ALLIANCE TO SAVE ENERGY
Creating an Energy-Efficient World

The Business Council for Sustainable Energy

Energy Efficiency Financing

The Current Landscape and Where We Need to Go





About the Alliance

Mission:

To promote energy efficiency worldwide to achieve a healthier economy, a cleaner environment, and greater energy security.

Organization:

- Staffed by 60+ professionals
- 32 years of experience
- $12 million annual budget
- Recognized as the premier energy efficiency organization in the world





About the Alliance

- ***The Alliance to Save Energy promotes energy efficiency worldwide to achieve a healthier economy, a cleaner environment and greater energy security.***
  - Non-profit organization headquartered in U.S.; operations world-wide
  - Led by **Senator Jeanne Shaheen** and **Peter Darbee, President and CEO of Pacific Gas and Electric**
  - Includes 14 Members of Congress – Bi-Cameral; Bi-Partisan
  - Also includes environmental, consumer, and trade associations heads, state and local policy makers, corporate executives





About the Alliance

- Alliance Associates Program:
  - Sponsorship and participation of more than 160 organizations
  - Involvement by businesses in all economic sectors
  - Initiatives underway in research, policy advocacy, education, technology deployment, and communications





About the BCSE

- Formed in 1992, by a broad-based coalition of energy efficiency, natural gas and renewable energy industries
- Membership today includes about 60 companies and trade groups
  - power developers, equipment manufacturers, independent generators, green power marketers, retailers, carbon offset providers, and natural gas and electric utilities as well as several of the primary trade associations in these sectors
- Select members
  - Walmart, Johnson Controls, American Wind Energy Association, Alliance to Save Energy, Ingersoll Rand, Sempra Energy, PG&E, Sun Edison, Recycled Energy Development, Solar Energy Industry Association, North American Insulation Manufacturers Association





About the BCSE

- Mission statement
  - ***To advocate for energy and environmental policies that promote markets for clean, efficient and sustainable energy products and services.***
- The clean energy partnership
  - With the appropriate policies that expand the use of both renewables and natural gas and increase our nation's energy efficiency, the U.S. could reach its greenhouse gas emission reduction goals, reducing emissions by as much as 42 percent by 2030, while creating jobs and enhancing national security.





Agenda

I. **Welcome**
Lisa Jacobson, President, BCSE
Brad Penney, Director of Government Relations, ASE

II. **Overview and Context**
Jeff Genzer, Counsel, National Association of State Energy Officials (NASEO)

III. **Legislative and Legal Developments Regarding PACE**
Brad Penney

IV. **Congressional Action on PACE**
Tricia Russell, Legislative Assistant, Office of Representative Steve Israel (D-NY, 2nd)

V. **State & Local Efforts on EE Financing**
Malcolm Woolf, Director, Maryland Energy Administration

VI. **View from the U.S. Department of Energy**
Bret Kadison, Energy Technology Program Specialist, Office of Energy Efficiency and Renewable Energy, U.S. Department of Energy

VII. **Question and Answer Open Forum**
Moderated by Lisa Jacobson

VIII. **Closing and Next Steps**

Energy Efficiency Financing Overview

Jeff Genzer
Counsel
National Association of State Energy Officials (NASEO)
Duncan, Weinberg, Genzer & Pembroke, P.C.
1615 M Street, N.W., Suite 800
Washington, D.C.20036
(202) 467-6370
jcg@dwgp.com

ARRA

- The American Recovery and Reinvestment Act ("ARRA") provided funds to state and local governments for a variety of energy efficiency programs:
  - State Energy Program (SEP)($3.1 billion) – state energy offices
  - Energy Efficiency and Conservation Block Grant (EECBG)($3.2 billion) – local governments and state energy offices; including $450 million for competitive/Retrofit Ramp-Up
  - State Energy Efficiency Appliance Rebates Program ($300 million) – state energy offices
  - Weatherization Assistance Program ($5 billion) – state weatherization agencies.

Energy Efficiency Funding

- From the SEP and EECBG funds, between $900 million and $1.1 billion has been allocated to energy financing programs.
- The vast majority of these funds are for energy efficiency programs.
- Approximately, $150 million of this amount was originally allocated for PACE programs.

