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USDA Renewable Energy Program Forecast

By Taite R. McDonald, Nathaniel T. Kron, and Isabel C. Lane*

In this article, the authors examine the U.S. Department of Agriculture's renewable energy programs, which they believe should remain a viable source of funding for energy developers to consider and pursue in the coming year.

President Donald Trump's nomination of former Georgia Governor Sonny Perdue for U.S. Secretary of Agriculture had been rumored for some time. However, Perdue's nomination on January 19, 2017, the day before Trump was inaugurated, was still somewhat surprising, as many expected Trump to tap a Midwesterner to lead the U.S. Department of Agriculture ("USDA").

In addition to U.S. agricultural programs, Perdue would preside over an agency with diverse mandates, from managing federal lands through the U.S. Forest Service to managing the nation's food stamp program. Notably for the energy sector, he also would be in charge of the USDA's Rural Development Office and renewable energy programs. While programmatic funding within these programs is not large, notable opportunities remain for companies looking to finance renewable energy and innovative energy projects across rural America.

Perdue is no stranger to energy initiatives. In a signature initiative launched in 2008 under his governorship, the Governor's Energy Challenge 2020, Georgia established sustainability goals, with a focus on retrofitting existing facilities for energy efficiency. The Energy Challenge directed state agencies to reduce energy consumption 15 percent below 2007 levels. Retrofit projects to achieve this goal were supported by the Georgia Environmental Finance Authority ("GEFA") utilizing funding from the American Recovery and Reinvestment Act of 2009 ("ARRA"). Perdue also signed into law a bill that set energy efficiency and construction standards after 2010, as well as created income tax credits for energy-efficient and clean-energy purchases—such as

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solar, wind, geothermal, and biomass energy—for residential and commercial properties.

Some conservative publications—including the Heritage Foundation's *Blueprint for Reform*,[1] which is rumored to be the foundation of the upcoming budget cuts—have put forth proposals to eliminate the rural development programs under USDA. However, given the commitments that Trump made during his presidential campaign to increase rural broadband access and rural infrastructure, the Rural Development Office is likely to continue to play an important role in the USDA's mission. Moreover, the Agricultural Act of 2014 ("2014 Farm Bill") statutorily set funding levels for the Title IX programs through 2018. Regardless of the change in administration, this funding provides a degree of certainty for these programs through this fiscal year ("FY") and next.

OVERVIEW OF EXISTING RENEWABLE ENERGY PROGRAMS

Rural Energy for America Program

USDA's Rural Energy for America Program ("REAP") provides financial assistance in the form of grants and loan guarantees to agricultural producers and small business for purchasing and installing renewable energy systems and making energy efficiency improvements in rural locations. REAP's mission is not to take early-stage technology risk, but to fund the deployment of off-the-shelf, energy efficiency and renewable energy technologies that benefit rural communities.

Under Title IX of the 2014 Farm Bill, the REAP program has $20 million in annual funding for each of FY 2014 to FY 2018. Grants tend to be much more competitive than loans, and are currently oversubscribed approximately three- to-one. Loan authority, on the other hand, remains underutilized.

Business and Industry Guaranteed Loan Program

The Business and Industry ("B&I") Guaranteed Loan Program is a loan guarantee program designed to assist credit-worthy rural businesses in obtaining needed credit for most any legal business purpose, including energy projects. The intent of the program is to save and create jobs in rural America. The program bolsters the existing private credit structure through the guaranteeing of loans for rural businesses, allowing private lenders to extend more credit than they would typically be able to. USDA requested $35 million in additional budget authority for a total program funding level of approximately $892 million for the B&I program for FY 2017.

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[1] http://www.heritage.org/research/reports/2016/07/blueprint-for-reform.

Rural Energy Savings Program

The Rural Utility Services ("RUS") Rural Energy Savings Program "(RESP") provides loans to entities that agree to make affordable loans to help consumers implement cost-effective, energy efficiency measures. Eligible borrowers including utilities or community organizations, can borrow money for up to 20 years at zero percent interest and then lend to end users at up to three percent interest. Eligible technologies include lighting, HVAC, water heaters, renewable energy systems and energy storage devices.

USDA expects approximately $54 million to be available, pending the approval of full-year appropriations for FY 2017. USDA expects to issue a Notice of Solicitation for Applications ("NOSA") for FY 2017 in April.

Energy Efficiency and Conservation Loan Program

Similar to the RESP program, the RUS Energy Efficiency and Conservation Loan Program ("EECLP") provides loans for financing energy efficiency and conservation projects for commercial, industrial and residential consumers. Rural electric cooperatives and utilities are eligible to borrow money and re-lend the money to help homeowners or businesses make energy efficiency improvements. In addition to energy audits, the loans are eligible for upgrades to heating, lighting and insulation, as well as conversions to more efficient or renewable energy sources. USDA officials expect the program to receive approximately $250 million in FY 2017 from the RUS budget.

9003 Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Assistance Program

The 9003 Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Assistance Program ("9003 Program"), formerly called the Biorefinery Assistance Program, provides guaranteed loans for the development and construction of commercial-scale facilities or the retrofitting of existing facilities for the development of advanced biofuels, renewable chemicals and biobased products. The program, included in Title IX of the 2014 Farm Bill, remains relatively more attractive than other federal loan guarantee programs for bioenergy-related technologies (such as those under the Department of Energy's Title XVII Loan Guarantee Program) due to the relatively low cost of applying and competitive lending terms.

While the 2014 Farm Bill set mandatory funding levels for the 9003 program, the funding was cut in 2015 and again in 2016. In its recently passed 2017 continuing resolution ("CR"), Congress allocated funding for USDA at the 2016 level, meaning the program should again receive $27 million, prorated over the length of the CR, which lasts until April 28, 2017. While the 9003 program has available funding from prior years and has continued to receive appropriations, the 9003 program will have sufficient funding only for a limited number of projects, depending on the project size.

INSIGHT AND TAKEAWAYS

Overall, we expect these renewable energy programs, many of which pre-date the Obama Administration, to remain in place. Trump received strong support in rural America, and these programs simply aim to assist companies in overcoming market barriers for rural energy deployment—not subsidizing technology or augmenting markets. Thus, these existing programs should remain a key policy tool for rural development, with heightened emphasis on the job creation and economic development benefits of these programs—and less focus on the environmental impacts from implementing green technology.

Even as the 2014 Farm Bill sets forth so-called "mandatory" funding for some renewable energy programs, congressional appropriators have sometimes slashed these funds in recent years. Accordingly, these programs could be in jeopardy in the upcoming Farm Bill, if companies and organizations do not communicate and educate policy makers and administration officials on their importance. With the necessary support, these programs have a high likelihood of continuing to remain in place given the underlying bipartisan support. However, with big-ticket items such as trade and tax reform on the horizon, significant changes to USDA programs are lower priority and unlikely in the near term. Thus, USDA should remain a viable source of funding for energy developers to consider and pursue in the coming year.