center for public enterprise

Putting the public sector back to work.

November 3, 2023

State of Vermont, Office of the State Treasurer
Attn: Treasurer Pieciak
Office of the State Treasurer
109 State Street
Montpelier, VT 05609

<u>Green Finance Recommendations to the Vermont State Treasurer</u>

Dear Treasurer Pieciak,

The Center for Public Enterprise is grateful for the chance to submit comments in the stakeholders' process launched to comply with the legislature's mandate to coordinate the State of Vermont's climate infrastructure financing efforts with a view to submit recommendations to the Vermont legislature before January 15, 2024.

The Center for Public Enterprise is a non-profit think tank based in Vermont and New York that specializes in building the capacity to accelerate publicly financed housing and energy development. The authors of this letter are experts in energy project financing and in Inflation Reduction Act implementation, particularly with regards to the Act's elective pay provisions.

We wholly endorse the creation of a statewide green finance entity to meet Vermont's mitigation, adaptation, and resilience needs by mobilizing sources of private, philanthropic, and public funding at scale and in a coordinated manner. To that end, our letter focuses on two topics: **(1) the need for Vermont's climate financing entity to be housed within an existing state financial institution and (2) the kinds of functionalities and capabilities this entity should have in order to meet the state's climate, equity, and community development missions.** Our Appendix provides more detail into our arguments on both these topics.

(1) Deploying an Existing State Financial Institution

Vermont's climate financing entity should be more than just a financial institution. It must be an entity that can balance complex public goals, empowered to coordinate among state, nonprofit, private, and community actors to achieve those goals. To that end, this entity must be a public entity housed within an existing state instrumentality like the Vermont Housing & Conservation Board.

A public financing entity with a public mission, accountable governance structure, and sufficient financial and technical capacities can avoid excluding vulnerable, particularly rural, communities and displaced workers. Direct affiliation with and accountability to state leaders ensures that it can internalize legislative mandates and prioritize equity goals.

A public financing entity can coordinate among Vermont state institutions, federal financing programs (*e.g.*, Solar For All), nonprofits, and philanthropies to meet economic development goals, provide technical assistance, and target financial support toward vulnerable communities. As a central coordinator of both financing and administrative programming, the entity can more easily integrate and balance climate, development, equity, and justice goals by aligning the missions of its partners to Vermont's climate planning and goals. And as a state instrumentality, it can be designated as a SEFI, or state energy financing institution, making it eligible for federal loan guarantees from the LPO.

This central coordinator function allows the public financing entity to build administrative capacity within Vermont's state government to plan and execute the kinds of complex legal, procurement, and financial activities needed to prepare clean energy and nature-based resilience projects, mobilize investment toward them, and provide support to vulnerable communities.

A public financing entity can already take on more risk and undertake longer-term investment plans than its private and nonprofit counterparts could, especially by making use of the existing creditworthiness of the Vermont state government when issuing bonds and providing credit enhancements. As a centrally coordinated institution for raising public finance for green investment, this entity avoids the transaction costs associated with raising funds for state investment needs outside state financial instrumentalities. It may also be eligible for particular federal benefits or programs geared toward state instrumentalities, such as SEFI lending, the elective pay credits, and Solar for All.

A nonprofit housed outside the Vermont state government apparatus will have a harder time executing these functions because it would lack the convening authorities and public mandates necessary to work with the many instrumentalities that currently undertake lending or investment programs. It would be less accountable to the state, legislature, and communities; less able to coordinate the expertise and financing sources required to meet these goals; and would place the administrative capacity needed to manage a complex green transition process outside the state government. It is also likely that a nonprofit would be less able to utilize certain financial tools or would eventually have to be empowered by state legislation to use those tools anyway. Empowering an existing entity that already has experience with some of these tools will save valuable time.

(2) Potential Capabilities and Functionalities for a Climate Financial Institution

We believe a public green financing entity must be able to exercise certain capabilities and functionalities in order to deliver on climate and community development goals. Below, we describe some of the most necessary capabilities and functionalities. This list is not exhaustive—see our Appendix for a more detailed list—but we believe it allows stakeholders like your office to better understand what a green financing entity is capable of doing and why empowering one with these functionalities can serve public goals.

This public green financing entity should seek not simply to access funds, but to design and deploy innovative financing tools to leverage all available forms of capital to meet the state's climate and just transition goals. Such tools include but should not be limited to: co-financing alongside other investors; issuing concessional loans; building loan underwriting capacity; providing short-term construction bridge financing; deploying revolving funds; offering credit enhancements like loan guarantees, loan loss reserves, first-loss guarantees, and interest rate buydowns; buying out private developers' stranded projects; making equity instruments and swaps (debt-to-equity and debt-to-grant swaps); warehousing assets and securitizing them; monetizing tax credits through the Inflation Reduction Act's elective pay provisions; centrally procuring key project inputs through bulk orders; allocating grants; and developing partnerships with state universities.

Tools like concessional loans and credit enhancements, enable the entity to mobilize and complement private investment. And other tools such as providing short-term construction bridge financing, perhaps through a revolving fund, and executing bulk orders for key input materials empower the entity to do what the private and nonprofit sectors cannot do at reasonable cost. Ensuring that the entity can securitize and warehouse assets, deploy revolving funds, and buy out stranded projects also allows it to become a financial backstop and central counterparty institution for green investment across the state. And loan underwriting capacity is absolutely essential for building the entity's capacity to develop close working relationships with borrowers, particularly to assess their creditworthiness.

And partnerships with state universities can serve a key capacity-building function: close collaboration builds a pipeline of interested students, researchers, professors, and workers whose scientific, business, policy, and technical expertise can be directed toward state climate investment goals.

On top of the above functionalities, such a public green financing entity should support project preparation and pre-development activities, including site identification, contract structuring, tax credit and elective pay advisory work, project labor agreement and community benefit agreement advisory, and other forms of technical assistance as necessary to meet Vermont's needs. This kind of coordination work is not easily executed by private or nonprofit stakeholders; undertaking it allows the public green financing entity to build key technical assistance and political coordination expertise.

Building these capabilities is critical given today's market conditions and private investor hesitance to commit to large capital expenditures. These capabilities also generate positive externalities. For example, by creating steady demand for construction work, a public green financing entity will decrease volatility of construction costs and supply chains for *all* capital investment statewide while backstopping the work of civil engineering firms, which stakeholders are worried will leave Vermont.

Our Appendix has a more detailed explanation of how these functionalities work and how empowering a state financial institution to deploy them will serve Vermont's climate and just transition goals.

Thank you for taking the time to read our letter, and thank you for your leadership in driving this process forward to ensure that Vermont becomes a leader in nationwide efforts to establish high-quality, transformative green financial institutions.

Yours truly,
The Center for Public Enterprise

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Appendix: Additional Resources

1. Potential Functionalities and Structural Goals for a Vermont Green Bank | Center for Public Enterprise
2. State and Local Government and the Formation of Green Banks | David Wood & Jordan Haedtler
3. Letter to VT Treasurer's Office | Vero Bourg-Meyer
4. Letter to VT Treasurer's Office | Authors of July 2023 whitepaper