SB 2684

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JAMES R. AIONA, JR.
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TESTIMONY ON SENATE BILL 2684

A BILL FOR AN ACT RELATING TO CLEAN ENERGY BONDS

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

SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
Senator Mike Gabbard, Chair
Senator J. Kalani English, Vice Chair

Tuesday, February 9, 2010
3:00 P.M., Conference Room225

Good Afternoon Chair Gabbard, Vice Chair English, and Members of the Committee. The Office of the Lieutenant Governor strongly supports S.B. 2684, 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.

LINDA LINGLE
GOVERNOR
THEODORE E. LIU
DIRECTOR
PEARL IMADA IBOSHI
DEPUTY DIRECTOR

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM

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Statement of
THEODORE E. LIU
Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
Tuesday, February 9, 2010
3:00 PM
State Capitol, Conference Room 225

in consideration of
SB 2684
RELATING TO CLEAN ENERGY BONDS.

Chair Gabbard, Vice Chair English, and Members of the Committee.

The Department of Business, Economic Development, and Tourism (DBEDT) strongly supports SB 2684, which is an Administration measure.

Senate Bill 2684 would establish a bond program (hereinafter referred to as "the program") allowing the proceeds of state-issued bonds to be loaned to commercial and residential property owners for the installation of renewable energy and energy-efficient systems on their properties.

These loans would be repaid over a prescribed time period through an annual or semi-annual assessment on the property taxes for the improved property. The energy bill savings are intended to exceed the amount of the assessments, so that the property owners will realize savings immediately, with no up-front out of pocket expenses.

The program is a win-win-win for property owners, private industry, and government, since it:

- Removes the need for property owners to directly acquire the capital or financing for energy efficiency improvements;
- Allows Hawaii's homes and businesses to immediately take steps to become more energy efficient, even during these difficult economic times;
- Enables the state to achieve the Energy Efficiency Portfolio Standard enacted in the 2009 Legislative Session;
- Through energy conservation achieved, displaces spending on imported foreign oil thereby keeping hundreds of millions of dollars at home circulating in the Hawaii economy;
- Creates economic activity and jobs at a time when Hawaii most needs it;
- Supports the growth of a local clean energy business sector; and
- Properly deploys a government facilitation policy and financing advantage that is no-cost and a win-win-win.

Property assessed clean energy bonds were ranked one of the Top 10 "Breakthrough Ideas for 2010" by the Harvard Business Review.

Energy conservation through adoption of energy efficiency technologies, such as solar hot water heating, efficient lighting, insulation and so forth, has been validated as the investment that has the most immediate and effective return for homeowners and businesses. These investments "pay for themselves" rapidly, then continue to pay back over the life of the improvements.

However, even prior to the current economic downturn, the single biggest barrier to making these investments was the upfront investment costs. Tax credits, such the ones adopted in Hawaii, are helpful to offset a portion of these costs, but those are only received several months after the system are installed and owners need to have net income against which to offset the tax credit.

The proposed Hawaii Clean Energy Investment (HCEI) bond program eliminates this barrier by removing the need for homeowners or businesses to come up with any of the up-front capital. The property owners simply sign up for the program and, after their energy use and potential measures have been evaluated, the improvements are installed and their annual out-of-pocket expenses are reduced in the first year.

The department also intends to administer the program proposed in this bill to assist lower-income property owners. Because the financing is secured on the property, the traditional creditworthiness of these borrowers is less an issue. These lower-income property owners will benefit the most from savings on monthly electric bills as a result of the improvements.

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.

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 bond program model specifically tailored for Hawai'i. NREL advised government officials that established and implement both the Berkeley and Boulder (programs discussed below) and have been instrumental in providing DBEDT staff with guidance and analysis relating to this measure. DBEDT staff met with NREL representatives recently and they will continue to support the development of this program. We want to make participation in this program simple and cost-effective for the participants and to do this we will be working with experts locally as well as from areas where these programs are already in place.

The City of Berkeley, California was the first to initiate this program in 2007 when they, like Hawaii, were faced with the difficult task of reaching mandated clean energy goals. City officials and staff realized that property owners were burdened with sizeable up-front costs in order to install renewable energy systems on their homes or businesses. Through the issuance of bonds, Berkeley was able to provide low interest financing to property owners and create jobs in the solar contracting industry, without having to access general funds. Berkeley's Financing Initiative for Renewable and Solar Technology (FIRST) effort focuses mainly on photovoltaic installation and is widely known as the "Berkeley Model."

