

Opportunities for State Action: H.2436, Green Building Tax Credit

What is Green Building?

Green building is a field that uses environmentally sustainable materials to build buildings that conserve resources and provide healthy living or working spaces. Barriers to increased market share for green buildings include high first cost in materials and higher design costs since many practitioners are not yet familiar with the appropriate techniques. When energy-efficient materials and techniques become common practice, green building will be more common and economically attractive. In order to encourage these trends, we must establish tax incentives for green buildings.

Why Tax Credits?

Green building tax credits are designed to encourage sustainable building practice. This should decrease natural resource depletion for both construction and energy bills of the structure. Advocates claim that better materials also result in a healthier workforce. Credits allow early adopters in the market to overcome the early price barriers to new technologies and practices while increasing the market share of green buildings and technologies. Equally as important, tax credits validate green building practices through the state's visible endorsement. As the market share for green buildings increases, the barriers to these practices will decrease and the credits will no longer be needed. Tax credits enacted to date have an explicit cost ceiling allowing their fiscal cost to be accurately estimated. Green building tax credits work with the market to form lasting change.

Which States are Implementing Tax Incentives for Green Building?

New York was the first state to pass green building legislation, which has been refined and modified by Maryland and Massachusetts. Implementation of the New York and Maryland credits began in 2002. H.2436 was first introduced in the 2001-2002 legislative session.

What are the Criteria?

The legislation's regulations are based on the United States Green Building Council's Leadership in Energy and Environmental Design (LEED) Guidelines.

Cost/Benefit Analysis:

New York performed a cost analysis and fiscal impact for its green buildings legislation, determining that the fiscal cost would be approximately \$12.7 a year over 10 years. Massachusetts performed a cost/benefit analysis on its legislation for both the public and private sectors. The costs in the public sector include the lost tax revenues from the credit and reduced revenues from utility taxes. Public benefits included increased employment, increased construction spending, reduced health costs, and reduced environmental costs. In Massachusetts, the green building tax credit legislation's subsidies to green building would cost the state approximately \$25 million over the next five years. The public benefit payback period was estimated to be six years, with a public profit from the credit of over \$6 million after 10 years. In the private sector, costs included increased construction costs for green building features, and the benefits include reduced utility costs, higher productivity, and reduced operating and maintenance costs. The private sector payback is projected at 2 years.

*This information is drawn from the American Council for an Energy-Efficient Economy (ACEEE) report: **Opportunities for State Action: Tax Credits for Energy Efficiency in the Private Sector.**

H.2436, Massachusetts Green Building Tax Credit

Brief Introduction

The construction and operation of buildings has the single most environmental impact of any human activity. In order to reduce this impact, the Green Building Tax Credit will provide tax credits to building developers, owners and tenants who. For commercial and multi-family residential buildings, invest in measures to:

- a. Increase energy efficiency
- b. Improve indoor air quality
- c. Reduce the environmental impacts

This bill is based on the New York State Green Building Tax Credit Statute signed into law in May 2000.

Environmental and Economic Benefits

The bill will promote better energy and environmental practices for green building design, construction and maintenance, and increase demand for new, clean technologies and environmentally preferable building products and services. This bill will also reduce water and energy consumption and landfill demand, thus addressing a host of environmental problems including ozone depletion, acid rain, toxins, and climate change. Finally, this bill will create industry and public awareness of resource management that will improve the quality of life for building occupants in a sustainable and profitable way.

Eligibility Summary

The application must include certification by a licensed architect or engineer that the base building and/or tenant space meets the criteria set forth in the legislation. Standards will be developed by state agencies, including:

- a. Energy Efficiency: energy us for new buildings must not exceed 65% of use permitted under the MA Building and/or Energy Code (rehabilitated buildings must not exceed 75%).
- b. Indoor Air Quality: Ventilation, thermal comfort and air quality must meet specified requirements
- c. Building Materials: Materials must meet specified criteria regarding minimum percentages of recycled content and renewable source material and maximum levels of toxicity.

Tax Credit Provisions

The bill includes the following tax credits spread over a five year period:

1. Green Whole Building: Up to 7% tax credit on overall capital costs and up to 8% tax credit if built in economic development areas
2. Green Base Building (whole building minus tenant spaces): Up to 5% tax credit on overall capital costs and up to 6% tax credit if built in an economic development area

3. Green Tenant Space: Up to 5% tax credit on overall capital costs and up to 6% tax credit if built in an economic development area
4. Photovoltaic Module Credit Component (Solar Power): 100% of the incremental cost for integrating PV modules
5. Fuel Cell Credit Component: 30% of the incremental cost for integrating fuel cells
6. The proposed tax credits would begin in 2006 and apply only to commercial construction larger than 20,000 square feet, and residential projects of 12 units or more.
7. If approved, the green building tax credit legislation's subsidies to green building would cost the state approximately \$25 million over the next five years.