A PERSPECTIVE ON
A U.S. ECONOMIC RECOVERY PACKAGE

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Thank you, Chairman Bingaman, for the opportunity to provide testimony regarding investments in clean energy and natural resources projects and programs to create green jobs and to stimulate the economy. The philosophy of the National Venture Capital Association, as it relates to the structure of an economic recovery package, is guided by several key principles:

1. Clean Technology Means Job Creation. Investments in clean technology will create a significant percentage of the new jobs in the U.S. in the near term and over the next five to ten years. Just as a point of reference, in 2008 the clean technology sector was the fastest growing sector for venture capital investment. Just as the venture capital industry created millions of high paying jobs within the biotechnology sector with the funding of pioneering companies such as Genentech, Amgen and others, so too will it fund similar entities in the alternative energy and sustainability space in the next several years. In total, venture backed companies have historically and consistently accounted for almost 10 percent of US jobs and 18 percent of U.S. GDP.

2. Public Investment in Clean Technology R & D is Inadequate. When compared to the public investment in research and development in other sectors of the economy, the government's funding of R & D in clean technology is inadequate by any measure. While the energy sector of the economy is roughly the same size in GDP terms as the health care sector, annual NIH R & D expenditures are roughly $30 billion, completely dwarfing the $1.5 billion expended on clean technology research and development.

3. Clean Technology Needs Robust Markets in which to Grow. To the extent possible, policy tools should be used to strengthen financial, commercial, and consumer market mechanisms so that clean technology companies get the benefit of nimble, fast-adapting, and market-signal-driven investors, suppliers, and customers. Where markets are not functioning properly and are failing clean technology companies – as is the case in the current credit crisis – policymakers should take steps to fill in the gaps until the markets are repaired.

4. Only Consistent and Long-Term Policies Encourage Growth in Clean Technology. Public policy must encourage certain favorable market behaviors, including long term investment. Therefore, public policy provisions should both extend for a significant period of time and not be subject to significant modification or varying interpretations over those time periods. Market participants – including investors – require consistent signals to act for the longer-

term. As one data point, the minimum time horizon venture investors set for their portfolio company investments is 10 years.

5. Diversity of Clean Technologies Will Strengthen Our Country's Position. The diversity of clean technologies and cleantech company strategies is a desirable thing, and policy should encourage that diversity. To the extent possible, we should prefer market decisions to government decisions in selecting the winners from this diverse pool of technologies and companies. Where policymakers must make choices (e.g., in research and development programs), those decisions should be based on the best independent scientific and market advice available.

6. Amid Price Fluctuations in the Energy Market, Policy Should Encourage "Market Pull" for Clean Technologies. Many factors contribute to the success of entrepreneurial, high-growth companies, but a truly critical determinant of the growth of clean technology companies will be the perceived value/cost proposition of their products and services (relative to high-carbon energy alternatives) in energy markets – some of which are highly regulated. Because the nation has an interest in energy independence, in solving the global warming problem, and in creating new high-paying jobs at home, policy should strive to remind markets of the long-term cost/value proposition of clean energy products and services and help them weather the vagaries of periodic price fluctuations of energy alternatives. Where appropriate, policy should encourage "market pull" forces to encourage the start-up and growth of new clean technology companies.

Based on the above principles, the NVCA would support the following provisions in an economic recovery package.

Accelerating the Work of DOE's Loan Guarantee Program. DOE's Loan Guarantee Program is an important and valuable facility for funding clean energy projects that needs to be strengthened. To date, the administration of DOE's Loan Guarantee has been slow; no applications have yet received approval or funding. Policymakers should consider taking steps in the recovery bill to greatly accelerate the processing and awarding of loan guarantee applications.

Without significant new authorizing language, options to accomplish this acceleration are somewhat limited. One viable option would be to fund a significant infusion of human capital resources to process these applications. Bankers, lawyers, financial analysts and modelers are needed to do the job well, and that emergency infusion may require exemptions to personnel hiring rules or providing DOE with the authority to hire consultants to process more of these applications faster. With these new resources should also come some agreed-upon timelines for the processing of loan-guarantee applications. In the longer term, the Senate should consider shifting the loan guarantee program to another entity, perhaps one like the 21st Century Energy Deployment Corporation contemplated by Senator Bingaman's Senate Bill 3233.

Other issues have been raised about the workability of the program, two of which may be candidates for correction in the recovery bill: (1) reducing the application fees associated with the program so that more start-up companies can easily qualify, and (2) eliminating rigid application deadlines that seem to reduce the pool of applicants rather than to expedite the orderly and swift processing of applications.

