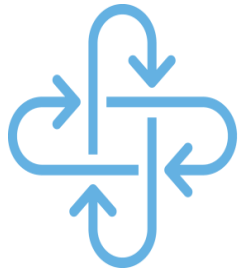


# Renewable Energy Education Field Day

## Financing for Anaerobic Digestion Projects

March 14, 2012

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Positive energy.

- › Renewable Energy Industry Drivers
- › Overview of Funding Options

## Baker Tilly is the 8<sup>th</sup> largest accounting network worldwide

- > 19<sup>th</sup> largest in U.S. consisting of over 1,400 Professionals
- > Virchow Krause established in 1931
- > Eleven years as an established investment banking practice through Baker Tilly Capital, LLC

## Baker Tilly Renewable Group U.S. Clientele

- > Developers
- > Public Entities / Utilities
- > Manufacturing
- > Real Estate
- > Native American Tribes

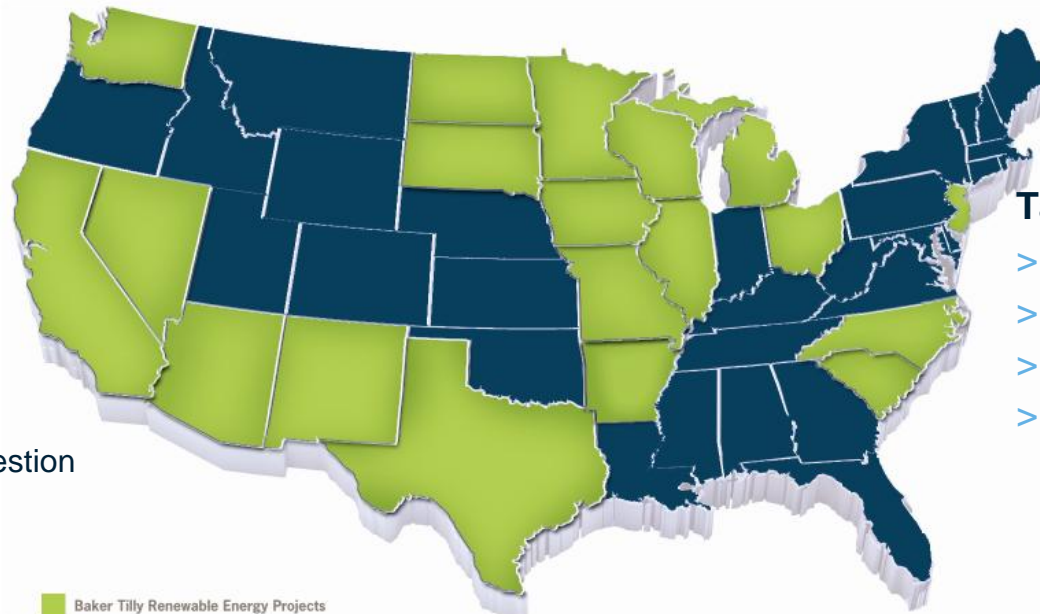


# Renewable Energy Client Activities

Baker Tilly clients have completed or have ongoing renewable energy projects in the states shaded green.

**1,500+ MW**  
**55+ projects**

- > Wind
- > Solar
- > Biomass
- > Anaerobic Digestion



**Tax Credits/Incentives**

- > 1603 Grants
- > ITC/PTC
- > 48C Monetization
- > New Markets Tax Credits

- › Renewable Portfolio Standards (RPS) creating demand for renewable power
  - State level incentives
  - Renewable Energy Credits (REC) currently an inefficient market
  - National RPS has been proposed/discussed
  
- › Financial Incentives for Renewable Energy Projects (ARRA most recent)
  
- › Carbon emission regulations and offset markets creating economic incentives to reduce greenhouse gas emissions
  - EPA currently regulates CO<sub>2</sub> emissions (fine based system)
  - “Cap and Trade” system has been adopted in California (October, 2011) creating a compliance market for carbon credits from agricultural projects
  
- › Environmental regulations increasing – major impact on agricultural and food processing sectors relating to waste disposal processes

