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CDFA & CEG's New Clean Energy + Bond Finance Initiative

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Partnership on Clean Energy Bond Finance

In August, CDFA and Clean Energy Group (CEG at www.cleanegroup.org) announced an exciting new partnership aimed at developing a more tangible connection between clean energy development and bond financing. Early returns on the Clean Energy + Bond Finance Initiative (CE+BFI) have already paid off with a hundred media mentions and the first meetings of a targeted task force addressing these important elements of moving our energy economy forward.

As the country looks for new sources of clean energy finance, a group of public and private investors, policy makers, and industry practitioners have agreed to explore new ways to catalyze clean energy investment. This partnership is still in the early stages, as public finance agencies, clean energy public fund managers, and institutional investors across the country explore how to raise capital at scale for clean energy through bond financing.

The ultimate goal for the CE+BFI is to facilitate access for clean energy projects to the capital markets, yielding an increase in bond financing for clean energy by an additional $5 billion to $20 billion in private capital over the next five years from its current, modest level.

> The mission of the Clean Energy + Bond Finance Initiative is to use development finance tools to fill the massive funding gap for clean energy.

The CE+BFI has been formed and will be managed by CEG, a national nonprofit, and CDFA, the national organization of development and bond financing authorities in the United States. The mission of the new initiative is to work together over the next several years to use development finance tools to fill the massive funding gap for clean energy, a result of declining federal support.

Expanded Role of Bond Finance in Clean Energy

The prospect for sustained federal financial support for clean energy is uncertain, if not bleak. Over the next few years, federal dollars for clean energy are expected to be slashed by more than 70%. This decrease will require hundreds of billions of dollars to support the emergence of renewable, energy efficiency, and advanced manufacturing technologies.

Many experts are looking to states and local entities as a key public investment strategy. State funds raised and leveraged $12 billion in clean energy investment over the last decade, but a major group of state and local finance partners have been overlooked. In the U.S., over 50,000 municipal authorities access the capital markets to finance economic development. The municipal bond market represents a $3 trillion industry that has financed our nation's infrastructure and public improvements, from bridges and airports to hospitals and schools to water treatment and solid waste systems. Clearly, there is an opportunity for clean energy bond finance in the municipal market.

With the exception of some notable projects, development finance agencies have been hesitant with clean energy. However, these agencies now seek to accelerate clean energy financing. The ability of these agencies to raise capital in good and bad economic times is undisputed; for example, municipal bond issuers in the first three months of 2012 brought to market 2,927 deals totaling $78.3 billion. It is this scale of funding that is now needed for sustained clean energy market development.

Successful Clean Energy Bond Finance Models

Development finance through the issuance of bonds has already begun to bring new capital into the clean energy space. The CE+BFI is initially exploring 20 different models for using bonds for clean energy development, a representative example includes:

Project Based Models (tools to create bond finance for specific projects or groups of projects):

- ***Morris County Model*** - Public entity issues government bonds for solar on public buildings, transfers low cost capital to developer for lower PPA price; the Initiative is exploring the model and opportunities to scale-up in multiple jurisdictions for tax exempt and taxable bonds.

- ***Nonprofit Finance*** - Use of 501(c)(3) bonds for nonprofits seeking clean energy (CE) or energy efficiency (EE) financing; the Initiative is identifying common credit enhancement tools that can be applied nationally and in regions.

- ***Offshore Wind*** - Aggregated multi-state procurement of offshore wind power, combined with bond financing of projects across jurisdictions—either with pooled bond funds (see below) or with coordinated issuers is being explored.

- ***PACE Financing*** - Municipal bonds that fund EE retrofits and on-site solar PV that are repaid through an annual assessment on the property tax bill.

Fund Based Models (bonds to create new pools of capital to finance clean energy projects):

- ***System Benefits Charges Flows*** - Bond financing model that uses rated credit support in the form of a contingent intercept on existing System Benefit Charges ("SBCs") that would be tapped to compensate for defaulted loan payments; could be used in conjunction with a bond fund or a PACE program; this new model is being examined in many jurisdictions with SBC funds.

- ***Pooled Bond Funds*** - Municipal bond issuance where proceeds are used—whether through an infrastructure bank, revolving loan fund, or other model—by a number of cities and projects in order to achieve market efficiencies for CE and EE development; the initiative is exploring both encouraging existing funds to emphasize CE and the creation of new funds.

- ***Bond Backed Investment Authorities*** - General obligation bonds are used to finance authorities capable of making investments in funds, projects, and companies, all grouped around a specific purpose (e.g., Ohio Third Frontier and California Institute for Regenerative Medicine); the initiative will explore possibility of creating similar authorities for CE investments.

> Without changes in law, [development finance] models can be expanded and applied to new project opportunities throughout the country.

Enabling Financing Tools (explore complementary finance vehicles to boost use of bond finance):

- ***Standardization/Securitization*** - Consider models that create liquidity for EE and CE loans by securitizing the federal or state-guaranteed portions of qualifying loans. Explore how to create a secondary market for energy-related loans as was done for small business loans through the private bundling and sale of SBA 7(a) guaranteed loans, which are underwritten, originated and serviced by non-government lenders using standardized SBA loan documents.

- ***Clean Energy Credit Enhancement*** - Working with state clean energy funding agencies to leverage state CE funds by their provision of credit enhancement for bond issuances that raise capital for qualified projects.

These are a few examples of existing bond finance tools being used to bring more capital to clean energy. Even without changes in law, reliance on new policies, or the creation of new institutions, these models—and others—can be expanded and applied to new project opportunities throughout the country. Much more discussion, education, and demonstration needs to be done to accelerate the use of these tools in the clean energy and efficiency sector.

CE+BFI Bottom Line

A unique financing situation for clean energy, including declining federal support, is encouraging the industry to seek reliable and scalable sources of financing. Development finance agencies are capital markets participants who know how to raise hundreds of billions of dollars for infrastructure investment, and are now interested in making significant investments in clean energy using bond finance instruments to close the funding gap.

The partners engaged in the CE+BFI, with the support of CEG and CDFA, are eager to make a significant contribution to this extremely important national issue of clean energy finance.