WHITEPAPER

COVID-19 REBIRTH USING PROVEN TOOLS

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COVID-19 REBIRTH USING PROVEN TOOLS

As we think about ways for the American economy to recover, there are programs in place around the country that were already working well and are low hanging fruit for a rebuild. States and cities can control their own incentive programs. We don't have to wait for federal action to get these programs in the hopper for our next local legislative moves. Better yet many of these don't require significant direct public funding. We will need new smart incentive programs, but before we create new programs, a simple way to foster rebirth is to take stock of what is already working around the country and implement those things in your state. For example, the State of Indiana is an outlier with regard to its lack of Commercial or Residential Property Assessed Clean Energy enabling legislation. Michigan, Illinois, Ohio, and Kentucky have existing PACE programs. Why not Indiana? These are proven tools, have bipartisan support, and legislation has already been crafted in neighboring states. These tools would be easy to repeat and there's private capital waiting in the wings. Not all programs are created equal. Just because you may have one of these programs in place does not mean it has been properly implemented. For example, Kentucky technically has a state historic tax credit program, but it is underfunded and pales in comparison to a much more robust version in Ohio. Prior to COVID-19, Kentucky had a house bill on the cusp of passage that would have made their state program as competitive as neighboring states. The State of New York has passed Commercial PACE legislation, but the City of Buffalo has failed to sign the C-PACE administrator's municipal agreement and so development in Buffalo is now missing opportunities others have. Time to turn off the limiting factors and juice up the existing programs. As with any program, even the best programs need to be managed carefully. Too much of anything is a bad thing, but don't throw the baby out with the bath water. In addition, to the five economic development tools outlined below, states and localities need to start reviewing their Tax Increment Financing (TIF), New Community Authority (NCA), Community Reinvestment Authorities (CRA), Land banking and Brownfield programs. Often the legislation is in place, but its usefulness is stymied by caps, lack of funding or clarity. Now would be a good time to review them and ensure they are working as well as they could be. Furthermore, there are outlying tools that are, in fact, unique to each state or region. Indiana wins with its great Redevelopment Tax Credit (formerly DINO). Ohio was on the cusp of passing a game changing Transformational Mixed-Use Development (TMUD) program. States need to keep these programs in mind as we start heading towards rebuilding. Finally, the need for federal infrastructure legislation is something both sides of the political aisle can agree on, but many local tools have already been market tested and are making a huge difference around the country. Step one on recovery is to institute measures that have been working elsewhere.

LET'S LOOK AT 5 SUCCESSFUL PROGRAMS →

1. COMMERCIAL & RESIDENTIAL PROPERTY ASSESSED CLEAN ENERGY

This program comes in commercial and residential versions. More than 35 states in the US have passed varying forms of enabling legislation. Residential and commercial property owners can finance expensive property improvement constituting a wide range of mechanical, engineering and plumbing (MEP) projects. The Commercial version, C-PACE, is fixed rate (5%-7%), long-term (20-30 years), non-recourse financing for energy-saving renovations, rehabs, re-positionings and new construction. This does not force property owners to use expensive or futuristic materials. The funding comes from commercial lenders and not local governments. Around the country, prior to COVID-19, private financing firms were competing for projects and commercial PACE rates were heading towards those of conventional mortgages. Many C-PACE lenders will maximize the leverage up to 30% of costs which then makes it an attractive alternative to mezzanine and preferred equity.

PACENation, the national advocacy group, touts a $15.8B impact to the economy since programs came into common use.

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2. STATE HISTORIC TAX CREDITS

First proposed by President Reagan as a federal historic tax credit program, state historic tax credit programs are used across the country. States often utilize a public private partnership with a state historic preservation group to manage the states historic tax credit programs that mirror that of the federal program. In the US we now have 37 states with their own programs. These vary widely and it may be the case that making changes to an existing state program will enhance their efficacy and make your state competitive with its neighbors. For example, some states provide refundable credits versus certificates. These programs, when done well, aid property owners of historic properties, conduct historically accurate updates and improvements. States can increase building reuse, revitalize areas of disinvestment, and drive innovative approaches to addressing state policy priorities.

