



The New Markets Tax Credit Issue

Republican Sweep Changes Landscape for Community Development Tax Incentives

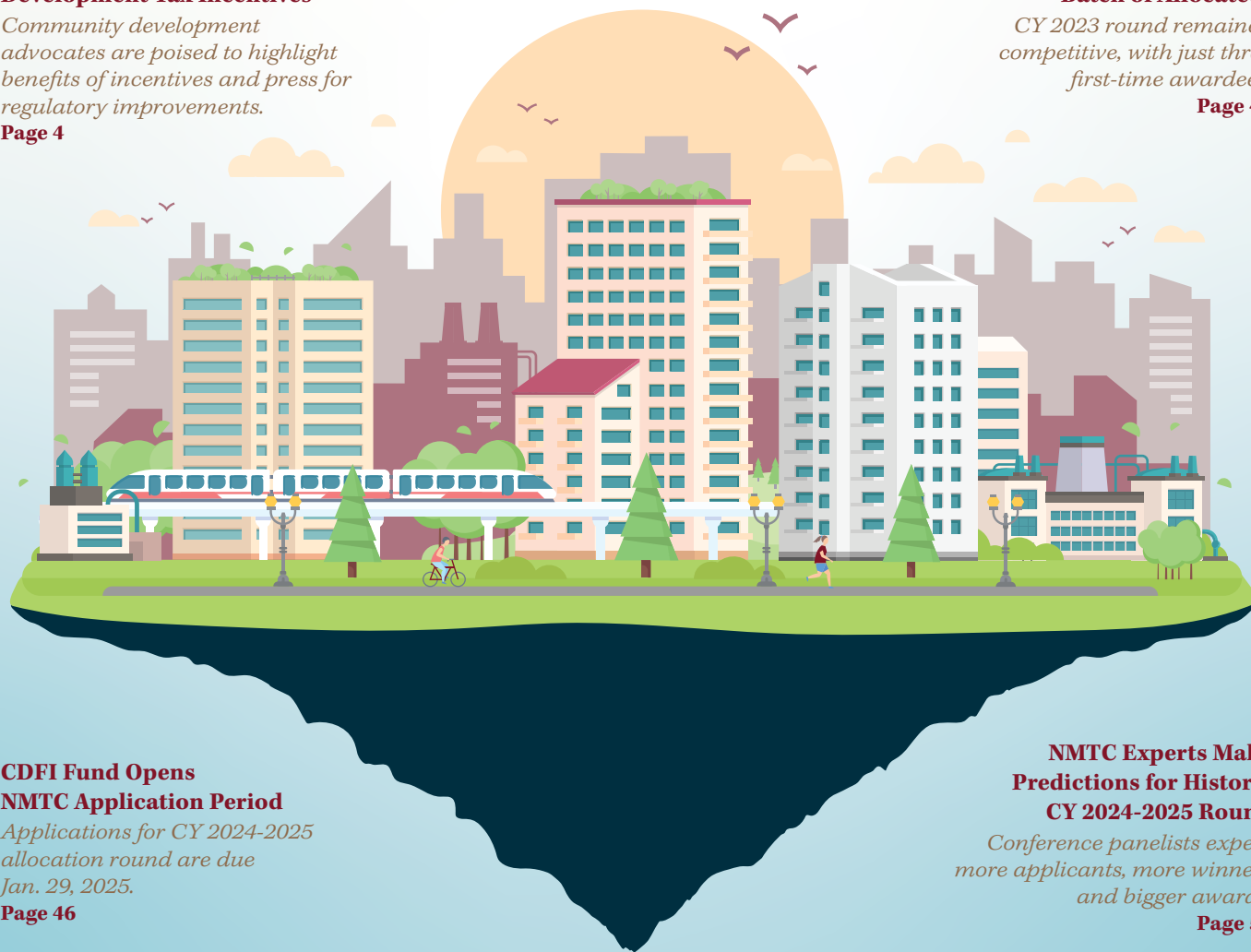
*Community development
advocates are poised to highlight
benefits of incentives and press for
regulatory improvements.*

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NMTC Application Process Remains Steady, Says Latest Batch of Allocatees

*CY 2023 round remained
competitive, with just three
first-time awardees.*

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CDFI Fund Opens NMTC Application Period

*Applications for CY 2024-2025
allocation round are due
Jan. 29, 2025.*

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NMTC Experts Make Predictions for Historic CY 2024-2025 Round

*Conference panelists expect
more applicants, more winners
and bigger awards.*

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RETC Transfers Bloom Throughout 2024, Including Community Solar Portfolio in Virginia

NICK DECICCO, SENIOR WRITER, NOVOGRADAC

Transfer of federal renewable energy tax credits (RETCs) exploded in 2024, according to professionals in the field, including a team that completed a transaction in August on a portfolio of community solar systems in Virginia.

