Community Solar Project Finance Best Practices for Low- to-Moderate-Income Inclusion

Investment Tax Credit

The Investment Tax Credit (ITC) is a federal tax incentive for business or residential investment in renewable energy generation systems that can be applied to solar installations. The ITC lets individuals or businesses deduct a certain percentage of their installation costs from any tax liability they have. This credit is in addition to normal allowances for asset depreciation. It only works if the entity that makes the investment is a taxable entity and has sufficient tax liability. As of the passage of the Inflation Reduction Act in August 2022, the ITC provides a credit valued at 30% of the cost of installation. It is set to reduce in value after 2032. The basis for the 30% now includes not just the installation and equipment associated with a solar array, but can include interconnection costs, as well as battery storage costs and more. If you are developing a community solar project and are not familiar with the ITC rules and processes, consult a tax attorney.

Asset Depreciation (MACRS)

The modified accelerated cost recovery system (MACRS) is a depreciation system used for tax purposes in the United States. MACRS depreciation allows the capitalized cost of an asset to be recovered over a specified period via annual tax deductions. These incentives only work if the entity that makes the investment is a taxable entity and has sufficient tax liability. Current rules also allow a bonus depreciation, which allows all of the cost basis to be recovered in a single year. If you are developing a community solar project and are not familiar with the depreciation rules and processes, consult a tax attorney.

To learn more: Solar Energy Industry Association, Depreciation of Solar Energy Property in MACRS

Tax Equity Investment or ITC Direct Payment

If the entity that is building the community solar system is not a taxable entity or does not have a sufficient tax liability, there are several ways to include tax benefits into your value stack.

- **Investment Tax Credit - Direct Payment**: Allows qualified nonprofit and public entity-owned projects to apply for the Investment Tax Credit and receive the eligible amount via a Direct Payment, instead of as a tax credit. Projects eligible for ITC Direct Payment must be installed on or after Jan. 1, 2023.
- **Investment Tax Credit - Credit Transfer**: The Credit Transfer option of the Investment Tax Credit allows taxable entities without sufficient tax liability to sell their tax credits for cash. The traditional tax equity investment market can more easily access tax credits through this transfer process, eliminating the need for more complicated tax equity investment agreements. However, traditional tax equity investment can also incorporate asset depreciation, increasing the overall value of tax benefits and potentially passing more on to the project developer.
- **Investment Tax Credit - Tax Equity Investment**: The traditional tax equity investment for community solar projects allows a third-party to finance, install, and own the community solar project. This allows a taxable entity with a sufficient tax liability to benefit from tax credits and...
asset depreciation. The third party must fund the project and own it for at least six years, while assets fully depreciate. After full asset depreciation, ownership of the system is transferred to the original system developer, less fees taken by the tax equity investor. In this way, the tax incentives can be monetized and reduce the cost of installation, and financing can be integrated into the project. Tax equity investment has the advantage of incorporating a number of tax benefits and project financing. However, the legal structure can make for a daunting process and additional legal fees.

If you are developing a community solar project and are not familiar with the tax or equity investment rules and processes, consult a tax attorney.


Renewable Energy Certificate (RECs or SRECs)

A Renewable Energy Certificate or Solar Renewable Energy Certificate (REC or SREC) is a market-based instrument that represents the property rights to the environmental, social, and other non-power attributes of renewable electricity generation. RECs are issued when one megawatt-hour (MWh) of electricity is generated and delivered from a renewable energy resource. The importance of RECs is that they can be sold independently of the power being generated. In some markets, legislators require utilities to buy RECs at set costs (compliance markets). These mandates are typically codified in a state’s Renewable Portfolio Standard (RPS), which sets goals for states to produce a minimum requirement amount of renewable energy and requires utilities or state governments to purchase those RECs. Where states do not have statutory REC programs or RPS, RECs can be sold on the voluntary market, typically for significantly less. Once a REC is sold, it is retired and cannot be sold again. Several systems have been created to track and document the creation, selling, and retirement of RECs, like M-RETS and GATS. The following states have viable compliance REC markets: Connecticut, Delaware, Illinois, Maryland, Massachusetts, New Jersey, Ohio, Pennsylvania, and the District of Columbia.

