



Investing in Competitive Clean Energy Act

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Leveraging Private Financing for Competitive Clean Energy Development

Much of the dramatic growth of the clean energy industry over the past 30 years has relied on the provision of grants, incentives, rebates, policy initiatives and technical support from state clean energy programs. However, continued growth will be limited as long as it relies primarily on deep public subsidy in the form of grants. What will be needed going forward is a more integrated approach; one that continues the important public role of providing incentives and technical support for the adoption of clean energy technologies, while at the same time providing public financial support in the form of credit enhancements, collateral support, guarantees and other credit support to leverage more private capital.

Public subsidy needs to advance in its approach and performance, becoming better at “right-sizing” its subsidy based upon better information, disclosure, and understanding of evolving clean energy project economics. Additionally, efficient public incentives need to be better integrated with public finance programs that induce more private capital investment. A more integrated approach will allow clean energy companies and projects to achieve greater scale and tap into the capital markets.

Public programs that leverage private investment cannot be created in a vacuum. Clearly, access to private capital on commercially reasonable terms is necessary to accelerate clean energy investments. However, commercial banks are faced with much greater credit oversight than in the past and have, consequently, tightened their credit standards as they have regrouped in the aftermath of the Great Recession. Concerns regarding the adequacy of collateral, borrowers’ debt capacity, and the need for debt service and loan loss reserves have resulted in many borderline commercial loans not being made. As a result, there is now a strong interest at the state level in finding ways to provide credit enhancement that attracts private investment to finance clean energy at significant scale. States want to make sure that their incentive dollars are structured efficiently to leverage the greatest amount of investment. At the same time, states want underwriting and credit enhancement decisions to remain at the local level and not the federal level.

Innovative Federal Financing Models

In the past, the federal government has supported emerging markets and credit needs by awarding grants, below market loans, or by directly subsidizing projects. In an era of fiscal constraint and with a need for more efficient federal answer to clean energy development, new models, such as the proposed Investing in Competitive Clean Energy (ICCE) Act, are emerging within the federal development finance delivery system.

ICCE Act at a Glance:

- Investing in Competitive Clean Energy (ICCE) Act is designed to assist the clean energy industry in accessing affordable capital by allowing for the provision of loan loss and debt service reserves, letters of credit, loan guarantees, collateral support, subordinated debt and funding warehouses.
- ICCE Act would apply federal support for clean energy development through state-operated financing programs. Decisions would be made at the state level with local government and projects playing a collaborative role in energy development within each state.
- ICCE Act would emphasize bond finance, the primary financing vehicle for American infrastructure, for clean energy development and would a first of its kind collaboration between development finance and state energy offices.
- ICCE Act would achieve a leverage ratio of \$5 private of investment for every \$1 of federal contributions to state programs. This \$5:1 leverage ratio is higher than any current federal implement supporting competitive clean energy.
- The ICCE Act would appropriate \$5 billion to leverage \$25+ billion in private investment.



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In 2010 Congress recognized the need to increase the availability of credit to small businesses and created the State Small Business Credit Initiative (SSBCI). The SSBCI Program provided state supported credit enhancement to private lenders and investors for small business lending. In addition, in 2017 Congress approved the Investing in Opportunity Act (IIOA) to establish state designated Opportunity Zones and Opportunity Funds to encourage private investment in targeted geographic areas.

SSBCI Model

The State Small Business Credit Initiative (SSBCI) provided the U.S. Treasury with \$1.46 billion to bolster state programs supporting small business lending. While the SSBCI Program required that funds awarded to states be used solely for business lending and investment programs, state agencies were given the freedom to design programs that would be responsive to local economic conditions. States created 152 programs to provide increased access to capital for small businesses, and leveraged over \$8 billion in private small business loans and investments. State agencies credit the SSBCI program's flexibility for their success in supporting more than 16,900 small businesses, and creating or retaining 190,000 American jobs.

