

In N.M., building green yields green in return

BY NOREEN RICHARDS
AND ELENA AGUSTIN

The Sustainable Building Tax Credit was passed as part of N.M. Senate House Bill 463 last year. New Mexico is the first state to offer such a comprehensive tax credit for green buildings.

Although Oregon and Oklahoma have some type of green building tax incentive, the state tax credit is the first to offer tax relief for both green residential and green commercial buildings. The tax relief requirements are rigorous and include not only a third-party validation by the LEED rating systems and BuildGreen NM, but also a stringent energy reduction requirement.

The tax credit is available to owners of residential buildings (single family homes, multi-family dwelling units and manufactured housing) and of commercial buildings (office, retail, mixed-use, restaurant) constructed in New Mexico, and can be claimed by either the builder or the buyer of the property. After meeting

rigorous criteria for energy efficiency, indoor air quality, and durability, these green projects can be marketed and sold as high-performance buildings.

The tax advantages are substantial; rather than a simple deduction from taxable income, a tax credit is deducted directly from tax liability. The credit can be claimed on individual returns (including sole proprietorships) or corporate returns. In order to facilitate and regulate the process, the state is making use of two existing and well-respected green rating systems — LEED (Leadership in Energy and Environmental Design) and BuildGreen NM. Applicants submit their documentation to the Energy, Minerals, and Natural Resources Department. Upon approval, the department grants a "certificate of eligibility" which is then submitted to the Taxation and Revenue Department. The applicant can claim the credit on their tax return or sell it. This ability to sell/transfer the credit enables organizations or parties that don't have sufficient tax

From the Executive's Desk

NAME: Noreen Richards and Elena Agustin

TITLE: energy conservation experts

COMPANY: Environmental Dynamics Inc.

GUEST COMMENTARY

liability to still benefit (currently nonprofits cannot use the tax credit).

In order to be eligible, a residence must achieve either BuildGreen NM Gold Certification, or LEED for Homes, Silver Certification or better. In addition, a certified rater must achieve the Home Energy Rating System HERS (used by the EPA's Energy Star program) of 60 or lower, and perform several on-site inspections. Although a private homeowner can certainly undertake this process, it is expected that professional

homebuilders will be the primary recipients of the residential credit.

The total cost of certifying and rating a 2,000-square-foot home could range from \$1,500 to \$5,000, not including any additional construction costs such as energy efficient equipment, better windows, insulation, etc. The amount of the credit awarded is a factor of the home's certification level (using either the LEED or the BuildGreen NM system) and the size of the home. For example, a 2,000-square-foot home could receive from \$9,000 to \$18,000 in tax relief, largely offsetting the costs of building a certified green home.

In order to be eligible for the Commercial SBTC, a building must achieve LEED Silver or better (using the New Construction, Existing Building, Core & Shell, or Commercial Interiors rating system) and a 50 percent energy reduction as compared to the national average of the specific building type. The energy reduction requirement is stringent and requires an integrated, rigorous design process. It could include

equipment upgrades, high performance building envelope elements and/or a solar energy system. To achieve the required certification and energy reduction, a 20,000-square-foot commercial building could cost approximately \$52,000 to \$55,000 in design, consulting and registration fees. The same 20,000-square-foot building can receive a \$52,500-\$95,000 tax credit (depending on certification level).

Green energy features continue to pay dividends; commercial buildings are well-known for their high operating costs due to demand charges on electric usage, high cooling demand, and poor thermal qualities. Energy efficient measures in commercial buildings, in addition to generating tax relief, can pay for themselves quickly, increase property value, and improve occupancy rates.

The Sustainable Building Tax Credits are distributed on a first come, first served basis. There is a finite amount of money to award (\$5 million dollars per year each, for residential and commercial).