

DRAFT

Proposed Financing Addendum TO Section 9: Regional Economic Development

While no study has been completed on the economic implications of greenhouse reduction to the Washington region, national and international studies indicate the cost to reduce greenhouse gases is far less than the cost of responding to changes anticipated to occur as a result of global warming. A Stern Review on the Economics of Climate Change, written by the British Chancellor, indicates that dealing comprehensively with climate change would cost about 1% of the gross domestic product (GDP) – but the failure to deal with climate change would cost 20% of the GDP, or more. The U.S. Environmental Protection Agency projects the Lieberman-Warner Climate bill would affect U.S. regional GDP by less than 3 percent, with the greatest impact in the Plains states. They did not evaluate economic benefits.¹

Reducing greenhouse gases in the Washington region presents significant economic growth opportunities and many co-benefits. A national study performed by McKinsey Global Institute for Ceres, an organization devoted to enhancing corporate responsibility, concluded that investments in energy efficiency of \$170 billion/year would yield a profit of 17 percent or \$29 billion a year.² Local greenhouse gas reduction actions can help the region stabilize energy demand, diversify energy supply, lower utility bills, improve air quality, create more walkable community designs, and provide the region the chance to develop our impressive transit system, green collar workforce, and green building and technology base.

Nevertheless, there will be upfront costs and growing pains associated with the shift to cleaner energy sources and greener technologies and practices. The Congressional Budget Office, for instance, indicated a greenhouse gas “cap and trade” program could disproportionately affect people at the lower end of the economic scale and industries that use energy intensively. Government, at all levels, will be called upon to buffer the up front costs associated with the transition to a low-carbon future. From a local government perspective, new staff positions may have to be created, new capital costs may be incurred, and tax revenue may be lost in rebates, tax breaks and grants to businesses and residents to assist the transition to a cleaner energy economy.

There are several ways area governments can cover the costs associated with climate change activities, some of which are listed below. COG can play an important role in keeping local governments well informed about alternative financing mechanisms, in creating economies of scale, and in helping local governments take advantage of the clean energy economy.

Selected Financing Mechanisms for Local Climate Change Efforts

- **Redirect utility savings directly into new mitigation efforts.** As energy prices rise, the savings a local government can incur through energy efficiency improvements and the installation of renewable energy, could be considerable. Instead of crediting the general fund, local government utility bill savings can be redirected into new climate change activities.

¹ U.S. Environmental Protection Agency, *EPA Analysis of the Lieberman-Warner Climate Security Act of 2008*, March 14, 2008.

² McKinsey Global Institute, *The Case for Investing in Energy Productivity*, February 2008. See also, CERES, *Managing Risks and Opportunities of Climate Change: A Practical Toolkit for Investors*, April 2008.

- **Use projected energy savings to fund upfront energy efficiency/renewable energy improvements through a third-party contractor.** Using energy performance contracting, for example, an energy services company can supply upfront financing for local government improvements with the associated benefits shared between the contractor and the local government to repay the initial investment.
- **Create a dedicated fund to support greenhouse gas reduction and energy efficiency improvements, drawing on funds from a variety of sources.** The District of Columbia is considering a measure that would create a Sustainable Energy Utility, funded by an assessment on the electric and natural gas utilities, to incentivize and help fund energy efficiency and renewable energy improvements on the consumer level. The State of Maryland has established a Strategic Energy Fund to support energy enhancements (including “early action items”), which will be supported by proceeds from the Regional Greenhouse Gas Initiative (RGGI), a cap and trade system in the northeast for electricity generating plants.
- **Create partnerships with local utilities to implement energy efficiency improvements and demand management activities.** The PEPCO Company, in conjunction with Hannon Armstrong and Virginia Tech University, for example, created the Energy Efficiency Partnership of Greater Washington, which has dedicated \$500 million to finance building energy efficiency improvements over the next five years.
- **Integrate climate change activities into existing job responsibilities and/or shift staff to new assignments.** In some cases, jurisdictions might feel that climate change is such an important priority it warrants reassigning existing staff to new activities. Greenhouse gas reduction objectives could serve as an overlay on the existing work plans of environmental specialists, public works professionals, facility managers, and land-use planners. A central coordinator might be needed to help oversee these activities.
- **Create Economies of Scale** By working together, area local governments may get reduced prices for new energy technologies and services. This could include a COG cooperative purchasing effort and the use of a Reverse Energy Auction, or e-auction to optimize energy prices. Montgomery County has a cooperative wind purchase, open to area local governments, which could be expanded and COG recently conducted a reverse energy auction for the purchase of natural gas, a model which could be investigated for application to renewable energy.
- **Secure State and Federal assistance** for greenhouse gas measures. Localities in Maryland will likely benefit from the proceeds accumulated through the Regional Greenhouse Gas Initiative (REGGI) slated to go into effect Fall 2008. The federal Energy Independence and Security Act of 2007 authorized Energy Efficiency Block Grants for local governments, to fund a variety of local government activities related to greenhouse gas reduction. COG has worked to help secure passage and funding for these local grants.
- **Levy carbon fee or utility tax.** Local governments may want to consider the creation of a new carbon tax or local utility fee, which could support new greenhouse gas reduction activities. Arlington County, for example, adopted in 2007 a local residential utility tax which is expected to raise \$1.5 million.
- **Carbon Offset Program** – COG could consider developing a regional carbon offset program, whereby local governments or businesses could support reduction activities in other parts of the region. In some cases, a locality or business may determine it is cheaper for them to purchase a regional offset, than it is for them to put a reduction

program in place. COG could also help localities identify opportunities to have local offset projects be supported by national offset efforts, including the Climate Registry's new *Climate Action Reserve*.

COG's Climate Change Steering Committee recommends that COG investigate alternative financing mechanisms, such as listed above, for use by area local governments. This includes developing a Climate Change Colloquia on financial topics such as energy performance contracting, incentives, subsidies, rebates, tax breaks, cap and trade, and other creative financing schemes/mechanisms; conducting a study, perhaps in partnership with business group or University, of regional green economic development opportunities; and helping localities access federal and state climate change funding.