Opportunity Zone Model

Opportunity Zones are low-income census tracts eligible to use federal tax incentives to encourage long-term investments in Zone assets and property. With minimal federal oversight, Opportunity Zones are designated by the governor or chief executive of a given state, district, or territory to draw private equity into low-income communities. Investors that roll unrealized capital gains into equity purchases of Opportunity Zone property will receive a tax deferral on their capital gains if they hold the investment for five years, and they are eligible for permanent exclusion of capital gains earned as a result of their investment if it's held for at least 10 years.

Both of these programs require little to no federal administration and are guided by capital deployment principles. The Investing in Competitive Clean Energy (ICCE) Act employs a similar federal-to-state-to-industry-to-project deployment methodology to reduce the federal bureaucracy while encouraging state and local directed clean energy investment.

Leveraging Private Investment in Competitive Energy Solutions

New approaches must be employed to help address the capital access challenges confronting clean energy. Establishing a financing-based model to bolster this sector would encourage the development of clean energy at a time when direct appropriations to the industry are facing increased pressure. An innovative, state directed model is essential for clean energy supply chain companies in need of financing for working capital, equipment, real estate acquisition or improvements to their business premises. Flexible capital is also needed for project financings of on-site and district clean energy generation limited to eligible technologies, size limitations, and capital requirements. Addressing local challenges should be the prerogative of state leaders and not the focus of federal agencies. Through the Investing in Competitive Clean Energy (ICCE) Act, decision making remains with the states, and is funneled to local investments in a collaborative manner.

Investing in Competitive Clean Energy (ICCE) Act

The Investing in Competitive Clean Energy (ICCE) Act, modeled on the similar federal approaches like SSBCI and Opportunity Zones, would be an efficient means of attracting significant private investment to clean energy. The program would also be housed in the U.S. Treasury. However, the underwriting and credit enhancement roles would be placed at the state and local levels. Treasury would develop broad guidelines outlining acceptable state financing structures, and Treasury would also approve each state's clean energy credit support programs. Each



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state would have the right to select only the programs that the state wants to operate.

The Investing in Competitive Clean Energy (ICCE) Act would target a 5:1 leverage ratio of private-to-public investment. In the instances where a state's programs may not provide enough confidence to private lenders and investors to participate in a transaction, the programs can serve as a strong incentive to state clean energy funds to provide additional matching credit enhancement as well.

Development Finance Agencies & State Energy Offices

Development finance agencies (DFAs) are public or quasi-public/private authorities that provide or otherwise support development through various direct and indirect financing programs. DFAs often issue tax-exempt and taxable bonds, provide credit enhancement programs, and offer direct lending, equity investments, or a broad range of access to capital financing mechanisms. DFAs are formed at the state, county, township, borough or municipal level and often times have the authority to provide development finance programs across multi-jurisdictional boundaries. Every state has authorizing language to allow for the creation of a DFA at both the state and local levels and nearly every state is active in this industry.

According to the National Association of State Energy Officials (NASEO), State Energy Offices (SEOs) support energy research, policy, and development to support the citizens' energy needs and energy security within their respective states. SEOs often see that advancing local energy solutions and advancing local economic development go hand in hand and will pursue partnerships to support both. Along with pursuing partnerships to support energy development, SEOs run energy efficiency programs and allocate more than \$7 billion in funds nationwide. SEOs are funded through state and federal appropriations and usually work under their governors or legislatures.

DFAs have played an increasingly important role in clean energy development through direct energy project-related bond issuances and the establishment of energy efficiency revolving loan funds and Property Assessed Clean Energy (PACE) programs throughout the country. These efforts are being conducted at both the state and local levels routinely. DFAs are uniquely positioned to be the primary development finance credit provider under the Investing in Competitive Clean Energy (ICCE) Act.

Under the Investing in Competitive Clean Energy (ICCE) Act, each state would designate the state's primary development finance agency as the administrator of the program. The state Development Finance Agency (DFA) would work in collaboration with their State Energy Office (SEO) to establish policies, direction and program structures and to apply for funds through the Treasury to deliver the program.

