Product Offerings & Market Assessment

Energy Investment Partnerships (EIPs) are newly emerging public-private partnerships with the authority to raise capital and maximize the impact of public funding. A primary feature of EIPs is the ability to attract private capital to finance clean energy projects. Private sector participation lowers the need for significant public investment, giving state and local governments the opportunity to consider using public dollars in other ways.

EIPs currently make use of a variety of mechanisms to attract private capital to clean energy projects, directly or indirectly. These product offerings include:

- Clean energy finance through bond markets;
- Credit enhancements and capital markets; and
- Property Assessed Clean Energy financing.

Clean Energy Finance through Bond Markets

State and local bond finance is a powerful but underutilized tool for clean energy investment. For over 100 years, state and local infrastructure finance agencies have issued trillions of dollars' worth of public finance bonds to fund the construction of roads, bridges, hospitals, and other infrastructure. As clean energy flourishes, these same agencies are increasingly willing to finance energy projects. Creating clean energy bond markets can be facilitated by:

- Establishing partnerships between development finance experts, clean energy officials, and state and local governments.
- Expanding credit enhancements and other emerging tools to bring more clean energy projects to the bond market.
- Improving data availability and standardizing documentation so that risks can be better understood.

Credit Enhancements and Capital Markets

Credit enhancement improves the creditworthiness of a borrower in order to obtain favorable lending terms. Third-party guarantees, additional collateral, and insurance products are ways to enhance credit. These mechanisms reassure lenders of the borrower's intent to honor the obligation.

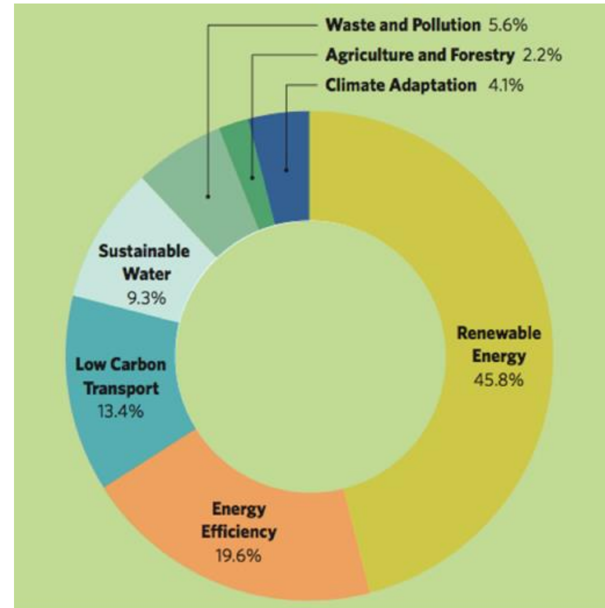

Figure 1: Renewable energy projects make up nearly half of all projects financed by green bonds.
Source: Brookings Institution; Energy Investment Partnerships Webinar: Product Offerings & Market Assessment

A loan guarantee is a promise by a third-party entity to assume the obligation of the borrower in the event of a default. Guarantees provide a way of participating indirectly in a transaction by pledging future revenues to service any default in a portfolio. The use of guarantees, which lower the cost of financing for borrowers, can incentivize private lenders or investors to lower rates.

Additional collateral, in the form of a Loan Loss Reserve (LLR) fund, is a deposit pledged by an entity to provide partial risk coverage on write-offs in a loan portfolio. LLRs can serve to lower credit requirements on clean energy projects and/or reduce the cost of financing to a borrower. LLRs incentivize private participation in programs and strengthen the sale of loan portfolios on the secondary market. Some groups have applied LLRs to loan programs financed largely or solely through private lenders.

Much of the cash flow generated from clean energy projects requires a technical assessment of the property and a list of the specific improvements to be made. This technical expertise can be maintained either in-house or by contracting with certified energy auditors.