# DSIRE™

Database of State Incentives for Renewables & Efficiency

U.S. DEPARTMENT OF ENERGY

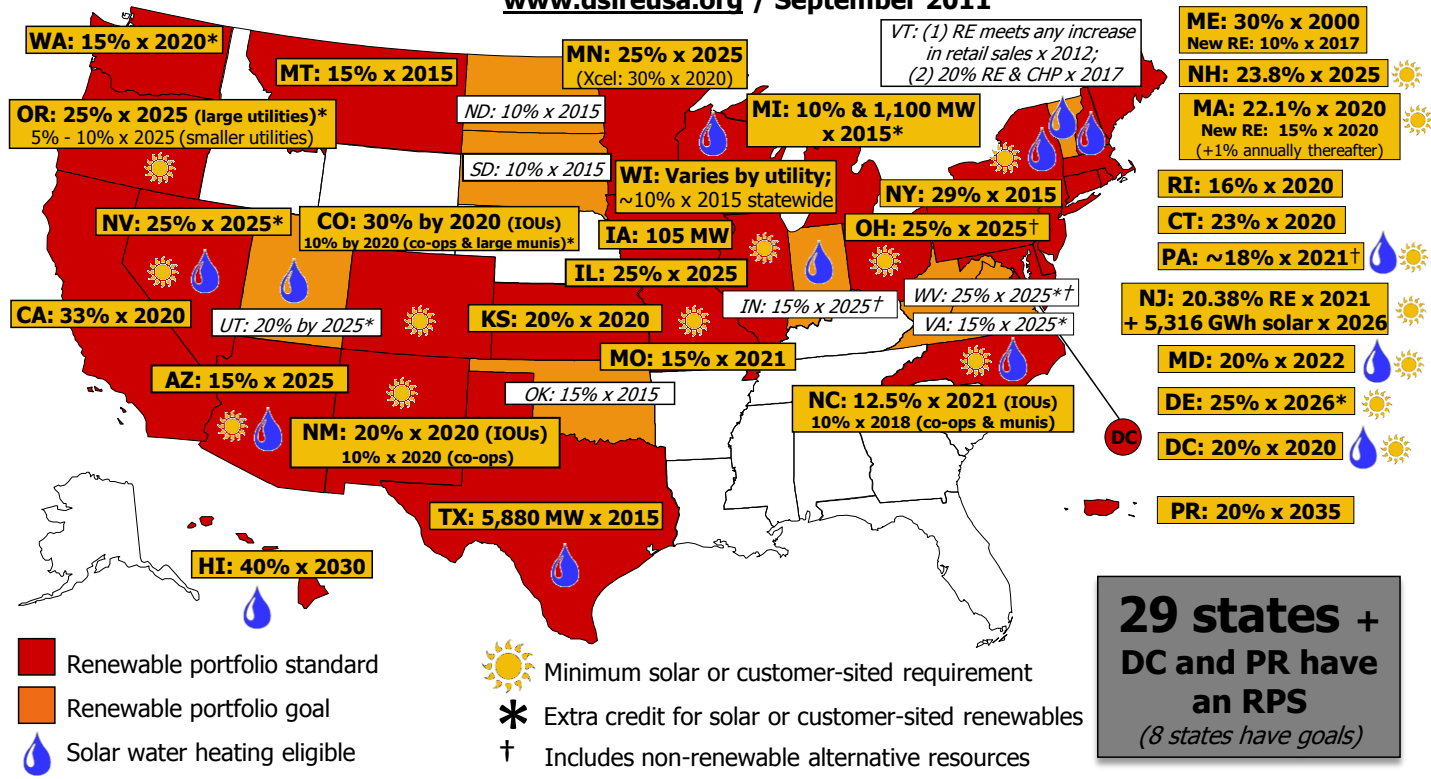
Energy Efficiency & Renewable Energy

IREC  
INTERSTATE RENEWABLE ENERGY COUNCIL

NORTH CAROLINA SOLAR CENTER

## RPS Policies

[www.dsireusa.org](http://www.dsireusa.org) / September 2011



**29 states + DC and PR have an RPS**  
(8 states have goals)

## DSIRE™

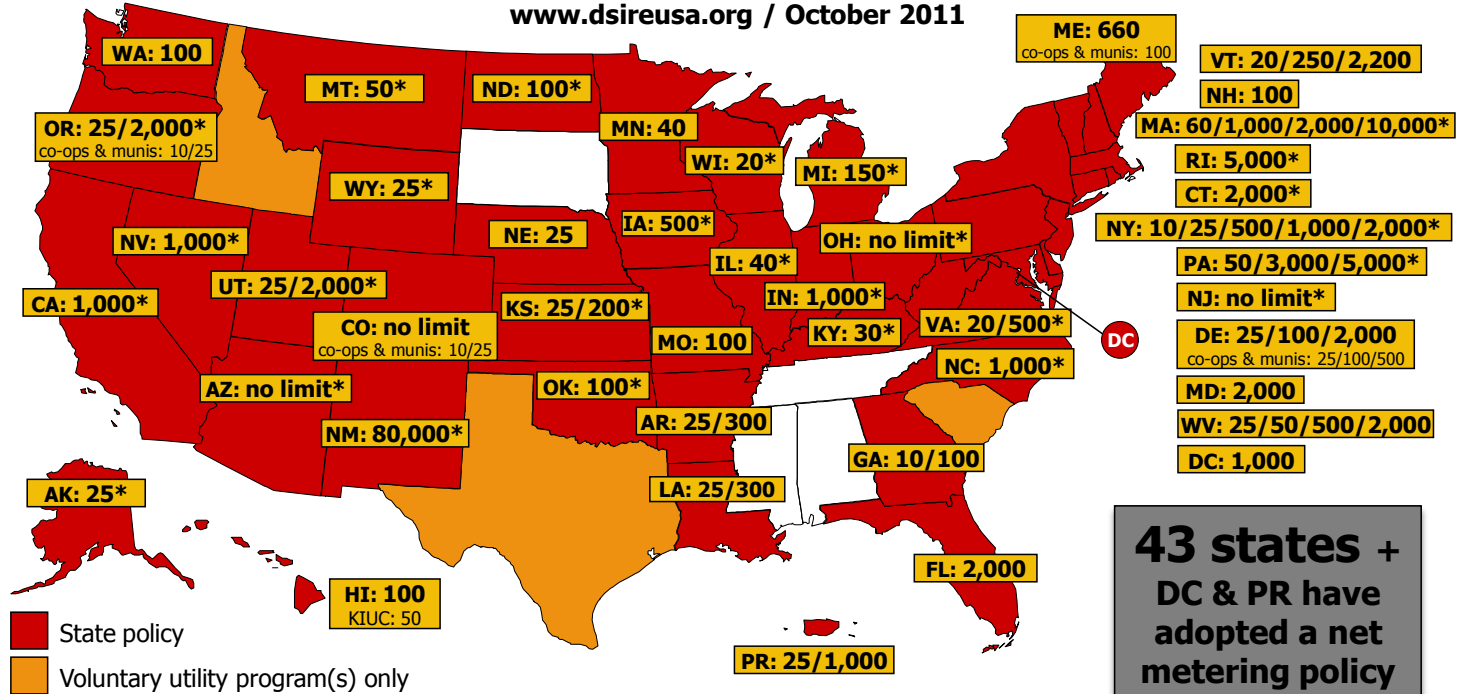
Database of State Incentives for Renewables & Efficiency