In addition, state or local-level green banks, local DFAs and CDFIs would be eligible subrecipients of funds through the Investing in Competitive Clean Energy (ICCE) Act. Green banks, local DFAs and CDFIs would have to adhere to all program rules and achieve the 5:1 leverage ratio.

Energy Finance Programs Approaches

In order to effectively address the credit challenges of the clean energy industry, the Investing in Competitive Clean Energy (ICCE) Act would include a cutting-edge mix of approved activities. Each of the designated types of credit support programs—loan loss and debt service reserves, letters of credit, loan guarantees, collateral support, funding warehouses, and subordinated debt—are important and familiar roles that Development Finance Agencies (DFA) play and would not result in heavy administrative or loan servicing burdens. Venture capital and capital access programs would not be eligible under the Investing in Competitive Clean Energy (ICCE) Act.

The Investing in Competitive Clean Energy (ICCE) Act would fund credit enhancement tools providing credit



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support for bond finance structures, such as pooled bond funds and small issue bonds for manufacturers in the clean energy supply chain. By mitigating risk for investors, credit enhancement would raise more capital more efficiently at lower cost to multiple energy projects.

There are various forms that this credit enhancement might take:

- **Loan Loss and Debt Service Reserves:** Program funds could be structured as loan loss reserves that would be available to protect investors from losses arising from individual non-performing assets, including those within a bond pool. Similarly, the proposed program could fund the debt service reserves required by bond covenants, freeing up bond proceeds for other purposes or reducing the size of the issuance and debt service burden.
- **Letters of Credit:** Program funds could support bank letters of credit that protect investors from losses. Letters of credit are a common form of credit enhancement for Private Activity Bonds (PABs) and would be effective in raising tax exempt and taxable bond financing for energy projects without each bond pool transaction having to be rated by a credit rating agency.
- **Guarantees:** Program funds could provide support for a state fund or agency's guaranty of a bond pool, ensuring repayment to investors if there is a payment default from the underlying assets. In addition, a state could develop a guarantee program to support bond issuances at the local level that capitalize PACE programs or local energy efficiency/renewable energy revolving loan funds.
- **Collateral Support:** Program funds could support borrowers with insufficient collateral by creating a cash deposit at a financial institution to serve as additional borrower collateral. Collateral support programs have emerged in the last decade to support small businesses and entrepreneurs who are entering new business markets but lack the collateral needed to reach bank lending standards.
- **Subordinated Debt:** A state fund or agency could use program funds to purchase a portion of a bond issuance, repayment of which is subordinated to the payment of the other bondholders.
- **Warehouse Facility:** Funding warehouses aggregate smaller projects to give them access to lower-cost private finance. A DFA or green bank establishing the warehouse would establish either master facilities to fund originators of smaller projects needing financing or a facility of its own to provide direct financing under standardized contracts for energy-related projects. Once aggregated, the DFA or green bank could issue bonds supported by the cash flows from the underlying projects as well as one (or more) of the credit enhancements noted above which would attract large financial institutions and institutional investors such as pension funds.

By appropriating \$5 billion in funding for clean energy financing support, the Investing in Competitive Clean Energy (ICCE) Act will leverage an additional \$25+ billion of private and other capital for clean energy-related companies and projects in every state in the nation, requiring very little federal administrative burden.

About CDFA

The Council of Development Finance Agencies (CDFA) is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing hundreds of public, private and non-profit development entities. Members are state, county and municipal development finance agencies and authorities that provide or otherwise support economic development financing programs as well as a variety of non-



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governmental and private organizations including bankers, underwriters, attorneys, financial advisors and other organizations interested in development finance. To learn more and to get engaged visit www.cdfa.net.

Contact: Toby Rittner, President & CEO, trittner@cdf.net
Tim Fisher, Manger, Government Affairs, tfisher@cdfa.net