Center for American Progress

Government Financing for Clean Energy

By Richard W. Caperton July 18, 2013

Each year the U.S. government loans hundreds of billions of dollars to American households and businesses through federal credit programs. This credit is extended throughout the economy in a number of sectors, ranging from education to agriculture, housing, and small businesses. In his Climate Action Plan released last month,[1] President Barack Obama announced new ways that this money would also be used to support clean energy.

The Climate Action Plan is a comprehensive approach to addressing climate change. It:

- Includes policies to reduce carbon pollution from power plants and the transportation sector through new fuel-economy standards for trucks and other large vehicles
- Replaces dirty energy sources with cleaner alternatives such as wind and solar
- Reduces the total amount of energy used in the United States
- Links these domestic approaches with international efforts such as a global treaty on pollution reductions
- Helps people deal with climate change that is already happening by investing in infrastructure that will be resilient in the face of extreme weather caused by climate change

Each of these efforts requires unique tools, but federal credit—loans and loan guarantees that the government offers to businesses and households—is a theme that runs through every effort.

In some cases, the plan explicitly details the use of federal credit:

- The president is making $8 billion in loan guarantees available for advanced fossil-fuel projects through the Department of Energy's Loan Guarantee Program.
- The Rural Utilities Service is close to finalizing a plan to loan $250 million to homeowners and businesses for energy-efficiency improvements.

- The Obama administration has committed to stop providing financing for new coal plants around the world, which will impact credit provided by the Export-Import Bank, the Overseas Private Investment Corporation, and the World Bank.[2]

But other objectives in the plan could also be supported by federal credit:

- The goal of deploying advanced transportation technologies could be aided by loans from the Advanced Technology Vehicle Manufacturing Program, which has existing budget authority to issue billions of dollars in loans.

- Various housing-credit programs that are run out of the Department of Housing and Urban Development and are intended to help make improvements on existing buildings could be targeted to energy efficiency and even small-scale renewable energy.

While some of these programs may sound small, their impacts add up. Each year the president's budget includes information on how many loans and loan guarantees the government expects to make from various programs. By identifying the programs that could potentially be used for clean energy—as opposed to those such as student loans that do not realistically have an energy angle—we have identified more than $100 billion that could be mobilized in support of clean energy each year.[3] Not all of this money will go to clean energy, of course, since many of these programs have other critical goals that must be met, but moving even half of this money to clean energy would reap important benefits.

Federal credit: Good for taxpayers, good for clean energy

There are two main reasons we should use federal credit to support clean energy: It is a good deal for taxpayers, and it targets a specific challenge that is holding back clean energy deployment.

First, when someone borrows money from the government, they usually pay it back. This means that moving $100 billion in loans and loan guarantees ultimately costs taxpayers only a small portion of that $100 billion in the actual price tag for defaults. In fact, while the cost varies by program, previous research from the Center for American Progress found that every $100 the government lends or guarantees only costs taxpayers 79 cents.[4] In other words, the government could move $100 billion toward clean energy deployment, and taxpayers would only have to pay for less than 1 percent of it.

Second, moving money through credit programs solves a key challenge facing clean energy: finding attractive financing. Despite significant advances achieved in the American Recovery and Reinvestment Act of 2009, clean energy is still hindered by a dearth of affordable capital for large-scale investments.[5] For capital-intensive clean

energy projects, the cost of paying for that capital is one of the largest—if not the largest—drivers of the cost of the energy that is ultimately generated by that project. To continue bringing down the cost of clean energy, the administration must take actions that will bring down the cost of capital. Using federal credit to lower the risk to investors and bring down the cost of clean energy for consumers is one important tool the president has to achieve this goal.

While federal credit is present throughout the Climate Action Plan, it is not treated in a comprehensive way. Below are three steps President Obama can take to ensure that credit programs have the best possible climate impact.

Use federal credit programs in a coordinated fight against climate change

President Obama needs to ensure that all federal credit programs are working together to advance clean energy. To start, the president can organize a Clean Energy Finance Task Force made up of senior leadership from the Treasury Department; Rural Utilities Service; U.S. Export-Import Bank; Overseas Private Investment Corporation; Department of Housing and Urban Development; Department of Transportation; Department of Energy Loan Programs Office; Small Business Administration; and all other government entities that can invest in clean energy projects. This task force should be chaired by a senior official from the Office of Management and Budget, or OMB, reflecting OMB's role in managing risk in federal credit programs.

The president should instruct the task force to share best practices on clean energy financing, coordinate efforts to make sure that the entire clean energy value chain—including manufacturing—is being served, and create streamlined processes to direct loan applicants to the most appropriate sources of capital. The task force should also explore ways that these federal credit programs could support the publicly traded debt, which would be extremely valuable in lowering the cost of capital for energy-efficiency projects and is the source of low-cost capital for most of the economy. The government has not previously undertaken this sort of financial support in the clean energy space, and the relevant officials should explore ways to do this using existing authority. This task force would be modeled after the very successful Rapid Response Team for Transmission, an effort led by the Council on Environmental Quality to coordinate actions across the federal agencies responsible for siting transmission lines.[6]

As a following step, the president should issue an executive order stating that every government financing entity must adopt a strategy to reduce the greenhouse-gas pollution from their investments in accordance with the administration's international climate commitments. Meeting the goal of a 17 percent pollution reduction from 2005

levels by 2020—as President Obama committed to in 2009—will require the full commitment of the U.S. government, and no office within the government should be making investments at odds with this commitment. This will be particularly important for programs already doing significant energy lending, such as the Rural Utilities Service and the Export-Import Bank.[7]

