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| St John’s Episcopal Church |
| Solar LLC Investor Information |
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| St John’s Solar Study Group  10-23-2015 |

**St John’s Episcopal Church**

**Solar Project**

Limited Liability Company (LLC) Participation Information

# **Summary**

1. Limited Liability Company is being formed to monetize tax-based incentives for the solar project
2. Goal: raise $100,000 to pay for the solar project, capture more than $30,000 of incentives
3. LLC will have 10 members from the congregation; if more than 10 are interested, a lottery will determine the 10 final participants
4. $10,000 one-time capital investment needed by Nov 20, 2015
5. Anticipate 7-13% per year return on investment
6. Funds will be used for $95,000 system capital cost, $5,000 contingency for operating costs
7. LLC will own and operate the solar array for 6 years
8. At the end of 6 years, the LLC will sell the array to St John’s for a reduced price, e.g. $56,500, investors get their capital back
9. St John’s pays LLC for electricity produced by solar array, ~$400/mo
10. Xcel Energy pays array owner for Renewable Energy Credits (RECs), ~$150/mo for 20 yrs
11. LLC income divided up and paid out to investors

# **Reasons for Forming an LLC**

1. The Solar Study Group had a goal to “ensure that renewable energy projects provide savings to the church,” including the capital budget
2. We learned of a similar project in Louisville, at Christ the Servant (CTS) Lutheran. CTS installed their solar array in 2010.
3. Nine CTS parishioners formed a for-profit Limited Liability Partnership (LLP) in order to monetize federal tax benefit worth 30% of the installed system cost, worth about $28,500 in St John’s project.
4. The Solar Study Group recommends that St John’s form a Limited Liability Company (LLC) to fund our project
5. The LLC will be a separate, for-profit company, not managed by or legally bound to St John’s church or the Colorado Diocese. Its primary purpose will be for the benefit of St John’s.
6. In CTS Lutheran’s case, the members of the LLC have received a 9-12% per year return on their investment in exchange for providing capital for the project. (note: investment returns are for example only and are not guaranteed)

# **Selecting Members of the St John’s Solar LLC**

1. The St John’s Solar LLC will have 10 members. Keeping the number of members at 10 makes the LLC easier to manage, lowering costs and benefitting the church more.
2. LLC Members must be able to provide an initial investment of approximately $10,000 by November 20, 2015.
3. If more than 10 qualified parishioners express interest in joining the LLC, a lottery will be held to select the 10 final members.
4. One LLC member will be selected to act as managing member. The duties of the managing member are estimated to require 40-60 hours per year. The managing member will perform duties such as:
   * maintain the accounting and legal records of the LLC
   * provide day-to-day operations, such as arranging for maintenance or repairs
   * produce invoices, receive payments, and make payouts as required
   * maintain the LLC bank accounts
   * manage the preparation and filing of tax returns annually

# **Establishing the St John’s Solar LLC**

1. We must act quickly to get the LLC formed in order to have the array installed in spring 2016. The LLC must be established and funded before any contract can be signed for installation of the solar array.
2. The following schedule is recommended:

18 Oct Clergy will announce the project and the LLC during services

25 Oct Begin LLC recruitment. A draft LLC Operating Agreement will be available

13 Nov 12:00 noon: cut off for potential members to express interest

13 Nov after noon: conduct the lottery, notify members and non-selected applicants

16-20 Nov members finalize LLC Operating Agreement

20 Nov all members sign agreement and provide funds for LLC

# **LLC Agreements with St John’s**

1. The LLC will sign a Power Purchase Agreement (PPA) with St John’s
2. The PPA will define the price for the electricity produced by the array. St John’s will agree to pay the LLC for all the electricity produced by the array during the 7 year term of the PPA. The array will produce approximately 40% of the total annual energy used by St John’s
3. The amount to be charged for the electricity is still to be determined, but will result in a $700-$1000 annual savings for St John’s when compared to buying the same amount of power from Xcel Energy. The price of electricity in the PPA will be fixed, while Xcel prices are expected to increase 3-6% per year.
4. The PPA will also commit St John’s to purchasing the array at the end of the 7 year term, and will establish the future buyout price that St John’s will pay for the array. The buyout price is likely to be $56,500.
5. The PPA will define performance requirements to insure that the LLC maintains the array and that the array performs as expected when St John’s purchases the system in year 7

# **How the LLC Provides Returns to Members**

1. The LLC will distribute cash payments and tax benefits to the members once per year
2. The LLC will receive monthly payments from St John’s, as defined by the PPA, for the electricity generated by the array. These payments will be distributed to members once per year.
3. The LLC will also receive monthly checks from Xcel Energy for Renewable Energy Credits (RECs). These payments will be distributed to members once per year.
4. The LLC will apply for, and distribute the value of, the Federal Incentive Tax Credit when received, approximately $2,850 per member. This is a one-time payment in year 1.
5. The LLC will apply for a grant from Partners for a Cleaner Environment (PACE), a Boulder County program that should provide a $10,000 grant for solar within Boulder city limits. If awarded, the grant will be distributed to members. This is a one-time payment in year 1.
6. When St John’s purchases the array from the LLC in year 7, the proceeds of the sale will be distributed to the members and the LLC will be dissolved. Members are responsible for taxes on this redistribution of capital.
7. Christ the Servant (CTS) Lutheran in Louisville has been consistently providing payments to the members of their LLP for 5 years. Their return in 2014 was 9% cash + tax deduction of about $1,200, worth another 4-7% return on investment.

