IDEA BRIEF

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Clean Energy Business Zones

By Josh Freed and Mark Sagat

As the nation moves to clean energy, many communities dependent on carbon-intensive energy will be adversely affected by the transition. Manufacturing and research facilities in these communities will close and some jobs will disappear. These communities will still have the manufacturing base and the skilled workforces they need to create clean energy technologies. In many cases, however, they lack the financial incentives to attract such businesses and the necessary infrastructure to maintain them. A Clean Energy Business Zone (CBiZ) program, modeled after the successful Empowerment Zones, would provide a financial lifeline to these communities. This would ease the transition by providing tax benefits of at least $1.2 billion annually to businesses involved in clean energy technologies. These incentives would help provide the financing that many struggling conventional energy communities need to bring in new businesses and add jobs in a sector of the economy that is critical for our future and poised for significant expansion.

THE PROBLEM

Communities lack the resources to transition to clean energy

Certain communities will be adversely impacted by the transition to clean energy.

A transition to clean energy is critical to develop the industries poised for growth in the 21st century and address climate change. The transition, however, will hurt certain communities reliant on carbon-intensive energy industries if they do not have the right financial and infrastructure plans in place. Particularly given the size of the American economy and the constant evolution of technology, some sectors of the economy are always creating jobs, while others are shedding them.[1] The transition to clean energy is unlikely to be any different. Many

communities, businesses, and individuals will prosper from the transition but others will suffer from economic dislocation.

America is not investing enough in clean energy to mitigate the adverse impact of the transition.

The United States lags behind other nations in clean energy investment. Of the $119 billion invested in renewable energy and energy efficiency firms worldwide, only $5.9 billion went to American clean energy businesses.[2] By comparison, China invested $15.6 billion,[3] and by 2006 already had more absolute renewable power capacity than the United States.[4] Today, approximately 1.9 million people are employed in China's renewable energy sector.[5] By contrast, the U.S. employs only 750,000 people in this sector.[6]

Many of the adversely impacted communities could benefit from increased investment in clean energy technology and industry.

Many of the communities likely to be impacted by the transition to clean energy are well-positioned to capitalize on it. They have the technological and manufacturing infrastructure and workforce necessary to support the new industries. What they need are the incentives to create and grow businesses. Consider three states:

- Indiana, a state with substantial coal and steel industries and a 9.9% unemployment rate in August 2009, has attracted $26 million in venture capital from 2006 to 2008 and had clean energy job growth of 78% between 1998 and 2007. This created 17,298 new jobs and gave Indiana the fastest growth rate for wind power generation in the nation in 2008.[7]
- Michigan, a state with a struggling auto industry and an unemployment rate of 15.2% in August 2009, ranked third in clean energy technology patents as of June 2009, attracted $55 million in clean energy venture capital from 2006 to 2008, and had a clean energy jobs growth rate of 11% between 1998 and 2007.[8]
- Arkansas, with its substantial poor and working-poor populations and a 7.1% unemployment rate in August 2009, attracted approximately $23 million in clean energy venture capital from 2006 to 2008 and had a clean energy job growth rate of 7.8% between 1998 and 2007.[9]

Additional investment in clean energy in similar states and communities could help to revitalize them and provide them with a strong foundation for future economic growth.

THE SOLUTION

Create Clean Energy Business Zones (CBiZ)

To attract more clean energy investment and help communities transition to clean energy, Third Way proposes the establishment of a minimum of 40 Clean Energy Business Zones (CBiZ). Under our proposal, businesses would receive substantial tax incentives to establish clean energy research, manufacturing or production facilities in qualified communities (e.g., fuel cell research, wind turbine or solar glass manufacturing, energy efficiency retrofitting or waste-to-energy generation).[10] This program would provide tax incentives of at least $1.2 billion annually[11] to clean energy businesses, paid for by the auctioning of "allowances" under the proposed House and Senate clean energy bills. It could also be expanded based on need.

