

## **BENEFITING NORTH CAROLINA COMMUNITIES WITH OFFSHORE WIND FARMS**

Offshore wind farms are wind developments located in submerged lands, lands that are owned by state and federal governments. Commercial activity on these submerged lands, such as an electricity-generating wind farm, will not directly benefit local communities in terms of land leases, royalty payments, local ownership, and property taxes. Local communities can nevertheless benefit directly and indirectly from offshore wind facilities once a system is established that will channel monies to these affected local communities. Direct benefits include the collection of royalties or equity from facilities and the creation of new jobs. An increase in local services to support the new jobs created, a preferential bidding system, and existing community development programs are some ways in which a local community could benefit indirectly.

### **Direct Benefits to Impacted Local Communities**

Currently, all wind farms in the United States are located onshore, and local communities hosting wind farms have benefited directly and indirectly from these developments by receiving monies for land leases, royalty payments, and property taxes. Offshore wind farms, on the other hand, will be located on submerged lands that are owned by a particular state(s) or the federal government. Local communities affected by offshore wind farm facilities therefore will not be able to collect property taxes from offshore wind farm facilities. However, local communities have an opportunity to gain direct economic benefits from an offshore wind farm. One way is either through royalty payments in lieu of property taxes or in the form of a direct equity stake. Another is an increase in local job opportunities.

#### *Royalties*

Royalties could be directed to local communities through a process that mimics the auction/lease program used for offshore oil and gas field developments. When the federal government began leasing submerged lands on the Outer Continental Shelf (OCS) to private corporations for the purposes of oil and gas development, the federal government ensured that the affected states received fair and equitable return on the resources extracted from the OCS via the Outer Continental Shelf Lands Act (OCSLA). The OCSLA established federal jurisdiction over submerged lands on the OCS seaward of the state boundaries (generally 3 miles from the shore) and allows the Secretary of the Interior to auction leases to the most highly qualified responsible bidder(s) on the basis of sealed competitive bids. In order for the public to gain a fair and equitable return on the extracted resources of the OCS, policies and procedures have been established to distribute a portion of the revenues collected to affected states. These payments are termed royalties. In most cases, 50% of the royalties collected are returned to the affected states.

The amount of royalties collected depends on a few factors:

1. The current price of the commodity extracted from the leased land (i.e. oil or electricity generated),
2. Exploration and development activities,
3. The volume of commodity produced (i.e., MW of electricity generated),

4. The federal lands from which the commodity is produced and the law that established how the revenues are to be distributed.

Currently, the OCSLA is the only federal legislation that addresses royalty payments from corporations that extract resources from federal submerged public lands. This law was created for and applies to oil and natural gas exploration on the OCS. Today, new energy exploration potentials are being sought, such as offshore wind farms, in the OCS, and the government is attempting to establish a procedure to deal with these new developments. A bill (HR 5156) introduced in the House of Representatives by Rep. Cubin (R-WY) on behalf of the Bush administration, intends to address alternative-energy exploration on the OCS. The bill proposes to create a form of “one-stop-shop” permitting for alternative-energy facilities proposed in the OCS since the current OCSLA legislation only addresses oil and gas exploration and permitting.

The federal OCSLA program could serve as a model for states considering offshore wind farm facilities in their waters to ensure that local communities benefit from resources being extracted from state submerged lands. Besides providing a source of revenue that could benefit local communities, a process that mimicked the OCSLA could also provide for an orderly development of potential sites. By auctioning sites, the OCSLA provides both a source of revenue and an orderly process to determine how these oil and gas tracts will be developed. Auctioning offshore wind sites would offer similar benefits; that is, it would provide revenue and allow for an orderly development of the sites.

#### *Equity*

An alternative to royalty payments would be a system that would require commercial entities extracting public resources from state lands to make equity payments to affected local communities. There are a number of ways this equity could be awarded. It could for example be in the form of warrants or options that would convert to equity and become a source of revenue once the project reached a certain level of profitability. The equity shares could under some circumstances be a preferable option to developers since payments would only come after profits are realized on the project. For communities, it would be a question of evaluating the certainty of royalty payments against possible greater potential of an equity stake in the projects.

#### *Community Use of Direct Payments*

Both royalty and equity payments will have to be controlled in some manner by the participating local communities. Clearly, this is a decision that will have to be reached by the local community, but it will be useful to have as many options for consideration as possible before making the decision. Payments could be made to existing local entities, such as county government. Alternatively, a cooperative or local development agency could be formed to manage the funds received. This latter alternative might work well if the community is interested in leveraging the funds received by linking the wind payments to other forms of community economic development assistance.

#### *Direct Labor Benefits*

An offshore wind farm facility will require skilled labor to construct, maintain, and operate it. The types of jobs initially created by an offshore wind farm facility would

most likely be technical or construction, but opportunities for manufacturing and service jobs may also develop as a facility evolves.

The Renewable Energy Policy Project (REPP) has developed a tool that calculates the number of direct jobs resulting from renewable energy development under RPS legislation or other programs to accelerate renewable energy development. The calculator is based on a survey of current industry practices to assess the number and type of jobs that will result from the enactment of an RPS. By using REPP's labor calculator, one can estimate the amount of local labor benefits an offshore wind farm could produce.

Although the calculator currently only addresses onshore wind, these estimates may be a good indication of the lower bound of direct job impacts for offshore projects. According to the calculator, every 100 MW of wind power installed provides 310 full-time equivalent (FTE) manufacturing jobs, 67 contracting and installation jobs, and 9.5 annual jobs in O&M.

## **Indirect Economic Development**

### *Preferential Bidding for Local Content*

Economic development can benefit a community indirectly, such as an increased demand in local service commodities (i.e., grocery stores, hotels, transportation, etc.). Other ways a local economy could benefit is by having the state create a system that will establish priority purchasing by the commercial enterprises from an affected local community businesses (i.e., local cement company) through preferential bidding. It is widely accepted that for each construction job, four service jobs are created to support it. Once construction of an offshore wind farm is complete, operation and maintenance people will be employed to keep the facility online and will require local services as well.

### *Leveraging Development Funds*

An offshore project will create a known demand for certain types of goods and services that can be provided by local businesses as discussed above. If these businesses do not exist, they could be started using a variety of programs that provide support for new business development, particularly businesses in distressed, low-income communities. For example, states could leverage already existing community development programs, such as the Community Development Financial Institution (CDFI) that grants money to certain community development activities across the nation. Administered by the federal Treasury Department, a state may be able to devise a program to leverage funds to help support community development in localities affected by offshore wind farm facilities.