

Northern Forest Center • Model Neighborhood Project NH Business Tax Credit Opportunity Overview

NEED: Use of fossil fuels in the Northern Forest region of Maine, New Hampshire, Vermont and New York results in more than \$6 billion leaving the region annually – draining resources from rural communities already struggling through historic economic change and the loss of thousands of wood products industry jobs. To emerge successfully from its current transition, this region must accelerate adoption of new energy alternatives that ensure long term fuel source sustainability, provide maximum efficiency and contribute to the local economy.

BACKGROUND: Over the past three years, the Northern Forest Center has conducted significant research and emerged as a leading voice on the use of woody biomass as a sustainable, cost effective source of community-scale thermal energy. Applying modern, wood-fueled heating technology at community scales – in affordable housing projects and individual homes – can help address three fundamental challenges facing rural Northern Forest communities:

- Dependence on increasingly expensive #2 heating oil is placing a higher and higher burden on all families and businesses – particularly low to moderate income families;
- Spending on imported heating oil is sending wealth out of the region at a time when the local economy is already struggling with historic changes in wood products manufacturing sector.
- New market-based strategies are needed to add value to low grade wood, stabilize land ownership patterns, and increase availability of forest-based jobs;

Unfortunately, up-front installation costs and limited public understanding modern advances have prevented widespread adoption of modern wood-based heating systems that can help reduce costs for homeowners and community facilities while keeping energy dollars circulating the regional economy.

PROJECT OVERVIEW: These factors have led to creation of the Model Neighborhood Project (MNP) – a collaboration among The Center, Maine Energy Systems and other partners to incentivize the installation of state-of-the-art wood-pellet heating systems and conduct related public outreach and education to advance the following long-term goals:

1. Deliver cost effective, environmentally sound wood-based heating systems for residential, and commercial applications in rural Northern Forest communities;
2. Stabilize and increase employment in renewable energy and forest-related business enterprises – for example, at full capacity, existing Maine pellet producers could support roughly 500 direct and indirect jobs, far more than currently supported.
3. Provide economic incentives to landowners to keep forests as forests by supporting demand for low grade wood in the face of uncertain demand from the pulp and paper industry.
4. Build markets needed to foster wide-spread conversion of residential and light commercial heating systems from fossils fuels to efficient, environmentally sustainable local wood pellets.

Specifically, the MNP is built around three areas of activity:

1. Cluster Neighborhood Retrofits – Choose two neighborhoods in northern New Hampshire to participate in the Model Neighborhood Project – with Berlin as a specific target. Retrofit up to 20 homes in each of these neighborhoods with state-of-the-art ÖkoFEN pellet boiler systems that operate on Northern Forest-made pellets to serve all heating and domestic hot water needs.
2. Low- and Moderate-Income Housing Retrofits – Collaborate with Affordable Housing Education and Development (AHEAD) and the Berlin Housing Authority (BHA) to incentivize installation of wood pellet boilers into 2-4 new and existing housing projects – producing benefits to both housing efforts while supporting development of jobs in the sustainable wood energy sector.
3. Build Markets through Widespread Promotion of Results and Benefits – Conduct detailed analysis and promotion of project results – installation, operations, fuel usage, cost savings, wealth retention – to advance wide-spread fuel switching from oil to locally and regional grown and produced wood pellets as a

sustainable economic development strategy for northern New Hampshire and the broader Northern Forest region.

This market-based approach aligns with the Northern Forest Sustainable Economy Initiative, Keeping Maine's Forests, the New England Governor's Commission on Land Conservation and the federal America's Great Outdoors report – all of which, in part, seek forest conservation through economic opportunity and diversity.

ANTICIPATED PROJECT OUTCOMES: Project evaluation will be based on successful delivery of the following specific products and outcomes over a two-year period:

- Installation of wood-pellet heating systems in 2-4 LMI housing projects.
- Installation of wood-pellet heating systems in up to 40 homes in selected "Cluster Neighborhoods."
- Significant energy cost savings by participating homeowners and facility managers – target of 40-50% savings depending on trends in heating oil prices.
- Successful penetration of local and regional media markets to promote the project and its results – target 10 media stories each in year one with increasing coverage in future years.
- Increased demand for modern wood pellet-heating systems in the project area and the greater Northern Forest region – target 15% increase over five years.

Additional evaluation will be based on satisfaction expressed by participating homeowners and facility managers as reported and recorded through project monitoring protocols.

TAX CREDIT OPPORTUNITY: The Center's project funding strategy combines corporate support with public rebate and incentive programs and a number of multi-year and single year grants from both public and private funds. The Center has already secured support from the Neil and Louise Tillotson Fund of the NH Charitable Foundation and \$400,000 in tax credits from the NH Community Development Finance Authority. The Center is currently seeking buyers for tax credits in the following time frames:

State Fiscal Year	Allocated	Sold	Available	Current Tax Credit Buyers
July 1, 2011 – June 30, 2012	\$200,000	\$115,000	\$85,000	Grappone Auto, Citizens Bank, Northway Bank
July 1, 2012 – June 30, 2013	\$200,000	\$10,000	\$190,000	Northway Bank

This Tax Credit Program enables businesses to invest in economic or community development projects in exchange for this 75% tax credit which can be applied against any or all three of the following; business profits, business enterprise, or insurance premium taxes. For example, a for-profit business "donor" that makes a \$10,000 cash investment in this project will receive a tax credit in the amount of \$7,500. *After federal tax benefits are accounted for, the contribution actually costs the company about 15% of the \$10,000, or \$1,500.* This is a great way for a business to impact a community by leveraging their tax dollars.

PROJECT SUSTAINABILITY: Because the project is designed to create market demand through demonstration projects in New Hampshire and Maine, at the end of three years we expect that increased public awareness and interest will fuel a growing and sustainable market for modern pellet heating systems. Therefore, long-term project funding will not be required. As this project is implemented, the Center will work with others to develop financing tools that can provide loan opportunities rather than grants to spur further market penetration.

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