The most recent Annual Report on the Economic Impact of the Federal Historic Tax Credit, produced by the National Park Service and Rutgers University, highlighted those HTC's economic value.

The National Trust for Historic Preservation tracks the best practices in programs nationwide.

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3. STATE OPPORTUNITY ZONE PROGRAMS

Again, mirroring the federal program, states have adopted ways to make the federal program that much more effective. Just prior to COVID-19 numerous states were poised to enact state based programs. Since most states define capital gains income according to federal rules, this means that those states are also now offering these same subsidies under their own income tax codes.

Many states use an income tax credit against state income taxes that may provide the additional return needed to make marginal projects feasible or enable other projects to offer a more attractive prospective after-tax rate of return than before; and consequently, improve investment pricing. Although opportunity zone projects need to be feasible projects in and of themselves after considering tax attributes and benefits, this added state tax benefit of up to 10 percent of qualifying investments is significant.

While there has been much interest in the federal opportunity zone program in general, it is often the state's addition of a complimentary state-level program that provides these projects with additional sources of funds for their capital stacks, and an additional boost in return that drives competitive pricing on the equity interest and induces additional investors to invest in the first place. Even though many states have proposed legislation providing a corresponding state-level opportunity zone incentive, few states have enacted opportunity zone-related incentive legislation.

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4. STATE NEW MARKET TAX CREDITS

Historically, low-income communities experience a lack of investment, as evidenced by vacant commercial properties, outdated manufacturing facilities, and inadequate access to education and healthcare service providers. The federal New Market Tax Credit Program (NMTC Program) aims to break this cycle of disinvestment by attracting the private investment necessary to reinvigorate struggling local economies. Since the creation of the national NMTC legislation, several states have added their own legislation to extend these credits to state taxes. The rationale for including state-level programs in a NMTC program is straightforward. The application and administrative costs of the federal program are high, and the due diligence process is costly for smaller development projects. As a consequence, using established federal programs methodology for state-level NMTC programs allows for state tax credits at substantially reduced public costs. It is a piggy-back. Let the federal program drive the work and the states have less to manage. Certainly, the federal program needs to be made permanent, expanded and made more available to CDE's, but some states have already created their own programs too. These state credits have similar goals as the federal program. Other states are considering similar legislation. These credits are often also called "New Markets Tax Credits" and can enhance revitalization efforts in low income communities. The NMTC Coalition has recommendations on how to ensure the state programs have as much impact as is intended. The efficacy of state based programs was studied in the "Effect of State-Level Add-On Legislation to the Federal New Market Tax Credit Program" Ball State analysis.

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5. SOLAR AND ENERGY TAX CREDIT

The federal investment tax credit (ITC) for solar energy system is; in place until December 31st, 2023. Both residential and commercial customers can take advantage of this tax credit, and it applies to all three major types of solar technology. In addition to the federal ITC, many states, counties, municipalities and utilities offer rebates or other incentives for solar energy technologies. Certain states have emerged as leaders in creating solar-friendly policy landscapes, including California, New York, and Arizona. These leading states tend to have three key solar policies in place: 1.

1. Market preparation policies that create the regulatory structure needed to efficiently connect solar installations to the grid. These policies include interconnection standards, net-metering, and solar-rights policies.

2. Market creation policies which created the conditions needed for solar businesses to sell energy to home and business owners. The primary policy model is the renewable energy standards (RPS), also known as a renewable electricity standard (RES). These policies require utilities to generate a certain amount of their energy from renewable sources.

3. Market expansion policies are those policies which help expand access to solar energy. These include financial incentives such as grants, rebates, state tax credits, and community solar laws.

States lagging in solar development tend to be lacking in one or more of these key policy areas; but they can always enact new policies.

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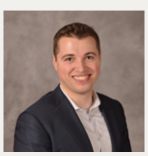

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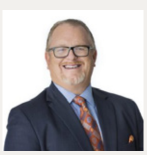

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