

# Using Public & ARRA Funds to Leverage Private Capital to Finance Energy Efficiency Projects

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# Energy Efficiency Finance Corp.

EEFC is a financial advisory firm that assists its clients to design and implement energy efficiency and renewable energy finance programs that:

- Sustain funds over time
- Leverage private capital
- Innovate



# Credit Enhancement Overview

- Goals: pioneer new finance products, expand risk horizons, broaden access to finance, extend tenors, reduce rates
- Risk sharing: instrumental to support Financial Institution (FI) energy efficiency (EE) & renewable energy (RE) lending
- Credit enhancements can support a range of finance models: FI loan facilities, bond issues, utility on-bill financing, etc.
- Credit enhancement structures include:
  - **Loan Loss Reserve Funds**
  - **Debt Service Reserve Funds**
  - **Subordinated Debt Structures**

# Loan Loss Reserve Funds

- “Portfolio approach” to credit structuring
- Achieve significant leverage of public funds, e.g. ARRA and other grants
- As a % of total loan portfolio principal = 2-10%
- Cover first losses on a portfolio of EE/RE loans
- EECBG & SEP funds can be used for LRFs

# Bellingham-Whatcom Community Energy Challenge



## **Goal:**

How do we simplify the complex process of investing in energy efficiency for home and business owners?

# Community Energy Challenge Partners

- Non-profit Sustainable Connections
- Community Action Agency – The Opportunity Council & The Building Performance Center
- City of Bellingham
- Whatcom County
- City of Ferndale
- Banner Bank
- Investor Owned Utility – Puget Sound Energy and Cascade Natural Gas
- EEFC



