NASEO Energy Financing Task Force Agenda
Conference Call
Wednesday, September 15, 1:30 - 3:00 p.m. ET

Opening comments from David Terry

The Task Force is a useful way for peer to peer exchange, and today's presentations are a good example of that. This call will ask for input to DOE on state needs and opportunities, and also serves as a forum to work through specific issues and guidance. Experienced states can provide other states assistance. Additionally, a residential white paper is in the works and we hope to get that out within a month.

Comments from Chuck Guinn

Upcoming webinar on QECBs on September 22. Jeff Pitkin and Brett Johnson will be discussing what's going on in NY and CO, and additional information will be sent out shortly.

Comments from Jeff Genzer

In addition to our state energy financing task force, NASEO is working with other state and local government groups on financing to identify opportunities for more coordination.

Model Documents:

- Please keep sending information to Diana Lin (dlin@naseo.org) and we will post it on your state's page on the State Energy Loan Fund (SELF) Database. The purpose is to share best practices and streamline program implementation.

Presentation by Jeff Pitkin, NYSERDA

In 2009, NY legislation created the Green Jobs- Green New York program to provide funding for EE in 3 sectors: residential, multi-family, and small commercial/nonprofits. $112 million from RGGI ($50 million is for the financing portion).

Financing approach has 2 aspects: revolving loan funds and capital markets

The program's 3-legged stool:

1. Direct Loan-moving forward
2. PACE-on hold
3. On-bill financing—To make on-bill financing more effective, NY needs both supplemental legislative and regulatory action. We are currently working on the legislation piece. One issue concerns the Fair Practices Act and shut-off provisions due to failure to pay. NYSERDA is also working with consumer groups to allay concerns.

Direct Loans

NY is working with lenders to establish standard underwriting criteria, which can allow for future aggregation and selling into a capital market. NY believes a capital market strategy can help sustain the program and ultimately wants to get a rated security to sell into the bond market.

The underwriting criteria are posted on the NASEO website (contact Jeff Pitkin with any questions).
NY plans to have Master Lender plan in place within 6 months.

Underwriting criteria that we set is a fairly high bar (high FICO score, etc.). To serve other markets, there's a Tier 2 sector that will be issued out of a RLF. Based on their performance, high-performing loans may be pulled out of Tier 2 and made available for aggregating and bundling into capital market also.

- This allows the program flexibility to experiment and find acceptable and alternative underwriting criteria.
- Initial discussions with foundations and PRI investors on this pilot concept. May also use a portion of Better Buildings grant

Presentation by Kathy Hornsby, Alabama*SAVES*

- Low interest rate loans for the installation of renewable energy systems and the implementation of energy efficiency measures for existing commercial and industrial businesses in Alabama.
- $25 million in SEP ARRA funds allocated for the program, with $12.5 million going to a capitalize a direct loan pool and the remaining funds to be used for a loan loss reserve and interest rate buydown to leverage private capital, providing a total loan pool of approximately $60 million
- Interest rate initially set at 2%, fixed, to be evaluated annually with intent to maintain a sustainable program
- Loan range: $250,000 - $4,000,000
- Loan term: The blended useful life of the improvements up to a maximum of 10 years
- Loans finance up to 90% of project costs
- Alabama used an RFP process to select a 3rd party administrator, Abundant Power Solutions, who has been great so far.
    - DOE TA assisted with the development of the subcontract with Abundant Power—Alabama can share a modified version of this subcontract as a model document
- Held individual state stakeholder meetings to get input on needs and secure support for marketing and promoting the program
- Program website, www.alabamsaves.com, is set to go online in mid-October and applications will be accepted in December

Presentation by Keith Welks, PA Keystone HELP

Unlike most of other programs, PA Treasury is not working with appropriated dollars, but with the state's investments. This means they have different parameters (not policy-driven) but hopes to line up vision with others.

HELP Overview (slide 2)

- Started in 2006
- Goal is to generate a rate of return on Treasury investments and also provide financing for homes to invest in energy savings improvements

- The Treasury ran the base program for 3 years. Eligible measures included installation of ENERGY STAR equipment, up to $10,000.
- Unsecured loans were promoted by contractors at the point of sale.
- 10-year term and low rate made it the best & most cost-effective option for homeowners.

- Treasury was approached by the state energy office because they had money but didn't want to recreate a loan program. Together, they started a modified program in 2009, using SEO funds to buy-down interest rates.
- Modified program has a tiered or cascading interest-rate program with lower rates tied to increasingly aggressive EE measures.
- SEP program dollars were also put into a LLR to further buy-down rates.

Funding Flow (slide 3)

- If you are thinking about putting a loan program together, think of all the elements.
- Treasury IS NOT lender, but is the source of capital. Treasury partners with a lender (AFC) and buys loans from AFC.
    - Treasury requires certain underwriting criteria from AFC for loans they buy
- 1600 Approved Contractors now –this share has really grown because to be competitive, contractors have to bring attractive financing and Keystone has the most attractive terms.

