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Climate Change and Clean Technology Blog

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Taking Advantage of Public Financing: Stimulus Funding and Beyond

In response to tight credit markets, cleantech companies, particularly those without access to the public equity markets, are increasingly looking to non-traditional sources of financing to supplement venture capital and meet their needs for growth capital. While there has been a lot of buzz surrounding federal stimulus funding and other alternative sources, many remain confused as to the specific opportunities available and how to access them. This article provides a brief introduction to some of the non-traditional sources of financing currently in the marketplace.

Federal stimulus dollars are expected to play a larger role in financing strategies, as companies and investors look for ways to leverage newly available sources of public financing. The American Recovery and Reinvestment Act ("ARRA") provides more than $52 billion in direct spending and tax credits for clean-energy and climate programs, including:

- $6.3 billion in state energy efficiency and clean-energy grants,
- $2 billion in grants for advanced batteries for plug-in hybrid electric vehicles,
- $6 billion to subsidize loans for renewable energy projects,
- $11 billion for "smart grid" technology,
- $2.5 billion in grants for renewable energy research, development, demonstration and deployment,
- $3.4 billion in grants for carbon capture and sequestration technology, and
- $20 billion in tax incentives, credits, and tax-exempt bonds for renewable energy, plug-in hybrids, and energy efficiency.

Specific federal opportunities available

The main vehicles for disbursing federal funds include tax credits, grants, loan guarantees, and tax-exempt bonds. Those already familiar with these instruments will notice a number of changes implemented under ARRA that are designed to increase their flexibility. A list of specific funding opportunities is available on the Department of Energy's website at http://www.energy.gov/recovery/funding.htm, as well as at http://www.recovery.gov/, https://www.fedbizopps.gov, http://www.grants.gov/ and http://www.govloans.com/.

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Tax Credits

Section 45 of the Internal Revenue Code provides a 10-year Production Tax Credit ("PTC") for power generated from renewables such as wind, closed- and open-loop biomass, geothermal, landfill gas, municipal solid waste, qualified hydropower, and marine and hydrokinetic facilities. PTCs are now available for wind projects placed in service before the end of 2012 and for other categories of renewables placed in service before the end of 2013. According to a March 2009 National Renewable Energy Laboratory ("NREL") report on renewable financing options, the PTC for wind, geothermal, and closed-loop biomass equaled approximately $21/MWh and approximately $10/MWh for all other renewables in 2008.

Alternatively, PTC-qualified facilities may also opt for an Investment Tax Credit ("ITC"), or an ITC cash equivalent grant, in lieu of the PTC. Certain solar, wind, and qualified fuel cell property is eligible for a 30% credit, while other energy property such as geothermal power production and combined heat and power system is eligible for a 10% credit. The ITC is provided beginning the year in which the project starts commercial operations and vests at a constant rate over a 5-year period. Projects that utilize the ITC are now also eligible for "subsidized energy financing" such as tax-exempt bonds and low-interest loans without suffering a corresponding reduction in tax credits. The Department of Treasury has yet to release information on the ITC cash equivalent grant program. However, detailed guidance is expected soon.

Finally, ARRA also provides for a new 30% manufacturing credit for the cost of personal property and fixtures for manufacturing facilities producing renewable energy products. Guidance on the new credit is expected in August.

As an example of the reemergence of tax credits spurring energy project finance, Wells Fargo recently announced its plans to finance up to $100 million of solar energy projects for businesses, universities, or government agencies in the United States to be built and maintained by SunPower. The project is eligible for a 30% federal tax credit or cash equivalent grants from the U.S. Department of Treasury.

Grants

In addition to tax credits, Congress made it possible for companies to get outright grants in the stimulus package it approved in February of this year. Grant funding is available on a competitive basis for research, development, demonstration, and deployment of advanced battery manufacturing for plug-in hybrid vehicles; smart grid technology; renewable energy; and carbon capture and sequestration. Applications for many of these grants are due in July and August and require a significant amount of non-federal matching funds.

Loan Guarantees

ARRA also expanded the Renewable Energy Loan Guarantee program to cover commercial projects, as opposed to those in the experimental or pilot stages. Six billion dollars is available

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for reducing or eliminating the cost of providing a loan guarantee, a sum which NREL estimates could support up to $60-$100 billion in renewable energy loans nationwide. ARRA requires that recipients of loan guarantees begin construction of their projects by September 30, 2011, which means that projects will have tight timelines for securing financing and starting construction. The Department of Energy has not yet released a new solicitation for the program, although this is expected in late July. Some funds are being disbursed through a prior solicitation for which applications were due at the end of February. For example, the Department of Energy recently announced an award of $16 million in conditional loan guarantees to Nordic Windpower to expand its wind turbine manufacturing facility, and $43 million in conditional loan guarantees to Beacon Power for construction of an energy storage flywheel plant.

Bonds

Renewable energy projects initiated by state and local governments, certain public utilities, and cooperatives may be financed through Clean Renewable Energy Bonds. An additional $1.6 billion in funding is available for these bonds, and is to be divided among these entities.

State and Local Funding

Additional grant financing is also available at the state level through the California Energy Commission and is typically provided along with federal funding. While municipalities do not provide financing directly, a number of cities across California are using federal and state incentives, along with local business tax incentives, to attract cleantech companies to their jurisdictions. For example, the City of Los Angeles recently announced its plans to develop a CleanTech Manufacturing Center on a 2,200 acre site east of Alameda Street. Similarly, the East Bay Green Corridor Initiative in Northern California is a consortium of East Bay municipalities established to attract resources and cleantech companies to the area.

Non-traditional sources of private financing: Venture debt financing

For those companies wary of utilizing public funding or who are looking to match public funding with additional private sources, venture debt financing may provide one additional source of private financing available in today's market. Venture debt is financing that is provided based primarily on a lender's confidence in a borrower's management team and business model as opposed to a borrower's collateral and operating history. It comprises approximately $1 billion to $5 billion in lending to start-ups annually, with individual loans typically ranging from $2 million to $10 million. There are several types of venture debt financing instruments available, including:

- equipment loans,
- equipment leases,
- growth capital lines,
- accounts receivable and/or inventory lines, and
- bridge loans.

Venture debt has the advantages of not requiring the borrower to sell equity in the company (other than minimal warrant kickers), which may be cheaper from a shareholder dilution

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perspective, and of providing borrowers with greater freedom, as debt providers will not typically demand Board seats. However, venture debt is likely to come with restrictions in the form of financial covenants, repayment schedules, and negative covenants on incurring additional indebtedness, to name a few. Similarly, the borrower is required to repay the loan and, while relatively inexpensive compared to other available options, these funds may carry as much as a 20% annual interest rate. Venture debt lenders include commercial banks, such as Silicon Valley Bank, as well as venture debt funds, such as TriplePoint Capital and ATEL Ventures.

The current credit crunch requires cleantech companies to be creative in meeting their financing needs. As non-traditional sources of financing such as federal stimulus funds and venture debt become more prevalent, borrowers and/or recipients will need to develop tailored strategies for accessing them, while managing the risks that they entail.

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