

Grants, Loans and Tax Incentives



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Downtown commercial district buildings can become more economically sustainable through investments in energy efficiency and renewable energy. Grants, loans and tax credits can help offset the cost of more efficient equipment, lower energy bills and ultimately strengthen the bottom line.

Before a property owner or business operator begins pursuing an energy-related project, the local utility provider(s) should be contacted to learn about assistance programs and services that may be available. By determining the utility incentives, as well as the timing and process for obtaining them, energy-related projects can proceed with a clearer assessment of the remaining funding needed to help cover the cost of energy improvements.

Depending on the type of improvement and funding program, an energy audit or analysis of savings and payback period may be a necessary first step before seeking financial assistance. Some programs require specific information from qualified energy auditors, and those types of program requirements can be clarified prior to pursuing an energy audit or analysis. Many energy improvements pay for themselves through energy savings within a year or two, but more expensive projects can often qualify for government incentive programs.

The state and federal governments offer a variety of energy-efficiency and renewable energy grants, tax credits and loans that are suitable for historic commercial properties. Historic preservation-specific programs can be utilized for energy efficiency improvements being incorporated into building rehabilitations. These include state and federal historic preservation tax credits and the state Historic Sites Preservation Grant program.

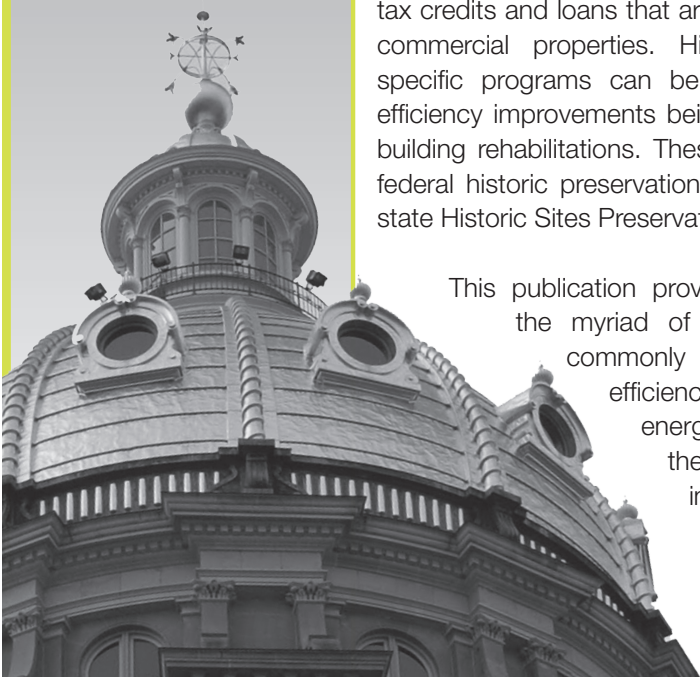
This publication provides a snapshot at the myriad of programs that are commonly utilized for energy efficiency and renewable energy programs. With the variety of financial incentives available, local Main Street Iowa coordinators can assist property owners by helping navigate the

range of programs that are available for various projects. Funding availability changes and new programs may arise, but anyone willing to do some research will find incentives and long-term rewards for making energy improvements.

Energy Efficiency Programs

The Energy-Efficient Commercial Buildings Tax Deduction is a federal corporate tax deduction for new or existing buildings. The full deduction of \$1.80 per square foot may be taken by building owners (and sometimes tenants if they make the improvements) for installing interior lighting, building envelope or heating, cooling, ventilation or hot-water system improvements that reduce the building's total energy costs by 50 percent or more. A partial deduction is available for less comprehensive energy improvements. More information is available at <http://www.efficientbuildings.org>. Specific tax questions on the Energy-Efficient Commercial Buildings Tax Deduction should be directed to a tax professional or to the Internal Revenue Service by calling 800.829.1040.

The Building Energy Management Program is an alternative financing program available to government entities including schools, hospitals, local governments, colleges and universities, as well as some 501(c)(3) nonprofit groups. This low-interest loan or lease-purchase agreement pays up to 100 percent of an energy-efficiency or renewable energy project. Eligible projects focus only on investments that are cash-flow positive (the energy costs saved are greater than or equal to the costs of the improvements). For more information, contact the Iowa Department of Administrative Services at 515.725.2218 or visit www.iowa.gov/government/governor/energy/files/BEMProgramLoanFund.pdf.