Energy Efficiency Funding, contd.

- State energy offices have been operating energy financing programs for decades. This is not new. Many programs began with oil overcharge refunds in the 1980s.
- Iowa initiated a school facilities program in 1986.
- Texas has had their “LoanSTAR” program for many years and they have now created the Building Efficiency and Retrofit Program.
- New programs include the Kentucky “Green Bank” for public buildings.
- Many states have issued bonds for energy efficiency programs.
- Go to the naseo.org website for other examples of state actions.
- Under ARRA, DOE must have funds under contract with the state and local governments by September 30, 2010.

Funding Allocation

- There is a great deal of pressure to spend the money quickly.
- States and local governments were thrown a curve ball with the decisions by Fannie, Freddie and various federal regulators that halted PACE efforts. From my perspective, it sure looks like this will be resolved in Congress or the Courts.
- States and local governments are making decisions on where to allocate funds right now. Approximately $2.5 billion of the $3.1 billion in SEP funds and over $1.5 billion of the $3.2 billion in EECBG funds are committed/obligated for specific purposes.

Why Are These Financing Program Decisions So Important?

- The ARRA funds must be "spent" by mid-2012. After that, many people expected funding for energy efficiency programs would come from sales of allowances under a climate bill's "cap and trade" scheme – that no longer looks very likely.
- What funds will be used to help support energy efficiency programs without climate revenue? The answer is, financing programs.
- If states or local governments put money into a revolving loan program, ARRA requirements mean that the money must be loaned out for the first time by mid-2012, but the money can be continuously recycled for energy financing programs into the future.
- With $750 million - $1 billion in SEP and EECBG funds allocated for financing programs, this is the major source of revenue to supplement and leverage private investment, state public benefit funds and tax credits or deductions.

What types of financing programs are out there?

- Revolving Loans
- Loan Loss Reserves – leverages more money than revolving loans by serving as "reserve" for financial institutions for bad loans.
- On-Bill Financing – Provides funds through utilities for the initial investment in energy measures so consumers do not have to put the money up-front. The investment is paid back over time through monthly utility bills.
- Bonds – Qualified Energy Conservation Bonds, revenue or general obligation bonds can support energy efficiency financing.
- DOE is supporting an extensive technical assistance effort to help states and local governments implement their programs. Bret Kadison will be speaking on that later in this webinar.

Secondary Markets for Energy Efficiency Financing

- The Pennsylvania Treasurer, in conjunction with the Energy Programs Consortium, is developing a new program that could serve to stimulate the secondary market in energy efficiency financing. For more information contact: Mark Wolfe of the Energy Programs Consortium (202-237-5199) (mwolfe@energyprograms.org).

What Role Can You Play?

- Encourage Congress to support energy financing programs (including PACE) and discourage any reallocation of ARRA funds.
- Work with the Administration and DOE to encourage support for energy efficiency financing programs.
- Contact your state energy office and your local governments (over 2,300 local governments and Indian Tribes received EECBG funds) and find out how they are conducting energy efficiency financing programs.

