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JAMES R. AIONA, JR.
LIEUTENANT GOVERNOR

TESTIMONY ON HOUSE BILL 2643 – HD1

**A BILL FOR AN ACT RELATING TO
CLEAN ENERGY BONDS**

Lieutenant Governor James R. Aiona, Jr.
Office of the Lieutenant Governor

HOUSE COMMITTEE ON FINANCE
Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair

Thursday, February 18, 2010
4:00 P.M., Conference Room 308

Good Afternoon Chair Oshiro, Vice Chair Lee, and Members of the Committee. The Office of the Lieutenant Governor strongly supports H.B. 2643–HD1, a bill for an act relating to Clean Energy Bonds.

This bill has four important purposes: (1) Defray up-front costs for energy efficiency; (2) Lower electricity bills and save consumers money; (3) Increase competition and create green jobs; and (4) Reduce Hawai'i's reliance on foreign fossil fuel and advances clean energy goals.

In Hawai'i, the up-front money, sometimes in the \$10,000 to \$20,000 range has been a major barrier to middle and low-income households and small businesses taking advantage of economic and environmental benefits of energy efficiency. Increased access to financing removes the barrier to make energy improvements, which will increase demand for services.

In turn, local businesses will need to hire additional staff, and increased property values will be beneficial to the real estate market as well as county governments, which depend upon property taxes for their revenue.

The program being proposed by this bill would allow the proceeds of state-issued bonds to be lent, through professional energy services companies, to commercial and residential property owners to for the retrofitting of renewable energy and energy-efficient systems. The loans are then repaid over time through an annual or semi-annual county property tax assessment, which would be amortized over a twenty year repayment period.

For homeowners and business owners, the benefit of participating in this program will be a lower electricity bill and more money in their pocket.

In sum, this “win-win” program creates economic activity and creation of jobs; promotes growth of a local clean energy business sector; and invites consumers to participate in the Hawai`i Clean Energy Initiative.

We ask that the committee pass this measure, which is important to realizing the forward-looking goals of the Hawai`i Clean Energy Initiative. Thank you for the opportunity to testify.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

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GOVERNOR
THEODORE E. LIU
DIRECTOR
PEARL IMADA IBOSHI
DEPUTY DIRECTOR

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Statement of
THEODORE E. LIU
Director

Department of Business, Economic Development, and Tourism
before the

HOUSE COMMITTEE ON FINANCE

Thursday, February 18, 2010

4:00 PM

State Capitol, Conference Room 308

in consideration of
HB 2643 HD1
RELATING TO CLEAN ENERGY BONDS.

Chair Oshiro, Vice Chair Lee, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) supports the property assessed clean energy bond financing program proposed in HB 2643, HD1. This is similar to an Administration measure, HB 2531.

The program allows the proceeds of state-issued bonds to be loaned through professional energy services companies to commercial and residential property owners for the installation of renewable energy and energy-efficient systems on their property. These loans are repaid over a prescribed time period through an annual or semi-annual assessment on the property taxes for the improved property. The financial savings resulting from such clean energy improvements should wholly offset the additional cost of these assessments.

We would like to provide clarification on the priority lien status of property assessments:

- Lien priority in foreclosure is virtually immaterial, and is offset by the increase in property value in most cases, according to reports from PACE Now. The only way the

assessment may affect re-financing is when it factors into the homeowner's debt to income ratio.

- Many banks aren't lending, even to those with decent credit. Since the funds are used for property improvements and repayment is tied to the property, risk to the State is low.
- A dollar amount cap on loans to property owners may be provided in the corresponding administrative rules, in addition to other safeguards against default. We are aware that this program will not be suitable for every property.
- The program is voluntary, both for the counties and for property owners; disagreement in regards to the structure or the mechanics should not prevent the other counties from taking advantage of this program.

The proposed program will provide home or business owners with the necessary up-front capital to install energy efficiency improvements and renewable energy systems on their property.

The department also intends to administer the program proposed in this bill to provide lower-income property owners with access to low interest financing. Loan repayment will be attached to the property and not the individual and is therefore more secure than traditional loans.

In its current form, the program authorized by HB 2643, HD1 will be financed through general obligation reimbursable bonds and therefore does not encumber existing state funds. The bonds will be serviced via property assessment revenue, thus the investment will pay for itself. In addition, property assessments are considered a super-priority lien which provides an extra level of security for loan repayment.

