Financing Energy Efficiency Projects:

<u>Blending ARRA Funds with Commercial Finance</u>

March 7, 2011

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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

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FINANCING MECHANISMS, by sector

Market Segment	Finance Structure	Types of Financial Institutions (FIs)
Residential		
Single Family	• loans, both secured and unsecured • ESCOs, for solar power purchase agreements	• commercial banks • credit unions • specialized non-bank FIs & CDFIs
Multi-Family	• loans, both secured and unsecured • tax-exempt bond debt possible for qualifying low-income housing • ESCO	• commercial banks • credit unions • leasing companies • bond purchasers
Commercial		
Small	• loan/lease are typical	• commercial banks • credit unions
Large (as well as industrial)	• loan/lease • Energy Savings Performance Contracting (ESCO) • QECBs possible • Tax-exempt industrial development bonds	• commercial banks • credit unions • specialized EE FIs • contractors/ESCOs • private equity investors
Institutional		
Government	• tax-exempt bond • tax-exempt lease • ESCO	• Tax-exempt & lease purchasers • capital markets transactions possible
501C (3)	• tax-exempt bond • loan/lease • QECBs possible	• Commercial banks • credit unions • bond purchasers • specialized EE FIs

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

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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)

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Bellingham/Whatcom Co., WA:
Loan Loss Reserves, with 3rd 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

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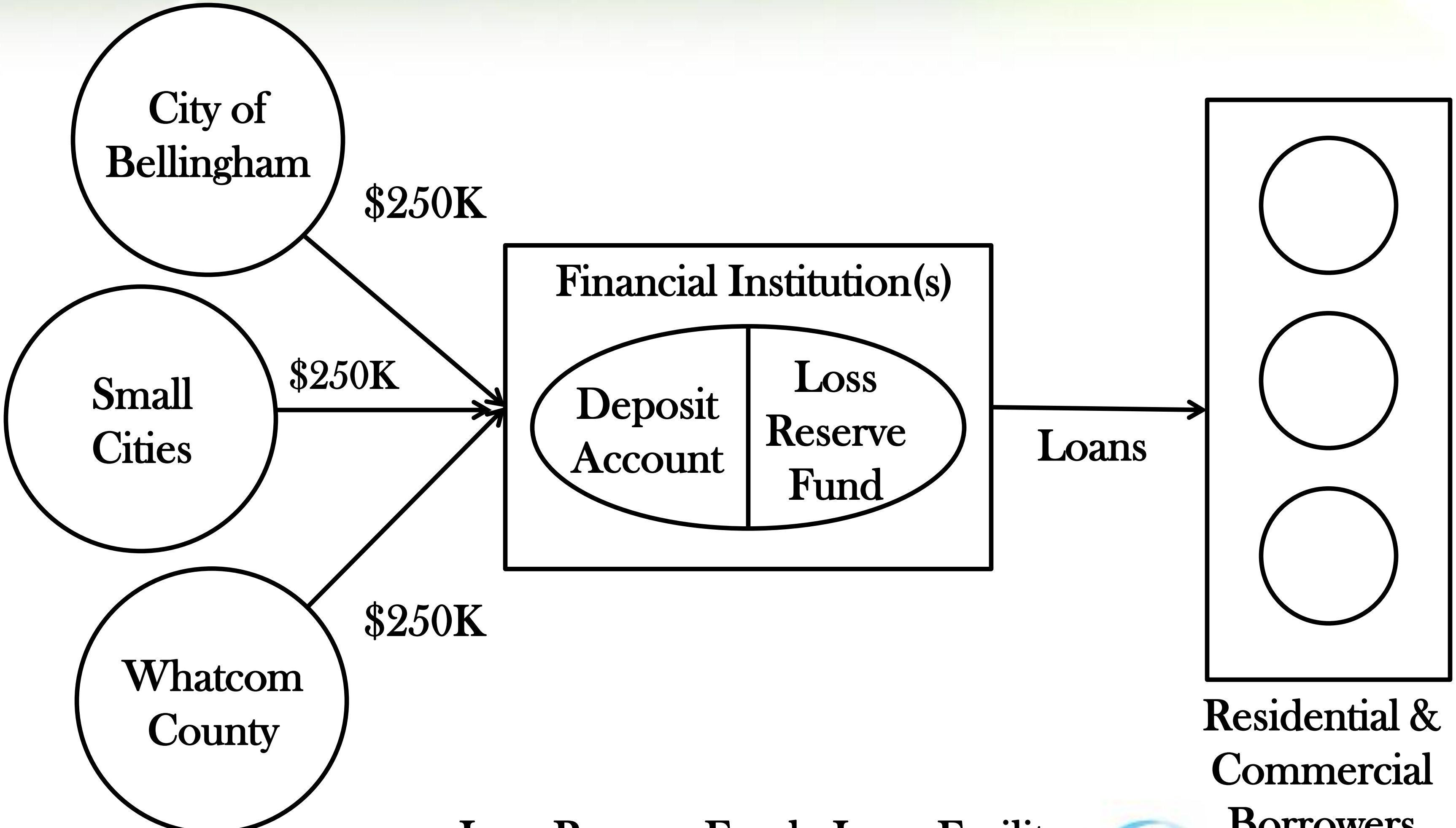
Loan Loss Reserve Structure