Reunion Infrastructure teamed earlier this year with Summit Ridge Energy, a commercial solar company based in Arlington, Virginia, to facilitate the transfer of \$40 million in investment tax credits (ITCs) to a privately held real estate company.

The transaction is in the wheelhouse of Reunion, a San Francisco-based clean energy finance

company that has closed more than \$2.5 billion in transfers as of early November. The firm has facilitated transfer transactions of ITCs, production tax credits (PTCs), Section 45X and Section 30C

Image: Courtesy of Summit Ridge Energy
Scenic Farms Solar, a 4.1-megawatt direct current facility in Elkton, Virginia, was one of several systems transferred recently to an undisclosed buyer by Summit Ridge Energy in a renewable energy tax credit transaction.

credits varying in size from under \$10 million to more than \$500 million, said Billy Lee, co-founder and president of Reunion.

“We’re seeing a lot of activity, both large and small deals,” said Lee. “One of the beauties of transferability is that it levels the playing field. For example, small developers who have projects generating relatively small volumes of credits are still able to get deals completed efficiently.”

Lee said the Virginia portfolio buyer is a “sophisticated investor and has a keen interest in community solar.” Jake Compton, Summit Ridge Energy’s senior director of project finance, said the systems are in varying stages of completion, with some already online and others slated to come online before year’s end as well as into 2025.

Compton said the Virginia portfolio was not Summit Ridge’s first transfer, although it did fall within the first batch of the company’s transfers.

“It was in parallel with a few others,” Compton said. “This one was appealing for a couple of reasons. The buyers had the opportunity to think about this transaction as a long-term partner. We were also able to pair this with an existing tax equity investment in the portfolio and do a hybrid of tax equity and transfer in same transaction.”

Content With Domestic Content

Having an existing tax equity partner who liked the Virginia market combined with the transfer buyer and



Image: Courtesy of Summit Ridge Energy
Dogwood Lane Solar, a 4.4-megawatt direct current facility in Kenbridge, Virginia, was part of a recent portfolio transfer of renewable energy tax credits by Summit Ridge Energy.

the opportunity to expand the tax equity investment was a winning combo, said Compton.

“Our investment will be exclusively providing energy to low-income households throughout the state,” said Compton. “Our goal as a company is to do exactly that. ... It’ll let us continue to expand our footprint.”

The transaction also was one of Summit Ridge’s first to apply domestic content adder guidance from the Inflation Reduction Act of 2022. The expansion of solar cell manufacturer Hanwha Qcells Co.’s facilities increased the supply of American-made solar cells for projects such as Summit Ridge’s Virginia portfolio. Compton said the increase in output of cells, combined with clarification from the Internal Revenue Service and the Department of Energy about the domestic content regulations allowed Summit Ridge to “cement (its) plans” to deploy 800 megawatts of Hanwha’s Qcells.

“If I look at projections of the need for tax investment, the tax equity market alone just can’t keep pace

with the available credits from these projects,” said Compton. “Reunion estimated \$22 billion of tax equity this year, but out of a total market appetite of \$45 billion. Other groups have come up with very similar projections. That’s a great problem to have, so for us, it’s a ‘yes, and’ strategy—to meet our ambitious goals of expanding community solar and access to clean energy for all, we’re going to need all of both the tax equity and tax credit transfers that we can arrange.”

A Learning Curve

Lee and Compton said education is an important component of RETC tax credit transfers.

Compton said many tax credit transfer buyers are new to the RETC market, bringing a need to learn about the nuances of the process as well as a desire for a low-touch transfer.

“They may have different concerns than we’re used to with a more typical equity investor,” said Compton.

