The Essentials List: Development Finance Programs and Tools for Supporting Clean Energy

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Energy development is the fastest growing area of development finance nationwide. There is now a wide range of tools available for financing energy projects, including bonds, tax credits, revolving loan funds, private equity sources, and more. Several programs are used throughout the country to encourage investments in large and small projects alike, from new energy installation and generation to energy efficiency retrofitting and renovation.

As you are thinking about how to finance the next renewable energy or energy efficiency project in your community, here are some potential programs and resources to consider.

Bonds

Bond financing is the bedrock of public finance and has heavily influenced energy development throughout the country. Various bond financing options are available to state and local agencies in supporting energy development, including traditional tax-exempt and taxable bond financing mechanisms.

Solid Waste Disposal Facility Bonds
Facilities that turn waste into new forms of energy can benefit from this form of financing. Bond proceeds can be used to finance land, building construction or renovation, and equipment. Facilities that process biomass, landfill gas, and fuel cells, among others, often use this type of bond.

Industrial Development Bonds (IDBs)
IDBs are the number one source of financing for manufacturers and can be used to finance facilities that take some material and manufacture it into something else. Electricity generation is not applicable, but IDBs can be used to assist companies that manufacture goods for energy-related projects.

501(c)(3) Bonds
These bonds can only be used by qualified 501(c)(3) entities, such as colleges and universities, hospitals, foundations, and other non-profits. Many of these entities can finance retrofits or installations of new energy facilities using this type of financing.

Qualified Energy Conservation Bonds (QECBs)
QECBs are tax credit bonds, and each state received an allocation based on their population for the total amount of QECBs that can be issued. QECBs are used for qualified conservation purposes, such as reducing energy consumption in public buildings, developing renewable energy facilities, or implementing green community programs.

Property Assessed Clean Energy Bonds (PACE)
PACE bonds are issued to help property owners make energy efficiency upgrades to their properties. Typically, a special district is established where property owners can benefit from lower borrowing costs, and the bonds are secured by payments, established as property tax assessments, made from participating property owners.

Tax Credits

Incentives and tax credits are powerful tools being used to develop today's new energy infrastructure. From both the federal and state perspective, these tools are encouraging industry investment and project development. The tax credit programs available depend on the project being financed.

Federal Tax Credits
The federal government offers two main tax incentives: Business Energy Investment Tax Credit (ITC) and Renewable Electricity Production Tax Credit (PTC). The credits are generally available to owners of facilities that generate renewable energy, but eligibility for, as well as the type and level of, the credits are determined by energy source and in-service date. The U.S. Department of Energy's Database of State Incentives for Renewables & Efficiency (www.dsireusa.org) maintains a clear, updated entry on the credits.

State Tax Credits
Almost every state offers tax credits to corporations or individuals to encourage investments in energy efficiency or renewable energy. The type of credit and availability vary by state. Credits exist for such activities as building renewable energy generation facilities, manufacturing renewable energy components, and installing energy efficiency retrofits. Incentive lists and comparisons by state can also be found at www.dsireusa.org.

Loan Funds

Energy-related revolving loan funds of all sizes exist to promote continued investment in energy infrastructure and projects. A variety of funds exist, from local funds to support energy efficiency upgrades to large state funds that encourage commercial and industrial renewable energy development. The examples below highlight several approaches to energy loan funds.

Energy Technology Loan Fund
The Arkansas Economic Development Commission operates this fund to encourage companies in the state to make investments in clean technologies and improvements in the energy efficiency of industrial processes and systems. Borrowers repay the loans through the cost savings realized from the projects.

Greater Cincinnati Home Energy Loan Program
The Greater Cincinnati Energy Alliance established this fund to provide low cost financing to homeowners making high-efficiency upgrades that reduce energy utility bills.

St. Louis County Recycling Loan
Managed by the St. Louis County Economic Council, this loan program provides low interest loans to individuals, businesses, and non-profits to recycle post-consumer, industrial scrap, and other materials that would normally go to a landfill.

Private Equity

Private equity investments play a major role in the development of new energy technology and infrastructure. Many investments in renewable energy projects are in the form of cash equity or tax equity. While numerous venture funds have invested in new clean energy technologies for decades, public agency programs are also providing essential support in this arena. The following are examples of clean energy-focused funds.

Edison Innovation Angel Growth Fund
The New Jersey Economic Development Authority manages this fund to support early-stage, emerging technology businesses in the state that have already received angel investments and need additional capital support for key hires or product rollout. These investments are designed to leverage private angel investments and do so in a less dilutive manner than traditional equity.

Massachusetts Clean Energy Center
MassCEC makes direct investments in clean energy companies and works with the state's entire clean energy community to propel promising technologies. MassCEC also houses the state's Renewable Energy Trust Fund.

Putting it All Together

Knowing that these programs exist can only take you so far. Understanding how they operate and knowing how to establish these programs or apply them to deals in your community is essential to a successful financing. CDFA's Intro Energy Finance Course, held in Washington, DC this July 31-August 1, will give you an overview of the complex energy development industry and explain the terminology and technology driving the nation's most prevalent renewable energy and energy efficiency projects.

Held in conjunction with the 2012 CDFA National Development Finance Summit, the Intro Energy Finance Course is essential for public leaders, economic development professionals, financial experts, and anyone working to address energy development challenges. Join us for this timely and informative course to get engaged in this vital and growing area of development finance.