Appalachian Solar Finance Fund adjusts in response to expected market impacts from Inflation Reduction Act

By Mike Tony mtony@hdmediallc.com Nov 28, 2022

A program to facilitate solar projects throughout Central Appalachia is adjusting in response to the Inflation Reduction Act.

The Appalachian Solar Finance Fund is no longer considering a previous investment tax credit rate as its ceiling for project funding because of the Inflation Reduction Act's setup of a direct-pay investment tax credit option for eligible tax-exempt entities.

The solar financing initiative concluded that its funding support is no longer needed to offset the value of the tax credit for entities that previously couldn't access it directly or through a third party, thus ceasing to consider the previous rate of 26% as its project funding ceiling.

The Inflation Reduction Act, the Democrat-crafted clean energy and climate spending package that passed Congress this summer after key support from Sen. Joe Manchin, D-W.Va., allows nonprofits, state and local governments, and other tax-exempt entities to receive renewable energy tax credits as direct payments.

The solar investment tax credit, which can be claimed on federal income taxes for a percentage of the cost of a solar photovoltaic system, was increased by the Inflation Reduction Act from 26% to 30% through 2032.

The direct-pay option will take effect in 2023, so it will be available for pending and future Solar Finance Fund applicants, fund director Autumn Long said.

Established last year, the fund has received 33 eligible applications and pledged more than $355,000 toward competitive sub-grant awards and technical assistance contracts to support 21 solar projects in five Central Appalachian states, according to Long.

Long predicts the projects will result in $8 million in private and public investment, four megawatts of new solar development and $13 million in energy cost savings across 21 coal-impacted communities.

The fund is designed to offset costs for pre-development and early-stage projects and is available for public and private entities in all 55 West Virginia counties and counties in Kentucky, Ohio, Virginia, Tennessee and North Carolina designated as Appalachian by the Appalachian Regional Commission.

The types of projects that fund developers aim to support include K-12 schools, colleges and universities, local government buildings, water treatment plants, homeless shelters and faith institutions, as well as subsidized housing developments, child care centers and medical facilities.

Entities approved for Solar Finance Fund support include Lifeline Princeton Church of God in Mercer County (450-kilowatt rooftop array), the Southern Appalachian Labor School in Fayette County (70-kilowatt rooftop system), the Marion County Humane Society (65-kilowatt array), Whitley County, Kentucky community event venue Moonbow at Second & Main (30-kilowatt array) and Athens County, Ohio nature-based nonprofit Solid Ground School (just under 10 kilowatts).

The direct-pay option for tax-exempt entities could have an especially substantial impact in states like West Virginia with barriers to third-party solar ownership.

West Virginia is among the majority of states that haven't adopted legislation to enable community solar.

To support the Department of Energy's definition of community solar, state lawmakers would have to approve a third-party market that requires project developers and utilities to meet regulations to enroll customers and add community solar installations.

"[M]any West Virginia residents are unable to access the cost-saving benefits of solar energy," Long said.

The Solar Finance Fund team anticipates that the direct-pay investment tax credit option will prompt a need for bridge loans to cover the time gap between a solar project's construction and the federal government's remittance of the investment tax credit payment.

Long said the fund can provide unsecured bridge loans for qualifying projects via its partner organization, the regional investment fund Invest Appalachia.

The fund offers options like unsecured zero-interest loans, recoverable grants and loan guarantees that are expected to be repaid but could absorb costs to help secure project capital, Long said.

Long added that the fund will consider sub-grant awards to offset interest and fees accrued on investment tax credit bridge loans issued by traditional lenders.

The sub-grant awards the fund provides typically won't exceed 10-20% of a total project's cost, according to Long.

Private local businesses are eligible for technical assistance through the fund, not sub-grant awards.

The fund has drawn support from a $1.5 million Appalachian Regional Commission POWER Initiative award, the Appalachian Investment Ecosystem Initiative, the Claude Worthington Benedum Foundation, New York Community Trust, the Educational Foundation of America, and Virginia Coalfield Development.

Another Inflation Reduction Act provision that Long highlighted is the law's additional 10% bonus tax credit for solar projects built in communities reeling from the coal industry's decline.

The additional 10% bonus tax credit is available for renewable energy projects in "energy communities."

The Inflation Reduction Act's definition of energy communities includes census tracts in which a coal mine closed since 2000 or a coal-fired electric generating unit has closed since 2010.

The definition also includes brownfield sites — federally defined as properties whose reuse may be complicated by a hazardous substance — and any federally recognized statistical area that has had 0.17% or more direct employment or 25% or more in local tax revenues related to the extraction, processing, transport or storage of coal, oil or natural gas.

More information about the fund and the application portal for funding and financing requests are at https://solarfinancefund.org/.

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