

NASEO Financing Task Force Call
Thursday, August 26, 2010; 1:00-2:30pm
Call Notes

Attendees

Eric Steltzer, NH
Joanne Morin, NH
Bonnie Ziemann, NH
John Osterman, NH
Dan Bresette, MD
Jeremy DeFiebre, MN
Amy Butler, MI
Jeff Pickens, NYSERDA
Jeff Genzer, NASEO
David Terry, NASEO
Diana Lin, NASEO

Task Force Objectives

- 1) Help states set up good programs as quickly and as easily as possible and facilitate ARRA implementation, while trying build foundation for post-2012 activities.
- 2) Technical assistance and knowledge sharing between NASEO, EPC and individual states to help other states and local governments.

Conclusions

- 1) States welcome coordination on this topic and would like more information about what other states are doing and who they can go to for questions. NASEO can help gather and share this information.
- 2) States are already working with their local governments on these issues, and there's room for more coordination. NASEO's parallel coordination with local governments is a good idea.

Next Steps & Action Items

- 1) Members: Please send model documents and program information to Diana Lin (dlin@naseo.org). Note where there is sensitive material that should not be widely shared.
- 2) NASEO: Will send out additional guidance and a Template Letter to DOE State RLF programs that states can use as they craft their letters for DOE.
- 3) NASEO: Will circulate model agreements between state energy offices and a bank to establish basis for loan loss reserve or other programs.

Upcoming Calls and Meetings

- NASEO All States Financing Call or Webinar: Tuesday, September 7, 2010; 2:00-3:30pm
- NASEO Financing Task Force Call: Wednesday, September 15, 2010; 1:30-3:00pm
- [NASEO Annual Meeting in Boston](#): Tuesday, September 28 – Friday, October 1, 2010.

Discussion

Jeff Genzer opened the call with discussion of the implications of the demise of the climate bill on state energy efficiency programs in a post-2012 period. ARRA has provided \$750m-\$1b in funds for financing activities under SEP and EECB. After those funds are spent, the extent to which the programs we establish now can self-sustain, recycle funds, etc. will be very important, and we should lay groundwork now with that in mind.

This objective, of course, is in direct tension with directives and pressure from the Vice President's office and DOE to spend the ARRA funds as quickly as possible. To help states navigate these two issues and establish solid and sustainable financing programs, NASEO has convened this task force.

NASEO can help facilitate by:

- Developing and circulating model documents
- Gathering information on programs and strategies states are deploying
 - Identify contacts so others can get in touch on specific issues
- Coordinate and communicate guidance from DOE on specific implementation issues to all members

Current Activity in States

New Hampshire: Joanne Morin has a specific question about the 1512 reporting implications in future periods if she draws down all the money now for NH's revolving loan fund (RLF).

- Jeff Genzer will ask DOE reps this question and follow-up with Joanne.

Nebraska: Bonnie Ziemann's office has already drawn down all their money for their RLF program, which puts their current costing level at \$4m. If there are problems with 1512, she's not aware of it, and the people she's working with has not brought it up yet.

- Jack Osterman, a former banker, designed this program for Nebraska, and he is the best person to contact about this.
- This RLF fund was previously funded from an oil overcharge fund. They've now displaced those funds with ARRA funds, and created separate journal entries for each, and make loans with ARRA funds first.

Maryland: Dan Bresette described the Maryland Energy Administration (MEA)'s loan loss and revolving loan fund which has existed for over 20 years.

- The program is authorized by statute and regulated by the state. Last year, it expanded to include commercial and industrial in the scope scope.
- MD has seen a mismatch between supply and demand in the past, which has presented challenges. Demand has to come from borrowers, and SEO is not always the driver of this program.
- For MD, this program is bigger than ARRA and will be a long-term program and area of interest for them.

Minnesota: In his state, the SEO doesn't operate the financing program directly but works through 4 or 5 subgrantees. Jeremy DeFiebre is uncertain if it's prudent to do advance draw downs for those subgrantees yet. Additionally, he thinks there is opportunity to look at secondary markets and see if these loans can be packaged together and sold there.

New York: In NY, the new Green Jobs, Green New York program funded partly through Retrofit Ramp-up and RGGI funds is predicated on the understanding that loans from this program will be securitized, packaged, and aggregated to be leveraged in the capital markets later. Jeff Pitkin will forward their documents for everyone's references. (includes bonds, loan underwriting standards, etc.)

