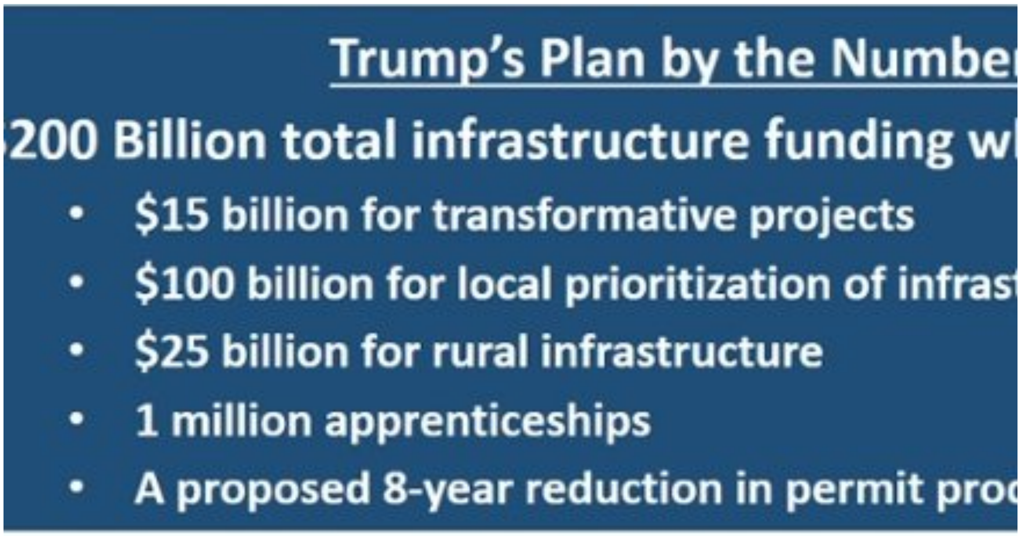

Supporting Clean Infrastructure without Investment Tax Credits

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I have been promoting "no money down" solar financing since the late 1990s when I wrote the business plan for SunEdison. In the interim years, I have become dismayed by how little we have been able to democratize solar financing. Consider this: how many people do you know who engage in real estate investing outside of more typical day jobs? I can think of several off the top of my head, and there are even reality TV shows dedicated to "flipping" houses.

However, due to peculiarities of the tax code, the 3+ million accredited investors in the United States that invest locally (e.g., in nearby real estate or in small businesses), have not been able to take advantage of the financing innovations popularized by SunEdison. Instead, the vast majority of solar investment in the USA since 2003 (over $100 billion) has come from tax credit buyers like Wells Fargo, Goldman Sachs, US Bank, and Rabobank.

Since the cost of solar has continued to fall, I am excited about the reduction of the tax credits to 10% (down from today's 30%) in 2022. This should allow for a more level playing field – but we can still do better. Instead of simply lowering tax credits, the atmosphere for solar investment should be significantly improved to accommodate more investors, beyond those with a large tax appetite. Enter a new idea called clean tax cuts (CTCs).

CTCs are the brain child of the Grace Richardson Fund, which seeks "to spearhead new free market policy solutions to critical issues stuck in partisan gridlock." The primary goal of the proposal is to shift from Reagan-style tax credits that only profitable corporations could use, to something that almost everyone could use: tax free bonds.

The plan, which is described as "all carrot, no stick," could be seen as a carbon tax turned on its head. Instead of punishing carbon usage, it rewards climate solutions with a tax-free investment coveted by the thousands of baby-boomers retiring every week. Moreover, this solution unites the political interests of parties on the left and the right: "climate solutions + tax cuts = clean capitalism."

Of course, the big question is which climate solutions will qualify. We can start with technologies that are already defined as climate solutions by organizations such as the Advanced Energy Economy, Deep Decarbonization Project, Paul Hawken's Drawdown, and climate modelers. These solutions include technologies in electricity, transportation,

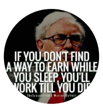
fair share of tax revenue.

The beauty of this approach is that these technologies are already being deployed at scale. Last year, the Advanced Energy Economy reckoned that $200 billion of climate solutions were deployed. A policy like CTCs could quickly expand to double or triple that pace while increasing near term income tax revenue and stretching out the tax credit impacts on the Federal budget. With President Trump pushing for an infrastructure bill that Democrats want in cash and Republicans want in tax credits, CTCs could truly split the difference.

The concept has precedents. Senators Wyden and Hoeven presented the "Move America" bill in 2015, which would expand tax-exempt private activity bonds and create a new infrastructure tax credit, which Wyden said will give states significant flexibility to pursue infrastructure projects based on their specific needs and constraints. However, each and every private placement bond requires a political sponsor (i.e. a gatekeeper) which makes issuance cumbersome, and opens the door to potential political control and cronyism that might chill the market. Tax-exempt Clean Asset Bonds (CABs) fix that problem by simply allowing corporations and banks to issue tax-exempt green bonds financing pre-qualified assets without jumping through political hoops every time, and so could deliver a far larger market

In addition to policy improvements, new technologies that enable everyday investors to engage in cleantech markets are on the rise. Consider Clean Capital, which provides a simple, accessible platform for making debt and equity investments in solar. All projects offered through Clean Capital have been vetted by the firm itself and by Generate Capital, offering greater confidence to incoming investors. Tools like these are important and their impact stands to be amplified by policy improvements (like CTCs) that make solar more lucrative to all.

It remains to be seen where this could go, but the fact that this approach might be embraced by conservatives, and quite possibly even the administration, cannot be overstated. After all, if the administration's primary objection to climate action is cost, CTCs are an ideal policy option. Further, if most of the action is at the state and city level, then CTCs could be a small but critical boost in motivating America's 3+ million local investors to invest in solar. And that is certainly an alignment that could create more political support for much faster deployment of climate solutions.



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