Programs for Both Energy Efficiency and Renewable Energy

The Rural Energy for America Program (REAP)

is managed by USDA Rural Development and provides grants and loans to small businesses located in rural areas (population less than 50,000) for energy-efficiency or renewable-energy projects. REAP offers grants of up to 25 percent of the total project cost; a loan of up to 75 percent of the total project cost; or a combined 25 percent grant and 50 percent loan equaling 75 percent of the total project costs. To be eligible for a grant, the total cost of an energy-efficiency project must be between \$6,000 to \$250,000, and the total cost of a renewable-energy project must be \$10,000 to \$500,000. To be eligible for a loan the total cost of an energy-efficiency or renewable-energy project must be between \$5,000 and \$25 million. The rules of this program change with the annual federal notice of funding availability, which is usually released in April. Applications are available year round and are usually due in June. For more information, contact your regional USDA Rural Development office, which can be found at www.rurdev.usda.gov/ia/ia_offices.html#area6

The Business and Industry Guaranteed Loans (B&I) program

is managed by USDA Rural Development. This program guarantees up to 80 percent of a traditional loan for many types of energy-efficiency and renewable-energy equipment as well as other business purchases. The maximum repayment term of loans for machinery and equipment cannot exceed its useful life or 15 years, whichever is less. For more information on the B&I program, contact your regional USDA Rural Development office at www.rurdev.usda.gov/ia/ia_offices.html#area6.

Renewable Energy Programs

The Renewable Energy Production Tax Credit

is a two-part Iowa tax credit for wind energy and other renewable energy generated by incorporated businesses, schools, rural electric cooperatives, farms and other institutions.

Under the first option, a production tax credit of 1.5 cents per kilowatt-hour is available for energy generated and sold by eligible wind-energy generators and other renewable-energy facilities, including biomass and solar facilities. These credits may be applied toward the state's personal income tax, business tax, financial institutions tax or sales and use tax. A renewable-energy facility must be at least 51 percent owned by specifically defined qualifying owners.

Under the second option, a production tax credit of one cent per kilowatt-hour is available for electricity generated by eligible wind-energy facilities, including electricity used for on-site consumption. The tax credit may be applied toward the state's personal income tax, business income tax, financial institutions tax, sales and use tax or energy-replacement-generation tax.

To be eligible for these credits, projects must be approved by the Iowa Utilities Board and be in service before January 1, 2012, (1st option) or by July 1, 2012, (2nd option). For more information on these two tax credits contact the Iowa Utilities Board at 877.565.4450 or visit www.state.ia.us/iub, or the Iowa Department of Revenue at 800.367.3388.

The Alternate Energy Revolving Loan Program (AERLP)

provides loan funds to individuals and organizations that seek to build solar, biomass, wind and small hydro facilities. The AERLP provides a single low-interest loan with 50 percent of the total loan at zero percent interest and the remainder from matching lender-provided funds at the market interest rate. Technical applications for projects with a total financed capital cost of \$50,000 or less are reviewed on a continuous basis. Higher cost projects are reviewed quarterly based on the following deadlines: Oct. 31, Jan. 31, Apr. 30 and July 31. For more information on this program, contact the Iowa Energy Center at 515.294.4710 or visit www.energy.iastate.edu/.

The Property Tax Exemption for Renewable Energy Systems

is the standard property tax assessment for wind energy, passive-solar space heat, solar water heat, solar space heat, solar thermal electric and photovoltaic systems under Iowa code 441.21. This property-tax exemption is applicable for five years. Counties and local governments may also vote to pass a special assessment ordinance on property taxes for wind. For more information on the Property Tax Exemption for Renewable Energy Systems, contact the Iowa Department of Revenue at 515.281.3362 or visit: www.iowa.gov/tax/.

Consider these general rules on energy upgrades for small businesses:

1. Energy efficiency upgrades including high-efficiency heating and cooling systems and lighting often have a simple payback of only a few years.

2. Renewable energy projects are generally long-term investments with generation incentives and depreciation schedules carried out over several years.

3. Grants and tax credits both decrease the total project costs and reduce the simple payback period.

Energy-efficiency and renewable-energy grants, tax credits and loans are changing all the time. To obtain the most up-to-date information on these incentives as well as utility rebate programs, review the Database of State Incentives for Renewables and Efficiency (DSIRE) at www.dsireusa.org.

A useful chart about wind credits can be found at: www.iowa.gov/tax/locgov/propwindcode.html.

The Wind and Solar Energy Equipment Exemption exempts the total cost of all materials used to manufacture and construct equipment for solar water heat, solar space heat, solar thermal electric, solar thermal process heat, photovoltaics, wind energy and solar pool heating from state sales taxes. For more information, contact the Iowa Department of Revenue at 800.367.3388.

The Federal Production Tax Credit (PTC) reduces the overall tax burden of qualifying renewable-energy project owners on a per-kilowatt-hour basis. The PTC is 2.2 cents per kilowatt hour for wind, geothermal and closed-loop biomass systems and 1.1 cents per kilowatt-hour for other eligible technologies. The credit generally applies to the first 10 years of operation. The PTC was originally enacted in 1992 and has been renewed and expanded several times. Through December 31, 2011, the Federal Production Tax Credit (PTC) can be converted into a Federal Investment Tax Credit (ITC) or Treasury Grant.

