



Client Alert

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USDA REAP GRANTS TO PROMOTE RENEWABLE ENERGY DEVELOPMENT IN RURAL AMERICA

The United States Department of Agriculture ("USDA") has a number of programs designed to facilitate the development and financing of renewable energy generation projects throughout rural America. One major example is the Rural Energy for America Program, or "REAP," which was created by the 2008 Farm Act as the successor to a previously existing government energy efficiency program. Under REAP, the USDA is authorized to use a combination of loan guarantees and direct grants to help farmers and rural small businesses purchase renewable energy systems and make energy efficiency improvements.

Congress has allocated \$60 million in funding for these incentives for 2010 and \$70 million for 2011 and 2012. The applicant for a REAP grant or guarantee must fall within the USDA's definitions of "agricultural producer" or "rural small business" and must use the proceeds for an eligible renewable energy project, such as large or small wind turbines, active or passive solar, biomass, geothermal and/or hydropower. Funds can also be used for specified types of energy efficiency projects or relevant feasibility studies.

A REAP loan guarantee is provided to a lender to enhance the credit of a loan to a farmer or small business, with the maximum guarantee amount ranging on a sliding scale from 85% of the loan amount for loans up to \$600,000, down to 60% for loans greater than \$10,000,000. At the same time, the guarantee also must not exceed 75% of the total "eligible project cost" for the installation. In addition to covering construction and related land acquisition expenses, eligible project costs can also include soft costs such as professional service fees, feasibility studies, business plan preparation, permits and license fees and working capital. REAP also authorizes USDA to make direct grants for the same purposes up to the lesser of \$500,000 or 25% of eligible project costs for a renewable energy system and up to the lesser of \$250,000 or 25% of the expenses incurred for an energy efficiency project.

As available funding is capped on an annual basis, applicant borrowers and developers must file detailed project descriptions with USDA, generally during the spring and early summer of each year (the 2009 application deadline was July 31, 2009). USDA then ranks the applications based on published criteria, including the type of renewable energy system to be used, the quantity of energy and demonstrated energy savings expected to be generated, anticipated environmental benefits and energy efficiency timelines. Small projects can also benefit, as 20 percent of total REAP funding in 2009 was set aside for grants of \$20,000 or less and the USDA added 10 points to the project "score" when ranking such types of applications.



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In addition to REAP, the USDA also has a number of other programs focusing on stimulating the development of renewable energy in targeted areas. These include a Biorefinery Assistance Program designed to promote the development, construction and retro-fitting of commercial scale biorefineries as well as supplemental incentives directed at developing new types of crops and other biofuel feedstock. There are also grants available to local governments, colleges, rural electric cooperatives and public utilities intended to fertilize the development of additional renewable energy technologies and energy efficiency programs that can ultimately help farmers and small businesses in rural America.

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