This proposal is modeled after the successful Empowerment Zone program.

The proposed program would be modeled after the Empowerment Zones initially authorized by Congress in 1993,[12] which have successfully revitalized impoverished urban and rural communities by spurring development and creating jobs.[13] To be eligible as a CBiZ, a community would have to demonstrate that it met the following criteria:

1. It lacks clean energy industry infrastructure or otherwise has a deteriorating conventional energy infrastructure;
2. It has suffered job loss directly resulting from the transition to clean energy;
3. It has complementary business sectors; or
4. It has other environmental or economic conditions conducive to the establishment of a clean energy manufacturing or research facility.[14]

The Department of Energy would be the lead implementing agency and would be required to consult with the Department of Agriculture (for rural zones), and the Department of Housing and Urban Development (for urban zones). If these agencies determined that a community met the eligibility requirements, it would receive a CBiZ designation and clean energy businesses in the zone would have access to the employment and investment incentives set forth in Appendix I. We based these incentives on those in the existing Empowerment Zones.[15] While, in this proposal, we double the amount of the incentives that have historically been provided to Empowerment Zones, CBiZ is scalable and the amount of the incentives should be set at a level that ensures that CBiZes are equal to the task of jumpstarting capital-intensive clean energy

sector businesses. We also include additional incentives detailed in Appendix II that are not based on the Empowerment Zone program but should be strongly considered for CBiZ.

This will create real economic growth for CBiZ communities.

At a time when many communities are still reeling from the effects of a prolonged recession, creating drivers of economic growth is more critical than ever. The clean energy sector has already succeeded in spurring economic growth. By 2003, clean energy programs had created $300 billion in revenues and 5 million jobs.[16] According to studies on the impact of clean energy in Arizona and Colorado, investments in clean energy yield greater dividends than investments in conventional energy sources. Clean energy investment in Arizona will increase net employment by the equivalent of employing 6,100 people for a year through 2020, increase wages by a net annual average of $66 million, and increase the state's gross state product by annual average of $200 million. Similarly, clean energy investment in Colorado will create a net increase of the equivalent of hiring 4,100 people for a year through 2020, increase wages paid to workers by a net cumulative total of $570 million, increase Colorado's share of U.S. GDP by a net of $1.9 billion through 2020, and generate property taxes of $400 million.[17] The CBiZ areas will help impacted communities to capitalize on this growing—though still nascent—economic engine.

This proposal will give individual communities a stake in the transition to clean energy.

While the Emergency Economic Stabilization Act of 2008, the American Recovery and Reinvestment Act of 2009, the American Clean Energy and Security Act, and the pending Clean Energy Jobs and American Power Act provide important incentives for businesses to develop clean energy technology, such incentives are not designed to stimulate development of clean energy industries in specific communities. A community-based approach has the advantage of being more inclusive, by ensuring that all sectors of the community (both public and private) are involved in the community's economic development, and more comprehensive, by ensuring that outside investment is strategically targeted, effectively utilized, and aligned with the community's goals for long-term economic growth.[18]

CRITIQUES & RESPONSES

It is too expensive.

While we estimate that the additional incentives provided by this proposal would cost at least $1.2 billion per year, such investment will yield substantial dividends through economic growth, more jobs, and increased wages. Moreover, even with this program, the amount invested by the U.S. government will pale in comparison to the amounts other countries, such as South Korea ($85 billion over 5 years) and China ($660 billion over ten years), are investing in clean energy research and development.[19]

There were already clean energy incentives included in other legislation (e.g., the Emergency Economic Stabilization Act, the American Recovery and Reinvestment Act of 2009, the American Clean Energy and Security Act, and the pending Clean Energy Jobs and American Power Act).

While the incentives provided by these other pieces of legislation are important, they are not community or neighborhood-based. CBiZ would focus on strengthening the economies of communities and neighborhoods by allocating incentives to the places that are best positioned to establish vibrant clean energy economies and to those most in need of revitalization as a result of the transition to the clean energy economy.