# **LLC Sells Renewable Energy Credits to Xcel**

1. The LLC will sign agreements with Xcel Energy to sell the Renewable Energy Credits (RECs) to Xcel for 20 years
2. The LLC will receive monthly Production Based Incentive (PBI) payments for the RECs. Xcel will pay $0.05 per kWh produced by the solar array. It is estimated these payments will be worth about $150/mo, or $1,800 per year
3. When St John’s purchases the array from the LLC in year 7, the PBI payments will begin coming to St John’s instead of the LLC.

# **LLC Tax Benefit Distribution**

1. The primary reason to form the LLC is to be able to apply the 30% Federal Investment Tax Credit (ITC) to the project financials. This incentive is worth more than $28,500 for our project
2. The LLC will file for the ITC during year 1 of operation, and the credit will be distributed to the members once received.
3. It is estimated the ITC will be worth approximately $2,850 per member in year 1 of the LLC. This effectively lowers the members’ capital investment from $10,000 to $7,150
4. In addition, the solar array can be depreciated over 5 years. The LLC will distribute this depreciation to members, who may be able to use it to reduce their personal income taxes. There is no guarantee that members will be able to use the depreciation benefit to reduce their personal taxes. Members should consult tax professionals for advice.

# **Risks to Investors**

1. There are risks associated with investing money in this project, as with any investment. Preservation of capital and potential returns on investment are in no way guaranteed.
2. The primary reason to form the LLC is to support St John’s solar project by being able to apply the 30% Federal Investment Tax Credit (ITC) to the project financials. This incentive is worth more than $28,500 for our project. It is possible this tax credit could be denied or delayed, resulting in lower returns and risk of losing capital.
3. Investors might not be able to monetize their portion of the ITC. The tax credit issued for this project is a “passive” tax credit. It can only be used to offset the tax on passive income from other sources. If an investor does not have enough passive income to use the full amount of the tax credit, the return on investment will be significantly lower. Investors should check with their tax professional before investing.
4. Inability to monetize depreciation – Members may not be able to realize the value of depreciation distributed by the LLC. Typically, depreciation is only deductible against passive income, such as rent or lease payments received, income from a business the member does not actively participate in, or interest payments. Potential investors should consult investment, tax and legal professionals regarding their ability to take advantage of depreciation benefits.
5. No PACE grant – It is anticipated that the project will receive a $10,000 grant from Boulder County’s PACE agency. There is a risk that this grant will not be received. Reasons that could prevent receipt of the grant include, but are not limited to:
   * Loss of funding from Boulder County for the PACE program
   * Other projects claim available grant funds before St John’s receives a grant
   * Improper or late filing of grant requests causes grant to be denied
6. Municipalization of electric utility – The City of Boulder is considering operating a municipal electric utility, taking over power production and distribution from Xcel Energy within Boulder city limits. This could change many things about the solar project at St John’s, including but not limited to the availability of REC payments from Xcel Energy, the price of utility-supplied electricity, the interconnect agreement with the utility, the availability and economics of net metering, and insurance requirements.
7. Loss of capital – At the end of the 6 year investment period, investors might not be able to recover some or all of their original capital investment. Reasons that could lead to this loss include, but are not limited to:
   * The church might not be able to raise capital to purchase the array at the end of the 6 year PPA, or might not be able to qualify for financing to purchase the array.
   * The LLC members could decide to charge a lower end-of-term sale price, effectively donating a portion of their capital to the church.
   * Changes in regulations or tax laws could affect the end-of-term sale price
   * Damage or failure of some or all of the solar array could affect end-of-term price
   * Poor performance of the solar array could lead to a reduced end-of-term price
8. Lower or no returns – The example returns discussed in this document are estimates only, and are not guaranteed in any way. Reasons that could lower the returns include, but are not limited to:
   * Damage or failure of some or all of the array could lower monthly PPA payments
   * The church might not be able to pay monthly PPA payments due to financial problems or lack of donations, or unexpected expenses
   * Xcel Energy could change the way REC payments are made
   * Xcel Energy could go out of business, be acquired, or affecting REC payments
   * Investors may not be able to take advantage of tax-based returns, such as not having passive income to absorb depreciation credits
   * Investors will have additional tax liabilities when the array is sold to the church
9. Damage to array or system failures – During the investment period, the solar array could be damaged, or portions of the array equipment could stop functioning, requiring funds to repair or replace components after warranties have expired, or for items not covered by warranties or insurance. In extreme cases, additional capital may be required from members, or additional members may need to be recruited. Reasons for failures or damage could include, but are not limited to:
   * Damage from hail, high winds, heavy snow or other weather-related phenomena (insurance will be purchased to mitigate this risk)
   * Electrical or mechanical failure of panels, optimizers, inverters, wiring, monitoring systems, supports, meters, circuit breakers, or other components
   * Damage from animals or birds
   * Damage by unauthorized people on the roof
10. Underperformance of array – The design of the solar array anticipates production of approximately 38,000 kilowatt-hours (kWh) of energy each year, with a 0.25% decrease each year after installation. Weather conditions, damage or equipment failures, improper monitoring, and other factors could negatively affect the performance of the system. Underperformance could decrease the income paid by the church for electricity produced, or could decrease the end-of-term sale price, resulting in a loss of capital.
11. Regulatory and legal issues – The solar energy and electrical industry are highly regulated, and constantly changing. Changes in regulation from the Public Utilities Commission (PUC), the city of Boulder, Boulder County, the State of Colorado, and the Federal government could negatively affect the ownership, operations, returns, and capital invested in this project.
12. LLC operating delays or failures – The LLC is operated by members of the LLC, in particular by the managing member. Illness, death, or unavailability of the managing member could lead to delays in payments, collections, or other transacted business of the LLC. Fines, fees, or losses from events like these could reduce the returns and capital of the LLC.

This list is not meant to be a comprehensive list of risks. Investors in the solar LLC should consult professional accountants, investment advisors, attorneys, and other experts to assess the risk of investing for themselves.

