

# Financing Energy Efficiency Projects:

## Blending ARRA Funds with Commercial Finance

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**Presented by:**

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on behalf of USDOE financial advisory team

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# Finance Program Design Principles

- Identify target, priority markets with effective demand
  - research EE project economics; where are they most compelling?
- The best financing mechanisms vary with target market
  - match financing structure to target market characteristics
  - research potential financial institution (FI) partners
  - conduct an FI procurement or RFP process
  - leverage ARRA funds w/commercial finance
- Finance is necessary but is one component of the program
  - marry up with marketing & project delivery partners
  - support project development through the full cycle

	FINANCING MECHANISMS, by sector	
Market Segment	Finance Structure	Types of Financial Institutions (FIs)
<b>Residential</b>		
Single Family	<ul style="list-style-type: none"> <li>loans, both secured and unsecured</li> <li>ESCOs, for solar power purchase agreements</li> </ul>	<ul style="list-style-type: none"> <li>commercial banks</li> <li>credit unions</li> <li>specialized non-bank FIs &amp; CDFIs</li> </ul>
Multi-Family	<ul style="list-style-type: none"> <li>loans, both secured and unsecured</li> <li>tax-exempt bond debt possible for qualifying low-income housing</li> <li>ESCO</li> </ul>	<ul style="list-style-type: none"> <li>commercial banks</li> <li>credit unions</li> <li>leasing companies</li> <li>bond purchasers</li> </ul>
<b>Commercial</b>		
Small	<ul style="list-style-type: none"> <li>loan/lease are typical</li> </ul>	<ul style="list-style-type: none"> <li>commercial banks</li> <li>credit unions</li> </ul>
Large (as well as industrial)	<ul style="list-style-type: none"> <li>loan/lease</li> <li>Energy Savings Performance Contracting (ESCO)</li> <li>QECCBs possible</li> <li>Tax-exempt industrial development bonds</li> </ul>	<ul style="list-style-type: none"> <li>commercial banks</li> <li>credit unions</li> <li>specialized EE FIs</li> <li>contractors/ESCOs</li> <li>private equity investors</li> </ul>
<b>Institutional</b>		
Government	<ul style="list-style-type: none"> <li>tax-exempt bond</li> <li>tax-exempt lease</li> <li>ESCO</li> </ul>	<ul style="list-style-type: none"> <li>Tax-exempt &amp; lease purchasers</li> <li>capital markets transactions possible</li> </ul>
501C (3)	<ul style="list-style-type: none"> <li>tax-exempt bond</li> <li>loan/lease</li> <li>QECCBs possible</li> </ul>	<ul style="list-style-type: none"> <li>Commercial banks</li> <li>credit unions</li> <li>bond purchasers</li> <li>specialized EE FIs</li> </ul>

# Use of ARRA Funds for Risk Sharing & Credit Enhancement

- Risk sharing facilities can be instrumental to support commercial Financial Institution EE/RE lending
- Goals: pioneer new finance products, expand risk horizons, broaden access to finance, extend tenors, reduce rates
- Credit enhancements can support a range of lending and finance models: PACE, utility on-bill financing, commercial loan facilities, bond issues, etc.
- Credit enhancement structures using ARRA funds include:
  - Loan Loss Reserve Funds
  - Debt Service Reserve Funds
  - Subordinated Debt Structures
  - Interest Rate Buydowns

