

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK
(IBank)**

Clean Energy Finance Center and Statewide Energy Efficiency Program

STAFF REPORT

ISSUE: Staff is recommending that IBank's Board of Directors (Board) authorize the establishment of a new Clean Energy Finance Center (Clean Energy Center) within the California Infrastructure and Economic Development Bank and the creation of a Statewide Energy Efficiency Program (SWEEP) to be operated under the Clean Energy Center. Although the targeted projects would already qualify for financing under IBank's existing infrastructure state revolving fund program (ISRF Program), the establishment of the Clean Energy Center and the creation of SWEEP would serve to raise public awareness of the availability of such IBank financing. It would also focus IBank's efforts on the types of projects that are likely to yield significant benefits to California's environment and natural resources.

BACKGROUND: California has long been a leader in developing and installing clean, low-carbon technologies, in large part due to its supportive public policies. In 2006, California affirmed its support for climate change mitigation by passing the California Global Warming Solutions Act (AB32). AB32 established a goal to reduce the State's greenhouse gas emissions to 1990 levels by 2020 and to 80% below 1990 levels by 2050. Over the last six months, IBank Staff has been engaged in numerous discussions with environmental leaders, state agencies, legislators, financial advisors, investors, underwriters, universities and other stakeholders regarding capital-raising and investment vehicles for infrastructure and economic development projects with significant benefits for protecting the environment, conserving natural resources and reversing climate change.

There are widespread investment needs across the State in energy efficient measures that could yield hundreds of millions of dollars of energy savings over 10 years, create substantial employment opportunities in California and move the State closer to achieving the State's AB32 goals to reduce greenhouse gas emissions. IBank has the authority today to establish, with the approval of its Board of Directors, the Clean Energy Finance Center, which would encourage concerted public and private investments and utilize IBank's access to capital markets more effectively, for selected clean energy and energy efficiency projects. IBank can help drive energy related projects for State and local governments in the State of California by creating a successful, scalable program, referred to as the Statewide Energy Efficiency Program to operate under the Clean Energy Finance Center.

IBANK'S UNIQUE POSITIONING: IBank is uniquely positioned to establish the Clean Energy Center, because its financing authority is not limited to one or two areas of finance (such as education or transportation). Rather, IBank operates under broad statutory authority under the Bergeson-Peace Infrastructure and Economic Development Bank Act, which among other things, include authority to issue bonds and incur other indebtedness, make loans, and provide guarantees and other credit enhancements for a wide variety of projects, including environmental and clean energy projects.

The key to SWEEP's success will be IBank's ability to underwrite new projects, which would separate SWEEP from other programs where the entity providing the funding is not involved in the credit and risk evaluation of the proposed financings. By contrast, IBank has substantial experience in underwriting a wide variety of loans to State and local governmental entities. This makes IBank the appropriate entity to run SWEEP in California. SWEEP projects qualify for financing under IBank's existing ISRF Program. As discussed above, the creation of SWEEP would serve to raise public awareness of the availability of such IBank financing and focus IBank's efforts on projects that are likely to yield significant benefits to California's environment and natural resources.

PROPOSED PROGRAM HIGHLIGHTS: Key program elements for SWEEP are likely to include:

- SWEEP would target clean energy projects such as generation, distribution, transmission and storage of electrical energy, energy conservations measures, environmental mitigation measures, and water treatment and distribution.
- SWEEP financings to State and local governments for approved energy efficiency projects.
- SWEEP loans could be repaid by the borrower through its electricity bill via an on-bill repayment charge (OBR) or other methods of repayment acceptable to IBank.
- SWEEP financings could be funded via a combination of a direct loan from IBank, a third party warehouse facility, or public market tax-exempt bonds.
- Debt service on bonds for funding SWEEP can be structured to match the aggregated expected repayment of the loans made to SWEEP borrowers.

Currently, the California Public Utilities Commission's OBR pilot program is available in the service territories of Investor Owned Utilities. IBank would explore expanding OBR to include the service territories of municipal utilities.

PROGRAM BENEFITS: For IBank and California, the goal is simple:

- A) Provide a low-cost financing vehicle that reduces the cost of clean energy and energy efficiency projects.

- B) Leverage existing public programs and funds to attract private sector investment.
- C) Encourage private investment by reducing the overall risk of clean energy projects.

PROGRAM DEVELOPMENT STEPS: Key steps for the development of SWEEP under the Clean Energy Center would consist primarily of the following:

1. Review proposals already received from parties interested in SWEEP financing and consider the project areas where the first phase of SWEEP would have the greatest impact.
2. Fund SWEEP with “program funding bonds” following the successful model of IBank’s existing ISRF Program.
3. Take proposed SWEEP program funding bonds to rating agencies and confirm that such bonds would be given ratings similar to those already realized by IBank bonds issued to fund the ISRF Program.
4. Issue and sell a first series of long-term bonds to provide funding for the initial group of projects.
5. Identify initial, sizable projects to serve as “pilot” projects to help launch SWEEP.
6. Officially launch and market SWEEP throughout the State to make interested participants aware of the availability of SWEEP financing.

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RECOMMENDATION: Staff recommends that the IBank Board approve a new Clean Energy Finance Center within the IBank and a new Statewide Energy Efficiency Program under the Clean Energy Finance Center. Staff would seek IBank Board approval for each Staff recommended SWEEP financing. Staff recommends approval of Resolution of 14-14.