Empowerment Zones have not worked.

The tax and other incentives provided to businesses within Empowerment Zones have become important drivers of economic growth within those neighborhoods. The Zones have created new jobs, reduced crime, and have had other important economic effects. For example, in Baltimore's Empowerment Zone, 5,700 new jobs have been created, crime has been reduced by 60%, and public and private investments totaled $1.2 billion.[20] New York's Empowerment Zone has created and retained approximately 13,000 jobs and has spurred almost $800 million in direct and indirect private investment.[21] CBiZ will provide similar economic benefits while also helping America achieve global leadership in the clean energy economy.

APPENDIX 1

CBiZ Incentives based on Empowerment Zone Incentives[22]		
Incentive	**Description**	**Maximum Amount/Year**
Employment Credit	Annual employment credit of up to $6,000 for each employee who works and lives in a CBiZ.	$6,000 per year per employee
Work Opportunity Tax Credits	A onetime $4,800 tax credit for each person hired who had lost their previous job due to the transition to clean energy. The criteria used to determine eligibility would be similar to the criteria set forth in Section 425(b) (1) (C) of the American Clean Energy and Security Act.[23]	$4,800 for the first year of employment
Increased "179" Deduction	An increase of between $70,000 and $250,000 in the deduction of the cost of eligible equipment purchases in the placed-in-service year of the equipment in a CBiZ.[24]	Between $70,000 and $250,000 per business per year
Tax Exclusion of Capital Gains Earned on Stock of Qualified CBiZ Businesses.	Investors other than corporations that hold qualified small business stock in a qualified company for more than 5 years will not be subject to a tax on capital gains.[25]	Varies

APPENDIX 2

Potential Additional Incentives[26]	
Incentive	**Description**
Expansion of Clean Renewable Energy Bond Program	Expand the qualified uses to the financing of the construction of any clean energy business facility within a CBiZ.[27]
Extension of Clean Energy Investment Credits	A 30% investment tax credit for placing in service a clean energy business facility in a CBiZ.
Extension of Renewable Energy Loan Guarantee Program	Extend the Renewable Energy Guarantee program for projects built in clean energy zones from 2011 until 2020.[28]
Extension of waiver of fees for SBA 7(a) and 504 loans	Extend the waiver of fees for SBA 7(a) and 504 loans obtained by businesses in a CBiZ until 2015.
Clean Start Deduction	Create a $20 million deduction (phased in over 5 years) for qualified start-up costs of any clean energy business established in a CBiZ.
Clean Energy Grant Program	Create a five or ten year grant fund program to allocate funds to small or medium sized businesses for construction of clean energy business facilities.
Extension of the Modified Accelerated Cost-Recovery System + Bonus Appreciation	Extend bonus tax depreciation rules to clean energy property or facilities acquired by 2015 and placed in service by 2020 in a CBiZ.[29]
Dedicated Funds for Brownfield Redevelopment	Dedicate funding to CBiZes or provide CBiZes preferential treatment for funding that can be used to clean up and convert Brownfield sites to clean energy business facilities.
Education Grants	Provide grants to educational institutions located within CBiZes to provide clean energy business training courses and certifications to workers living in such Zones.[30]

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ABOUT THIRD WAY

Third Way is the leading think tank of the moderate wing of the progressive movement. We work with elected officials, candidates, and advocates to develop and advance the next generation of moderate policy ideas.

For more information about Third Way please visit www.thirdway.org.

ENDNOTES

1 Pew Center on Global Climate Change, "Myths about the Waxman-Markey Clean Energy Bill," June 2009, available at http://www.pewclimate.org/acesa/eight-myths/June2009.