# Sample EE Finance Mechanisms

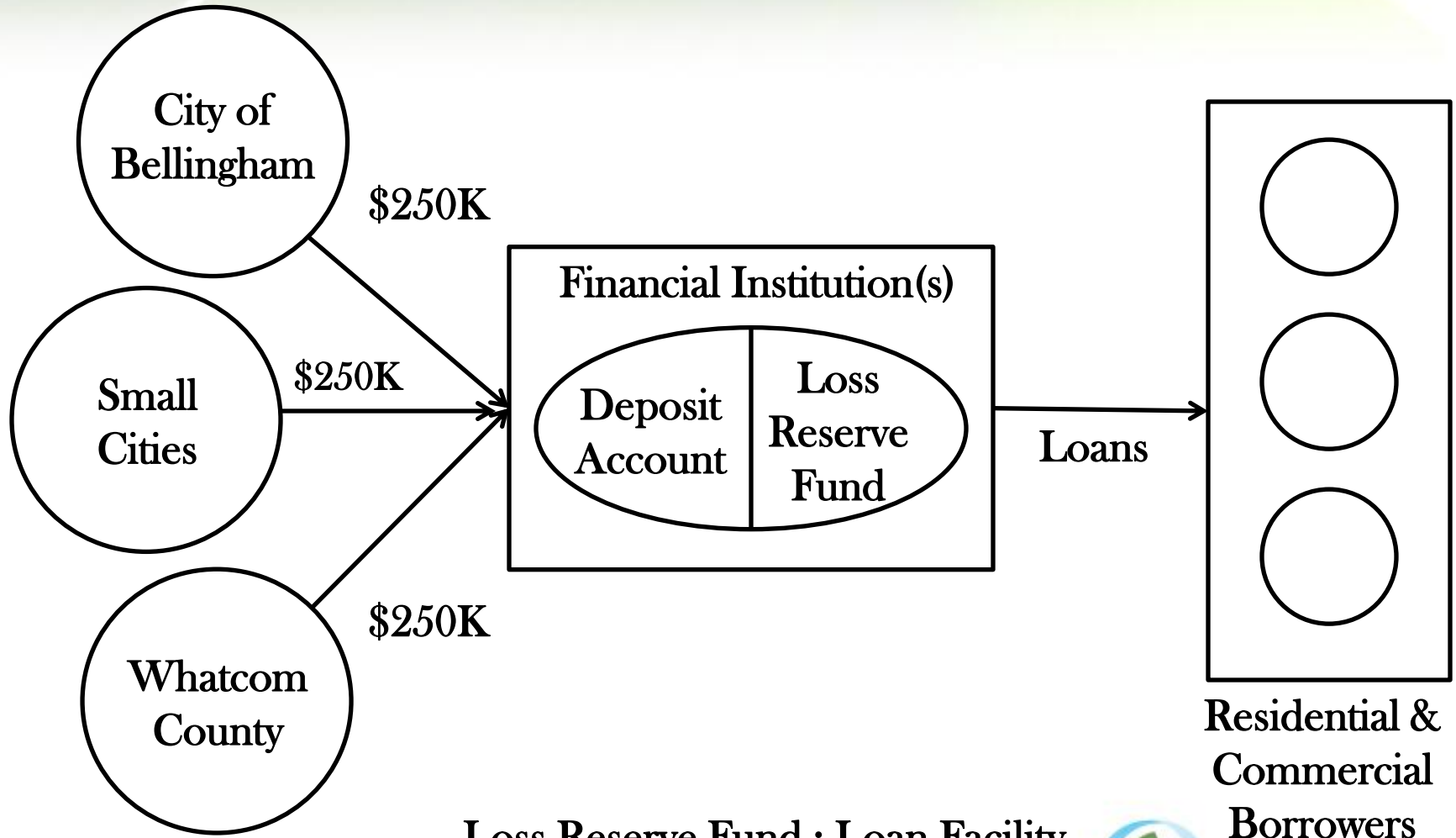
- *Residential* -- Loan programs combined with loan loss reserve; example: Bellingham, WA; applicable to small commercial. Also.
- *Non-profit sector* (healthcare, education, Y's, etc.) -- tax-exempt bond private placements; example: WA State Housing Finance Commission
- *Large Commercial* -- Utility on-bill collections & financing program; example: Seattle Steam Company
- *Public sector*: Tax-exempt lease-purchase; example: WA State Performance Contracting Program
- Qualified Energy Conservation Bonds (QECBs)

