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PRACTICE TIPS

BY: BRENT ISRAELSEN, *Analyst, and* KARL CATES, *Transition Policy Analyst, Institute for Energy Economics and Financial Analysis (IEEFA), Lakewood, Ohio*

Negotiating Responsible Tax Breaks on Renewable Energy Deals: *A Guide to Community Due Diligence*

Wind and utility-scale solar power generation is the fastest-growing sector of the U.S. electricity market, and development deals with communities now occur almost daily across the country. Such agreements typically include property-tax abatements that encourage developers to build in a particular jurisdiction and create jobs and other beneficial effects that might not otherwise happen.

Some research suggests tax incentives aren't worth the return, but when private property is left undeveloped or underdeveloped, it may not generate the same public revenues it would if renewable energy development is incentivized. Benefits flow most commonly to school districts and other public -service jurisdictions like sewer districts and road-maintenance funds.

Few standards exist across the industry, however. The deals are described by various terms from state to state, for instance, although they can be referred to generically as PILOT agreements; PILOT standing for "payments in lieu of taxes."

This brief includes general guidance on best community practices for negotiating renewable-energy agreements and salient detail from three recent agreements between private-sector companies and local governments:

• In **Wharton County, Texas,** where the Wharton Independent School District negotiated a tax-limitation agreement with AP Solar 6 LLC, which will build the 350MW Red-tailed Hawk Solar Project. The office of the Texas State Comptroller's Office endorsed the project as a way "to invest capital and construct the project in this state," and an economic-development alliance called Powering Texas is promoting such deals.

• In **Franklin County, New York** where EDP Renewables built the 77.7MW Jericho Rise wind farm in a deal that splits tax revenues among the Chateaugay Central School District, the county and the towns of Chateaugay and Belmont. The deal was struck under guidelines set by the New York State Energy Research and Development Authority.

• In **Raleigh County, West Virginia** where Raleigh Solar 1, a subsidiary of Denver-based Dakota Power Partners, will build a 90MW solar farm. The Raleigh County Commission passed a resolution in support of the agreement for its "creation and preservation of jobs," likely effects that will "encourage, foster and facilitate new economic development" and "create and develop a more diversified and balanced economy." While this is a tiny sample of recent agreements, it is illustrative of the lack of consistency across the board, highlighting a dearth of standards that could put communities at a disadvantage during negotiations.

Some best practices to follow in negotiating responsible tax breaks on renewable energy deals:

• ***Conduct up-to-date due diligence on the market and on the proposed site location.*** Factors to consider include availability of robust wind and solar resources, proximity to transmission lines and substations, and trends in electricity demand. Private energy consultants can be helpful in researching such issues.

• ***Obtain an independent cost-benefit analysis.*** Communities should source their own analysis via a competitive request-for-proposal (RFP) process.

• ***Involve all parties in the negotiations.*** Misunderstandings created by leaving people out of talks can drive developers away or undercut public support.

• ***Have a clear tax-exemption policy in place already.*** Keep rules as simple as possible and state clearly what kinds of projects are eligible/ineligible and what minimum criteria must be met.

• ***Negotiate as small an exemption and as short an exemption period as possible.*** Generally speaking, the best deals grant abatements of no more than 50% and for no more than five years. Conduct independent audits of revenue streams every five years.

• ***Make the process transparent.*** All details and timelines should be posted online. All meetings should be open. All actual or potential conflicts of interest should be disclosed.

• ***Channel a portion of tax payments into economic development per se.*** Diversification around how revenues are distributed will provide longer-term benefits.

PILOT programs can bring community benefit from renewable energy development and are best executed when built around guidelines like the ones described here. ML

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