The Federal Investment Tax Credit (ITC) provides a tax credit of up to 30 percent on capital investment in a qualifying renewable-energy project.

The U.S. Treasury Grant is an up-front cash grant option that may be taken in lieu of either

the ITC or the PTC. The grant can cover up to 30 percent of the total capital investment of a qualifying renewable-energy project.

For more information on the PTC and ITC, talk with a tax professional or call the IRS at 800.829.1040. For more information on the Treasury Grant option, e-mail questions to 1603Questions@do.treas.gov or visit: www.treasury.gov/initiatives/recovery/Pages/1603.aspx.

The Modified Accelerated Cost-Recovery System (MACRS) allows eligible businesses to recover investments through depreciation deductions. Eligible technology includes solar water heat, solar space heat, solar thermal electric, solar thermal process heat, photovoltaics, geothermal electric, geothermal heat pumps, anaerobic digestion and other renewable-energy technologies. The depreciation schedule for eligible technologies varies but generally ranges from five to seven years. Currently a “bonus depreciation” allows 100% of the depreciation to be taken in the first year. This is a big incentive for businesses who can take advantage. For more information on the federal MACRS, contact a tax professional; see IRS Publication 946, IRS Form 4562: Depreciation and Amortization and Instructions for Form 4562; or call the IRS at 800.829.1040.

Lowering

Bogenrief Studios, Inc., a custom stained and beveled glass shop located in Sutherland, Iowa, is reaping the value of energy efficiency savings at their small business. In 2005, Mark and Jeanne Bogenrief contacted MidAmerican Energy (their electric utility) about improving the energy efficiency of their small commercial building. MidAmerican assisted the Bogenriefs in working with a performance modeler to analyze and develop a series of recommendations on energy efficient heating and lighting. “At first, we did nothing with the recommendations,” says Jeannie Bogenrief. But in 2009 the boiler failed, leaving the Bogenriefs’ with the option to either replace the existing unit with a similarly inefficient unit or invest in more efficient heating equipment. The Bogenriefs consulted with MidAmerican and decided to invest in more efficient equipment and leverage all available grant and loan resources. The payoff was significant.

The Bogenriefs contacted USDA Rural Development and a grant writer to help them apply for a Rural Energy for America Program grant of \$14,730 and a guaranteed loan of \$29,460. The grant and loan combination helped them to install a six-zone Munchkin boiler heating system. The system saves their business \$5,000 - \$8,000 per month in winter heating costs. “It was probably the best thing we ever did,” says Mark Bogenrief, co-owner of the studio. “It saves us thousands of dollars per month.”

In addition, the Bogenriefs have been replacing fluorescent T-12 lighting with more efficient T-8 lighting. “We take our time and replace the tubes and ballasts in one room at a time; our electric bill is less than before”, says Jeanne Bogenrief.

What is the return on investment with energy efficiency or renewable energy?

Energy-Efficiency and Renewable Energy Costs on Main Street

Making the decision to invest in energy-efficient and renewable-energy equipment is usually driven by some type of expected return on that investment. Two examples below demonstrate what an investment decision might look like when grants, loans and tax credits are leveraged.

Example 1 – Energy Efficiency

A small-business owner wants to upgrade an inefficient HVAC system and controls. After getting several bids, the owner selects a new HVAC system that meets the minimum standards of the Energy-Efficient Commercial Buildings Tax Deduction, qualifying to receive its tax credit of 60 cents per square foot. The owner contacts the local gas and electric utility to see if an equipment rebate is available. Prior to installing the equipment, the project owner also applies for a 25 percent grant from the USDA Rural Energy for America Program. Combining these incentives covers a large part of the total project costs, and the remaining project costs can be covered by a private or guaranteed loan through a bank.

Example 2 – Renewable Energy

An owner of a business in a building he or she owns is interested in installing a small solar array. The business owner obtains bids to apply for the 25 percent grant from the Rural Energy for America Program. The project owner also applies in advance to the Iowa Utilities Board to become a qualifying facility for the Renewable Energy Production Tax credit of 1.5 cents per kilowatt-hour generated, in addition to receiving the 30 percent Federal Investment Tax Credit (ITC). In addition to these and other combinations of grants and tax credits, the project may be eligible for a variety of utility production incentives.

Energy-efficiency and renewable-energy grants, tax credits and loans are changing all the time. Several tax credits are scheduled to expire but may be extended. To obtain the most up-to-date information on these incentives as well as utility rebate programs, review the Database of State Incentives for Renewables and Efficiency (DSIRE) at www.dsireusa.org.

This publication is part of the

Local Energy Leadership Series

Titles include:

- Energy Efficiency Basics
- Utility Incentives and Services
- Energy Audits and Assessment Tools
- Grants, Loans and Tax Incentives
- Energy Solutions for Food Businesses
- Renewable Energy for Historic Commercial Buildings

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