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Solar Surge

Financing Charitable Solar

Nonprofit Tax Benefits Make Solar Attractive Investments



By Tom Wu
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Every year, the growth of solar in Massachusetts increases at an extraordinary pace. Almost all projects completed thus far in the Department of Energy Resources'

Solar Carve-out program have been private. As more and more solar systems continue to be put up, many non-profit institutes have begun wondering why they are being left on the side-lines. Over the past two years, there has been a growing trend of offering leases and power purchase agreements to non-profit entities such as municipalities, high schools, and colleges. This arrangement has worked tremendously well, and is now a common trend among the investment community. Building upon this success, there is a new niche model that allows non-profits to enjoy a greater degree of financial benefit to solar with a new tax focused investment community.

There are two major incentives that drive the Massachusetts solar industry. The first is the availability of federal tax credits. Since non-profits enjoy tax exempt status, it has been traditionally viewed that a direct ownership of the solar assets would not be financially viable. The second benefit is the Solar Renewable Energy Credits (SRECs) that represent the environmental attribute of a solar system. These credits are sold at auction by the solar system owner, which in most arrangements is the investor that has contributed its capital for tax benefits. All in all, it would seem that none of the major incentives would be able to go to a non-profit entity.

The solution to a greater sharing partnership for non-profits comes in the form of a charitable contribution. A tax equity investor would fund a solar project and own it for the duration of the tax recapture period (5-6 years), after which, the solar system would be donated to a non-profit as a charitable contribution. This allows the tax investor to take all tax benefits, as well as an additional tax write off for the remainder value of the solar system. The non-profit would receive an entire solar system at virtually no cost, and still be able to receive the ownership of SRECs for another five years. The power supplied by the solar system would be able to provide a leveled energy savings to the host facility.

During the tax recapture years, the non-profit can receive additional revenue from the solar investors by charging a land/roof lease for the usage of developable space. This lease would help supplement income for the non-profit for an underperforming asset (i.e. free roof space or vacant land) that would otherwise be wasted in its idle status.

In addition to the favorable financial incentive to go solar, there exist a wide range of educational benefits. Solar systems installed on school properties can provide a direct hands-on experience for the attending students, and can help create a sustainability curriculum. Solar projects have been highly sought after by both private schools to attract the admissions of prospective students to an avant-garde institution. The possibilities of incorporating a solar facility into an educational curriculum are endless. For example, agricultural oriented schools have the opportunity to develop a novel system that utilizes a hybrid system between active farming practices and on-site energy production; a double use for farm lands. This example is currently in process on a tobacco field on the campus of Elon University in North Carolina.

The benefits of charitable solar is not one-sided. For tax investors, this gifting process allows them to have a direct participation in their charity campaign. The solar gift is a great way to see how donations are put to use directly for a cause that brings about the awareness of energy independence and sustainable education. It is common for donors to question the appropriation of their donations funds for a charitable cause. Sometimes, the money is not well spent, or it is left in the hands of inept non-profit managers. A charitable solar contribution allows investors and donors to see their money at work on a daily basis, and the impact can be quantified in a very measurable manner.

The model of charitable solar is novel, but it is one that has been implemented. As the solar industry grows, there will be more developing opportunities that provide financial benefits to all sectors. For an industry that is supported by government incentives, the benefits should not be limited to simply private corporations. This mutual benefiting model is a workable plan that gives mutual benefits to the private, non-profit, and public sectors, and bring about a good cause that can be championed by everyone.

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