Lee outlined a two-stage process for most transfers: Educating taxpayers about the overall transfer opportunities and then guiding participants through the transaction process, from term sheet to closing.

“We spend a significant amount of time getting buyers ‘transaction ready,’ which often includes getting internal stakeholders up to speed and ensuring approvals are in place,” said Lee. “At that point, we start sharing opportunities that fit the buyer’s specific requirements. Our buyers are busy finance and tax professionals, so we provide a very curated approach. We can provide a lot of insights and market data to help buyers differentiate deals that, on the face of it, may appear to be very similar.”

Lee said Reunion weighs factors beyond the headline credit amount and price, factoring in seller motivation,

urgency, competitive dynamics, diligence complexity and other more qualitative aspects.

“We want to make sure we are truly giving them opportunities that fit their needs and align with their expectations,” said Lee.

Moving buyers and sellers through the process is one area where Lee and Reunion’s experience and history in renewable energy is valuable. Lee said the company brings a “deep data set” that informs commercial terms, structuring of indemnities and insurance, and more. He said Reunion also provides a due diligence review for buyers to help streamline their evaluation of the transaction.

“For sellers, the value we bring is certainty and speed of execution,” said Lee. “Critically, we have direct relationships with tax credit buyers, which gives us insights into the priorities and the readiness of buyers.” Lee said the timing from term sheet to close for most transfers that Reunion participates in is measured in weeks, which differs from many RETC transactions, for which a standard transaction is about six months.

Most buyers want to do one or two transfer transactions per year and move on, Lee said.

“Finding a buyer and seller that want to transact on a similar amount of credits is only part of the challenge,” said Lee. “Buyers have varying requirements: some want PTC or 45X. Some want ITC. Some want insurance, while others want a creditworthy or investment-grade seller. Some are comfortable with higher basis step-ups assuming risk mitigation measures are in place, while others are not. There are a lot of factors in finding the right buyer and seller in order to complete a successful transaction.”

Evolution of Transfers

Lee said there was “a pioneering aspect” to taking on transfer deals earlier this year when the opportunity was fresher. As the year progressed, Lee said the transaction process has become more efficient. Many transfers require only a few major transaction documents, including the tax purchase credit agreement, an insurance policy (if required) and a guaranty agreement (if required). Lee said Reunion’s goal is to continue to streamline transactions and take a lot of friction out of transfer transactions for buyers and sellers.

“The amount of hours needed to transact on one of these transactions is fairly limited,” said Lee. “We have a finely tuned playbook on what the buyer and seller need to do to get a deal done. We’re getting pretty good at identifying and resolving any issues early in the deal process, as opposed to at the 11th hour.”

Although the Virginia transaction was a mid-sized deal in the pantheon of Reunion’s experience, Lee said the challenges and complexities of transfers don’t necessarily grow with scale.

“We don’t see a huge correlation between size and deal complexity,” said Lee. “Some of our most challenging deals are really small.”

Likewise, Lee said larger developers are not always the most sophisticated, noting some experienced sellers are relatively inexperienced at transfers and need a fair amount of hand holding while some smaller

developers are highly sophisticated and much more transaction ready.

“Right now, there is no rule of thumb in terms of what deals are more challenging or more complex than others,” said Lee. “That’s where we step in and provide guidance and support.”

Into the Future

Lee said those considering transfer transactions such as the Virginia community solar portfolio should know that transferability still benefits from the guidance of deal teams that have deep transaction experience.

“There’s still a lot of detail and nuance to deals,” said Lee. “Particularly for first-time buyers and sellers, having a transaction partner that can identify risk and has the experience to structure solutions that properly mitigate and allocate that risk will significantly increase the likelihood of a successful transaction.”

Compton expressed excitement for the future possibilities of transfers.

“The transfer market opens up an enormous aperture of the pot of investors to get involved with projects,” said Compton. “It’s created its own set of challenges and nuances. It’s certainly interesting to see how it evolves. Everyone has tax equity as reference points. This arose as a unique animal in response to its own quirks. It’s fascinating to see how the market evolves. Does it stay very close to tax equity, which is kind of a reference point? Or will it look and feel like something different? There’s a lot of reasons to be doing transfers.” ♦

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