Legislative and Legal Developments Regarding PACE

Brad Penney

Director of Government Relations

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PACE Background

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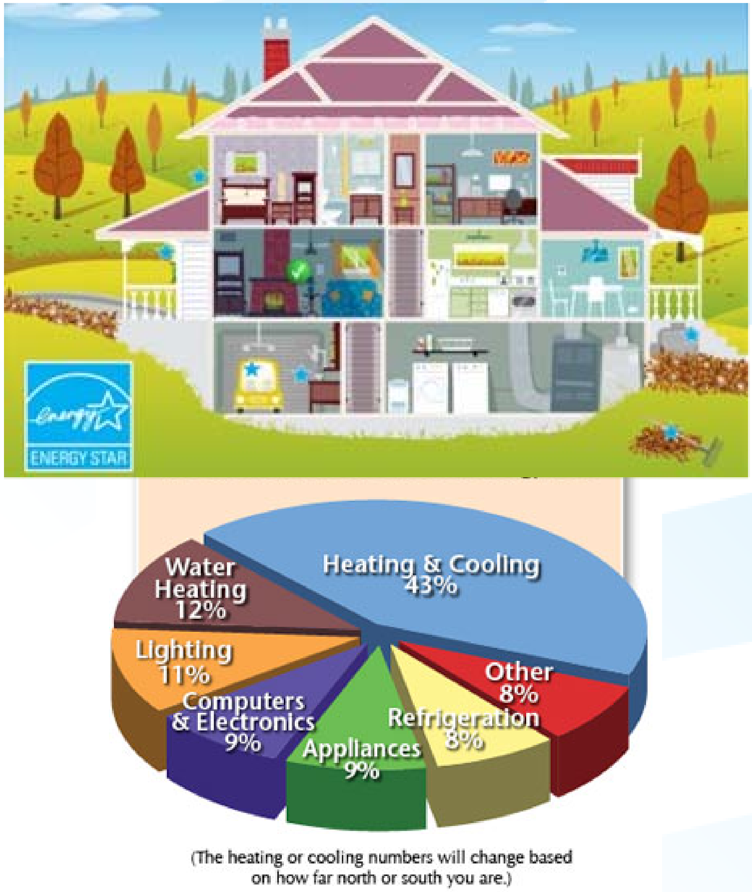
Advantages

- Effective financing tool for local governments
- Reduces major barriers in up-front costs for clean energy
- Large projects, long repayment: \$5K -\$15K, over 15-20 years

Process

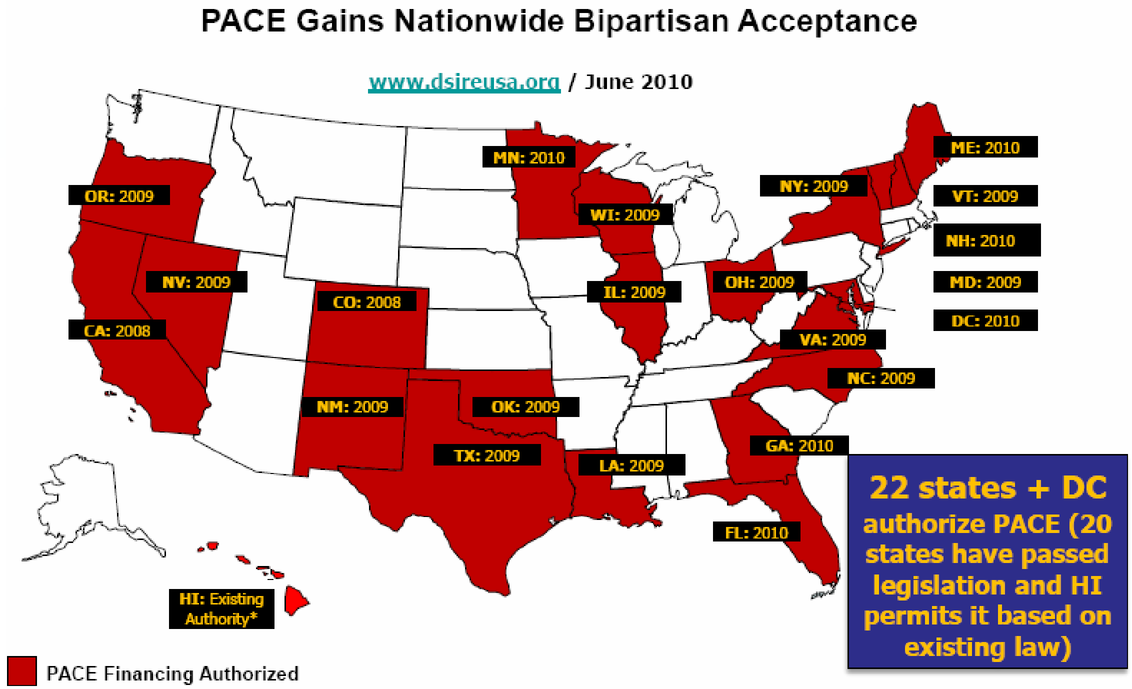
- Municipality issues bonds to fund projects
- Property owners repay the debt on the bond in fixed payments as a “special assessment” that is part of the property tax bill



PACE Background

Current Status

- More than 22 states have already passed PACE-enabling legislation
- Federal government can guarantee PACE bonds and help bring the interest rate down.



