

NASEO State Energy Financing Task Force and Buildings Committee Call

Friday, March 4, 2011

12:30 – 1:30pm EST

Chairs:

Jeff Pitkin, NYSERDA (Energy Financing Task Force)

Amy Butler, MI (Buildings Committee)

Participants:

AL, Kathy Hornsby

AZ, Jim Westberg

CA, Martha Brook

Cadmus, Pat McGuckin

EPC, Elizabeth Bellis

EPC, Howard Banker

FL, Travis Yelverton

IA, Julie Weisshaar

IA, Monica Stone

IA, Roya Stanley

ID, Doug Tanner

MA, Ian Finlayson

MA, Yaara Grinberg

MD, Dan Bresette

MD, Walt Auburn

ME, Joy Adamson

ME, Peter Roehrig

MS, Harriett Holliday

NC, Nicole Dyess

NC, Nichele Parker

NE, Jerry Loos

NIA, Ron King

NV, Emily Nunez

NV, Gary Little

NV, Stephanie Brooks

NYSERDA, Tom Barone

OK, Kalah McNabb

OR, Jim Denno

PA, Keith Welks

PA, Maureen Guttman

SC, Trish Jerman

SD, Michele Farris

TX, Dub Taylor

TX, Eddy Trevino

VA, Al Christopher

WA, Glenn Blackmon

WV, Kelly Bragg

NASEO

Jeff Genzer

Diana Lin

Shemika Spencer

Jim Ploger

Garth Otto

Opening and Introduction

Jeff Pitkin, the chair of NASEO's Financing Task Force, opened this joint NASEO Financing Task Force and Building Committee call. Jeff thanked those NASEO members and Affiliates who were able to join the recent Energy Policy and Technology Outlook Conference. We've received great feedback and look forward to future events. Also, NASEO's Annual Meeting will be held in San Antonio, TX from Sept. 11-14. For details, visit <http://naseo.org/events/annual/index.html>.

Amy Butler, chair of NASEO's Buildings Committee, added that it is exciting to bring these 2 NASEO groups together on this topic of commercial building financing, and this will be an important area of collaboration and focus in the coming months.

Overview on President Obama's Better Buildings Initiative

Jason Hartke, Vice President of National Policy, USGBC

President Obama's Better Building Initiative (BBI)

This is in a conceptual stage and still has many developments and details to sort out, and the White House is working with many of the relevant agencies. This program aims to achieve a 20% energy reduction in commercial buildings by 2020, with estimated savings of \$40B per year. There are 3 areas being explored:

1. Incentives

- BBI wants to encourage more uptake of the existing commercial building tax deduction (179D) and also modify it to be a tax credit and make them more attractive to real estate investment trusts (REIT). This modification will require federal legislative action. USGBC has worked on this for a long time, and this renewed focus is exciting. In a lot of opportunity with existing authorities.
- Secondly, BBI is promoting increased use of the Small Business Administration's (SBA) loan program, to take advantage of recently expanded loan sizes to finance EE retrofit projects.
- Thirdly, BBI proposes a new commercial loan guarantee, with initial funding at \$100 million. The loan guarantee would back retrofits in the municipal, university, schools and hospitals (MUSH) market, and USGBC is also advocating for private commercial to be included as well. This will also require new legislation and appropriations.

2. Competitive Programs

- BBI proposes a new competitive program, "Race to the Green," for state and local governments and modeled after the Department of Education's "Race to the Top." This is still early in development and is looking for input from state and local governments. To the extent possible, the White House and DOE is trying to connect and align the development of this program with progress made by ongoing ARRA projects.
- A second proposed competitive program is the Better Buildings Challenge, a program that would target CEOs and university presidents to sign a voluntary commitment to go green. This is also under development.

Workforce Development

- This element is modeled on the National Institute of Standards and Technology (NIST)'s Manufacturing Extension Partnership (MEP) as a model for a parallel Building Technology Construction Extension Partnership. This would be focused on training, connecting peers, partnering with community colleges and trade schools. So far, NIST, DOE, and GSA are partnering.

Additionally (and in closing) HOME STAR is an ongoing priority for the Administration, and BBI is designed to complement.

Q and A session

Q (NE): On workforce development, I'm not familiar with MEP. What does that program entail?

- Jason: MEP's success has rested a lot on their ability to attract a huge base of membership nationally. A building-oriented extension partnership would focus on workforce development and engage technical and community colleges.

Q (ME): Are there any specific components of this that seem to be promising in terms of attracting bi-partisan political support?

- Jason: So far, there has been promising reception of modifying 179D, but it will be a tough fight to get the new legislation necessary to increase the size of the deduction and change to a credit. Changing to a credit would be especially tough due to budget

scoring. Parallel to that, USGBC has been exploring the opportunities and progress that can be made solely with existing authorities.

Race to the Green

Jeff Genzer, NASEO General Counsel

Race to the Green would be a \$100 million competitive program for state and local governments aimed to promote activities in both private commercial and the MUSH market. Echoing Jason Hartke's presentation, this program is still under development and would require Congressional authorization and appropriation, which would be difficult in this political climate.

