



# Residential Energy Tax Credit

## Qualifying Clothes Washers

- ◆ Minimum Modified Energy Factor (MEF) of 1.6
- ◆ Maximum Water Factor (WF) of 8.5 gal/cu ft/cycle



# Residential Energy Tax Credit

## Qualifying Dishwashers

- ◆ Energy factor of 0.61 cycles/kWh or higher
- ◆ Maximum water use per cycle of 6.5 gallons



# Residential Energy Tax Credit

## Qualifying Refrigerators

- ◆ Must have at least 20 percent lower energy consumption than allowed by the July 1, 2001 US DOE standards for refrigerators.
- ◆ Only for refrigerator-freezers with fully automatic defrost cycles, and with net refrigerated volumes between 12 and 30 cubic feet.



# Residential Energy Tax Credit

Maximum credits per year per residence:

- ◆ Appliances, HVAC – up to \$1,000
- ◆ Solar thermal, wind – up to \$1,500
- ◆ Solar PV – up to \$6,000 for 4 years (\$1,500 maximum per year)
- ◆ Geothermal – up to \$900
- ◆ Hybrid vehicles – up to \$1,500



# Residential Energy Tax Credit

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## Impact on Oregon economy in 2005:

- ◆ Tax credits issued: 39,367 worth \$8.4 million
- ◆ Project costs generated: \$68.4 million
- ◆ Energy savings generated: \$1.4 million
- ◆ Included \$4.9 million in wages\*
- ◆ Included 150 new jobs for workers in Oregon\*
- ◆ Program expenditures: \$496,000

\* Data for 2003

# Residential Energy Tax Credit

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## Program challenges:

- ◆ Contractor certification
- ◆ Getting information at retail level
- ◆ Confusion with other programs (ENERGY STAR)
- ◆ Demand on agency staff and resources



# Residential Energy Tax Credit

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## Cost of program:

- ◆ FY 2003-04  
3.5 FTE \$238,398 expenditures  
Funding from SEP Formula Grant
- ◆ FY 2004-05  
4 FTE \$274,592 expenditures  
Funding from SEP Formula Grant
- ◆ FY 2005-06 projected  
3.5 FTE \$261,284 expenditures  
Funding from SEP Formula Grant

# Business Energy Tax Credit

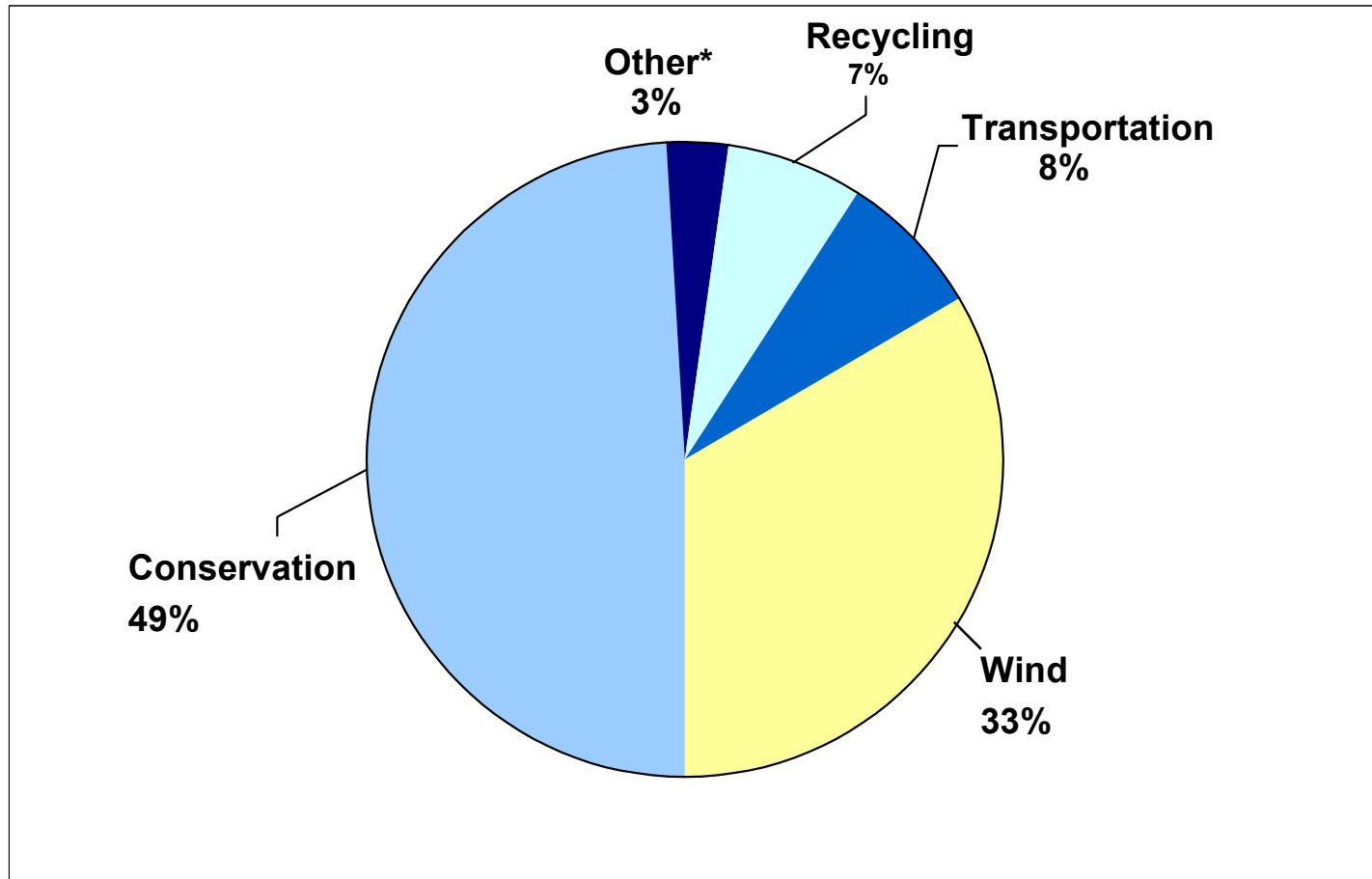
Encourages investments in:

