



## Illinois State Energy Subsidies

*Picking winners and losers  
with tax dollars*

### The Problem

Illinois's wealth of energy resources should be utilized to provide Illinois's families and businesses with reliable sources of power. However, Illinois state government is unnecessarily picking winners and losers, distorting energy prices, and driving up overall government spending by awarding tax dollars to certain energy sectors via special government programs.

For example, the Illinois Department of Commerce and Economic Opportunity (DCEO) oversees many of the state's energy development programs. The objectives of the DCEO's Office of Coal Development include "financing research, development and demonstration" of coal technologies, "finding new uses and markets for coal and coal byproducts," "conducting education and awareness campaigns on the advantages of Illinois coal," and "helping Illinois coal penetrate new markets."<sup>1</sup> State spending for grants from the Illinois Coal Technology Development Assistance Act totaled \$18.9 million in fiscal year 2009 and an estimated \$14.3 million in fiscal year 2010. For fiscal year 2011, Governor Quinn is recommending a budget increase to \$23.8 million for this program.

The State of Illinois also funds alternative energy sources. The DCEO's Division of Energy "supports research and demonstrations of energy technologies" and promotes fuels like ethanol and biodiesel.<sup>2</sup>

The Solar and Wind Energy Rebate Program and the Biogas and Biomass to Energy Grant Program, through the Renewable Energy

Resources Program, are meant to "encourage utilization of small-scale solar energy systems" and promote "the use of biogas and biomass for on-site energy generation" in Illinois.<sup>3</sup> The Renewable Energy Resources Program received \$12.9 million in state funding in fiscal year 2009, an estimated \$9.5 million in fiscal year 2010, and Governor Quinn is recommending a total of \$10 million in fiscal year 2011. In recent years, solar, wind, and biomass/biogas grants from the Renewable Energy Resources Program have included<sup>4</sup>:

- \$450,000 for the University of Illinois to "implement the Biogas and Biomass to Energy program."
- \$253,350 for solar thermal hot water systems to heat Northern Illinois University's swimming pools.
- \$132,198 for the Pacific Garden Mission to install a solar thermal hot water system at its new facility in Chicago.
- \$82,006 for six grants to individuals for small-scale wind energy conversion systems.
- \$32,000 to the Illinois Solar Energy Association to "promote solar energy in Illinois through the Illinois Solar Tour, the Heliographs newsletter, and by studying the potential to aggregate renewable energy credits for small-scale solar photovoltaic energy systems."
- \$13,358 to the Phi Kappa Theta fraternity house at Northern Illinois University for a solar thermal energy system in order to "increase the utilization of alternative energy technology in Illinois."

*This is part 4 of the Illinois Policy Institute's weekly Spotlight on Spending series, highlighting wasteful or inefficient programs and spending with the goal of bringing more responsible spending and accountable government to Illinois. For additional information on state spending, visit [www.IllinoisOpenGov.org](http://www.IllinoisOpenGov.org).*

### State Spending on Energy (in thousands)

|  | FY 2006           | FY 2007           | FY 2008           | FY 2009           | FY 2010*          | FY 2011**         |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Grants Associated with the Illinois Coal Technology Development Assistance Act | \$21,144.2        | \$22,579.1        | \$19,138.3        | \$18,979.9        | \$14,300.0        | \$23,856.1        |
| The Renewable Energy Resources Program   | \$1,130.4         | \$10,870.5        | \$3,374.9         | \$12,929.8        | \$9,500.0         | \$10,000.0        |
| Administration and Grants Associated with the Ethanol Fuel Research Program    | \$200.0           | \$237.0           | \$36.5            | \$368.0           | \$970.0           | \$1,000.0         |
| <b>Grand Total</b>   | <b>\$22,474.6</b> | <b>\$33,686.6</b> | <b>\$22,549.7</b> | <b>\$32,277.7</b> | <b>\$24,770.0</b> | <b>\$34,856.1</b> |

Source: Illinois Budget Books

\*Estimated

\*\*Recommended

*Leveling the playing field by removing energy subsidies will allow consumers and investors to more efficiently put their dollars toward the best energy solutions for the future.*

Other states offer subsidies to businesses and homeowners in order to promote the usage of alternative energy sources, but their experiences should instruct Illinois. For example, high demand for rebates overwhelmed New Jersey's Renewable Energy Incentive Program, and the state had to phase it out. On average, New Jersey gave \$20,000 for homes and more than \$1 million for large businesses, ending up with a backlog of more than 700 rebate applications.<sup>5</sup> The state has already handed out more than \$170 million in rebates.<sup>6</sup> If New Jersey had left the program unchanged, the amount in rebates could have reached \$11 billion by 2020.<sup>7</sup>

Other states with similar subsidy programs to New Jersey's, such as Colorado, Maryland, and New York, have had to consider phasing out as well.<sup>8</sup> Illinois must avoid going down the same path.

#### The Solution

New subsidies for energy projects should not be enacted, and current subsidies need to be removed. These programs divert funding from other critical state services, and the government needs to prioritize spending on core government services—especially when facing a significant budget deficit.

Across Illinois, private companies provide funding for their own marketing, promotion, and research and development; firms in the energy industry should be treated in the same way.

#### Why This Works

Each year, the state spends millions of dollars to promote Illinois coal and alternative energy sources. While these energy subsidies may be well intentioned, they are riddled with unintended consequences. They interfere with and distort market prices, which can steer capital away from better long-term energy solutions. Energy subsidies are also a way for the government to pick winners and losers in the energy industry by deciding which projects or firms to subsidize. As it stands now, politicians and bureaucrats can use the subsidies to bestow funding on pet projects or causes. Instead, consumers and investors should be deciding which energy projects are supported.

The market is better able to determine what energy solutions will be economically feasible than the government. Leveling the playing field by removing energy subsidies will allow the true cost of energy to be known, and consumers and investors will be able to more efficiently put their dollars toward the best energy solutions for the future.

**Endnotes**

- 1 *“Office of Coal Development Overview”*  
*Illinois Department of Commerce and Economic Opportunity.* <http://www.commerce.state.il.us/NR/rdonlyres/4096E224-A487-45EB-9606-2BF1488C28CF/0/OCDOverview.pdf>
- 2 *“Energy.”* *Illinois Department of Commerce and Economic Opportunity.* [http://www.commerce.state.il.us/dceo/Bureaus/Energy\\_Recycling/Energy/](http://www.commerce.state.il.us/dceo/Bureaus/Energy_Recycling/Energy/)
- 3 *“Renewable Energy.”* *Illinois Department of Commerce and Economic Opportunity.* [http://www.commerce.state.il.us/dceo/Bureaus/Energy\\_Recycling/Energy/Clean+Energy/](http://www.commerce.state.il.us/dceo/Bureaus/Energy_Recycling/Energy/Clean+Energy/)
- 4 *“DCEO Grant Tracker.”* *Illinois Department of Commerce and Economic Opportunity.* <http://grantracker.ildceo.net/>
- 5 *Illinois Policy Institute, 2010 Legislators’ Guide to the Issues, Energy and Transportation, “Alternative Energy Subsidies,”* March 12, 2010, <http://www.illinoispolicy.org/news/article.asp?ArticleSource=2241>.
- 6 *Ibid.*
- 7 *Ibid.*
- 8 *Ibid.*