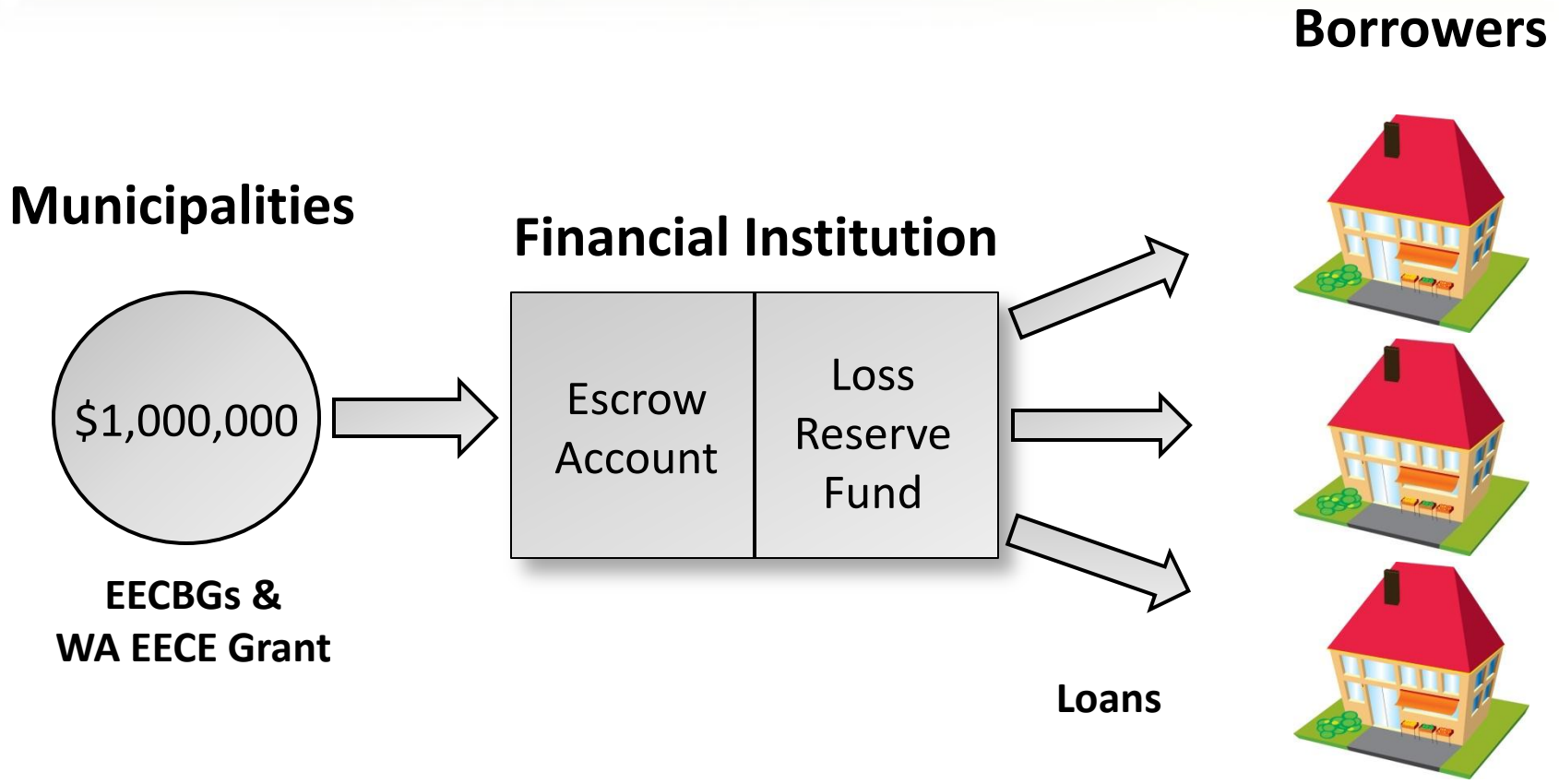
# Community Energy Challenge

- Use City & County EECBGs and WA State SEP Credit Enhancement Grant for LRF and interest rate buydowns
- **RFP** process conducted for FI Partner
- Implementing Agreements with FI Partner:
  - LRF Agreement: account definitions, risk-sharing formula, event of loss, recoveries, etc.
  - Program Agreement: marketing, loan origination

# Program Partners Offer “One-Stop Shop”



# Loan Loss Reserves Leverage Commercial Finance



Total Target Number of Loans:  
900 Residential & 75 Small Commercial

# Risk-Sharing Formula, Main Components

- Ratio of (A) LRF funds to (B) total original principal amount of Loans in portfolio.
  - A/B = first loss percentage
  - B/A = leverage ratio
- Share of first losses that LRF will pay, e.g., 90%
- Trade-offs among the leverage ratio, risk sharing formula, Loan security and access to finance

# Sample Budget & Risk-Sharing Formula Calculations

1	LRF ARRA grant budget	\$1,000,000
2	Grant funds for program development & operations	\$100,000
3	Net funds for LRF escrow account	\$900,000
4	"First Losses" as % of total original principal	5.00%
5	Share of first losses borne by LRF	90.00%
6	Share of first losses borne by FI partner	10.00%
7	Total lending that can be supported with this LRF risk-sharing formula	\$20,000,000
8	Average portion of EE projects paid by loans (homeowners/utilities/others cover the remaining 20%)	80.00%
9	Total EE Project Investment that can be supported	\$25,000,000
10	Leverage ratio #1 (LRF funds to total lending product size supported)	22.22
11	Leverage ratio #2 (LRF funds to total EE project investment supported)	27.78

# LRF

- Definition of Escrow Account
- Definition of the Reserve Account
- Definition of Loss & Event of Loss
- Interest on both the LRF and Deposit Accounts
- Disposition of loan loss reserve funds at end of Loan period
- Program Fees
- Reprogramming Funds in the Escrow/Reflow Accounts

# Potential Impacts on Underwriting Criteria

Use of LRF can have the following results:

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

# Washington State Housing Finance Commission

New program providing financing for EE projects in sectors that are eligible for tax-exempt bond financing:

- 501c3 Private Non-Profit
- Multi-Family Housing



**Virginia Mason Hospital**



**Seattle University**

# Washington State Housing Finance Commission (2)

- WSHFC is partnering with a local ESCO that will offer full project development and energy efficiency solutions
- \$10 million finance facility in the pilot phase
- Financing will come from private placement of tax-exempt bonds; bond proceeds to be lent directly to eligible borrowers

# SEP Credit Enhancement Grant

- WA Dept of Commerce awarded \$1 million grant for credit enhancement (ARRA SEP funds); grant funds will be placed in the WSHFC's new Sustainable Energy Trust Fund
- Grant funds will be used as a debt service reserve fund (DSRF) backing the bonds; other options being considered
- DSRF sizing: from 3-6 months debt service to as much as 10% of total bond financing
- Program marketing will be done by ESCO and to existing WSHFC and bond purchaser clients
- Program under development