Source: pacenow.org

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PACE Background

What happened with Fannie and Freddie?

- Fannie and Freddie issued a statement on May 5th reminding lenders that PACE programs place a superior lien in the property, a practice they do not allow.
- Federal Housing Finance Agency supported the position in a July 6th statement.
- On August 31st, Fannie Mae and Freddie Mac issued additional lender requirements:
  - PACE loans issued prior to July 6th would need to be paid off prior to refinancing.
  - The lenders would not accept PACE senior liens issued after July 6th.

FEDERAL HOUSING FINANCE AGENCY

FHFA

STATEMENT

For Immediate Release
July 6, 2010

Contact: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376

FHFA Statement on Certain Energy Retrofit Loan Programs

After careful review and over a year of working with federal and state government agencies, the Federal Housing Finance Agency (FHFA) has determined that certain energy retrofit lending programs present significant safety and soundness concerns that must be addressed by Fannie Mae, Freddie Mac and the Federal Home Loan Banks. Specifically, programs denominated as Property Assessed Clean Energy (PACE) seek to foster lending for retrofits of residential or commercial properties through a county or city's tax assessment regime. Under most of these programs, such loans acquire a priority lien over existing mortgages, though certain states have chosen not to adopt such priority positions for their loans.

First liens established by PACE loans are unlike routine tax assessments and pose unusual and difficult risk management challenges for lenders, servicers and mortgage securities investors. The size and duration of PACE loans exceed typical local tax programs and do not have the traditional community benefits associated with taxing initiatives.

FHFA urged state and local governments to reconsider these programs and continues to call for a pause in such programs so concerns can be addressed. First liens for such loans represent a key alteration of traditional mortgage lending practice. They present significant risk to lenders and secondary market entities, may alter valuations for mortgage-backed securities and are not essential for successful programs to spur energy conservation.

While the first lien position offered in most PACE programs minimizes credit risk for investors funding the programs, it alters traditional lending priorities. Underwriting for PACE programs results in collateral-based lending rather than lending based upon ability-to-pay, the absence of Truth-in-Lending Act and other consumer protections, and uncertainty as to whether the home improvements actually produce meaningful reductions in energy consumption.

Efforts are just underway to develop underwriting and consumer protection standards as well as energy retrofit standards that are critical for homeowners and lenders to understand the risks and rewards of any energy retrofit lending program. However, first liens that disrupt a fragile housing finance market and long-standing lending priorities, the absence of robust underwriting standards to protect homeowners and the lack of energy retrofit standards to assist homeowners, appraisers, inspectors and lenders determine the value of retrofit products combine to raise safety and soundness concerns.

PACE Background

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What are the effects?

- Limited credit in entire PACE jurisdictions, even for those not participating in PACE.
- Existing PACE participants and PACE programs that do not place superior liens on property are exempt.
- Municipalities suspending existing programs and recommitting Recovery Act funding to other activities.

PACE Background

What can be done to save PACE bonds?

- **Legislation** in House (H.R. 5766) and Senate (S. 3642) would override objections of Fannie, Freddie and FHFA.
- **Litigation** filed by California Attorney General, Babylon, New York, the Sierra Club and others would oppose the authority of the agencies in municipal tax assessments.
- **Efforts are ongoing.** Rep. Steve Israel (D-NY) proposed a pilot program for 300,000 homes for PACE projects. This exceeds the number of homes currently participating.

Thank You!

Brad Penney

Alliance to Save Energy

bpenney@ase.org

www.ase.org

PROPERTY ASSESSED CLEAN ENERGY (PACE) FINANCING

Tricia Russell
Rep. Steve Israel's Office

- The key to catalyzing retrofit projects nationwide is financing that provides property owners with a robust return on their investment. Otherwise it won’t happen!

- Without those projects, we won’t trigger energy savings and create demand for energy efficiency and clean energy building technologies.