Moreover, as demand for energy efficiency and renewable energy installation increases, private contractors will need to hire new employees to meet the demand. DBEDT is confident that this program will create jobs at a time when they are sorely needed. This program may also encourage local entrepreneurs to create new businesses in the clean energy sector, thus creating more career opportunities for Hawai'i residents. The program is a win-win-win for property owners, private industry, and government.

DBEDT has been working closely with the U.S. Department of Energy, the National Renewable Energy Lab (NREL) and its consultants to formulate the Hawaii Clean Energy

Investment (HCEI) bond program model specifically tailored for Hawai'i. NREL advised government officials that established and implement both the Berkeley and Boulder and have been instrumental in providing DBEDT staff with guidance and analysis relating to this measure. DBEDT staff recently met with NREL representatives and they have committed to continued support and guidance as we work to implement this program. DBEDT's intent is to make participation in this program simple and cost-effective to the consumer and to do this we will be working with experts from the Colorado and California to acquire a skilled and flexible program administrator to bring this program to the people of Hawaii.

Several states are currently building the administrative infrastructure required to execute a program of this nature. Boulder is the most fully-developed program in the nation and the statistical and economic data they provide will assist DBEDT in steering a Hawai'i specific model. DBEDT worked closely with the State Attorney General's office as well as the Department of Budget & Finance to craft the Administration's legislation and we will continue to work in partnership to bring this program to fruition. This type of program is emerging all over the country as a solution to achieving clean energy goals in tough economic times. Property assessed clean energy bonds were ranked one of the Top 10 "Breakthrough Ideas for 2010" by Harvard Business Review.

As stated in the bill, county partnership is essential to the success of this program. Through intergovernmental agreement and co-sponsorship, this program has the potential to invigorate business and economic development across the state. As previously stated, this program will create jobs and business opportunities to Hawai'i which will help put people back to work in all participating counties. Energy improvements made to property may also benefit the counties through increase in property values.

DBEDT urges the Committee and the Legislature to pass this bill for the above stated reasons. The program proposed by this bill will create jobs and contribute to the State's goal of realizing a clean energy future. DBEDT has already begun reaching out to the counties to inform them about the bill and its potential benefits and also to ask for their support and participation moving forward. DBEDT will continue working with the counties on this initiative and will assist them as needed as this program takes shape. In order to establish this program as expediently as possible, DBEDT will begin drafting a request for proposals for a program administrator as soon as this bill is passed. An informational forum is currently being planned by other proponents of this measure. Officials from the four counties will be invited to attend this forum in order to build partnerships and begin the process of establishing this program for the benefit of the entire State.

Thank you for the opportunity to offer these comments.

TAXBILLSERVICE

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TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Clean energy bond loan program

BILL NUMBER: HB 2643, HD-1

INTRODUCED BY: House Committee on Energy and Environmental Protection

BRIEF SUMMARY: Adds a new chapter to HRS to establish a Hawaii clean energy bond loan program to finance renewable energy systems and energy efficiency improvements on residential and commercial properties that shall be administered by the department of business, economic development, and tourism (DBEDT).

Establishes a clean energy bond loan revolving fund to make loans to residential and commercial property owners, repay the general fund for debt service on the G.O. bonds deposited into the revolving fund, and administrative expenses relating to the operation of the fund and the program.

DBEDT may make loans to qualifying commercial and residential property owners for energy efficiency improvements and small renewable energy systems in a participating county. A participating county is a county within the state that has agreed to take part in the loan program by taking such legal action under its real property tax system to levy a special assessment on the property benefitting from the loan, of an amount necessary to repay each loan financed under the loan program. The participating county shall remit the moneys to the Hawaii clean energy bond loan revolving fund, and shall receive reasonable compensation for its services. DBEDT shall record a lien on the property benefitting by the loan. The lien shall attach to the property.

Authorizes the director of finance to issue \$50 million in G.O. bonds for fiscal year 2010-2011 for deposit into the Hawaii clean energy bond loan revolving fund.

