



# Metropolitan Policy Program at BROOKINGS

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Please visit: <http://www.brookings.edu/research/papers/2012/09/12-state-energy-investment-muro> and <http://www.brookings.edu/research/papers/2012/09/12-state-infrastructure-investment-puentes>.

## States Embrace Innovative Financing

*New Brookings report examines state infrastructure banks and state clean energy finance banks*

WASHINGTON, D.C.—With Washington paralyzed, two new Brookings Metropolitan Policy Program papers look to the states and discover innovative solutions being implemented to address pressing problems.

The papers, *Banking on Infrastructure: Enhancing State Revolving Funds for Transportation* and *State Clean Energy Finance Banks: New Investment Facilities for Clean Energy Deployment*, both released today, examine state policies for clean energy and infrastructure financing, respectively. This research is the latest from the Brookings-Rockefeller Project on State and Metropolitan Innovation, which analyzes state policy challenges and offers effective strategies for policymakers to help states and metro areas recover from the recession and transform their economies.

“States around the country are taking the lead in developing the creative finance solutions the nation will need to build a sustainable Next Economy,” said Mark Muro, senior fellow and policy director of the Brookings Metropolitan Policy Program and co-author of one of the papers. “With Washington gridlocked and retrenching, the new state banking models offer a hopeful counterpoint to national dysfunction.”

The first paper examines how state infrastructure banks (SIBs) represent potentially innovative ways to finance infrastructure projects. This paper serves as a primer for the process and reviews the 33 SIBs, highlighting some of the best practices among the many different variations. Capitalized by state or federal funds, SIBs finance nearly 1,200 projects at around \$9 billion and about 88 percent of the total value funds road projects. This research shows that SIBs can be valuable tools for delivering infrastructure projects and can generate more investment per dollar than traditional federal and state grant programs.

This report recommends that states should:

- Align federal and state roles and responsibilities to streamline project delivery and ensure loan capacity is fully utilized
- Ensure the long-term sustainability of revolving infrastructure funds by leveraging capitalization and reach a broader range of sponsors and projects

- Develop partnerships with local public and private actors so projects have high economic, environmental, or social effects.

“The broad structure of infrastructure banks allows state and local leaders to sculpt the mold to meet their unique infrastructure needs and to take the lead on innovative ways to finance beyond the federal level, evolving the system into something more strategic and sustainable,” said Robert Puentes, senior fellow at the Brookings Metropolitan Policy Program and co-author of one of the papers. “While I don’t think the aggregation of state revolving funds for infrastructure obviates the need for a national infrastructure bank, the model is strong and some policy and practice changes could enhance their impact and effectiveness.”

Focused on energy efficiency and renewable energy, the second paper highlights Connecticut’s pioneering Clean Energy Finance and Investment Authority and surveys several new strategies through which states can overcome the serious finance challenges impeding large-scale clean energy solutions. Along these lines, a number of states are now exploring creative ways to leverage scarce public resources with sophisticated banking and finance mechanisms. State banks’ low-cost financing will reduce clean energy projects’ dependence on expiring federal grants, tax credits, and subsidies and lower the cost of these projects enough to make them cost-competitive with conventional technologies.

State leaders can choose among at least three bank models. They may:

- Establish, as in Connecticut, a quasi-public corporation combining state clean energy and energy efficiency funds to permit private investment in the bank and enable the new entity to make loans and leverage its capital with private capital
- Repurpose portions of one or more existing financing authorities from a grant to a lending model and then through a partnership agreement combine the financing authority’s funds with private funds
- Adjust an existing or new infrastructure bank to attach a clean energy finance bank to fund energy projects to a bank lending to traditional infrastructure projects

“State green banks can get clean electricity and energy savings to businesses and consumers faster, better, and cheaper. And the money they loan will be paid back,” said Reed Hunt, CEO of the Coalition for Green Capital and co-author of one of the papers. “That’s all goodness for the clean energy economy.”

**The Metropolitan Policy Program at Brookings**—Created in 1996, the Metropolitan Policy Program (MPP) provides decision-makers with cutting-edge research and policy ideas for improving the health and prosperity of metropolitan areas including their component cities, suburbs, and rural areas. To learn more visit: [www.brookings.edu/metro](http://www.brookings.edu/metro). For more on the State and Metropolitan Innovation series, visit: <http://www.brookings.edu/projects/state-metro-innovation.aspx>.