Navigating State and Local Incentives for Clean Energy*

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Opportunities for companies to obtain funding for demonstration projects, manufacturing facilities, and commercial projects are available at the state and local levels. Given how diverse the offerings are on a state-by-state and city-by-city basis, navigating these opportunities can be challenging.

Virtually all states provide traditional economic incentives in the form of real property or sales tax abatement, expedited permitting, and/or tax credits. These programs either reduce costs that the company would otherwise incur, or refund corporate expenditures. This section will focus on the more elusive opportunities to obtain upfront and (often) non-dilutive funding from states and localities. While the ARRA and other federal funds provided initial monies for a number of these state and local programs, states have been looking at long-term ways to offer competitive incentives through grants and loans for clean energy and advanced technology companies. States are well positioned to continue these programs in the years to come. Below is an overview of the most popular types of state and local programs.

Grants. Many states have developed grant programs to provide small amounts of non-dilutive funding for various projects, including research and development, demonstration, infrastructure development, and energy efficiency projects. These grant programs range in size, are administered by the appropriate state agency, and are often subject to annual appropriations from the state legislatures.

For example, in Ohio, the state recently allocated $700 million to its Third Frontier Fund, which makes grants in numerous high technology areas, including advanced energy, advanced materials, fuel cells, and photovoltaics. Accessing these grants often requires submitting an application that will be subject to a merit review process. By beginning the process early, often before solicitations come out, companies can build good relationships with the state agencies administering the funds, and use this time to make them aware of and excited about the technology or project being proposed.

The California Energy Commission (CEC) hosts numerous energy-related grant programs. The Public Interest and Energy Research (PIER) Group within CEC is actively involved in building end-use energy efficiency research, emerging technology demonstration grants, and energy systems integration and demand response research, among other things. PIER's grant effort complements the other grant work the CEC performs. For example, Assembly Bill 118 created the California Energy Commission's Alternative and Renewable Fuel and Vehicle Technology Program. AB 118 authorizes the CEC to develop and deploy alternative and renewable fuels and advanced transportation technologies to help achieve the state's climate change goals. The CEC has an annual program budget of approximately $100 million for projects that support this effort.

Some states have created programs that are not subject to appropriations, such as the Virginia Tobacco Indemnification and Community Revitalization Commission's grant program for projects that take place on lands formerly used for the production of tobacco and assist in the economic revitalization of the area. Grants under this program can range from $20,000 to more than $5 million.

Some localities impose a small retail sales tax in order to aggregate the funds necessary for innovation and development programs. For example, the City of Hazelwood, Missouri, has imposed a one-quarter cent tax on the goods sold at an outlet mall in town, which provides the city with roughly $2 million per year to attract development projects.

Loans. While loan programs vary in size and scope, most states have some type of loan guarantee or preferential lending program for clean energy projects. Some of these loan programs are federal dollars that the states are tasked with administering, as with the Clean Water and Drinking Water State Revolving Funds, which are channeled to the states by the Environmental Protection Agency and used for various water quality and efficiency projects.

Many states (such as Pennsylvania and North Carolina) administer loan programs for renewable energy power projects or energy efficiency upgrades for public buildings, small businesses, and homeowners. Loan programs at the local level also exist for these purposes in many places, and might offer more flexibility than state programs. The size of these low-interest loans often can be contingent on the number of jobs created.

Some states, such as Oregon, administer loan guarantee programs that are similar to the DOE Title XVII federal loan guarantee program. These state programs support energy efficiency, renewable energy, and alternative vehicle projects generally, with award sizes ranging up to $25 million. Other states, such as Connecticut and Kentucky, have created "Green Banks," or lending agencies that provide financing for clean energy and energy efficiency projects in the state. Funds for these types of programs can be appropriated initially or accessed through innovative charges on electricity sales or other nominal taxes.

Innovation Hubs, Incubators, and Commercialization Centers. Innovation hubs and incubators are becoming popular in many states, and often they are aided by state economic development boards. These innovation centers often provide specialized facilities, access to capital, technical and business experts, resources, and specialized service providers to companies that work with the centers. The DOE has funded several innovation hubs across the country, including one at the Navy Yard in Philadelphia, Pennsylvania, where 11 academic institutions, national labs, regional development agencies, and private industry partners have all been organized to look at developing innovative building efficiency technologies. The Energy-Efficient Building Systems Design Hub is located by the Greater Philadelphia Innovation Cluster at Navy Yard where over 90 organizations are working to help achieve the goals of national energy independence and regional economic development.

Other non-DOE funded innovation hubs and centers exist around the country. The Institute for Advanced Learning and Research (IALR) in Danville, Virginia, seeks to drive the commercialization of technologies it considers crucial to regional economic success. Given the heavy forest concentration in this part of the state, much of its work focuses on biofuels and bioconversion processes, as well as assessing the viability of biorefineries in Virginia.

South Carolina used a Small Business Administration grant to create EnginuitySC, a public-private partnership that, in collaboration with other state and local initiatives, works to encourage entrepreneurs to commercialize research and technology research, and to create strong public policy to help companies and create access to start-up investment capital. Together with the South Carolina Hydrogen Alliance and affiliated state offices and universities, Columbia has established itself as a leading region for fuel cell research and development. It works to attract companies to the region and advocate for state incentives and policies for the industry. Many other cities around the country are pursuing similar approaches to other technologies.

Direct Investment and Public-Private Partnerships. At the most basic level, states have economic development boards that are responsible for helping companies navigate the siting or expansion process. These economic development boards administer many of the grant, loan, and investment programs that the state has developed.

Novel approaches to state-funded investment and development programs have emerged in recent years, looking at ways to leverage state and private funds to accelerate economic development and create jobs. For example, the federal Small Business Jobs Act created the State Small Business Credit Initiative (SSBCI), which authorized $1.5 billion for state-run programs that partner with private lenders to increase the amount of credit available to small businesses. States apply to the Treasury for funds with the expectation that for each federal dollar awarded, the state will leverage $10 in private investments. Earlier this spring, the federal government made the first awards to Connecticut, Vermont, and Missouri to fund small business lending and programs.

Each state has different plans on how to administer its funds. Missouri's approved plan dedicates $16.9 million of the state's $26.9 million in SSBCI funding to establish the high-tech Missouri Innovation, Development, and Entrepreneurial Advancement (IDEA) Seed and Venture Capital Funds. The Missouri IDEA funds assist small businesses and help transfer science and technology research and development into job creation. The funds provide financing to eligible businesses through the four stages of venture growth: (1) pre-seed capital stage financing; (2) seed capital stage financing; (3) venture capital stage financing; and (4) expansion stage debt.

Tax Credits and Programs. Though differing in type, most states offer some type of corporate tax incentive for clean energy or energy efficiency companies or projects. Renewable energy production tax credits and tax credits for home or corporate renewable energy systems installations are all fairly common. Refundable tax credits also are often options for companies. Companies can work to

monetize the future value of the tax incentives in order to harness the value of these funds prior to being revenue positive, which often can take years.

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