2 UNEP, SEFI Alliance, "Global Trends in Sustainable Energy Investment 2009: Analysis of Trends and Issues in the Financing of Renewable Energy and Efficiency," 2009, p. 19, available at http://sefi.unep.org/english/globaltrends2009.html; Pew Charitable Trusts, "The Clean Energy Economy: Repowering Jobs, Businesses, Investments Across America, " June 2009, available at http://www.pewcenteronthestates.org/uploadedFiles/Clean_Economy_Report_Web.pdf.

3 UNEP, SEFI Alliance, "Global Trends in Sustainable Energy Investment 2009: Analysis of Trends and Issues in the Financing of Renewable Energy and Efficiency," 2009, p. 12, available at http://sefi.unep.org/english/globaltrends2009.html.

4 Center for American Progress, "We Must Seize the Energy Opportunity or Slip Further Behind: A Primer on Global Competition in Green Technology Investments," April 20, 2009, available at http://www.americanprogress.org/issues/2009/04/global_competition.html.

5 European Renewable Energy Council, Greenpeace, "Working for the Climate: Renewable Energy and the Green Job Revolution," August 2009, available at http://www.greenpeace.org/raw/content/international/press/reports/working-for-the-climate.pdf.

6 Center for American Progress, "Clean Energy Investment Creates Jobs," July 23, 2009, available at http://www.americanprogress.org/projects/energy_hub/briefs/clean_jobs_brief.html.

7 Bureau of Labor, Local Area Unemployment Statistic Homepage, available at http://www.bls.gov/lau; The Pew Charitable Trusts, "The Clean Energy Economy: Indiana," May 8, 2009, available at http://www.pewcenteronthestates.org/uploadedFiles/wwwpewcenteronthestatesorg/Fact_Sheets/Clean_Economy_Factsheet_Indiana.pdf; American Wind Association Press Release, "AWEA Annual Wind Energy Industry Report Reflects Strong Growth in 2008, Dramatic Increase in Manufacturing," April 13, 2009, available at http://www.awea.org/newsroom/releases/Annual_Industry_Rankings_2009_041309.html.

8 Bureau of Labor, Local Area Unemployment Statistic Homepage, available at http://www.bls.gov/lau; Pew Report Press Release, "Michigan Clean Energy Economy Jobs Grew as Overall Jobs Declined: Emerging Sector Poised for Explosive Economic Growth," June 10, 2009, available at http://www.pewglobalwarming.org/cleanenergyeconomy/pdf/MI_Release_09-0610.pdf.

9 Department of Labor, Local Area Unemployment Statistic Homepage, available at http://www.bls.gov/lau; The Pew Charitable Trusts, "The Clean Energy Economy: Repowering Jobs, Businesses and Investments Across America," June 2009, available at http://www.pewcenteronthestates.org/uploadedFiles/Clean_Economy_Report_Web.pdf.

10 Under this proposal, incentives would be extended to any business involved in the clean energy manufacturing chain, including those that develop such technologies, manufacture and sell components used in such technologies (e.g., solar panels or wind turbines), and those that use the clean energy technology to produce clean energy.

11 According to a 2005 GAO report on tax expenditures, the Joint Committee on Taxation estimates the total tax expenditures (i.e., foregone tax revenue) for Empowerment Zones to be approximately $600 million. GAO, "Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined," September 2005, http://www.gao.gov/new.items/d05690.pdf. While this proposal does not entirely track the tax incentives provided to Empowerment Zones and assuming a similar number of businesses take advantage of the incentives, establishing the same number of zones (40) for CBiZ and doubling the amount of the incentives provided to businesses should result in an approximate cost of $1.2 billion, double the amount of the tax expenditures for Empowerment Zones.

12 Omnibus Budget Reconciliation Act (OBRA) P.L. 103-66, 1993.

13 U.S. Department of Housing and Urban Development, "Capturing Successes in Renewal Communities and Empowerment Zones: Spotlight on the Results," available at http://www.hud.gov/offices/cpd/economicdevelopment/library/spotlight508.pdf.