EFFECTIVE DATE: July 1, 2010

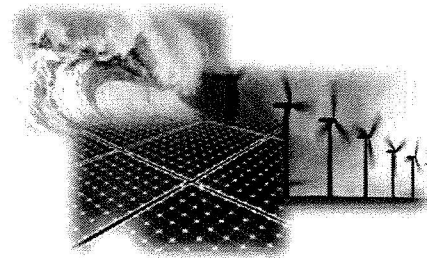
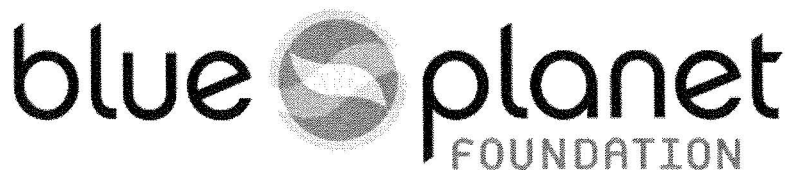
STAFF COMMENTS: This measure acknowledges the high cost of the initial capital investment of renewable energy systems or energy efficiency improvements and proposes the establishment of the Hawaii clean energy bond program, wherein bonds are issued and the proceeds used to provide financial assistance to commercial or residential property owners for renewable energy purposes. The bonds are then repaid by an annual real property tax assessment until the loan is repaid.

While this program would provide an alternative to the renewable energy tax credit program to allow taxpayers to install renewable energy systems, if the taxpayer avails himself of the loan program, the renewable energy credit should not be granted for projects utilizing this loan program as the projects would be granted a double subsidy by the taxpayers of the state. The existing renewable energy conservation tax credits merely become a windfall for those who are able to come up with the up-front costs for such devices. This leaves the poor and lower-middle income families still dependent on fossil

fuel energy. This program is a start in the move away from the dependence on tax credits to encourage the use of such alternate energy systems.

It should be noted that the repayment of the loan will be through a charge on the real property tax. Since the real property tax is controlled by the counties, this program will need the buy-in of the counties since the collection of the repayment will more than likely be made through the real property administration in each county.

Digested 2/17/10



HOUSE COMMITTEE ON FINANCE

February 18, 2010, 4:00 P.M.

Room 308

(Testimony is 2 pages long)

TESTIMONY IN STRONG SUPPORT OF HB 2643 HD1, SUGGESTED AMENDMENT

Chair Oshiro and members of the Finance Committee:

The Blue Planet Foundation strongly supports House Bill 2643 HD1, a measure that makes available bond funding for energy efficiency and clean energy investments on residential and commercial properties and allows for the bond to be repaid over time through a property tax assessments on the subscribed properties.

The establishment of such a financing program, frequently called “property assessed clean energy”—or PACE, overcomes the biggest barrier to energy efficiency and clean energy investment: the up-front cost. The concept behind PACE is to make bond funding available for residential efficiency improvements and clean energy installations. The bond financing is then repaid over time through the investing residents’ property tax bills. Residents benefit by having a lower total cost of home ownership immediately; the state benefits with an increase in efficiency and clean energy; and the economy benefits from having steady growth in high-tech clean energy and efficiency jobs.

Consumers have proven to be terribly short-sighted in their purchasing decisions when it comes to energy saving technologies. Despite the environmental and long-term economic advantages of converting to solar water heating, for example, only one in four Hawai’i homes take advantage of this technology. By eliminating the up-front cost and enabling residents to pay for the investment through the energy savings over time, adoption of efficiency and clean energy will accelerate. The PACE model makes such financing even easier by enabling the investment payback to be integrated in the residential property tax—keeping the default rate low.

The program works like this: proceeds from the PACE bond are lent to residential property owners to finance efficiency improvements and small renewable energy systems. Owners then repay their loans over a prescribed time period via an annual assessment on their property tax bill. The liability to repay the bond is attached to the property, rather than to the individual, as an assessment on real property.

Jeff Mikulina, executive director • jeff@blueplanetfoundation.org

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PACE bonds were ranked one of the Top 10

“Breakthrough Ideas for 2010” by Harvard Business Review. Sixteen other states have already established property assessed clean energy bond financing or loan

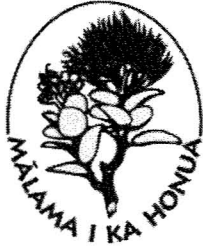
programs and two other states have pending legislation.