U.S. DEPARTMENT OF ENERGY

Energy Efficiency & Renewable Energy

## Net Metering

www.dsireusa.org / October 2011



**43 states + DC & PR have adopted a net metering policy**

\* State policy applies to certain utility types only (e.g., investor-owned utilities)

Note: Numbers indicate individual system capacity limit in kW. Some limits vary by customer type, technology and/or application. Other limits might also apply. This map generally does not address statutory changes until administrative rules have been adopted to implement such changes.

## › ARRA Incentives:

- Production Tax Credit equal to \$.022/kwh produced for 10 years
  - › Indexed to inflation
  - › 50% less for open loop biomass/trash facilities (digesters fall under these definitions)
- Investment Tax Credit (“ITC”) equal to 30% of eligible project costs
- 1603 Grant in Lieu of ITC
  - › Grant proceeds available 60 days after Commercial Operation Date (COD)
  - › Project must have “commenced construction” by December 31, 2011

**For PTC, ITC or 1603 grant, Project must reach COD prior to December 31, 2013**

- Accelerated Depreciation (5 Year MACRS) applies as well (basis reduced by 50% of the 1603 grant)

## › New Markets Tax Credits (NMTC)

- Brings additional low cost capital to fund a project
- “Typical” NMTC deal (\$10 million of allocation) provides approximately \$2.0 million of benefit to the project
- Total allocation of \$29.5 billion since program’s inception in 2000



## > Structures

### – Sale-leaseback

- » Term of lease must be meaningfully shorter than useful life of equipment
- » FMV requirements

### – Flip Structure (Section 45, Revenue Procedure 2007-65)

- » Investor owns 99% of project, sponsor owns 1% but is managing member
- » Automatically shifts to 5/95 split at pre-arranged “flip point” (based on IRR for tax investor)
- » Sponsor has option to purchase remaining 5% at FMV

### – Preferred membership class for tax investor

- » Preferred equity holders would receive preferred return and their original capital in advance of distributions being made to the common equity holders.
- » Tax benefits from losses included in definition of “cash flow” for purposes of calculating distributions to preferred members

## > Requirements in all cases

- Must be investor at time qualifying equipment is placed in service (Sale-leaseback provides 3 month cushion)
- Economic substance guidelines

Tax Investor will have similar underwriting perspective to senior lenders

Potential Funding Options	Cost of Funds	Comments
1603 Grant Funds*	Nearly 0%	Need to have met "start of construction" requirement prior to December 31, 2011
NMTC Proceeds	Nearly 0%	Not an "entitlement program", must secure allocation from CDE
Utility Rebates/Grants	Nearly 0%	Depends on project deliverables and timing for "yearly" program goals/funding
Federal Loan Guarantees/TIF/Other	4-8%	Specific to project location, availability and owner's overall profile of need
Foundation Investments	5-8%	Depends upon fit of project with "Program Funds" available
Senior Debt	6-9%	Depends upon Sponsor's background and contractual "de-risking" of the project
Tax Equity	10-15%	Supply/demand driven and is a fluid market
Equity	12-20+%	Depends upon technology's stage of development

\* Requires a bridge investment (funds received post COD).

## Observation:

- › Having well established partners and clear communication is critical. Not easy to bridge varying perspectives that exist between engineers, energy, financial and agricultural communities