

Solar Incentives in Maryland – The Numbers May Just Add Up

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Provisions in the recent American Recovery and Reinvestment Tax Act of 2009 (ARRTA), combined with state and local incentives in Maryland for projects utilizing solar power, create a compelling case for adding solar power to both new residential and commercial construction projects as well as rehabilitation projects in Maryland. The use of solar power systems may qualify the project for tax credits, provide an opportunity for alternative project financing, and may offer creative marketing approaches.

Because utilities in Maryland are required to provide a set amount of power using renewable energy through the state's Renewable Portfolio Standard (RPS), such utilities are willing to pay the producers of renewable energy for the green attributes of the energy produced (referred to as renewable energy credits, or RECs).

Solar power has a specific, aggressive target under the RPS, and, as a result, the value of solar RECs in Maryland is quite high. When the value of solar RECs is combined with the value of the electricity produced, the output is currently worth several times what fossil-fuel energy would be worth. As a result, together with other state and federal tax incentives, many installed solar power systems in Maryland are delivering power at prices below utility rates, making solar projects cost-effective.

Maryland now has both a sales tax and property tax exemption for solar power property (both commercial and residential) exempting the property from the otherwise applicable state tax.

Federal incentives

Last year, the 30 percent federal investment tax credit for commercially-owned solar installations (which may be installed on residential locations) was extended through the end of 2016. ARRTA created a cash grant option for this credit that allows recipients of the credit to receive a cash grant equal to the credit, regardless of whether the taxpayer has a current tax liability. Additionally, last year, the \$2,000 limit on the 30 percent tax credit for residential solar installations was removed. Electric utilities, previously prohibited from claiming the commercial solar credit, are now able to do so. These changes make the purchase of solar equipment by homeowners more financially attractive, and may present opportunities for a builder to partner with a local utility on the ownership and development of solar projects. Installations owned by commercial entities also benefit from an accelerated depreciation schedule and an additional 50 percent bonus depreciation through the end of 2009, presenting the possibility of third-party financing and ownership of solar projects on commercial or residential properties.

State incentives

Maryland now has both a sales tax and property tax exemption for solar power property (both commercial and residential) exempting the property from the otherwise applicable state tax. A number of Maryland counties also provide a property tax credit equal to a portion of the value of installed solar power property. Maryland also provides for a state income tax credit for green buildings as well as a solar rebate of up to \$10,000.

Rehabilitation incentives

Under ARRTA, near zero-interest loans may be available to finance renewable energy or energy efficient rehabilitations of private facilities, as part of a "green community program," which could be used for either commercial or residential projects. These bonds, referred to as Qualified Energy Conservation Bonds, are allocated by population, and must be issued by state or local governments. Maryland has been allocated about \$58 million, so the amount available for specific projects may be fairly small, but the financing terms are extremely favorable. These low-interest bonds could provide additional financing for rehabilitation or high efficiency new building projects, even if privately owned.

Projects in Low-Income Areas

Mixed-use (80 percent or less residential) or commercial projects located in certain low-income census tracts may qualify for below-market financing under a New Markets tax credit financing structure. The below-market rate loans may be applied to the entire project or the solar power component of a project. This tax credit typically results in below-market rate, interest-only loans for seven years, sometimes with partial loan forgiveness. ARRTA increased the allocations to this program. Additionally, some of the \$61 million Maryland has received under the stimulus bill for weatherization and low-income energy programs may be available to help increase energy efficiency for low-income residents, helping to offset the costs of installing this equipment in a new or refurbished project.

Conclusion

Because of the myriad of federal, state and local incentives available to solar and other energy improvements and the potential for alternative financing options, it is vital, especially in the current market, to evaluate whether the installation of these systems will enhance the value of a proposed project. ■

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