- PACE is an important component of a diversified energy financing toolset which our country needs.

What is unique about PACE?

- A PACE bond's proceeds are lent to commercial or residential property owners on a voluntary basis to finance energy retrofits (efficiency measures and small renewable energy systems). This provides interested consumers with another option to consider when planning retrofits.

- PACE can be issued by municipal financing districts or finance companies, which give consumers local accessibility. This has been a contributing factor to the growing grassroots support for PACE across the country.

- Repayment of the PACE financing is up to 20 years via an annual assessment on the owner's property tax bill. This is similar to financing for sewers and sidewalk infrastructure improvements.

- The PACE assessment is attached to and transfers with the property – not the property owner.

So Where Is PACE Now?

- The Department of Energy has awarded over $150 million in Recovery Act funding to support PACE programs nationwide. These funds were intended to help develop best practices for PACE and to demonstrate consumer friendly energy financing.

- Now, those funds are being reworked for other financing mechanisms as a result of Fannie Mae and Freddie Mac’s lender letters on PACE and FHFA’s opposition.

So What Happens Next with PACE?

- In response to this spring’s lender letters from Fannie Mae and Freddie Mac, Rep. Israel and other Members of Congress pulled the stakeholders together to work towards a solution.

- Rep. Israel suggested a 300,000 home PACE Trial Period. After dragging through the negotiation process, earlier this month Fannie, Freddie and the FHFA reaffirmed their opposition despite previously agreeing to work towards a solution.

- On the legislative track in the House, Rep. Mike Thompson of California introduced H.R. 5766, the PACE Assessment Protection Act of 2010 which has 48 cosponsors. Senator Boxer introduced an identical bill on the Senate side which has 5 cosponsors.

Federal Support for PACE

- Rep. Israel fought for language in the Climate Change Bill (ACES) that passed in the House that would allow the Department of Energy Loan Guarantees to be used to support PACE financing.
- However as that has stalled in the Senate, Rep. Israel introduced a stand alone PACE Bond DOE loan guarantee bill, H.R. 3836.

Follow Up

- Please support legislation to ensure that PACE programs move forward nationwide by asking your representative to cosponsor H.R. 3836 and H.R. 5766.

- Call your elected representatives in the House and Senate to ask them to stand up and fight for PACE financing.

State & Local Efforts on Financing

Malcolm Woolf
Director
Maryland Energy Administration

State & Local Efforts on Financing

- States run programs to promote affordable, reliable and clean energy.
- Maryland Energy Administration’s investment of $29M in FY11 will generate –
  - $86M in energy savings over life of measures
  - 412 jobs
  - 23,000 tons of CO2 avoided (equivalent to 4,420 cars off road)

Maryland's Experience with Traditional Revolving Loan Funds

- State Agency Loan Fund –
  - Zero interest loans to financing state building retrofits.
  - Since 1991, MEA issued over 60 loans totaling over $16M, with cumulative savings to date over $20M.
- Lawton Business Loans –
  - Low interest loans (2.5%) to businesses and non-profits
  - More than 50 loans to date, providing about $21M

EmPOWERing Financing

- Speed and Scale – to reach thousands of businesses and consumers, need financing mechanism to address up-front costs of clean energy investments
- PACE - Maryland dedicated $4M from ARRA to a Property Assessed Clean Energy (PACE) loan program
  - Numerous jurisdictions and financial entities interested
  - Abandoned based on concerns from Freddie/Fannie
- New strategy - unsecured consumer loans, with state providing a loan loss reserve fund
  - Easier to get out loans (don't need to coordinate with numerous localities)
  - Much higher interest rate (reduces ROI)
  - Significantly smaller scale due to credit restrictions

U.S. DEPARTMENT OF ENERGY | Energy Efficiency & Renewable Energy

FINANCING AMERICA'S ENERGY RECOVERY

LEVERAGING ARRA FUNDS FOR ENERGY EFFICIENCY FINANCING

Bret C. Kadison
Financial Market Development Lead
Office of Energy Efficiency & Renewable Energy
U.S. Department of Energy