Full Energy Investment Partnerships Report available at: energy.gov/epsa/energy-investment-partnerships

EIP Factsheet written by the Council of Development Finance Agencies | www.cdfa.net

The authors are not engaged in rendering legal, accounting, or other professional services, nor do they intend that this material be relied upon to the exclusion of outside counsel. Those seeking to conduct complex financial deals are encouraged to seek the advice of a skilled legal/consulting professional.

Insurance products exist to mitigate risks related to installation, technology performance, or purchase and maintenance agreements not executed as contracted.

Depending on scope, an EIP may be able to offer access to insurance products, create a catalog of available insurance offerings, or be an insurance provider. An entity could provide buyers', sellers', or contingent insurance to businesses that seek additional support to maintain their operations or guarantee work to customers.

Property Assessed Clean Energy Financing

Property Assessed Clean Energy (PACE) financing is a government financing policy that classifies energy-savings upgrades as a public benefit rather than a private commodity. One hundred percent of hard and soft costs are funded by public capital and repaid via a surcharge on the property tax bill.

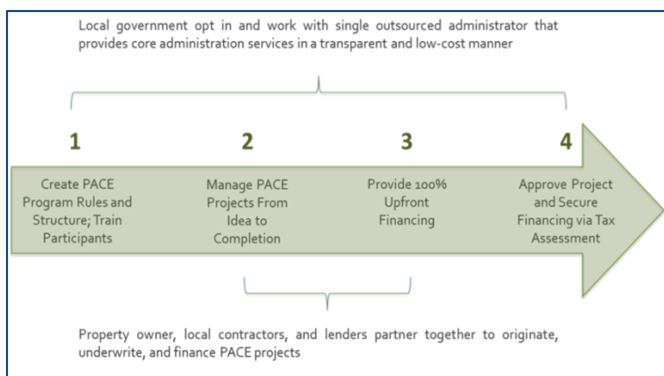

Figure 2: Formula for creating a successful PACE Program.
Source: Greenworks Lending; Energy Investment Partnerships Webinar: Product Offerings & Market Assessment

PACE financing is changing the face of residential and commercial energy finance by linking the expense of energy upgrades to the property and beneficiary of cost-savings. PACE financing can be an essential tool utilized by EIPs as it facilitates public-private partnerships.

Market Assessment

A market analysis can identify clean energy projects and financing tools that will complement existing resources to achieve its objectives. This analysis can determine the area of focus of an EIP. Professionals experienced in market sizing and analysis can assist in the process by evaluating the size of the current market and total potential market, identifying demand barriers for clean energy, and designing ways to overcome those barriers.

States and Cities Taking Action

Greater Cincinnati Energy Alliance (GCEA)

The State of Ohio passed legislation in 2010 allowing development finance entities to implement the PACE financing model through the creation of Energy Special Improvement Districts.

Combining bonding authority or private debt with other financial incentives and services, the partnership between GCEA and the Port of Greater Cincinnati Development Authority has created the new GC-PACE program. This partnership opens investment in commercial clean energy projects to private lenders and bondholders.

The GC-PACE program allows building owners to finance energy efficiency and renewable energy generation improvements through a voluntary assessment on their property tax bill.

Connecticut Green Bank (CGB)

CGB is a successor of the Connecticut Clean Energy Fund (CCEF). CGB inherited and subsequently phased out many of CCEF programs, shifting the state's focus from a subsidy model to a financing model. This transition leveraged CGB's limited ratepayer and taxpayer resources to attract private capital investment in clean energy deployment in the state.

One of CGB's newest initiatives, the Connecticut Solar Lease Program helps property owners reduce their energy costs by installing clean energy systems. The program is flexible, offering a no-money-down option and low escalating or fixed monthly payment options, in addition to other choices.

Additional Resources:

Connecticut Green Bank

Council of Development Finance Agencies

Greater Cincinnati Energy Alliance

Greenworks Lending

Keeping PACE in Texas

U.S. Department of Energy

Energy Investment Partnerships: Fact Sheets

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