# Energy Service Companies



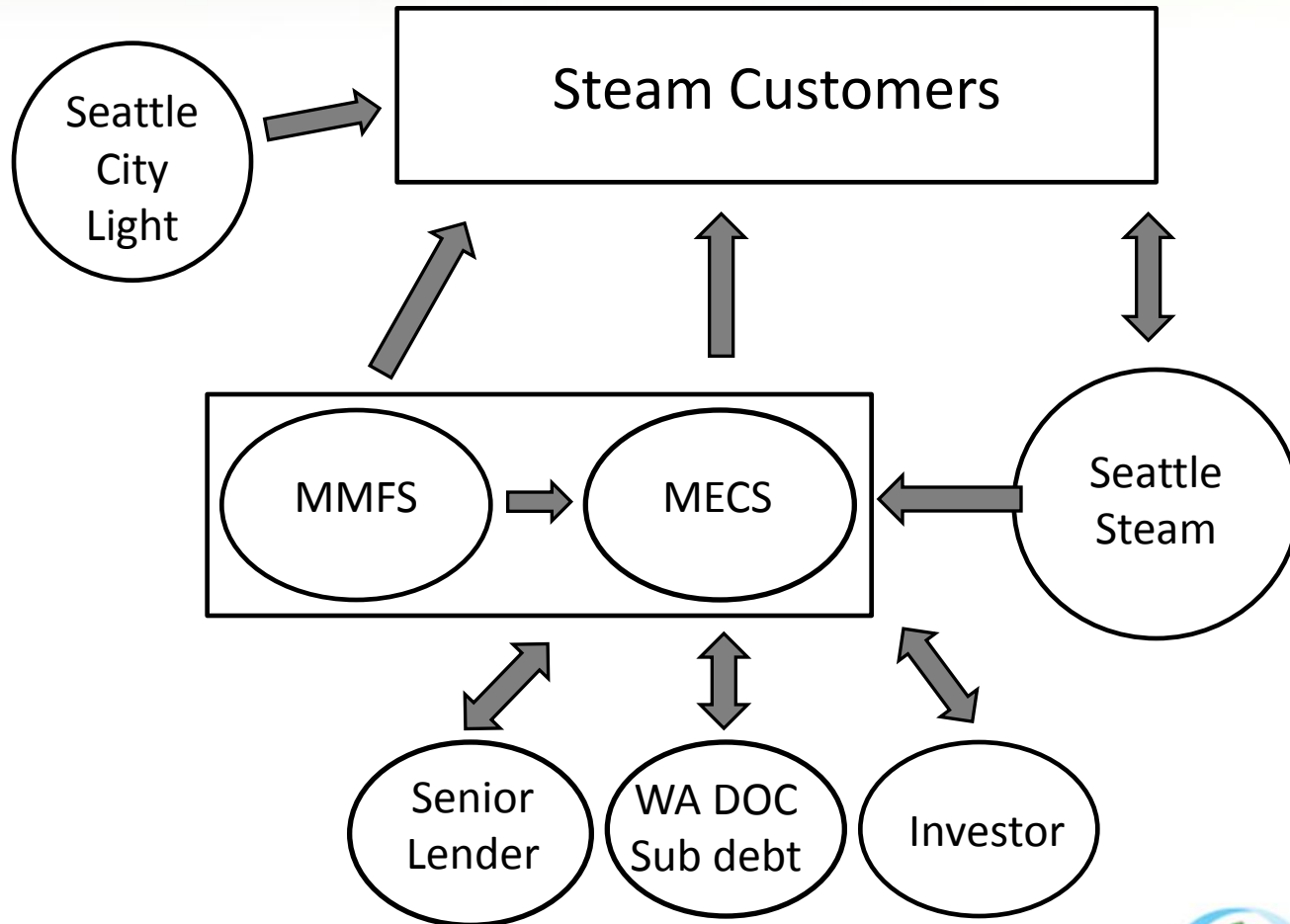
MacDonald Miller Facility Solutions provides turnkey energy efficiency project development services to commercial and non-profit clients in the Puget Sound region



# Captive Finance for ESCOs

- The innovation of the GMAC Model
- EEFC and MMFS have created a captive finance company; have agreement with Seattle Steam Company
- Finance company signs Energy Services Agreement with End-User(s)
- ESA payments are collected on steam bill and treated as an operating expense

# Seattle Steam & MacDonald Miller



# Commerce SEP grant

- WA Department of Commerce – provides a \$1.5 million subordinated loan from ARRA SEP grant and loan fund
- Additional funds included in City of Seattle USDOE EECBG grant award
- Allows for a blended interest rate that lowers cost to the borrower
- Sub debt improves debt service coverage ratio for the senior lender

# Thank You

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