Continuing Innovation (slide 5)

- The whole building product has not had much uptake. About to introduce an alternative product (basic energy audit loan)focused just on insulation and air-sealing. PA hopes to get more up take for this product (with a2.99% rate).
- Geo-thermal hasn't had much uptake either because of the high up-front capital cost. A new Treasury product will try to take advantage of the federal geothermal heat pump tax credit (30%, no cap). The new product will provide a HELP direct loan up to $15,000 and a tax advancement loan for the federal tax credit. When they get their tax credit, they can pay it back within 12 months without any pre-payment penalties. Or they can stay on their payment schedule and keep the tax credit.

Secondary market (slide 5)

- Looking to sell their loan portfolio into the secondary market
- About to issue term forms
- It's hard for small loan holders to sell into the capital markets, so PA Treasury is working with Energy Programs Consortium to develop a warehouse facility which can theoretically buy loans from anywhere (as long as they are conforming loans).
    - 3-6 months away from being available

Presentation by Amy Butler, Michigan (and Robert Jackson – Program Manager for SEP, David Binkley, RLF Program Manager, Todd, QECB Manager)

Michigan Saves

- A separate non-profit that offers residential loans and financing

State RLF

- Established to be broad with lots of flexibility
- Mirrors activities under SEP program
- Advanced Manufacturing
    - Financing for components and systems
    - Companies can apply for both grants and loans
- Has loaned over $5 million
- Increased loan pool to $7.5 million on the private side
- Public side includes universities, schools, hospitals, etc.
    - Looking into ESPC to leverage loans more, especially for cash-strapped public institutions

Loan Loss Reserve
- $1.6m from Michigan's state low-income energy efficiency fund
- Will be supplemented from other funding streams also

Better Buildings for Michigan
- $30 mil

QECBs
- Initial allocation by formula
- 1st round of obligations happened a few months ago; the rest will be obligated shortly
- State Treasurer actually makes allocations
    - Gives SEO ability to recapture allocations others don't want to repurpose

Innovative Programs and Partnerships
- To grow the loan program, MI partnered with the Michigan Economic Development Organization on the Passive Solar Hoop House project for local agriculture.
- Partnering with Department of Natural Resources & Environment to make loans for Clean Energy Development (green chemicals). This is intended to stimulate and jump-start manufacturing in Michigan

Additional Activities and Conclusions
- Used seed money from state low-income energy efficiency fund to establish Michigan Saves
- Originally wanted to use on-bill financing— but still gathering momentum to get there
- Partnering with credit unions and CDFAs in state, have found 4 lenders. MI has found that local credit unions are more open to these types of programs than larger banks.
- Working with contractors to have them explain and market loans
- Established contractor criteria, underwriting criteria, common loan terms, etc.
- Series of pilots over last few months, and in the next few weeks will be launching the residential unsecured loan instrument in 36 counties.
    - Both a specific measures and whole house piece
    - 7% fixed rate, no pre-payment penalty
    - Primary residents only
- A new SEP grant is going to establish and ramp-up commercial activities in restaurants, grocery stores, etc.

In sum, Michigan is using a loan program to complement and accomplish other priorities for the state.

Q&A Session

Jeff Genzer: What was the number one barrier you had and what's your advice to get past it for your counterparts in states and local governments?

- Kathy: it's so new to us, that it's hard to identify a major barrier. It's mostly just been a learning & education process the whole way through.
    - Jeff: Did your state need any separate legislation to move program through?
    - Kathy: No
    - Jeff: Is your subcontract with Abundant Power something you could share as a model with other states?
    - Kathy: Yes, we'll need to redact some proprietary information, but we can share it.
- Keith Welks: PA's been at it for 5 years now, so it has been an evolving process. One major problem or trend is the lack of uptake. Our greatest challenge was getting the product in front of homeowners and getting them to say yes. PA thinks we've solved that using contractor-centered delivery. So far it seems to be working
- Amy: with the RLF, even though we had experience managing the state RLF, we still had to decide what kind of framework MI wanted and what could be done quickly and what legislation to get through that allowed enough flexibility. Different challenges along the way, but a good working relationship with their Treasury was really helpful. Next challenge is where the next slug of money will come from.
    - Discussion on contractor qualifications. Better Buildings program is testing different financing mechanisms and strategies for outreach (using contractor delivery and neighborhood organizations).
    - In development of Michigan Saves, we discovered that banks were not very interested in a common loan instrument, but credit unions were a lot more enthusiastic and innovative.

Jack Osterman – Nebraska has run a loan program for 20 years and made over 25,000 loans.

- Nebraska has $36 million of capital in its RLF. The fund has revolved about 3-4 times for a total of $250 mil, and 95% of loans were in the residential market. Of that approximate $250 million, only $100,000 was written off.
- Jack has heard from Canada recently about working with credit unions on an RLF. Anyone else working/talking with them?

Upcoming

The next call is scheduled for Monday, October 4, 2010 at 2:00pm EST