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

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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

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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 eliminate loan to value ratio
- Lowers required customer capital contribution
- Lowers interest rate

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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

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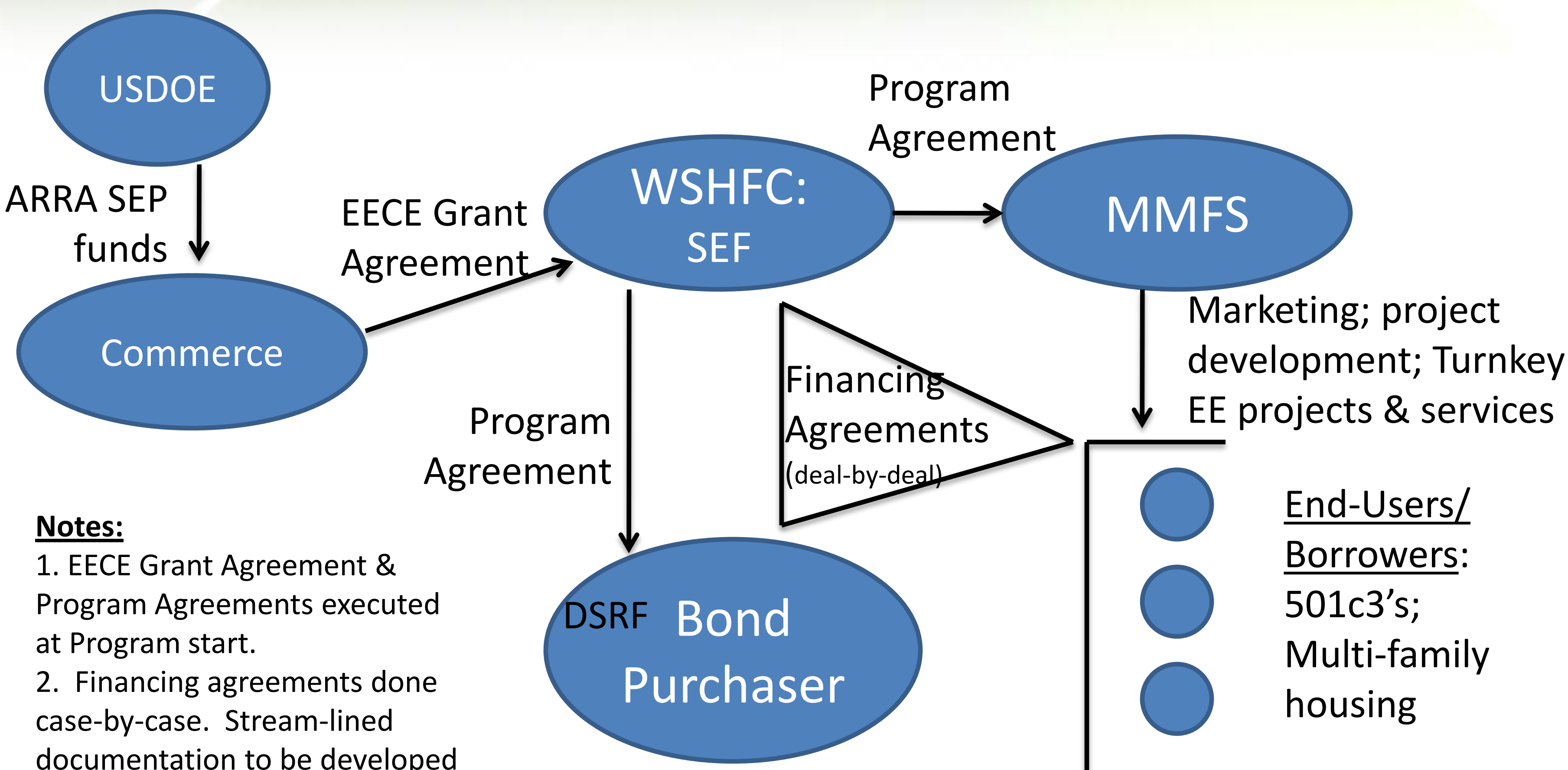
WSHFC MMFS EE Finance Program Diagram



