
DC's Green Bank Could Be a Powerful Tool to Fight Climate Change, if the City Funds It.

As the dust settles on the 2018 elections, the DC Council continues to weigh action on clean energy legislation that could halve greenhouse gas emissions in the region. The bill contains funding for a critical tool the Council adopted over the summer: the DC Green Finance Authority, a "green bank" which was established to leverage public and private funds to invest in clean energy technologies and infrastructure.

The Clean Energy DC Omnibus Act of 2018 would help DC transition to a greater reliance on renewable energy sources and reduce carbon emissions, which drive climate change. The record on the second of two DC Council committee hearings closed last week, and the Committees on Transportation and Environment and on Business and Economic Development will soon make recommendations on the bill.

Here's what a green bank does

In passing the Green Finance Authority Establishment Act this July, DC joined a growing list of jurisdictions creating so-called "green banks" that use various financial tools, including loans and credit enhancements, to support investment in clean energy projects.

Green banks use public dollars to attract private investment in projects using solar, wind, and other clean energy technologies. This reduces costs that can otherwise complicate or preclude the implementation of sustainable energy. Green banks are already operational in California, Connecticut, New York, and Maryland, among other places. The Connecticut Green Bank, for example, estimates that from its inception in 2011 through 2017, it drove public and private investment totaling more than $1 billion toward clean energy projects.

In a 2017 report prepared for the DC Department of Energy and Environment (DOEE), the non-profit Coalition for Green Capital (CGC) defined the goal of green banks as "accelerat[ing] the deployment of clean energy by removing the upfront cost of adoption, leveraging great private investment in clean energy, and increasing the efficiency of public dollars." The CGC report shows that the District's current levels of private investment are far from sufficient to meet the potential demand.

DC's law allows the Green Finance Authority to use its funding for various financing tools. For example, the bank might use loan loss reserves and loan guarantees ("credit enhancements") to make private investment more secure, and thus more attractive. Alternatively, it might offer a loan for a particular project, supplementing private funds and thereby facilitating more clean energy projects and more investment.

In general, green banks prefer *financing* rather than *grants*. Green banks start with some initial funds, and while grants would deplete the bank over time and require periodic recapitalization, financing enables the bank to recycle capital through multiple projects over time.

Because green banks want to preserve their capital, they tend to prefer low-risk investments that facilitate short-term cash flow. That means the Green Finance Authority will likely promote investments in specific projects and in the application of mature technologies, rather than funding development of new modes of clean energy. Installation projects (think solar panels and fuel cells) tend to carry less risk and also create revenue streams as consumers divert their utility payments to (less expensive) loan repayment.

Could this be successful in the District?

Though the District offers a substantial clean energy market, the success of the Green Finance Authority will depend significantly on its own management and strategy. Because the projects facing the largest private funding gap are smaller, distributed projects, the Green Finance Authority will need to actively solicit private investors.

Strong oversight will also allow the bank to successfully engage in more complex funding strategies, such as "warehousing." That's where the bank bundles smaller loans and sells them to private investors at scale.

The Green Finance Authority's responsibilities will also reach outside its own confines. The bank will have the authority to provide technical assistance in the development of sustainable programs more broadly. It will also seek to implement projects that complement other DC government sustainable energy initiatives through a Special Committee on Sustainable Program Cooperation.

Though certain details of the Green Finance Authority remain unresolved—DOEE's solicitation of proposals for plans to "stand up" the green bank closed on November 13—one question certain to arise in the coming years will be the matter of funding. The CGC has estimated that every $1 in public capital can attract $5 in private funding, potentially helping the District take significant strides toward its renewable energy goals.

But while the Establishment Act identifies several potential funding sources (including federal funds, donations, settlement proceeds, loan repayment and interest, and Green Finance Authority revenues), it does not provide for any specific allocation. It does refer to a $7 million transfer from the District's Renewable Energy Development Fund (REDF), but only if that transfer is included in an approved budget and financial plan.

Here's what's next for DC's green bank

As the DC government continues to roll out the Green Finance Authority, it may answer the critical funding question through action on the Clean Energy DC Omnibus Act. The current draft of that bill would secure for the Green Finance Authority $70 million in funding from the Sustainable Energy Trust Fund, to be spread out over six years.

Should that legislation stall out, the DC government will need to return to the drawing board. Other potential funding options including upfront capitalization (potentially including the REDF transfer, which would likely require supplementation for the bank to be successful) or bond issuances. DC must also appoint the governing Green Finance Authority Board, which will be filled by four non-voting District government executives and seven voting members appointed by the mayor.

Regardless, if the recent elections demonstrated the public's faith in the District's incumbent lawmakers, it may soon be time for those representatives to pay up with real support for a critical tool for fighting climate change.

Greater Greater Washington

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