Clean Energy + Bond Finance Initiative Overview

Partnership on Clean Energy Bond Finance. 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 scale up clean energy investment. This partnership, the Clean Energy and Bond Finance Initiative (CE+BFI) plans to work with public infrastructure finance agencies, clean energy public fund managers and institutional investors across the country to explore how to raise capital at scale for clean energy through bond financing.

The ultimate goal for this partnership 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 CE+BFI has been formed and will be managed by the Clean Energy Group (CEG), a national nonprofit, and the Council of Development Finance Agencies (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 resulting from the decline in 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. Hundreds of billions of dollars are needed to scale up renewable, energy efficiency, and advanced manufacturing technologies, while federal dollars for clean energy will decline over 70% over the next few years without congressional action.

Many experts are looking to the states and localities 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 has 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.

With the exception of some notable projects, development finance agencies have not been very active in clean energy to date. 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:

- *Morris Model for Solar Bond Financing* – Bond financing is being used to scale up solar installations through traditional public authority activity.

- *Washington Bonds for Energy Improvements in Nonprofit/Multifamily Housing* – State bonds are being used to raise capital for non-profit energy efficiency improvements.

- *Bond Financing for Clean Energy Economic Development in New Jersey* – NJEDA is raising funds from the issuance of bonds to finance clean energy supply chains and manufacturing.

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 Operating Principles. The partnership has defined a set of principles to guide its operations:

- Explore clean energy finance from a perspective focused on capital markets and bond issuance.
- Establish mutually useful working relationships between energy fund managers and development finance professionals at the state and local government levels throughout the country.
- Identify and mitigate barriers to capital markets.
- Establish public-private partnership (P3) models that finance clean energy.
- Provide educational and technical resources serving both energy and finance industry needs.
- Create a forum supporting practitioners seeking to increase clean energy development through established capital markets models

CE + BFI Action Plan. The partnership will undertake the following actions:

- Identify opportunities and barriers facing private and public participants to accessing capital markets for energy efficiency, renewable generation project finance, and manufacturing and economic development that integrates clean energy.
- Analyze specific bond finance instruments to determine how each available bond finance tool could be used in present or modified form to match the need for clean energy finance in a range of energy sectors, including renewable, energy efficiency, and supply chain manufacturing.
- Explore and demonstrate the role of state clean energy funds and other entities in providing credit enhancement for bond issuances.
- Evaluate institutional investors' requirements that need to be met to facilitate the purchase of clean energy and energy efficiency bonds, as well as the benefits and disadvantages of various public and private ownership models in accessing capital markets for clean energy projects.
- Analyze federal and state finance and policy initiatives that would increase capital to the sector, considering which are most viable in terms of political feasibility, financial efficacy, applicability to different technologies, and opportunity for collaborative federal and state partnerships
- Create and support pilot partnerships that finance projects in multiple sectors in 6-8 states.
- Increase bond financing for clean energy and efficiency by an additional $5 billion to $20 billion in private capital over the next five years.

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.