Proposed Building Energy Retrofit Finance Provisions for Jobs Bill

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Retrofitting America's existing buildings for energy efficiency can create a significant number of jobs while saving a substantial amount of energy. Establishing various federal incentives for single family residential and commercial building retrofits offers the attraction of potentially rapid job creation. But a stand-alone homeowner incentive program is not enough to create the sustainable retrofit market that is needed to enable all of the retrofit jobs that are created to endure over the long term. The jobs bill needs to include certain financing policies that will enhance the impact of the proposed building energy retrofit incentives to create long-term jobs in the energy retrofit industry. There are three important policies that can provide medium and long-term employment impacts:

1. Federal credit support for financing building efficiency retrofits;
2. Modifications of the Qualified Energy Conservation Bond Program to ensure market acceptance and bond issuance;
3. Two- year federal study period for Property Assessed Clean Energy (PACE) financing programs.

Federal Credit Support for Building Efficiency Retrofits

Federal credit support for building energy retrofits can be most rapidly provided by expanding the Department of Energy (DOE) Section 1705 loan guarantee program to allow DOE to provide guarantees and other credit support to financing programs for energy efficiency building retrofits and on-site renewable energy systems. Congress added Section 1705 to Title XVII of the Energy Policy Act of 2005 in the American Recovery and Reinvestment Act of 2009. The jobs bill should include $500 million to fund the expansion of the DOE loan guarantee program. This federal credit support would provide access to long-term, low-cost sources of capital at minimal cost to the federal government, and could leverage private capital by a ratio of up to 20:1 (depending on the Office of Management and Budget credit scoring process). The expanded loan guarantee program could be operational within a matter of months, and could be used to support a variety of different financing vehicles, including PACE programs, on-utility bill financing, energy efficiency power purchase agreements, and unsecured consumer loans meeting the current Federal National Mortgage Association underwriting guidelines.

Legislation expanding the DOE loan guarantee program should include all details required for DOE to implement the program and direct DOE to solicit applications for credit support as quickly as possible after enactment. The legislation needs to 1) provide that credit support will be made available on a portfolio basis, 2) permit delegated underwriting by qualified third parties, 3) require DOE to provide clear and objective eligibility criteria and application procedures for participation, 4) mandate an assurance of credible energy savings from all qualified programs, and 5) establish appropriate standards for the employment and monitoring of contractors and work, including appropriate workforce training programs and qualification mechanisms. These criteria and procedures are necessary so potential program participants can readily determine whether specific projects will qualify for participation once an overall financing transaction structure has been approved. The loan guarantee program should facilitate access to interim and/or construction financing and warehouse lines for portfolio aggregation. DOE should commit to an expedited application review process of no more than 60 days.

Modification of the Qualified Energy Conservation Bond Program

The jobs bill should also modify the Qualified Energy Conservation Bonds (QECB) Program to make it an effective program. Congress initially authorized the QECB Program through the Energy Improvement and

Extension Act of 2008 and then expanded the program under the American Recovery and Reinvestment Act of 2009. Congress allocated $3.2 billion to the QECB program to support tax credit bonds for use by state and municipal governments to provide reduced-cost financing for investments in a wide range of energy efficiency projects. None of the $3.2 billion authorized for the QECB Program, however, has been used to date. There are two primary reasons for this lack of utilization. First, as a result of the mandatory QECB allocation formula, the authorized volume of the bonds allocated to each of the respective potential issuers (i.e., state, municipal, and tribal governments) is relatively small in scale. Because the market for tax credit bonds is largely undeveloped and currently consists of a handful of institutional investors who are mainly interested in large bond issuances, the modest size of each of the potential QECB issues renders them unattractive to the end-market. Second, the purposes for which the funds raised in a QECB bond issuance can be used are vaguely defined. In particular, the QECB Program statutory authorization directs that QECBs be used for, among other things, "implementing green community programs (including the use of loans, grants, or other repayment mechanisms to implement such programs)," but provides no further guidance as to the requisite features of a "green community program."

QECBs could provide an important source of financing in the near term for energy efficiency retrofits. However, to jump-start the utilization of QECBs for efficiency retrofits, two important modifications need to be made to the current program:

(1) With respect to any QECBs issued prior to September 30, 2011 for the purpose of either implementing a green community program or reducing energy consumption in publicly owned buildings, such QECBs should be made eligible for the direct federal interest rate subsidies currently provided through the Build America Bond program. These qualifying QECB issuers should be permitted to elect either to provide a tax credit to bond holders, or to receive a direct 35 percent interest rate subsidy from the federal government. To further incentivize rapid job creation, we recommend that Congress increase the available interest rate subsidy to 45 percent for issuers that agree to use their QECB bond proceeds to implement green community programs to finance energy efficiency retrofits. This structural change would result in substantially greater investor demand for QECBs, given that the current market for taxable municipal bonds is much more liquid than the market for tax credit bonds.

(2) Create a detailed definition of a qualifying "green community program," with specific guidelines for establishing an energy efficiency retrofit program including assurance of credible energy savings or renewable energy generation and incorporation of appropriate standards for the employment and monitoring of contractors and training programs. Examples could include a PACE financing program or another type of loan fund set up to provide financial support for property owners participating in the Homestar, Building Star or other efficiency retrofit incentive programs. Providing municipalities with a well-defined template for implementing a green community program should dramatically increase QECB issuance, leading to rapid and enduring job creation and improved economic activity in communities across the country.

PACE Financing Study Period

Property Assessed Clean Energy (PACE) legislation has been passed in 15 states and a number of new programs will be funded using funds provided by the American Reinvestment and Recovery Act of 2009. In 2010, communities representing two-thirds of California's population are expected to launch PACE Programs.[1] The

[1] PACE programs enable local governments to finance renewable energy and energy efficiency projects on private property. A local government creates an improvement district; the local government raises a pool of money through a bond issuance or a financing arrangement with a bank, finance company or other financial institution; the bond or financing proceeds are then used to fund renewable energy and energy efficiency projects for property owners within the district who elect to participate in the

emergence of PACE is supporting the development of a self-sustaining energy efficiency retrofit finance industry that is needed to create hundreds of thousands of enduring green construction jobs.

To provide the PACE model with the opportunity to succeed, Congress should enact a two-year study period during which all federally supported PACE programs will be required to: (i) collect certain data, including projects funded, projected and actual energy savings, financing payments, delinquency and recovery rates, and pre-existing mortgage default and recovery rates (to the extent such information is available); and (ii) report such data to the Department of Energy on a quarterly basis. The Department of Energy should be directed to complete and publish a full report by June 30, 2012, containing an analysis of the data collected and reported by all federally supported PACE programs during the study period.

The following companies and organizations endorse the above recommendations, which were developed by the PACENow.Org Coalition:

Global Solar Center

Jeffrey Tannenbaum, Founder, PACENow.Org

Johnson Controls

Natural Resources Defense Council

Renewable Funding

Sierra Club

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program. Those property owners then repay the debt service on the financing in fixed payments as part of their property tax bill. Please, see attached fact sheet for more information.