# Bellingham/Whatcom Co., WA:

## Loan Loss Reserves, with 3<sup>rd</sup> Party Lender

- “One stop shop”: program delivers project development services to homeowners through full project cycle
- Program uses City & County EECBGs and WA State SEP Credit Enhancement Grant for both
  - Loan Loss Reserve Fund &
  - interest rate buy downs
- Target single family residential & small commercial sectors
  - EE and RE (solar DHW & solar PV)
- RFP process conducted to procure FI Partner (Banner Bank)
- Program operational since May 2010

# Loan Loss Reserve Structure



**Loss Reserve Fund : Loan Facility**  
**\$750,000 : \$8.25+ million**

# Loan Loss Reserve Funds

- Provide partial risk coverage to motivate commercial FIs to offer EE/RE finance products
- Can be funded with ARRA monies (no guarantor is required)
- Cover first losses on a portfolio of EE/RE loans
- Take a “portfolio approach” to credit structuring
- As a % of total loan portfolio principal = 2-10%
- Achieve significant leverage of public funds
- Most commonly applied to single family residential and small commercial sectors

# LRF Goals & Impacts on Underwriting

Use of LRF can have the following results:

- Reduces required credit score
- Increases debt to income ratio
- Lengthens loan tenor
- Allows larger unsecured loans
- Increases or eliminates loan to value ratio
- Lowers required customer capital contribution
- Lowers interest rate