- ◆ Improving energy efficiency
- ◆ Recycling
- ◆ Using renewable energy
- ◆ Burning less-polluting transportation fuels
- ◆ Reducing employee commuting
- ◆ Building sustainably



*200 Market Street Building  
Portland, OR*

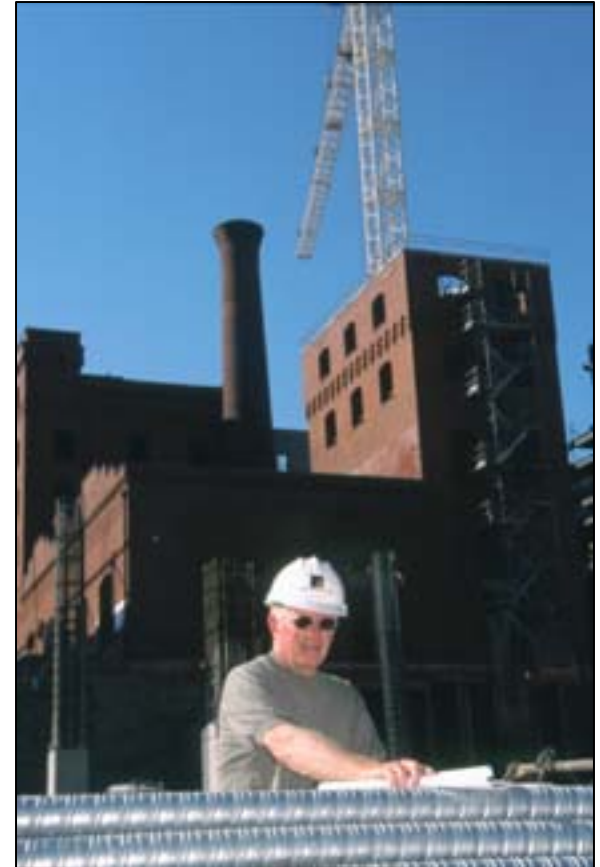
# Business Energy Tax Credit



*Other includes sustainable building, biomass, geothermal, hydroelectric and waste heat recovery*

# Business Energy Tax Credit

- ◆ Incentive program (not a reward)
- ◆ Owner must apply **before** project start
- ◆ Project owners pay review cost (0.0075% of eligible costs)



***Brewery Blocks  
Portland, OR***

# Business Energy Tax Credit

- ◆ 35% of eligible project costs
- ◆ Tax credit taken over 5 years (10%, 10%, 5%, 5%, and 5%)
- ◆ Tax credit taken in 1 year if eligible costs are \$20,000 or less



*Les Schwab Tire Center  
Corvallis, OR*

# Business Energy Tax Credit

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- ◆ Project must be 10% more efficient than energy code or standard industry practice
- ◆ Lighting projects must be 25% more efficient
- ◆ Project must have a simple payback of 1 to 15 years





# Business Energy Tax Credit

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From 1980 through 2005 cumulative:

- ◆ Tax credits issued: 10,181
- ◆ Energy saved and generated: 27.1 trillion Btu per year
- ◆ Total project costs: \$801 million

*SierraPine  
Medford, OR*



# Business Energy Tax Credit

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## Impact on Oregon's economy in 2005:

- ◆ Tax credits issued: 1,622
- ◆ Project costs: \$106.7 million
- ◆ Energy savings generated: \$36.2 million\*
- ◆ Included \$33.1 million in additional economic output\*\*
- ◆ Included \$7.8 million in wages\*\*
- ◆ Included 176 new jobs for workers in Oregon\*\*
- ◆ Program expenditures: \$982,220\*

\* Data for 2004

\*\* Data for 2003

# Business Energy Tax Credit

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## Cost of program:

- ◆ FY 2003-04  
7 FTE                      \$823,784 expenditures  
                                     \$895,693 revenue
- ◆ FY 2004-05  
9 FTE                      \$982,990 expenditures  
                                     \$1.5 million revenue
- ◆ FY 2005-06 projected  
12 FTE                     \$1.385 million expenditures  
                                     \$1.89 million revenue

# Business Energy Tax Credit

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◆ Agriculture & Mining	3%
◆ Public Administration	8%
◆ Services	12%
◆ Wholesale & Retail	12%
◆ Finance, Real Estate, Insurance	14%
◆ Construction & Manufacturing	32%
◆ Transportation, Communications, Utilities	32%

# Who can get a Tax Credit?

- ◆ Business owner
- ◆ Rental property owner
- ◆ Can participate with a partner who has tax liability:
  - Non-profit organization
  - School
  - Public entity
  - Tribe



*West Salem High School  
Salem, OR*

# What is the Pass-through Option?

The pass-through option allows a project owner to transfer their 35% tax credit eligibility to a business or individual partner with a tax liability in exchange for a 25.5% lump-sum payment.

*New Eagle Rock Elementary  
Eagle Point, OR  
Applying for LEED™ certification*





# Pass-through Option History

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- ◆ 1985 - Oregon investor-owned utilities offered a Pass-through Option to business owners for rental weatherization.
- ◆ 1989 - Pass-through Option expanded to include owners of commercial and industrial projects.
- ◆ 2001 - Oregon Legislature expanded the Pass-through Option to include non-profits, public entities, schools, and tribes with no tax liability.
- ◆ 2001 - Legislation also included for-profit businesses that chose to use Pass-through Option.

# Pass-through Option Example

- ◆ North Santiam School District – Applicant
- ◆ Nike, Inc. – Business Pass-through partner
- ◆ Project – Lighting, HVAC improvements at Stayton Middle and Elementary Schools



*Stayton Elementary School classroom*

# Pass-through Option Example

- ◆ Project costs - \$478,000
- ◆ North Santiam got 27%\* of \$478,000 as cash payment (\$129,000)
- ◆ Nike files 35% of \$478,000 as tax credit (\$167,000 )

Rate adjusted Oct. 1, 2003 to 25.5%



*Nike's Mike McBride hands North Santiam School Board Chairman Dave Kinney a check for \$129,000.*

# Business Energy Tax Credit

- ◆ 2002 - **30** pass-through tax credits issued
- ◆ 2002 through Nov. 2005 –  
**980** pass-through tax credits issued



*Hatfield Marine Science Center  
Oregon State University*

# Business Energy Tax Credit

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## Program challenges:

- ◆ Adapting to changing technology
- ◆ Verification
- ◆ Managing growth

# Business Energy Tax Credit

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In 2006:

- ◆ Pre-certified tax credits issued: 518 for \$68.9 million
- ◆ Pre-certified pass-through projects: 226 projects (43% of total)
- ◆ Pre-certified pass-through tax credits: \$42.4 million (62% of total)

# Encouraging Sustainable Development

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## Ecotrust's Natural Capital Center

- ◆ Achieved LEED Gold
- ◆ Reduced energy use
- ◆ Eco-roof stores and filters storm water on site
- ◆ Used recycled wood from facility reclamation
- ◆ Specified low-toxic materials, recycled paints
- ◆ Maximized access to fresh air and natural light

# Encouraging Sustainable Development

- ◆ Tax credit based on LEED certification - existing, recognized national program
- ◆ LEED easily adapted to tax credit, requires minimal staff, less review cost
- ◆ Building must receive silver, gold or platinum rating and minimum 1 energy point, 1 commissioning point
- ◆ Application required **BEFORE** project begins





# Encouraging Sustainable Development

<b>Building Area</b>	<b>Silver</b>		<b>Platinum</b>
First 10,000 sq ft	\$10.00/sq ft	<b>Gold</b> \$13.75/sq ft	\$17.86/sq ft
Next 40,000 sq ft	\$5.00/sq ft	\$5.71/sq ft	\$9.29/sq ft
50,000 sq ft plus	\$2.00/sq ft	\$2.86/sq ft	\$5.71/sq ft

Calculating eligible costs based on the building square footage.

# Encouraging Sustainable Development

## Ecotrust's Natural Capital Center

70,000 square feet

First 10,000 sq. ft. @ \$9.29 = \$ 92,900

Next 40,000 sq. ft. @ \$4.29 = \$171,600

Next 20,000 sq. ft. @ \$2.86 = \$ 57,200

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Total in eligible costs

35% of eligible costs = **\$112,595 tax credit**

\$321,700

# Encouraging Sustainable Development

## Ecotrust's Natural Capital Center



### Partnership

- ◆ Ecotrust vice pres. (Back left)
- ◆ Oregon Dept. of Energy  
Suzanne Dillard  
Tax credit program manager
- ◆ Pass-through Partner  
Owner of Walsh Construction
- ◆ Ecotrust pres. (Front center)

# Resources

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**Susanne C. Dillard**  
Conservation Services Manager

## **Oregon Department of Energy**

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**[www.oregon.gov/energy](http://www.oregon.gov/energy)**