Metropolitan Policy Program at BROOKINGS

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Read more at: http://www.brookings.edu/research/reports/2014/04/16-clean-energy-through-bond-market

Brookings Proposes New Approach to Finance Clean Energy Through State and Local Bond Market

Media Webinar Scheduled for April 22

WASHINGTON, D.C. – The state and local bond market that, for years, has financed the construction of U.S. roads, bridges, hospitals and other infrastructure projects offers a viable but vastly underused funding source for clean energy development, finds a paper released today by the Brookings Institution Metropolitan Policy Program.

Clean Energy Finance Through the Bond Market: A New Option for Progress maps out a new approach to tapping the bond market to boost clean energy investment. The paper identifies states and communities that have successfully applied this approach while also exploring barriers to widespread adoption of bond finance and strategies to overcome them.

*****Brookings will hold an on-the-record webinar for reporters and others on April 22 at 1 p.m. ET to discuss the findings of the paper. Please register here for the one-hour webinar.*****

"With federal subsidies waning and commercial bank lending down, it's critical that we locate new types of financing to scale up renewable energy and energy efficiency projects to reduce carbon emissions in this country," said Mark Muro, a senior fellow at the Metropolitan Policy Program and co-author of the paper. "Fortunately, one part of the answer is hiding in plain sight. We need to apply the familiar bond finance techniques that are widely used in the development, expansion and maintenance of the infrastructure sector to clean energy projects. Bond finance holds out tremendous potential for significantly stepping up investment in clean energy throughout the country."

Currently, energy projects are financed differently than those in all other sectors of the U.S. economy. They rely on non-capital market sources, including a small group of tax equity investors such as Bank of America and JPMorgan Chase, and federal incentives such as production and investment tax credits.

Non-energy infrastructure projects, on the other hand, are financed through bond or stock markets. Over decades, as a result, the nation's many state and local infrastructure finance agencies have built up significant expertise as they have issued trillions of dollars' worth of public finance bonds for roads, bridges and other projects.

Clean energy leaders are beginning to experiment with bond finance because it can reduce both the cost of capital and the financial risk.

For example, late last year the state of New York raised $24.3 million in its first issuance of revenue bonds, which will finance loans for energy efficiency improvements. Hawaii plans to issue green infrastructure bonds to provide low-cost financing for clean energy generation projects and energy efficiency building upgrades. And since 2009, Morris County, N.J., has financed solar installations in public facilities partly with low-interest bonds.

"This report is appearing just when the global scientific community has underscored the urgency of finding new ways to finance zero-carbon technologies at massive scale," said Lewis Milford, president of the Clean Energy Group and the lead author of the Brookings report. "The bottom line is that clean energy people are beginning to realize we can finance much clean energy the same way we have financed large American infrastructure like roads, bridges and airports—through the bond market at low bond rates. Our current way of financing clean energy not only makes it too expensive, but it simply cannot get us to the scale needed to meet climate mitigation and adaptation demands in the next few decades."

"State and local authorities are ready and eager to provide financing in the energy space," said Toby Rittner, a co-author and president and CEO of the Council of Development Finance Agencies. "These authorities have a long and proud history of issuing bonds to support development and to build bridges, roads and other infrastructure. Energy, including clean energy, is just another type of infrastructure. We can help."

Bond finance holds tremendous potential for future clean energy investment, according to the paper, perhaps at levels in the tens of billions of dollars over the next several years.

However, finance and policy hurdles remain. Among the most serious obstacles is the limited experience of the clean energy community with bond finance tools, as can be seen from the small size of the current pool of clean energy bond issuances. At the same time, an absence of compelling performance data and standardized documentation related to clean energy projects make bond finance agencies unwilling to assume new risks.

Despite these challenges, there is renewed interest among both the development finance and clean energy communities to apply well-established bond finance tools to clean energy. To fulfill this promise, the Brookings paper proposes that states, regions and localities take four key steps:

- Establish partnerships between development finance experts and clean energy officials at the state and local levels
- Expand bond-financed clean energy projects using credit enhancement to mitigate risks
- Improve access to data so that the risks and rewards of clean energy investment can be better understood
- Create a pipeline of rated and private placement deals, a new clean energy asset class, to meet the demand by institutional investors for fixed-income clean energy securities

"The time has come to explore a more decentralized, and potentially more durable, model for financing clean energy development at scale," said Milford. "Bond finance is a widespread, effective finance tool that begs for much more testing in the clean energy sector. Broader use really could launch a new era of clean energy finance."

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Clean Energy Group *is a national nonprofit organization that promotes effective clean energy policies, develops low-carbon technology innovation strategies, and works on new financial tools to advance clean energy markets. CEG concentrates on climate and clean energy issues at the state, national, and international levels as it works with stakeholders from governments, the private and nonprofit sectors. CEG assists states to create and implement innovative practices and public funding programs for clean energy project deployment; creates networks of U.S. and international policy makers to address climate stabilization strategies; and advances effective distributed innovation theories, finance, and commercialization tools for new climate technologies.*

The Council of Development Finance Agencies *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 public, private and non-profit entities alike. For more information about CDFA, visit www.cdfa.net.*