



## Financing Photovoltaic Energy Systems

**CENTRAL PACIFIC BANK**

### Why acquire a PV System?

- Photovoltaic (PV) systems convert sunlight into electricity.
- It's a way to control volatile energy costs.
- Take advantage of State and Federal Tax Incentives.
- Renewable source of energy and reduces our reliance on fossil fuels.
- Solar PV Systems do not emit harmful pollutants and helps to protect our environment.

## Ideal PV Candidates

- Business Owners
  - Who own their own commercial building or have a long-term fixed lease.
  - Are seeking to control energy costs.
    - Direct cost savings from energy derived from PV System
    - Potentially by lowering peak-usage during the daylight hours.
  - Are seeking to take full advantage of State and Federal Tax incentives.

## Loan Financing Alternative

- Advantages
  - Equity in the system is owned by the Borrower.
  - Borrower may qualify for Federal & State tax credits and accelerated depreciation.
  - Loan terms 7 – 10 years.
  - Rates are negotiated and can be either floating or fixed for the entire term.
- Disadvantages
  - Monthly payments exceed the utility cost savings.
  - Time value of the tax credits diminishes if not used in the current year and must be carried forward.

## Lease Financing Alternative

### ■ Advantages

- Monthly payments offset by utility cost savings.
- Lessor claims the Federal & State tax credits and accelerated depreciation and compensates Lessee through lower rent payments.
- Minimal cash outlay at lease inception.
- Lease terms 5 – 10 years with fixed monthly payments.

### ■ Disadvantages

- Prepayment penalties make early termination of lease expensive.
- Equipment purchase at lease termination is at Fair Market Value.

## Federal PV Tax Credit

### ■ Commercial Solar credit - 30% of the eligible PV

- User must be subject to U.S. Income tax. Tax exempt organizations, governmental units, public utility property do not qualify.
- System must be new, used in the U.S. with original use beginning with the taxpayer.
- System must be placed in service during 2006 to 2008.
- State rebates, credits, grants, other incentives do not decrease the amount eligible for the Fed credit, if the Co. is required to pay Federal income tax on the incentive.

## Federal PV Tax Credit

- Commercial Solar credit – (continued)
  - Credit vested over 5 years at rate of 20% a year.
  - Depreciation basis reduced by 50% of the credit.
  - Credit cannot be used in the year a taxpayer is subject to the alternative minimum tax (AMT) .
  - Unused credit can be carried back 1 yr., forward 20 yrs.

## State Of Hawaii PV Tax Credit

- 35% of the eligible PV with \$500,000 maximum
  - Located on and for use by Commercial property.
  - Tax credit basis is the cost of the system including accessories & installation less utility rebates.
  - System placed in service after 7/1/06. No sunset date.
  - The 30% Federal tax credit does not decrease the amount eligible for the State credit.
  - No recapture or minimum vesting period.
  - Unused credit can be carried forward until exhausted.

## Lessor's Tax Credits

- Generally, Lessor can claim tax credits the Lessee would qualify for.
- Time value of credits is greater for Lessor with immediate use versus Lessee that must carry forward credits.

## Ideal Leasing Candidates

- For profit entities
  - Seeking to minimized their initial capital outlay
  - Unable to efficiently use the tax incentives
  - Seeking lower monthly payments

## Action Steps

- Consult with the Experts
  - Seek out reputable PV Contractors
    - A professional PV Contractor will assist you with selecting an appropriate system for your business.
    - Check their Contractor's Licenses, DCCA for complaints and ask for References
  - Banker/Leasing Representative and CPA
    - Consult with your Banker/Leasing Rep regarding their requirements and get a preliminary proposal.
    - Consult with your CPA regarding your qualification for tax benefits and deciding the best route for financing.

## Central Pacific Bank

- Central Pacific Bank is a leader in financing Alternative Energy Projects.
  - We have financed PV Systems through out the State of Hawaii.
  - Central Pacific Bank was the only Hawaii Based Financial Institution to participate in financing the Kaheawa Wind Project above McGregor Point.
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