In discussions NASEO has had with CEQ and DOE so far, we have been emphasizing:

- 1) In order to adequately allow all states to participate, scoring for this competitive grant should be relative to a state's own starting point or baseline, rather than comparison with an ideal state.
- 2) There should be multiple smaller grants rather than several large grants. For instance, breaking up the \$100million into 20 grants of \$5 million.
- 3) Selection criteria should also incorporate different kinds of diversity, geographical and otherwise.

Q and A session

Q (CA): How do states review, participate, and understand what NASEO is putting forward?

- Jeff: NASEO will send out a note with summary information and NASEO's initial recommendations. We will circulate this for state input and reaction.

Financing to Scale-up Commercial Building Retrofits

Kurt Shickman, Director of Research, Energy Future Coalition

EFC has worked with Rebuilding America at the federal level, and is now reaching out to work more with state and local partners. They are focusing current efforts on the financing barrier in commercial buildings. Financing is difficult to access, and rates are high. Further, there is an issue of risk and uncertainty around covering the cost of project through savings. This latter problem has been directly addressed through energy savings performance contracting (ESPC). However, other risks include the credit worthiness of the owner themselves. Moreover, frequently, the underlying ownership structure presents barriers and prevents decisions to invest in energy efficiency from the very beginnings of that process.

EFC hopes to address 2nd risk by bundling buildings and bundling projects through a portfolio approach and reduce impact of individual default risks. The idea is that as credit risks are lowered, the lending rate increases. Currently, EFC is working with a few specific locations to aggregate pools of buildings and owners. Building owners would pay a small fee to into an insurance pool to cover the risk of default on the portfolio, and if there is no default this could become a revenue stream to the insurance pool. This would need involvement of an independent 3rd party to make sure the projects reach a specific performance level, monitor the project, conduct quality assurance, and aggregate the data.

These projects will need political leadership at the municipality and state levels to drive building owner participation. This kind of effort can present a great economic revitalization story for whole downtown areas. Energy Future Coalition is also seeking feedback and input from state energy offices to continue to refine this idea to make it work for specific locales. Please feel free to contact Kurt Shickman (kshickman@energyfuturecoalition.org) with any thoughts or comments.

Q and A session

Q (NY): Who do you envision as the program administrator?

- Kurt: we are exploring a number of insurance companies to provide their technical expertise. Hannon Armstrong and other financiers are very interested and invested in solving this problem.

Q (PA): PA is really interested in learning more about this program because it sounds similar to a PA-ARRA pilot. PA is offering low-interest loan product, but it's really hard to sell that right now because people want grants, not financing.

- Massachusetts echoes that same observation. Also, in the EFC model, once you add the insurance fee back in, it may make the overall financing rates and cost less attractive.
- Kurt: EFC intends for this program to work in conjunction with other programs, and looks forward to learning more about the states' efforts and finding ways to coordinate.

In closing, Jeff Pitkin suggested that we look at this model through the filter of how this program will work with other programs. NY has some interesting experiences on how we might pull these two together -we have to be careful we don't over subsidize projects that don't need the help.

State Discussion

- CA is offering through Caltech different guarantees as a partnership between the California Energy Commission and the California Air Resources Board. Like other states, the major problem CA is encountering is in generating enough demand for the product. A whole financing solution would help bridge that gap and help with some of the underwriting criteria that banks are having a problem with.
- Howard Banker, Energy Programs Consortium (EPC): Perhaps one way to attract private leverage may be to structure loan repayments to put private lenders in line first and public dollars are paid off last. This could be a way to use public money to reduce loan terms and attract more private leverage.

Financing Subcommittee on State Program Similarities

Jeff Pitkin, NYSERDA

There is an effort jointly led by DOE and EPA, the State Energy Efficiency (SEE) Action Network, underway. They have multiple working groups, and the one for financing is focused on finding ways to increase private capital. Some of the discussion at a recent meeting was similar to discussions we've been having on the NASEO financing calls, and we want to make sure these are coordinated and that we are all communicating.

One point that came up in a recent SEE Action Network Financing Working Group meeting was the need to provide more data and information to rating agencies and lending institutions to get energy efficiency loan financing to scale and to gain access to the capital markets. As part of this task force, we want to start understanding the states' programs in more detail than we have

in the past, and systematically compare and contrast them to identify similarities, especially for those states who intend to access the capital markets. This will enable us to tell a more cohesive, consistent story to rating agencies and investors.

To do this we would build on the information that NASEO has compiled on its [SELF database](#) and on the work that EPC has done with conforming loan standards. Moving forward, NASEO will compile some information and approach interested states for that next layer of information.

If any participants from this call have follow-up thoughts or interest in this effort, please feel free to contact Jeff Pitkin at jip@nyserda.org.

Other Business

Dan Bresette (MD): In Maryland, the Maryland Energy Administration has heard strong pushback on the premise for a need for EE financing at all. Do people on this call know of resources/studies that can be used to convince stakeholders and to make the case? If so, please contact Dan at dbresette@energy.state.md.us.

Next Call Dates

Financing Task Force - Friday, April 1, 2011 (12:30-1:30pm ET)

Buildings Committee - tbd