Funding a Significant Increase in Cleantech RD & D funding. The recovery package represents a golden opportunity to fund new research, development, and deployment across a diverse range of clean technologies. Fully funding RD&D levels authorized by various sections of the Energy Independence and Security Act will create a significant number of jobs. The hiring of researchers, research assistants, laboratory staff, and the purchase of laboratory and research equipment, and the support of our universities through these additional funds will have significant ripple effects in university communities across the country. The time is now to begin making the serious investments in RD&D that will lead the creation of millions of new American jobs in the mid- to longer term.

Making the Renewable Energy Tax Credits Refundable, Expanding the Tax Investor Pool to Individuals, and Making the Credits Transferable. In order to increase the pool of tax equity available to fund renewable energy development, the Senate should consider – as part of an energy tax title in the recovery bill -- making the investment tax credit refundable, opening up tax equity to individual investors, and making such tax credits transferable. As current renewable energy tax credit provisions now operate, only large financial institutions and companies typically provide tax equity. The repeal of passive loss and at-risk limitations -- currently permitted for working interests in oil and gas property --would significantly expand the tax equity pool to include high net worth individuals and others. The ability to transfer these credits should further enhance the pool of investment in these projects. These changes would convert the newly-extended tax credits into immediate and powerful financing propellants for new energy projects around the country.

The Senate should also consider a temporary transformation of the tax credits for renewable energy projects to cash rebates to help fund these projects. With the drying up of capital sources in the wake of the current financial crisis, it is possible that entire renewable energy sectors may wither significantly. By making the tax credits fully refundable (with no requirement that they be matched against income) until capital flows again post-financial-crisis, the government could make available to project developers the funds absolutely required to launch and sustain new renewable energy development.

Allowing Bonus Depreciation. The Senate might further consider allowing a temporary accelerated depreciation schedule for U.S. cleantech projects such as solar, wind, biomass, geothermal, etc. and to extend this accelerated depreciation treatment to any capital expense that can be demonstrated to improve energy efficiency by some appropriate standard (or by a certain percentage improvement over the existing equipment).

Eliminating Capital Gains Taxes for Investment in Small, Start-Up Businesses. During the presidential campaign, the Obama-Biden team demonstrated their understanding of critical drivers of economic growth by including in their tax platform a provision for a zero capital gains tax rate for investments in start-up companies. Across industries venture investment has been linked to new job creation and innovation, and we expect this to be clearly manifest in the cleantech area where such a policy would attract both much-needed capital and experienced management teams necessary to build these companies.

Accelerating the "Greening" of Buildings. The first step the Senate should consider is fully funding the authorized level of $2 billion annually for the Energy Efficiency and Conservation Block Grant Program under Title V, Sections 543-548 of the Energy Independence and Security Act of 2007. The purpose of this program is to help state and local governments to fund energy efficiency improvements in the building sector and other sectors, and fully funding the program will provide the resources required for campaigns like the one launched by New Mexico Governor Bill Richardson and Albuquerque Mayor Martin Chavez to bring schools and other public buildings to LEED–Silver status.

The second step to consider is providing incentives for small businesses (under 500 employees) to "green" their facilities. The Senate could support proposals to increase the SBA loan guarantee from 50% to 75% for owner occupied buildings if the tenant improvements comply with an energy-efficiency standard (perhaps as simple as a percentage above what comparable buildings in the region consume). Both steps would create a significant number of new jobs in energy efficiency equipment manufacturers and energy retrofit contractors across the country.

Increasing Incentives for Energy Efficiency in the Transportation Sector. These steps could provide extremely powerful "market pull" forces to drive new transportation technologies, which will drive new companies, new jobs, and the beginnings of recapturing a lasting American competitive advantage in the transportation sector.

The Senate should consider: (1) temporarily doubling federal tax credits for fuel-efficient cars; currently there are credits of up to $3,400 for a new hybrid, between $2,500 and $7,500 for a plug-in car under 10,000 pounds, and up to $15,000 for a plug-in vehicle over 26,000 pounds; (2) accelerating investments in upgrading its fleet to more efficient vehicles, achieving at least the 50% target set by President-elect Obama by 2012; (3) providing corporate tax credits for purchases and leases of high efficiency vehicles and providing grants for converting corporate fleet vehicles to plug-ins; and (4) providing grants to support efforts like the Advanced Energy non-profit corporation in North Carolina to help school districts purchase or lease hybrid school buses.

Providing for Standardized and Long-Term Federal Power Purchase Agreements (PPAs). Several commentators have reviewed the history of hydro development projects in the United States and concluded that the longer terms of the standardized PPAs under which their power was purchased by the government was a key factor in the success of

that effort. The Senate should consider establishing a standard PPA for federal government purchase of clean energy that does not have to be fully renegotiated for each agency and each project. Moreover, the term of the PPA agreement might extend well beyond the 10-year range, perhaps out to as many as 30 years.