The Oregon Department of Energy

Tax Credits

April 2006
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

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

- 1st year energy yield (kWh) × 60 cents (renewables)
- 1st year energy yield (kWh) × 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
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 gallon
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

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

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

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
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

- 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

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
Business Energy Tax Credit

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

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

- 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

- **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
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%
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

Program challenges:
- Adapting to changing technology
- Verification
- Managing growth
Business Energy Tax Credit

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

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

<table>
<thead>
<tr>
<th>Building Area</th>
<th>Silver</th>
<th>Gold</th>
<th>Platinum</th>
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<tbody>
<tr>
<td>First 10,000 sq ft</td>
<td>$10.00/sq ft</td>
<td>$13.75/sq ft</td>
<td>$17.86/sq ft</td>
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<tr>
<td>Next 40,000 sq ft</td>
<td>$5.00/sq ft</td>
<td>$5.71/sq ft</td>
<td>$9.29/sq ft</td>
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<tr>
<td>50,000 sq ft plus</td>
<td>$2.00/sq ft</td>
<td>$2.86/sq ft</td>
<td>$5.71/sq ft</td>
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Calculating eligible costs based on the building square footage.
Encouraging Sustainable Development

Ecotrusted’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

Total in eligible costs

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

$321,700
Encouraging Sustainable Development

Ecotruth’s Natural Capital Center

Partnership

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

Susanne C. Dillard
Conservation Services Manager

Oregon Department of Energy
625 Marion St. N.E.
Salem, OR 97301-3737

Phone: (503) 378-4040
www.oregon.gov/energy