Boulder County, Colorado, also established a similar financing model within a year of Berkeley, called the Climate Smart Loan Program. The architects of the "Boulder Model" incorporated energy efficiency measures as qualified improvements in their program in addition to renewable energy systems. Coupling energy efficiency with small-scale renewable energy systems has proven successful in reducing overall energy consumption and this has become the guiding practice other states and local governments have modeled when establishing their own programs.

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.

Several states are currently building the administrative infrastructure required to execute a program of this nature. This type of program is emerging all over the country as a solution to achieving clean energy goals in tough economic times.

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.

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 SB 2684 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.

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MUFI HANNEMANN
MAYOR

RIX MAURER III
DIRECTOR

MARK OTO
DEPUTY DIRECTOR

February 8, 2010

The Honorable Mike Gabbard, Chair
and Members
Committee on Energy and Environmental
State Senate
Honolulu, Hawaii 96813

Dear Chair Gabbard and Members of the Committee:

Subject: Senate Bill 2684, Relating to Clean Energy Bonds
Senate Bill 2815, Relating to Clean Energy Bonds

The City and County of Honolulu opposes Senate Bills 2684 and 2815 which are substantially the same legislation. Both seek to issue bonds to finance renewable energy systems for private property owners.

We are aware of this intriguing method of providing funding for renewable energy systems; however feel we need to make you aware of concerns which we believe you should to keep in mind while deliberating this Bill.

First, I want to say that the City is supportive of renewable energy systems. This is evidenced by the City's real property tax exemption for alternative energy improvements. Encouraging renewable energy is a worthwhile cause.

That said, as we understand it, the clean energy bonds proposed in Senate Bills 2684 and 2815 are state general obligation bonds. The state would use the "clean energy" bond proceeds to provide loans to property owners in order to finance renewable energy systems on their property. The state anticipates that the loan payments would provide the cash flow to pay the debt service on the "clean energy" bonds.

The state would further securitize the loans as the "... liability to repay the bond is attached to the property as an assessment on real property, rather than on the individual." We believe that many mortgages prohibit homeowners entering into agreements subordinating the mortgage lien position. Transactions such as the one contemplated here may cause an event of technical default on the owner's mortgage.

Further we are aware of a few municipalities which have entered into similar financing arrangements, via Community Facilities Districts (CFD). The market for CFD bonds has all but disappeared post the credit crisis. Boulder for example is offering financing at interest rates of 7 to 8%, not a particularly attractive rate. Should the state's program not be able to offer rates on par with commercially available rates, the participants in this program will be those who would not otherwise qualify for commercially available loans. (Remember that the state will need to price the loans to recover the actual interest cost on the bonds, the cost of the 3rd party administrator, and low earning reserves. This will increase the interest rate needed to be charged the borrower.) Essentially the state will be lending to those with lower credit scores, those who pose a higher repayment risk.

Concern arises in that the state will be providing loans to those with diminished capacity to repay, thus continuing the same mistakes that were major causes of the recent credit crisis. Have we learned nothing?

Should the loan recipient not be able to pay the loan, would the state foreclose on the property to get the cash needed to service the debt on the "clean energy" bonds, thereby driving the owner out of their house? Clearly a homeowner without renewable energy is preferable to the family that was driven out of their home by over extending their credit capacity.

Additionally thought should be given to the priority of issuing general obligation bonds for this purpose verses the many other priorities facing the state. Given that Fitch and Moody's recently gave the state a Negative rating on their Outlook, the state should carefully consider the purposes for which it borrows, especially in what looks to be a more demanding credit market for the state.

As I said at the opening, encouraging renewable energy is a worthwhile cause. However in these demanding economic times this method of financing does not outweigh the many other priorities and challenges facing the state today.

For all the reasons noted above, we oppose Senate Bills 2684 and 2815.

Thank you for the opportunity to testify.

Yours truly,

Rix Maurer III
Budget and Fiscal Services

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Clean energy investment bond program

BILL NUMBER: SB 2684; HB 2531 (Identical); SB 2815 (Similar)

INTRODUCED BY: SB 2684 by Hanbusa by request; HB 2531 by Say by request; SB 2815 by English, Espero, Kidani and 4 Democrats

BRIEF SUMMARY: Adds a new section to HRS chapter 39 to establish a Hawaii clean energy investment bond program beginning July 1, 2011 and ending on December 31, 2030, to finance renewable energy systems and energy efficiency improvements on residential and commercial properties, and authorizes the issuance of general obligation bonds to finance renewable energy systems and energy efficiency improvements undertaken by individual property owners within the state.

Requires the state to establish a loan program or utilize an existing loan program to make available to property owners, the proceeds of the Hawaii clean energy investment bonds. The principal and interest on the subject bonds shall be a general obligation of the state and the applicable portion of property tax payments from the affected properties within the participating county or counties shall be applied to service the debt on the bonds.

