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On the Grid

Financing with Dirty Money

Banks and new-wave financing groups are helping municipalities with their abandoned or idle landfill solar projects

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Two years ago, the Department of Energy Resources (DOER) circulated a vision of transforming capped landfills into energy producing assets with municipalities throughout Massachusetts. This bright and hopeful dream was very well received and many towns and cities put out public bids to solicit renewable energy developers. The successful bids were awarded to large developers that not only had a track record of large-scale projects, but also demonstrated the engineering capabilities necessary to tackle environmental issues on delicately capped landfills.

Presently, out of all the public bids, 40 landfills in the state of Massachusetts have been granted permits by the Department of Environmental Protection (DEP) for major post-closure use. Of these 40 landfills, only 7 landfills have active renewable generators; the rest are sitting and waiting.

Why did this happen? In the hay-day of solar (2010-2012), the production of Solar Renewable Energy Certificates (SRECs) fueled the fast-paced development of solar in Massachusetts. Banks and financing groups out of New Jersey sought to increase their portfolios by backing developers that were awarded public bids. In order to win the bids, developers lowered their energy sale rates so low, that they were essentially given out for free. Everyone was “banking” on SRECs to supply the necessary cash-flows to sustain projects. By the end of 2012, the SREC market took a nosedive, and potential projects were cut by financing groups that were scrambling to find hedges to avoid bankruptcies.

The few surviving solar developers quickly re-aligned their business plan and took on a new holistic approach to a volatile market. Developers remodeled their projects’ cash-flows by realistically selling discounted electricity, and monetizing tax credits with entities that are resistant to market changes. Instead of viewing solar as a high return investment, developers and new financing parties looked for low-return, low-risk projects secured by the local municipalities.

In order for this new-wave economical model to benefit municipalities, the sources of revenue must be clearly defined and evaluated. In 2013, the primary focus is secured steady revenue. Solar projects are able to steady pay municipalities a PILOT (payment in lieu of taxes) which is equivalent to a yearly land lease, and sell the energy credits at a discount back to the landfill owners for use in the town or city. This helps establish clear and concrete cash-flows back into the solar project and build a mutually benefiting scenario in which the municipality receives annual payments for the use of their unutilized and underperforming asset.

Typically, landfills that are capped with the aid of state funds have passive restriction on them. This means that they can only be used at a later date to be constructed as a park, or recreational space. Since solar in the Commonwealth of Massachusetts has been deemed a passive form, it is permitted by the DEP and state government to be safe enough to be built on top of landfills throughout the state.

The biggest roadblock and challenge that municipalities will face is the financial backings of a solar developer. As seen in the past, when there is a rush to a boom in the market, many groups will make the short-term mistake of keeping their eyes on quick money. Evaluating a solar developer based on their financial risks and long-term survivability is the true key to success in public projects. Banks and financing groups that take up a role in the coming years of solar financing in Massachusetts stand a good ground where the market has truly matured to economies of scale, and projects are evaluated on long-term secured cash-flows. This concept will make solar on landfills a traditional energy model, and ensure its survival in the boom and bust states that it has endured.

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