SB 2815

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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 2815
RELATING TO CLEAN ENERGY BONDS.

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

The Department of Business, Economic Development, and Tourism (DBEDT) supports SB 2815, which is similar to the Administration measure, SB 2684, which we prefer.

Both measures 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.

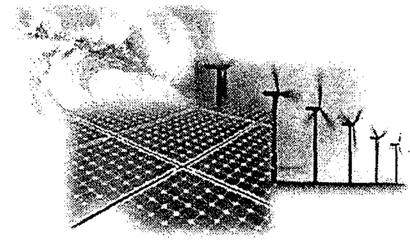
For all the reasons noted above, we oppose Senate Bills 2684 and 2815.

Thank you for the opportunity to testify.

Yours truly,

Rix Maurer III
Budget and Fiscal Services

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 2815**	**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.

Sierra Club
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SENATE COMMITTEE ON ENERGY AND ENVIRONMENT
February 9, 2010, 3:00 P.M.

(Testimony is 1 page long)

TESTIMONY IN STRONG SUPPORT OF SB 2815

Aloha Chair Gabbard and Members of the Committee:

The Hawai`i Chapter of the Sierra Club strongly supports SB 2815, 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. This measure 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.