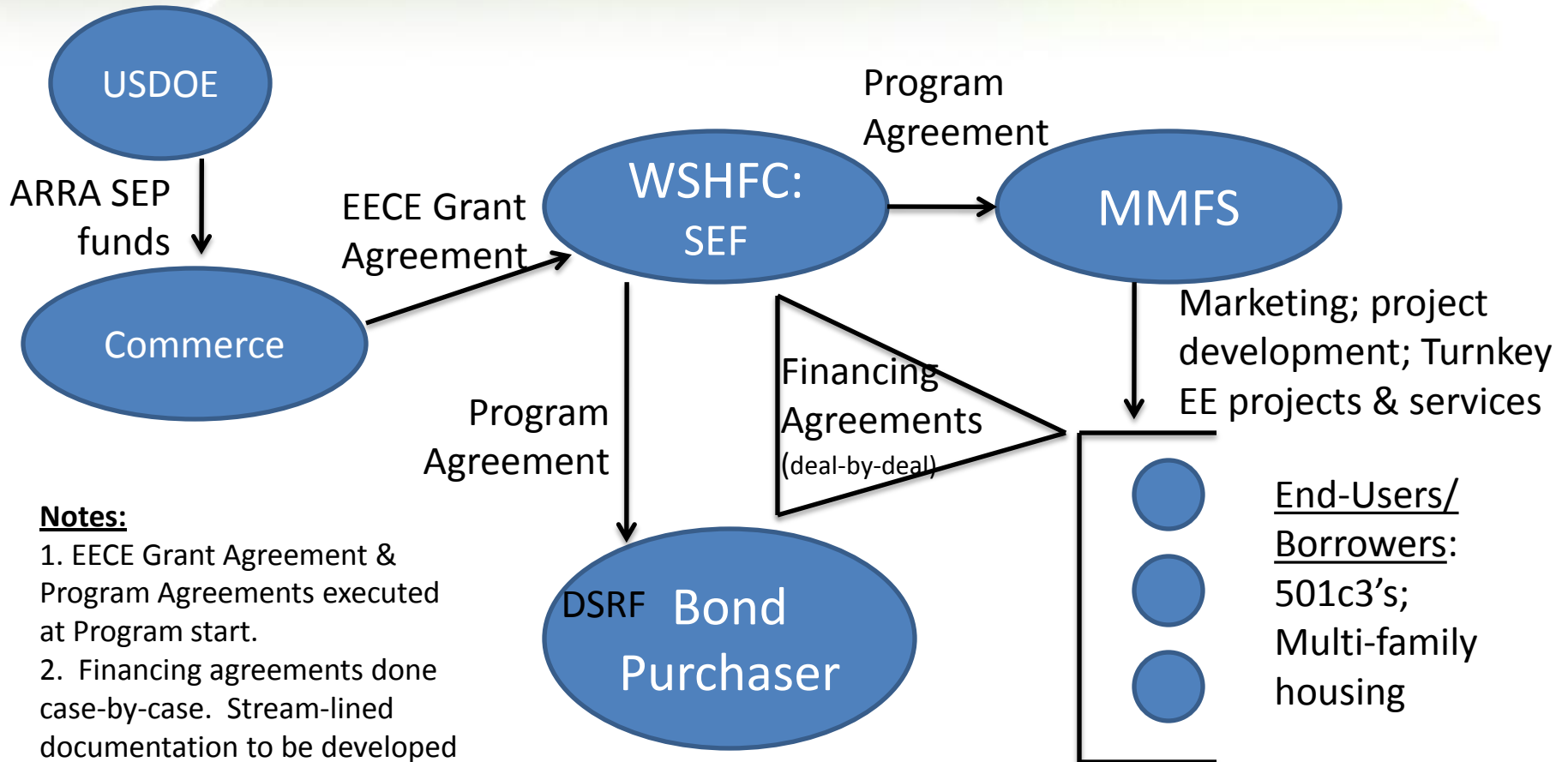
# WA State Housing Finance Commission

## Energy Efficiency Project Financing for Non-Profits

### Tax-exempt Bond Private Placement Program

- Financing for EE projects in the 501c3 and multi-family housing sectors, eligible for tax-exempt bond financing\
- In partnership with a local ESCO that will offers turnkey project development & implementation
- \$1 million State SEP grant used as debt service reserve fund
- Can finance up to \$10 million in projects; bonds are privately placed; bond proceeds to be lent directly to eligible borrowers
- Marketing will be done through existing portfolio, as well as through association partners

