



November 6, 2023

Maryland Energy Administration
Baltimore, MD
Director Paul Pinsky

RE: Solar Incentives Task Force

Dear Director Pinsky:

On behalf of the Climate Access Fund Corporation (“Climate Access Fund” or “CAF”), I am pleased to submit this letter to the Solar Incentives Task Force (“Task Force”) to share CAF’s recommendations regarding financial incentives needed to serve priority community solar projects in Maryland.

CAF’s recommendations are focused on financial incentives in general, and the expenditure of Alternative Compliance Payment (“ACP”) funds to incentivize low-income community solar in particular. CAF recommends that the State reserve 60% of ACP funds (“ACP community solar funds”) to provide financial incentives for the development of community solar projects on rooftops and parking lots in and for LIDCs, including community solar projects on the rooftops of multifamily residential properties. CAF recommends that 40% of ACP funds be used to incentivize the development of rooftop solar for low-income homeowners.

CAF’s recommendations are aimed at helping the State achieve the five stated objectives of the Task Force: reaching the State’s solar RPS goal; increasing both minority business enterprise participation in solar development and quality, family-sustaining Maryland jobs; ensuring equitable access to renewable energy; and incentivizing the efficient use of land, by maximizing development on previously developed property.

Climate Access Fund

Established in 2018, CAF is a statewide 501(c)3 Green Bank that reduces the energy burden of low-income households in Maryland through access to community solar power. CAF works closely with the Maryland Clean Energy Center and the Montgomery County Green Bank, the other two Green Banks operating in Maryland. Through project origination and structuring, financing, and advocacy, CAF facilitates the development of community solar projects that are less than 2 MW in size, are located on rooftops and parking lots, and maximize benefits to low-income homeowners, renters and communities, as these projects – unlike larger, ground mounted community solar projects for higher-income households – often have difficulty reducing energy burdens through commercial financing alone. As a Green Bank, CAF deploys low-cost, flexible capital from public, philanthropic, and private sources to make these projects viable. All CAF-financed projects reserve a minimum of 50% of generated power for low-income households and save low-income

households at least 20% on their electricity bills. In partnership with MEA, CAF offers a Subscriber Retention Guaranty to subscription coordinators to incentivize greater retention of low-income subscribers.

CAF's demonstration project, "Solar4Us @ Henderson-Hopkins," financed by private, philanthropic, and public sources, will be constructed on the rooftop of a K-8 school in a predominantly Black and low-income community in East Baltimore in early 2024. It will be an 804 kW, 100% low-income community solar project that will provide a 25% bill discount to an estimated 150 low-income households in the surrounding community. The project will be accompanied by local jobs and apprenticeships, energy efficiency services for project subscribers, educational opportunities, and possible battery storage for the school (study underway). CAF anticipates replicating this community-based project model across Maryland.

Financial Incentives for Low-Income Community Solar

Community solar in Maryland is usually considered only in the context of 2 – 5 MW ground mounted projects, but CAF believes it is important to consider smaller community solar projects (below 2 MW) as well as larger ground mounted projects as we seek to achieve the State's solar RPS goals and related objectives. While the Task Force estimates that 80% of Maryland's future solar capacity will be derived from ground mounted PV systems, it is important to note that >2 MW ground mounted community solar projects are being privately financed and do not need subsidized capital, particularly in light of new IRA tax incentives. By contrast, <2 MW community solar projects developed on the built environment are more difficult to finance with private capital alone. These projects -- particularly those that are located in low-income and disadvantaged communities ("LIDCs") and maximize low-income benefits -- are more expensive to construct and operate and require low-cost, flexible capital.

CAF recommends that the State use multiple financing tools to incentivize priority projects, with a focus on low-cost, long-term debt financing that can be recycled and re-deployed by the state for future programs. Loan terms could be tiered, with interest rates and term length being tied to priority project areas. Grant funding could be used as an additional financial incentive for projects where there is a limited repayment mechanism (battery storage) or to supplement low-cost financing for priority projects where project costs exceed what low-cost financing will allow (parking canopies, <500 kW projects). CAF recommends that 60% of the next fiscal year's allotment of ACP community solar funds (60% of overall ACP funds) be reserved for a loan fund to be used to incentivize community solar development on the built environment, with priority placed on <2 MW projects that are at least 50% low-income and offer a minimum 20% bill discount and/or are located on rooftops and parking lots. CAF recommends that the remaining 40% be reserved for grant funding.

CAF has identified three specific financing gaps in the community solar market for which public incentives are needed. These projects are not financeable with private capital alone:

1) Community solar projects on the built environment (<2 MW) that reserve at least 50% of offtake for low-income households (up to 200% FPL) and offer a minimum 20% discount

Private community solar developers that seek to build on rooftops and parking lots and access the new Low-Income Bonus Tax Credit confront cashflow challenges when modeling projects that rely on private financing alone. Interest rates are currently high and developers simply cannot make their investors' return requirements while at the same time qualifying for the Low-Income Bonus Tax Credit.

MEA has been providing grants to developers to enable higher LMI discount rates through the LMI PPA grant program. Low-cost, long-term debt would achieve the same goal by increasing cashflow available for low-income subscriber discounts, and unlike grants, debt capital would be returned to the State and could be reused for future State programs.

2) Community solar projects in LIDCs

The potential community benefits provided by community solar projects located in LIDCs are multiple, though the vast majority of projects developed to date have not been located in LIDCs. In addition to electricity bill savings for low-income households, projects located in LIDCs can provide contracts for local small businesses including Minority Business Enterprises, local quality, family-sustaining jobs, educational opportunities, potential resiliency benefits, and wealth creation through asset ownership.

CAF recommends that lower interest rates and longer term length be applied to debt that is offered to projects located in LIDCs and offer additional co-benefits to the community. Depending on project size and the type of co-benefits offered, loan funds may need to be supplemented with grant funds.

3) Community ownership of community solar projects in LIDCs

Most community solar projects are owned by private investors. The Inflation Reduction Act, passed in August 2022, offers a new opportunity for nonprofit organizations to invest in solar projects as "tax equity investors" even though they do not pay taxes. They are eligible to receive a direct payment in lieu of a tax credit, if they are the sole owners of the systems at least during the tax recapture period (generally the project's first 5 - 7 years). A nonprofit organization may therefore borrow funds to cover ITC-eligible construction costs, which they can repay to the lender with the direct payment from the IRS following the close of the tax year in which the project becomes operational.

This new federal tax policy creates the legal framework for community-based ownership of community solar projects. The benefits of community-based ownership of community solar assets are twofold: (1) wealth creation in LIDC communities, and (2) the avoidance of high Internal Rates of Return ("IRR") typically required by private investors, which reduces overall project cost and makes smaller community solar projects located in the built environment in LIDCs more

economically viable. That said, community-based organizations with little to no experience in solar ownership will require technical assistance as they learn to oversee the management of community solar projects.

CAF recommends that 0% interest debt be used to incentivize community-owned community solar projects, combined with grant funding for technical assistance focused on project ownership and asset management.

Thank you.

Sincerely,

A handwritten signature in black ink that reads "Lynn Heller". The signature is written in a cursive, flowing style.

Lynn Heller
Chief Executive Officer