Defines "renewable energy system," "energy efficiency improvements, " "residential" and "commercial" for the purposes of the measure.

The state may issue bonds either alone or with a county or counties. The department of business, economic development, and tourism (DBEDT) shall contract with a third-party administrator to manage and administer the Hawaii clean energy investment bond program. The third-party program administrator's duties and responsibilities shall be established by DBEDT and may include: (1) establishing criteria for the qualification of technologies and systems, and performing energy audits to identify systems that qualify for the Hawaii clean energy investment loan program; (2) calculating a property's current energy consumption and energy costs when an application is submitted by the property owner, and estimating the potential cost benefits that could be realized through energy efficiency improvements or installation of renewable energy systems; (3) providing education and training on energy efficiency improvements to applicants; (4) prescribing loan repayment periods, projected property tax assessment estimates, and establishing deadlines for loan repayments; (5) assisting the counties with the execution of this program; (6) distributing bond proceeds appropriated for this program to participating property owners and/or funding institutions; (7) collecting, compiling, and reporting all data and information relating to the bond program to DBEDT and the department of budget and finance.

Authorizes the issuance of $50 million in general obligation bonds and the same sum or so much thereof as may be necessary is appropriated for fiscal year 2011 for the purposes of this act. The sum appropriated shall be expended by the department of business, economic development, and tourism for the purposes of this act.

SB 2684; HB 2531; SB 2815 - Continued

This act does not prohibit or limit the counties to institute a Hawaii clean energy investment bond program or similar financing program for and within their respective county, independent of state partnership or involvement.

EFFECTIVE DATE: SB 2684/HB 2531 - Upon approval; SB 2815 - July 1, 2010

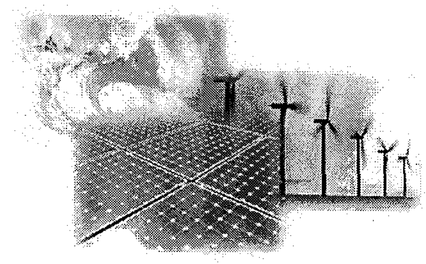
STAFF COMMENTS: SB 2684/HB 2531 are administration measures submitted by the department of business, economic development and tourism BED-21(10). These measures acknowledge the high cost of the initial capital investment of renewable energy systems or energy efficiency improvements and propose the establishment of the Hawaii clean energy investment 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 2/8/10

blue planet FOUNDATION



SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
February 9, 2010, 3:00 P.M.
Room 225
(Testimony is 2 pages long)

TESTIMONY IN STRONG SUPPORT OF SB 2684 AND SB 2815, SUGGESTED AMENDMENT

Chair Gabbard and members of the Committee:

The Blue Planet Foundation strongly supports Senate Bill 2684 and Senate Bill 2815, measures that avail bond funding for energy efficiency and clean energy investments on residential and commercial properties and allow for the bond to be repaid over time through 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

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bill. The liability to repay the bond is attached to the property, rather than to the individual, as an assessment on real property.

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.

SUGGESTED AMENDMENT

This measure directs the department of business, economic development, and tourism (DBEDT) to contract with a third-party administrator to manage and administer the program. Blue Planet suggests that a clause be added to subsection (d) starting on (Page 5, Line 4 in SB 2684 and Page 5, Line 5 in SB 2815) that limits the percentage of the funding that can be spent by the third-party administrator for administration. For example, the Public Benefits Fee Administrator, as described in §269-122, may only expend ten per cent of the collected public benefits fees in any fiscal year (or other reasonable percentage determined by the public utilities commission) for program administration. Similar language, giving DBEDT flexibility in selecting the percentage of bond funds for administration, should be included in this policy to ensure maximum energy effectiveness for the bonds.

Thank you for the opportunity to testify.

Hawaii Solar Energy Association
Serving Hawaii Since 1977

February 9, 2010
3:00 P.M.

SENATE
COMITTEEE ON ENERGY AND ENVIRONMENT
SB 2684

Christy Imata
HSEA

TESTIMONY IN SUPPORT

Aloha Chair Gabbard, Vice Chair English, and Members of the Committee:

My name is Christy Imata and I am testifying on behalf of the Hawaii Solar Energy Association. HSEA 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. From this perspective, we 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, regardless of the fact that they will be reimbursed for a significant portion of this cost through state and federal tax credits. Heightening this problem is the fact that the private market has not done a good job of filling this 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 will increase with time.

In the residential solar water heating market, this need for financing is also significant. An HSEA member company 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 it is evident 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 in its application to 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. 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 successfully.

Thank you for the opportunity to testify on this measure.

Christy Imata
Hawaii Solar Energy Association

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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.