Innovative Financing Programs

Description:

'Innovative Financing Programs' is an umbrella policy category that covers any mechanism to reduce the upfront cost of clean energy technologies for customers. Though personal, corporate, sales, and property tax rebates are a common form of state incentives, CNEE does not consider them to be true financing unless a third party entity is able to monetize them and, in doing so, reduce upfront costs. We only include policies that reduce the upfront cost barrier in this description.

Example State & Municipal Programs/ Discussion of the Policy:

1. **Green/Infrastructure Bank** – At its essence, a green bank blends public and private capital to fund the upfront cost of clean energy improvements. The intent is to reduce the risk for the investor and to scale the market for projects. Sometimes these banks will attempt to address a limitation in the private lending sector – for example, while most bank commercial loans are 5-10 years, the NY Green Bank extends these terms for 20 years and assumes the risk of the investment on the back end. In this way, the public bank is partnering with the private lending institutions to address barriers for businesses. These entities can be housed within an existing state agency with administrative, rule making, and underwriting authority. Examples include the New York Green Bank and Connecticut Clean Energy Finance and Investment Authority.

2. **Revolving Loan Funds** – The distinguishing characteristic of these public funds is that they are evergreen in the sense that the repaid principal and interest from loans made are re-issued to other loan recipients. In this way, the program funding "revolves" over time. An example is the Texas Loan Star Program.

3. **Loan Loss Reserve** - These funds are a credit enhancement or credit wrap in which a percentage of a program or project (for example, 10% of loan recipients or 10% of the principal) is held in reserve and only drawn in event of a default. These programs are used to leverage or reduce risk of private capital investment in clean energy projects. An example is Michigan Saves.

4. **Aggregate programs** - These programs bundle un-securitized loans offered by private sector lenders, coupled with an interest rate buy down from a public funding source (for example, ARRA). The loans are then bundled and sold to the secondary bond market. The Warehouse of Energy Efficiency Loans (WHEEL) is a prime example of this approach. WHEEL links low cost capital from private sector lenders with state energy efficiency program implementers. An example state program participating in WHEEL is the Keystone HELP and KY Home Performance.

5. **Securitization** – Securitization, in this context, is borrowing against future ratepayer contributions into a public benefits fund. Perhaps the best example of a state securitization program is the Hawaii Green Energy Market Securitization (GEMS) program which makes low cost capital available to a broad range of participants including renters and lower credit score borrowers.

Key Components:

- Dedicated source of funding.
- Program design and loan terms that are of interest to private lenders.
- Public sector agency to manage and market the fund.
- Target market sector (for example, residential energy efficiency).

More Information:

- The U.S. Department of Energy (DOE) funded Database of State Incentives for Renewables and Efficiency (DSIRE) maintains lists of State Incentive Programs including: Personal Tax, Corporate Tax, Sales Tax, Property Tax, Rebates, Grants, Loans, Bonds, & Green Building:

  http://www.dsireusa.org/

- Guide to Federal Financing for Energy Efficiency and Clean Energy Deployment:

  http://energy.gov/sites/prod/files/2014/10/f18/Federal%20Financing%20Guide%2009%2026%2014.pdf

- Coalition for Green Capital, Green Banks:

  http://www.coalitionforgreencapital.com/state-campaigns.html

- National Association of State Energy Officials, State Energy Loan Fund database:

  http://www.naseo.org/state-energy-financing-programs

- DOE Office of Energy Efficiency and Renewable Energy (EERE), Revolving Loan Funds:

  http://energy.gov/eere/wipo/revolving-loan-funds

- DOE EERE, Loan Loss Reserve Funds:

  http://energy.gov/eere/wipo/loan-loss-reserve-funds-and-other-credit-enhancements

- Clean Energy Group, *State Clean Energy Finance Banks*:

  http://www.cleanegroup.org/ceg-resources/resource/brookings-rockefeller-state-clean-energy-finance-banks-new-investment-facilities-for-clean-energy-deployment/

- National Renewable Energy Laboratory (NREL), Solar Securitization:

  https://financere.nrel.gov/finance/content/new-nrel-report-explores-solar-securitization