Coordinate U.S. action with global financing entities

In his Climate Action Plan, President Obama called for "an end to U.S. government support for public financing of new coal plants overseas," with some exceptions for extreme cases.[8] This applies to U.S. government credit programs such as the Export-Import Bank, as well as U.S. participation in international financing tools, most notably the World Bank. Going forward, the president should make sure that in addition to not financing new coal plants, international credit tools are coordinated to maximize their impact. This includes the U.S. Export-Import Bank and the World Bank, as well as the Green Climate Fund—a special financing tool set up to help marshal a commitment of mobilizing $100 billion per year in climate finance for resilience and mitigation in developing countries by 2020.[9] The Green Climate Fund can use many of the same credit tools as U.S. credit programs, including loans and loan guarantees, to leverage large amounts of private capital.[10]

Move quickly to advance renewable energy from the Department of Energy's Loan Guarantee Program

While different types of clean energy projects can be supported by multiple federal credit programs, only the Department of Energy's Loan Guarantee Program is capable of supporting large renewable energy projects—except for those owned by electric cooperatives, which can be financed by the Rural Utilities Service.[11] These large projects take multiple years to develop and need to meet specific deadlines to take advantage of other federal incentives such as the investment tax credit—only solar projects completed by the end of 2016 are eligible for this credit—or the production tax credit—only wind projects that begin construction by the end of 2013 are eligible for this credit. Large projects also often involve permitting issues with other federal agencies such as the Department of the Interior, especially when the projects are on public lands. Because of the time-sensitive and cross-governmental nature of these projects, the Department of Energy must move quickly to begin soliciting applications for renewable energy, not just for advanced fossil-fuel projects.

Conclusion

The government can mobilize billions of dollars toward clean energy every year using existing federal credit programs. At the same time, we will also need billions of dollars to flow toward new investments in renewable and efficient energy annually over the next decade if we want a fighting chance of slowing global climate change. President Obama has made a critical link through his Climate Action Plan by connecting these two facts.

Yet there are also important opportunities to do more and go further, as described in this issue brief. First, the president can coordinate all domestic programs to make sure they are working toward the same clean energy future. Second, he can coordinate domestic programs with international efforts to maximize their impact. Third, he can move quickly with the Department of Energy's credit capacity to leverage other government programs for renewable energy projects. These three steps will deliver greater returns for taxpayers and help solve the problem of climate change.

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Endnotes

1 Executive Office of the President, *The President's Climate Action Plan* (The White House, 2013), available at http://www.whitehouse.gov/sites/default/files/image/president27sclimateactionplan.pdf.

2 Ibid.

3 To arrive at this number, we added together expected 2013 direct loan obligations and loan guarantee commitments from the president's budget for the following credit programs: Export-Import Bank of the United States; Advanced Technology Vehicle Manufacturing; Title XVII Innovative Technology Loan Guarantee Program; Rural Utilities Service (FFB Electric Loans); Rural Business Cooperative Service (Renewable Energy Loan Guarantees, Section 9003 Loan Guarantees); FHA General and Special Risk Insurance Fund; Agency for International Development (Development Credit Authority Loan Guarantees); Overseas Private Investment Corporation; and Small Business Administration (7(a) General Business Loan Guarantees). These programs are expected to offer just more than $110.5 billion in credit in 2013. See Office of Management and Budget, "Supplemental Materials," available at http://www.whitehouse.gov/omb/budget/Supplemental (last accessed July 2013).

4 John Griffith and Richard W. Caperton, "Managing Taxpayer Risk," Center for American Progress, May 3, 2012, available at http://www.americanprogress.org/issues/economy/report/2012/05/03/11571/managing-taxpayer-risk/.

5 See, for example, Michael Mendelsohn, "Public Capital Vehicles Could Expand Renewable Energy's Access to Low Cost and Abundant Financing and Thus Decrease Energy Costs," National Renewable Energy Laboratory, May 30, 2013, available at https://financere.nrel.gov/finance/content/public-capital-vehicles-could-expand-renewable-energys-access-low-cost-and-abundant-financin.

6 Council on Environmental Quality, "Interagency Rapid Response Team for Transmission," available at http://www.whitehouse.gov/administration/eop/ceq/initiatives/interagency-rapid-response-team-for-transmission (last accessed July 2013).

7 The Export-Import Bank does not break down its lending by sector, but half of what they identify as "key industries" are energy related. See Export-Import Bank of the United States, "About Us: Key Industries," available at http://www.exim.gov/about/whatwedo/keyindustries/index.cfm (last accessed July 2013); the Rural Utilities Service's Electric Program is scheduled to lend $6.6 billion in 2013. See Rural Utilities Service Office, *Fiscal Year 2013 Loans and Appropriations* (U.S. Department of Agriculture, 2013), available at http://www.rurdev.usda.gov/SupportDocuments/UEP_Boxscore_130603.pdf.

8 Executive Office of the President, *The President's Climate Action Plan*.

9 Richard W. Caperton, "The Green Climate Fund is Good for Business and the Environment," Center for American Progress, December 16, 2011, available at http://www.americanprogress.org/issues/green/news/2011/12/16/10756/the-green-climate-fund-is-good-for-business-and-the-environment/.

10 Richard W. Caperton, "Leveraging Private Finance for Clean Energy" (Washington: Center for American Progress, 2010), available at http://www.americanprogress.org/issues/green/report/2010/11/02/8638/leveraging-private-finance-for-clean-energy/.

11 U.S. Department of Energy Loan Programs Office, "About the Loan Programs Office (LPO)," available at https://lpo.energy.gov/about/ (last accessed July 2013).
John Padalino, "USDA Town Meetings Draw Comments on Proposal to Help Utilities Finance Renewable Energy Projects," United States Department of Agriculture, July 11, 2013, available at http://blogs.usda.gov/2013/07/11/usda-town-meetings-draw-comments-on-proposal-to-help-utilities-finance-renewable-energy-projects/.