“PACE bonds are also very attractive to political leaders. As opt-in solutions, they raise taxes only for the property owners who choose to take loans. Other constituents’ pocketbooks are unaffected...What politician would not want to lay claim to a program that increased property values, lowered monthly utility costs, and created jobs?”
- Harvard Business Review, Jan 2010

This bond financing with property tax repayment for clean energy projects and efficiency investments in Hawai‘i will provide jobs as well as long-term energy, environmental, and economic benefits. The PACE program will increase energy security, encourage economic diversification, provide increased career opportunities for Hawai‘i residents, and attract funding and investment into the State.

We would also like this committee to know that Blue Planet is working with other organizations to host a forum on the PACE bond program on March 3, 2010, at the YWCA on Richards St. from 9 a.m. to 11:30 a.m. The forum will feature experts on the financing program and its structure as well as representatives from the local clean energy industry. You are invited to attend this informational event and we encourage you to contact us for more information.

Thank you for the opportunity to testify.



Sierra Club Hawai'i Chapter

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HOUSE COMMITTEE ON FINANCE

February 18, 2010, 4:00 P.M.
(*Testimony is 2 pages long*)

TESTIMONY IN STRONG SUPPORT FOR HB 2643

Aloha Chair Oshiro and Members of the Committees:

The Hawai'i Chapter of the Sierra Club strongly supports HB 2643, which would create a Property Assessed Clean Energy financing system in an effort to remove one of the primary obstacles to the adoption of clean energy: upfront costs. We like to think of this idea as "Clean Energy for All," but it just as easily could be called "jobs, Jobs, JOBS!"

Background:

Hawai'i is precariously reliant on dirty fossil fuels to power our economy. Some 50 million barrels of oil are imported annually, nearly 80% of which originate from foreign sources. In addition, over 805,000 tons of coal are imported into our state. These sources provide power for over 92% of Hawaii's electricity generation (contributing over 23 million tons of climate changing greenhouse gas into our atmosphere annually).

The Challenge:

We've taken steps to encourage clean, renewable energy. But let's be clear. Hawai'i -- with its bright sun and strong trade winds -- lags on residential adoption of clean energy and energy efficiency programs. And we cannot meet our energy goals without broad residential participation.

Why don't more homeowners install clean energy systems or pursue energy efficiency projects? The primary obstacle is upfront cost. We've tried a wide-range of policies -- like expedited permitting, tax incentives, and educational programs -- and yet the installation rate of residential clean energy systems is fairly small. Most homeowners simply do not have \$50,000 or more lying around to install something like a PV system. Even if the homeowner was willing and knew that the system would decrease his or her expenses over time, he or she simply couldn't afford to take this step.

The PACE System (the "Berkeley Model")

Energy Financing Districts (a.k.a Property-Assessed Clean Energy (PACE) were first proposed by the City of Berkeley, California in 2007 and has received increasing attention as a mechanism for financing residential clean energy projects, including energy efficiency, PV systems, or solar hot water heaters. This model could foster a radical stimulus to Hawai'i's clean energy economy.

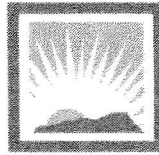
What is a PACE? The basic concept requires a governmental body to raise money through the issuance of bonds to fund small clean energy projects (though bonds are not the only possible source of funds). The financing is repaid over a set number of years through an assessment on the property tax bill of only those property owners who choose to participate in the program. The financing is secured with a lien on the property, and, like other taxes, is paid before other claims against the property in the case of foreclosure. There is little or no up-front cost to the property owner, and if the property is sold before the end of the repayment period, the new owner inherits both the repayment obligation and the financed improvements.

Hawai'i Could Lead the Way

We have an opportunity to establish a comprehensive statewide system that would easily make Hawai'i the capitol of renewable energy. HB 2643 issues general obligation bonds (capitol creation) and authorizes the retention of a third-party consultant to assist in creating a county by county system. This model would offer the counties tremendous flexibility -- allowing each county to pursue a traditional PACE model or use state funding -- as well as make it a state priority to encourage and promote the PACE system.

This measure simply is a smart policy. It should lead to the development of a stronger renewable energy market, wean Hawai'i off of fossil fuels, and put more money into the pocket of Hawai'i residents.