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

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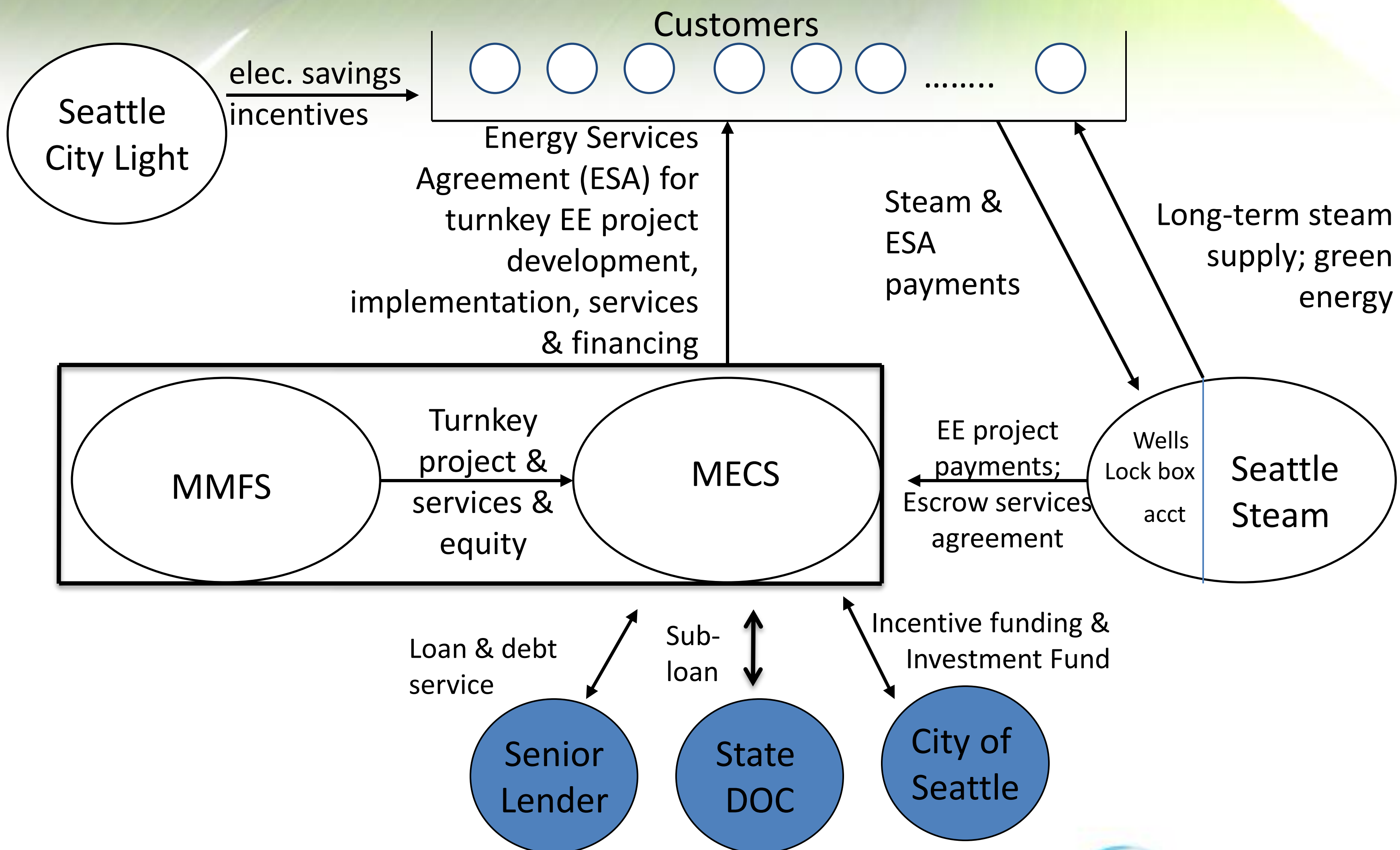
Seattle Steam Company & MMFS:

Energy Efficiency Project Development & Finance Program



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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

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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.

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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

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Thank You!

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