# WSHFC MMFS EE Finance Program Diagram



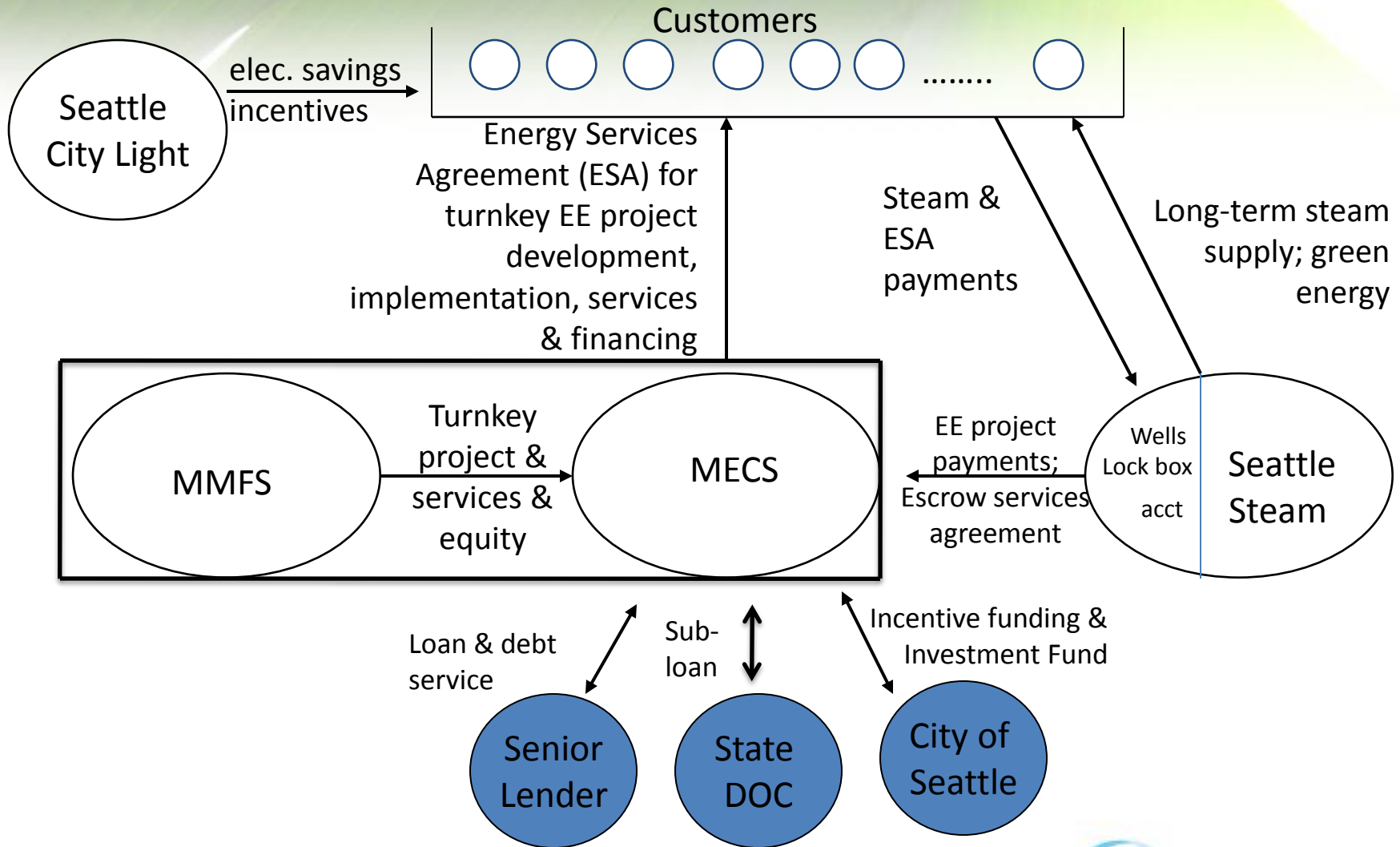
**Notes:**

1. EECE Grant Agreement & Program Agreements executed at Program start.
2. Financing agreements done case-by-case. Stream-lined documentation to be developed with bond counsel
3. DSRF can be deposited with Bond Purchaser.

# Seattle Steam Company Energy Efficiency Project Development & Finance Program

- EE investments for Seattle Steam Company customers on customer side of the meter
- MacDonald-Miller Facilities Solutions, Inc. provides turnkey project development, implementation & savings guarantees
- Customer signs Energy Services Agreement to make payments based on savings
- Customer payments collected on SSC steam bill
- ARRA funds used for subordinated debt financing, debt service reserve & carbon reduction incentives
- Scalable & replicable program

# Seattle Steam Company & MMFS: Energy Efficiency Project Development & Finance Program



# Tax-exempt Lease Purchase Financing for Energy Efficiency Projects in State & Local Government Facilities

- Typically 10 year tenors at fixed rates in the 4% +/- range currently; longer tenors possible
- Lease-purchase can be entered into expeditiously; includes “non-appropriations” clause; voter bond approval not required
- Eligible Borrowers: local governments and political sub-divisions; EE projects in publicly-owned facilities are eligible
- Local governments can do individual transactions or participate in State pooled lease/purchase program, e.g., in WA State

# Example: Washington State Energy Savings Performance Contracting Program

- Performance Contracting for Public Buildings provides: audits, project development, state-qualified ESCO, contract negotiation, energy savings verification
- State Dept. of General Administration, Engineering & Architectural Services Office runs program since 1986
- Provides project development services to State agencies & more recently to local governments
- Projects funded with State pooled lease purchase financing
- ESCO provides turnkey construction, services & savings performance guarantees
- Successful program model. Earns project development fee. Scalable.

# Qualified Energy Conservation Bonds

- Tax credit bonds; buy side of market opening up; several examples nationwide, e.g., Colorado, California
- Federal government pays 70% of the interest costs; effective interest rates in the 1.5-2.0% range
- Allocation to States & large local governments; \$3.2 billion total, lots of unused capacity
- Use of proceeds: at least 70% public sector projects; up to 30% for commercial or non-public projects
- Still must meet bond purchaser credit criteria

# Thank You!

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