Thank you for this opportunity to provide testimony.



Hawaii Solar Energy Association

Serving Hawaii Since 1977

February 18, 2010
4:00 P.M.

HOUSE
COMITTEE ON FINANCE

Mark Duda
President

HB 2643 HD1

TESTIMONY IN STRONG SUPPORT

Aloha Chair Oshiro, Vice Chair Lee, and Members of the Committee:

HSEA and its member companies sell the majority of solar systems, both PV and hot water, in the state. As a result, HSEA is highly attuned to the solar marketplace, and well positioned to understand the challenges and limitations that exist in that marketplace. From this perspective, we strongly support the intent of this bill as well as a number of its specific provisions.

HSEA notes that the most apparent financing need in our market exists with respect to residential PV. Many customers that seek to purchase residential PV systems are either unable or unwilling to meet the up front cost of these systems, even if they are then reimbursed for a significant portion of this cost through state and federal tax credits. Meanwhile, the private market has not done a good job of filling his vacuum, either with standard home equity lines and loans, or with solar-specific lending products. There is a tremendous unmet need for financing among middle class homeowners that we expect to increase with time.

In the residential solar water heating market, this need is also significant. I personally was involved in an effort to give away ten solar hot water systems where Oahu families had only to advance about \$3,000 per system (the precise value of the tax credits they would later receive) for a few months in order to get the systems for free. A surprising number of the selected winners declined because they did not have the \$3,000 required. From this I learned that the unmet need for financing also exists on these relatively more affordable systems.

Where HSEA has concerns about the need for the program is for commercial systems. While not every commercial customer that wanted a PV system in 2009 was able to find suitable bank financing, the commercial lending market is much more fully developed than the residential one for buyers wishing to purchase PV systems. HSEA urges the committee to investigate the extent to which the commercial provisions might duplicate effort in the private market. HSEA believes that the full program amount can be deployed on residential PV, hot water and energy efficiency.

Thank you for the opportunity to testify on this measure.

Mark Duda
President, Hawaii Solar Energy Association

About Hawaii Solar Energy Association

Hawaii Solar Energy Association (HSEA) is comprised of installers, distributors, manufacturers and financers of solar energy systems, both hot water and PV, most of which are Hawaii based, owned and operated. Our primary goals are: (1) to further solar energy and related arts, sciences and technologies with concern for the ecologic, social and economic fabric of the area; (2) to encourage the widespread utilization of solar equipment as a means of lowering the cost of energy to the American public, to help stabilize our economy, to develop independence from fossil fuel and thereby reduce carbon emissions that contribute to climate change; (3) to establish, foster and advance the usefulness of the members, and their various products and services related to the economic applications of the conversion of solar energy for various useful purposes; and (4) to cooperate in, and contribute toward, the enhancement of widespread understanding of the various applications of solar energy conversion in order to increase their usefulness to society.

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HOUSE OF REPRESENTATIVES – REGULAR SESSION 2010
COMMITTEE ON FINANCE

February 18, 2010
4:00 Pm, Conference Rm. 308

HB 2643, HD1 – RELATING TO CLEAN ENERGY BONDS

Chair Rep. Marcus Oshiro, V. C. Rep. Marilyn B. Lee and Committee Members:

Good Afternoon. My name is Dante K. Carpenter, President of Country Club Village, Phase 2, Association of Apartment Owners (CCV, Phase 2, AOA). Our Association continues to explore the means by which solar and/or wind energy systems may be incorporated in Two (2) 21-story Hi-Rise structures with 469 units to reduce the cost of energy to its owners in the Salt Lake area. I speak in strong support of HB 2643, HD1 Relating to Clean Energy Bonds, which seeks to create a financing program for renewable energy systems and energy improvements on residential and commercial properties. Further, the bill authorizes the issuance of general obligation bonds to finance the program.

We assume the applicability of this measure includes condominium Homeowner Associations, such as CCV, Phase 2, AOA, and if not, strongly suggest an appropriate amendment be incorporated in clear language.

We wish to commend the authors of this forward thinking measure and support its intent to reduce the homeowner's and commercial user's cost of electricity as well as reducing Hawaii's dependency on fossil fuels for energy purposes in the future.

We strongly recommend passage of HB 2643, HD1.

Mahalo a nui loa.