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2020 Renewable Energy Outlook: Redevelopment Opportunities and State and Local Tax Incentives in Lieu of Waning Federal Incentives

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As federal tax incentives for wind and solar energy projects set to expire this year, project costs will increase, which is sure to impact the renewable energy market in 2020. Without these added financial benefits, strategic utility developers will need to pursue cost-effective development options and other available tax incentives to continue making the most of renewable project investments.

As one of several trends we recently introduced as part of our 2020 renewable energy outlook series, this post takes a closer look at developing projects on brownfields and capitalizing on other federal, state, and local tax incentives for developers.

1. Consider Developing Projects on Brownfields

One approach for utilities looking to develop renewable energy is to consider siting the project on Superfund sites, retired power plants, brownfields, and landfills to reduce project costs and speed up permitting timelines. Costs may be lower at remediated sites, where properties are already served by existing infrastructure, such as power lines, substations, and roads, which developers would otherwise need to construct. In addition, brownfields are often already zoned for industrial or commercial use based on past usage, resulting in fewer permitting and zoning obstacles. (To learn more, read our post outlining three strategies to develop renewable energy projects on potentially contaminated lands.)

Utilities developing renewable energy may also qualify for federal brownfield grants, which can drive costs down further. The U.S. EPA offers site assessment and cleanup grants for developers seeking to redevelop a brownfields site. In 2020 alone, the EPA expects to award approximately 100 assessment grants totaling an estimated $31 million. Utilities may also be eligible to receive a revolving loan fund from the agency for their project.

2. Capitalize on Qualified Opportunity Zones

Other federally-authorized tax incentives may be available for renewable energy investments in low-income areas called Qualified Opportunity Zones (QOZs). At the end of 2017 – a year in which wind and solar energy made up 7.6 percent of net energy generation – the federal government made a limited time offer in the tax reform bill to incentivize development in these designated zones. The IRS has published a list and map of QOZs in the United States, including opportunity zones designated throughout Illinois and New York.

Investing in QOZs can be extremely beneficial to investors because (1) it allows for deferred and reduced taxes on capital gains used to invest in these zones; and (2) there is no tax when the new investment in an opportunity zone is held for at least 10 years and then sold.

3. Make the Most of State and Local Tax Incentives

A project may also be eligible for certain state and local tax incentives. For example, a project may qualify for a construction materials tax incentive, which can serve to exempt or reduce sales and use taxes for building materials used for projects sited in qualifying areas.

Both Illinois and New York State as well as local governments have made various tax incentives available to developers, and both states have already established programs and passed legislation, which may help to offset the federal drop-off in tax incentives. In New York, the Long Island Power Authority created in 2017 a renewable energy feed-in tariff – meaning payments to energy users for the renewable electricity they generate – for commercial, industrial, and agricultural sectors that will last 20 years. Illinois' Future Energy Jobs Act enacted in 2016 set specific targets for different types of renewable energy sources, including solar and wind, and for development of utility-scale projects and development on brownfields.

In Illinois, developers, developer groups, and environmental organizations have proposed additional legislation to further incentivize the development of new wind and solar projects. Incentives might include additional funding for renewable energy credit (REC) procurements, streamlining the interconnection process, and tax incentives to develop projects in economically depressed areas of the state under the Illinois Enterprise Zone Program (view a map of qualifying economically depressed here). Additionally, Chicago has issued a renewable energy challenge program to help make the city's municipal and commercial buildings run on 100 percent renewable energy by 2025.

Our final post in this series will look at several strategies to help garner renewable energy support from local communities.

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