To learn more: Environmental Protection Agency, State Solar Renewable Energy Certificate Markets | Database of State Incentives for Renewables & Efficiency

State Incentives

Many states offer incentives for solar and other renewables, including rebates, grants, tax credits, RECs, or other incentives. These incentives are typically based on the projected system capacity or energy production from qualified renewable generation systems. In some markets they take the form of rebates or a lump sum value for qualified system types. There are several resources available that catalog these incentives by state and by type. These are a good place to start. Otherwise, contact your state’s Energy Office or Dept. of Economic Opportunity to learn more about what is available for your project.

To learn more: DSIRE, https://www.dsireusa.org/ | EnergySage, Solar rebates and incentives | NC Clean Energy Technology Center, Database of State Incentives for Renewables & Efficiency
Local Incentives
Some municipalities or counties offer incentives for solar installations, including property tax exemptions, streamlined permitting, rebates, or other incentives based on system capacity or energy production. Every county or municipality has their own framework for incentivizing (or disincentivizing) solar installation. They also have authority to set ordinances that set the requirements for how, when, and where solar can be installed.

State or Municipal Bonds
State and local governments, as well as some institutions like universities and hospitals, can issue debt in the form of bonds to finance large capital projects. These public bonds can be used to finance solar developments when approved by local governments or institutions. The tax liability for specific bond issues will vary based on local rules, needs, and the requirements for securing those bonds. Bond issues for solar are most often used when the issuing entity is the system owner or program authority. For agencies of government who are looking to develop community solar, legislators or governing bodies can be consulted on the viability of a bond issuance.

State or Federal Grants
State and Federal governments may have grant programs for infrastructure or for renewable energy projects specifically. For example, state grant programs like the Illinois Clean Energy Community Foundation Grants or federal programs like the USDA - Rural Energy for America Program (REAP) and Tribal Energy Program grants from the U.S. Department of Energy offer funding specifically for solar development.


Philanthropic or Corporate Grants
Private foundations or corporations provide grants for renewable energy development. Grants may be offered geographically or to specific segments of the population, especially low- and moderate-income, BIPOC, and environmental justice communities. Many foundations are focused on climate and equity, providing significant opportunities to fund community solar projects that serve these communities. Most foundations publish Requests for Proposals (RFPs) that announce project eligibility requirements, funding limits, as well as the requirements and timelines for submitting your proposal.

To learn more: Grantsmanship, https://www.tgci.com/funding-sources

No-cost Site Lease
In some instances, project developers can negotiate a no-cost site lease. This is common when state or local governments or institutions sponsor a community solar program. These entities may have rooftop space or vacant parcels suitable for solar installation. While no-cost land leases do not lower upfront investment costs, they can lower ongoing operating costs.
New Markets Tax Credits or Opportunity Zones

New Markets Tax Credits and Opportunity Zones allow private individuals and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in low-income communities. New Market and Opportunity Zones are geographic designations. These are separate programs with separate designation and eligibility requirements. But they have common approaches. The New Markets program requires that specialized financial intermediaries called Community Development Entities (CDEs) develop projects that serve qualified low-income communities. The credit totals 39% of the original investment amount and is claimed over a period of seven years. This provides a significant incentive for these investments. There are complexities in qualifying as CDEs and investments only qualify in some communities, but these credits can be layered over other incentives, making the value stack attractive.


Corporate Social Bond

Social Bonds are essentially debt securities, the proceeds of which are used to finance projects that achieve positive social outcomes or address specific social issues. The debt terms are intended to be more favorable than loans available through typical financial markets and may offer financing to entities that are otherwise difficult to finance.

To learn more: International Capital Markets Association, Social Bond Principals

Utility Incentives

Incentives for solar installation or production may be available through utilities. These incentives are most often mandated through specific legislation or regulations to incent the installation of solar. These can include rebates, incentives for installation or production, and net metering.

Public Funding/Crowdsourcing

In this model, donations or investments are sourced from individuals or organizations, usually consisting of small donations from many donors. New community and crowdsourced financing models for solar will expand the availability of cheap capital -- if regulatory risk can be cleared.

This document is a part of the LIFT Toolkit initiative. To explore the LMI Community Solar project design tool visit LIFT.Groundswell.org | research@groundswell.org