14 This is a suggested list of guidelines that could be expanded in legislation. Alternatively, the guidelines for the program could be developed by the Department of Energy, in consultation with Department of Housing and Urban Development and the Department of Agriculture, and be subject to customary notice and comment rulemaking procedures.

15 "Tax Tips for Accountants and Businesses in Empowerment Zones," U.S. Department of Housing and Urban Development, available at http://www.hud.gov/offices/cpd/economicdevelopment/library/taxincentivesez.pdf.

16 UNEP SEF Alliance, "Why Clean Energy Public Investment Makes Economic Sense—the Evidence Base," 2009, p. 23, available at http://sefi.unep.org/english/download-ei-study.html.

17 Ibid. at p. 22-23.

18 This community-based approach has already reaped benefits in Kansas City, Missouri, where Congressman Cleaver, along with local leaders, created a "Green Impact Zone." This Zone utilizes funds from the American Recovery and Reinvestment Act to revitalize a neighborhood plagued by high rates of poverty, unemployment, and violence through the rehabilitation and weatherization of homes, the training of residents in green technologies, and the investment in sustainable transportation solutions. The White House Blog, "Green Impact Zone," August 31, 2009, available at http://www.whitehouse.gov/blog/Green-Impact-Zone/.

19 Bryan Walsh, "Clean Energy: U.S. Lags in Research and Development," *Time*, August 1, 2009, available at http://www.time.com/time/health/article/0,8599,1913781,00.html.

20 U.S. Department of Housing and Urban Development, "Capturing Successes in Renewal Communities and Empowerment Zones: Spotlight on the Results," p. 149, available at http://www.hud.gov/offices/cpd/economicdevelopment/library/spotlight508.pdf.

21 Ibid. at p. 158.

22 These incentives would be in addition to those provided under the Emergency Economic Stabilization Act, the American Recovery and Reinvestment Act of 2009 and the House and Senate Clean Energy Bills.

23 A business will be eligible for this tax credit if the new employee was previously terminated because of a layoff or closure of a facility due to a decrease in the sale, production, or delivery of goods and services as a result of any requirement of Title VII of the Clean Air Act, including: 1) the shift from reliance upon fossils to other sources of energy, or 2) a substantial increase in the cost of energy required for a manufacturing facility to produce items at competitive prices. H.R. 2454, the American Clean Energy and Security Act, Sec. 425 (b) (1) C.

24 The American Recovery and Reinvestment Act extended this 179 deduction to $250,000 and created a higher phase-out of $800,000 through 2009. The section 179 deduction reverts back to $35,000 in 2010.

25 At present, under the American Recovery and Reinvestment Act, investors other than corporations are entitled to exclude 75% of the capital gains of qualified business stock, which is purchased after February 17, 2009 and held for 5 years, from taxation. As part of his budget proposal, President Obama has proposed a capital gains exemption for all qualified small business stock issued after February 17, 2009. If that measure is enacted for all qualified small businesses, this incentive would be duplicative.

26 This is a representative list of the types of additional incentives that could be provided to private and public sector entities involved in a CBiZ.

27 The Clean Renewable Energy Bond program was expanded under the Stimulus Act. However, such bonds may only be used primarily by public sector entities and for the financing of facilities that generate electricity from certain renewable energy sources. Appalachian Regional Commission, "Clean Energy Bonds Expanded by the Stimulus Act," February 18, 2009, available at http://www.arc.gov/images/newsandevents/news/recovery/webinars/03-18-2009/Energy-Clean_Renewable_Energy_Bonds_CREBS.pdf.

28 Under the American Recovery and Reinvestment Act, the DOE may only enter loan guarantees for eligible projects until 2011.

29 To be eligible for bonus depreciation under the American Recovery and Reinvestment Act, the property must have been acquired between 2008 or 2009 and must have been placed in service during 2008 and 2009.

30 Similar programs have been proposed in the American Clean Energy and Security Act. The ones proposed here would be specifically geared towards workers in communities that were designated a CBiZ.