QECBs/CREBs

Jeff Pitkin – NY is working on with Governor's office to use a portion of State allocations under QECBs to issue bonds in a QECB format to drive down interest rates of bonds.

Eric, NH – Also looking at QECBs, NH didn't get very much (since it was allocated by formula by population), and they had to pass through it to others. The funds are watered down and it's challenging to streamline administrative and programmatic problems to make the most use of the funds.

Jeff, NY: it's almost impractical for local entities to use their allocations since they're so small. In NY, they've approached the local govt's to use their funds for a larger program. This does mean that you have to track the money to make sure the money is spent in its respective local jurisdiction.

Dan, MD: MEA does not issue bonds directly, so will have to be done directly by local governments or by MD's housing and community development as a conduit issuer. Is thinking about QECBs but not as a way to capitalize a RLF, but may consider it as a way to cover extra underwriting funds. How can we use SEP money to enhance QECB offerings?

Amy, MI: Michigan's very far along with their QECB program. Michigan is currently in process of reissuing to other people. On QECBs, some of the activities of this task force may be too late to benefit MI, but they could help others. In other areas, RLF—info and contacts would be helpful.

Dan, MD– on-bill financing for Better Buildings is coming up. We could use more information on this. What are the terms? Interest rate? Contact people? Funding source?

- NASEO will include this as one topical area in their information gathering activity

Template Letter for DOE

Q: Would the letter vary much for other financing programs?

- Jeff Genzer: No definitive answer, but sense is that this is sufficient as long as you are very explicit about your intent.

Q: NH is getting pressure for the 20% goal in September for spending/draw down, but for RLF if you draw down the money, they're going to count that towards the 20% even if it's not actually spent.

- Has talked to Treasurer about drawing down money into the state as DOE wants, but may hold it themselves and won't give to subcontractors until later and account for it separately.
- Jeff G: DOE wants to know that money drawn down and allocated for RLF can't be spent in other areas, and that all first loans will be made by June 2012 deadline.

Q: Do ARRA compliance issues trickle down?

- Bonnie: In Nebraska, borrowers don't worry about that because they go to local lenders and get the loan out of the local lenders' funds.
- Dan: Interesting that ARRA compliance issues don't trickle down. In MD, the borrower takes the loan direct out of state, and not from a 3rd party.
- Jeremy, MN: ruling from DOL that they would have Davis-Bacon apply to all loans from ARRA money. Would like to know how NE got out of it. Can we get that in writing?
- Bonnie: They were told that because it's a paper transaction between state and lender, Davis-Bacon does not apply. \$75,000 in default over 20 years. Has made over \$200m in loans over lifetime of the program.

Q: Is anyone setting aside a portion of their RLF as a loss guarantee/LLR? Michigan has communities who want to do ESPCs, but can't afford it. ESCOs would finance communities and engage if there were a LLR.

- MD: is setting up a LLR, not for the RLF, but as a successor to PACE in the res sector

Model Agreements between States and Banks

Jeff Genzer: This could be a model agreement between SEO/local gov't and a bank for LLRs and others. You will still have to develop loan underwriting standards with the bank individually, but this agreement could be a start. We will circulate this as soon as we've heard back from DOE's General Counsel.

Update from Mark Wolfe

Energy Programs Consortium (EPC) is investigating how to package and securitize energy efficiency loans. Performance is good and default rates low in most states with these types of loan programs, but there are a few challenges: Lack of data (only data on unsecured loans are those sold to Fannie Mae at a 15% interest rate), market and loan volume is too small, and buyers do not really understand this financial product.

EPC is working on some conforming loan standards to help streamline the process of buying up loans into a "warehouse," repackaging them and selling them on the secondary market. EPC's objective is to get the rate down to 8-10% rather than Fannie Mae's 15%.

Secondly, EPC is also working on a new ENERGY STAR branded energy-efficient mortgage (EEM) product. Partners include DOE, EPA, NYSERDA and foundations.

- To qualify for this EEM, homes must be in Home Performance with ENERGY STAR or below an income-threshold.
- If your state is thinking about EEMs, please get in touch with Mark Wolfe.
 - o Michigan has an EEM product and also a “Mortgage Workout” program (help homeowners refinance with EE components to stave off foreclosure).
 - o Colorado has a similar program