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Financing Alternatives for Green Infrastructure and Energy Efficiency for Water and Wastewater Facilities

by Elias Hinckley
Venable LLP, Washington, D.C.

Dwindling federal funding and an impaired ability to borrow as a result of the recent financial crisis have made funding expansions and replacements for water and wastewater systems increasingly difficult. In addition to general capital demands, there are growing expectations that facilities will finds new ways to reduce energy or otherwise be "greener".

Making an economic case for green infrastructure, clean energy and energy efficiency investments can be complex, because returns are comprised of avoided energy costs, better price modeling and even social or community benefits. Green infrastructure, clean energy and energy efficiency financing have evolved significantly over the past few years, and despite the complexity and weakness in traditional financing markets that continue to make traditional financing difficult to secure, there are some attractive alternative financing options for "green" and energy efficient investment for both public and private owners and operators of clean water facilities.

A. Third-Party Ownership

Many municipalities and other public entities cannot take advantage of tax or other government-based incentives, which can severely limit the return on investment in a project where traditional financing options are already scarce. Third-party ownership provides an attractive alternative. An example of a third-party ownership situation is where a municipal or public entity looks to add an energy retrofit or other energy savings measure, but lacks adequate capital for the investment—without the use of tax incentives or other similar mechanisms to support financing, the municipal or public entity cannot raise adequate funds to pay for the project. As an alternative, an independent third party can be introduced to provide the necessary capital for the investment and act as the owner of the upgrade or retrofit for some period of time. The third party investor's return will come from one of two revenue streams: (1) a portion of the energy savings, with the balance of savings being retained by the public entity and clean water facility owner; or (2) a lease payments made from the public entity to the third party investor, which would be less than the total value of the savings resulting in a share of the savings being retained by the public entity.

B. Property Assessed Clean Energy Programs

A relatively new financing platform for clean energy and energy efficiency projects is a Property Assessed Clean Energy financing program ("PACE"). Under PACE programs, local governments use their bonding authority to raise funds, which the local governments then lend to public entities, private organizations or individuals in the local community to finance specifically identified types of projects. The borrowers of these funds repay the loans through additional assessments on their individual property taxes. The benefits to the borrower include: a long-term, fixed-cost financing option; a loan secured by property and not based on the property-owner's credit; a loan for a fixed-investment that transfers to the new owner upon sale of the property; and the potential to include the interest in the borrower's local property tax deduction from federal income tax.

This type of program could be designed to support investments in the clean water industry in a number of ways—from supporting investment by private consumers to managing wastewater output to community-supported clean energy or efficiency investments at water facilities. By finding the best financing platforms and working with the bonding authority, facility owners and operators may be able to pursue green investments that would otherwise have limited financing options.

C. Clean Energy Bonds

Another option for clean energy financing is the Clean Renewable Energy Bond ("CREB"). Designed primarily for electric cooperatives, the program has been successfully employed by some non-energy focused public entities. Under the CREB program, the facility owner issues bonds. While a typical bond requires that the facility owner pay interest to the bond holder, with a CREB, the Federal government pays the bond holder with a tax credit rather offsetting the need for the bond issuer to pay some portion of the interest that would otherwise be required. By removing the interest payment from the bond, the program can significantly reduce the cost of capital for a qualifying project. Of the $2.4 billion in allocated funding for this program $2.2 billion in awards have been announced by the IRS and it is unclear if or when the remaining funds will be released, or what, despite some popularity both in the marketplace and with policy makers, additional funding allocations will be made available as part of future energy or climate legislation.

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*For more information on housing counseling and related topics, contact **Elias Hinckley** at 202.344.4639 or ebhinckley@Venable.com, or **Walter Calvert** at 410.244.7726 or wrcalvert@Venable.com, or **Jim Cumbie** at 410.244.7806 or jecumbie@Venable.com, or Lowell Rothschild at 202.344.4065 or lmrothschild@Venable.com.*

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