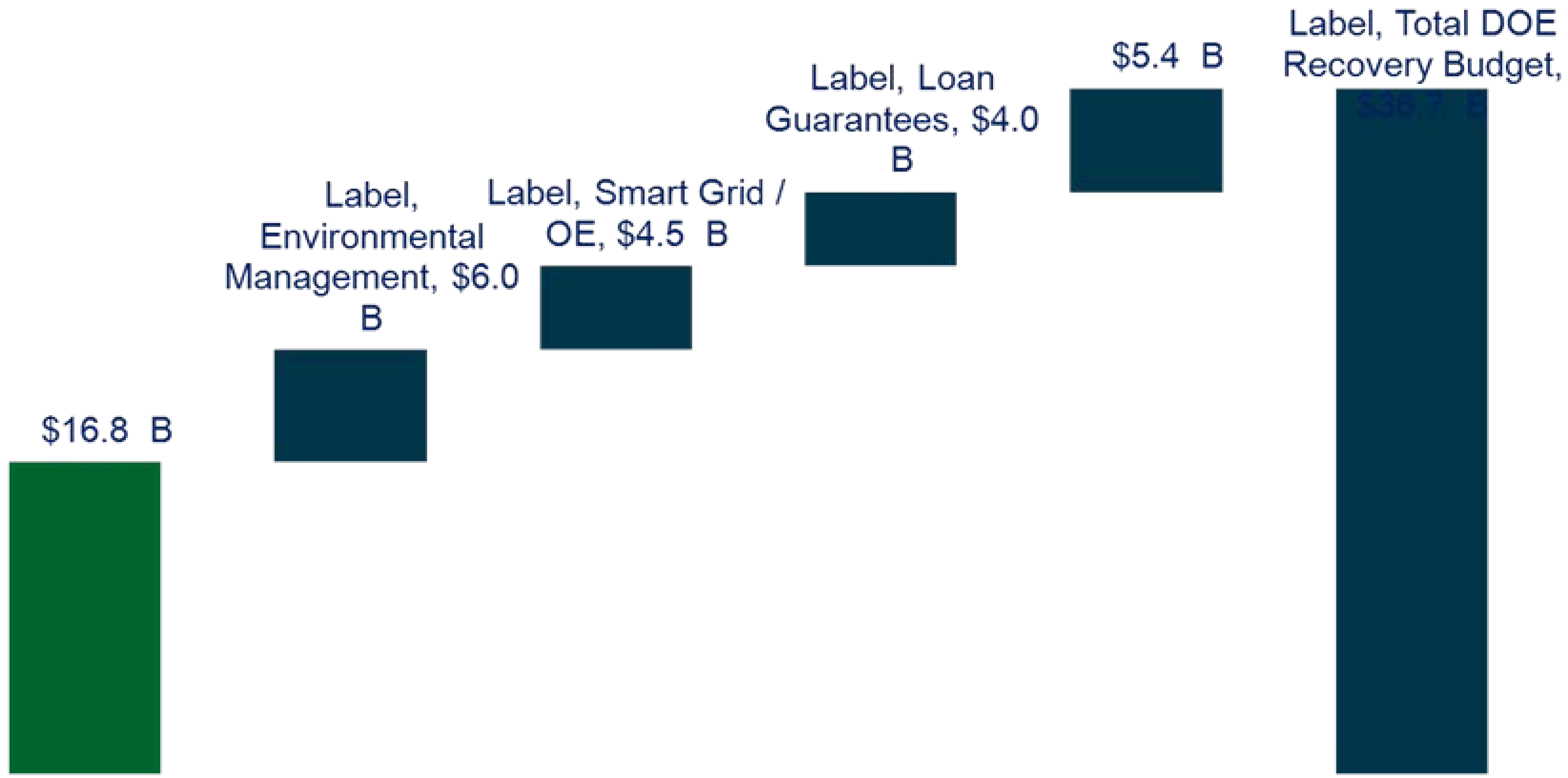
September 8, 2010

Agenda

- The Big Picture
- Sustainable Recovery Programs
- Secondary Market Development
- Financing Technical Assistance

Big Picture
Clean Energy & the Recovery

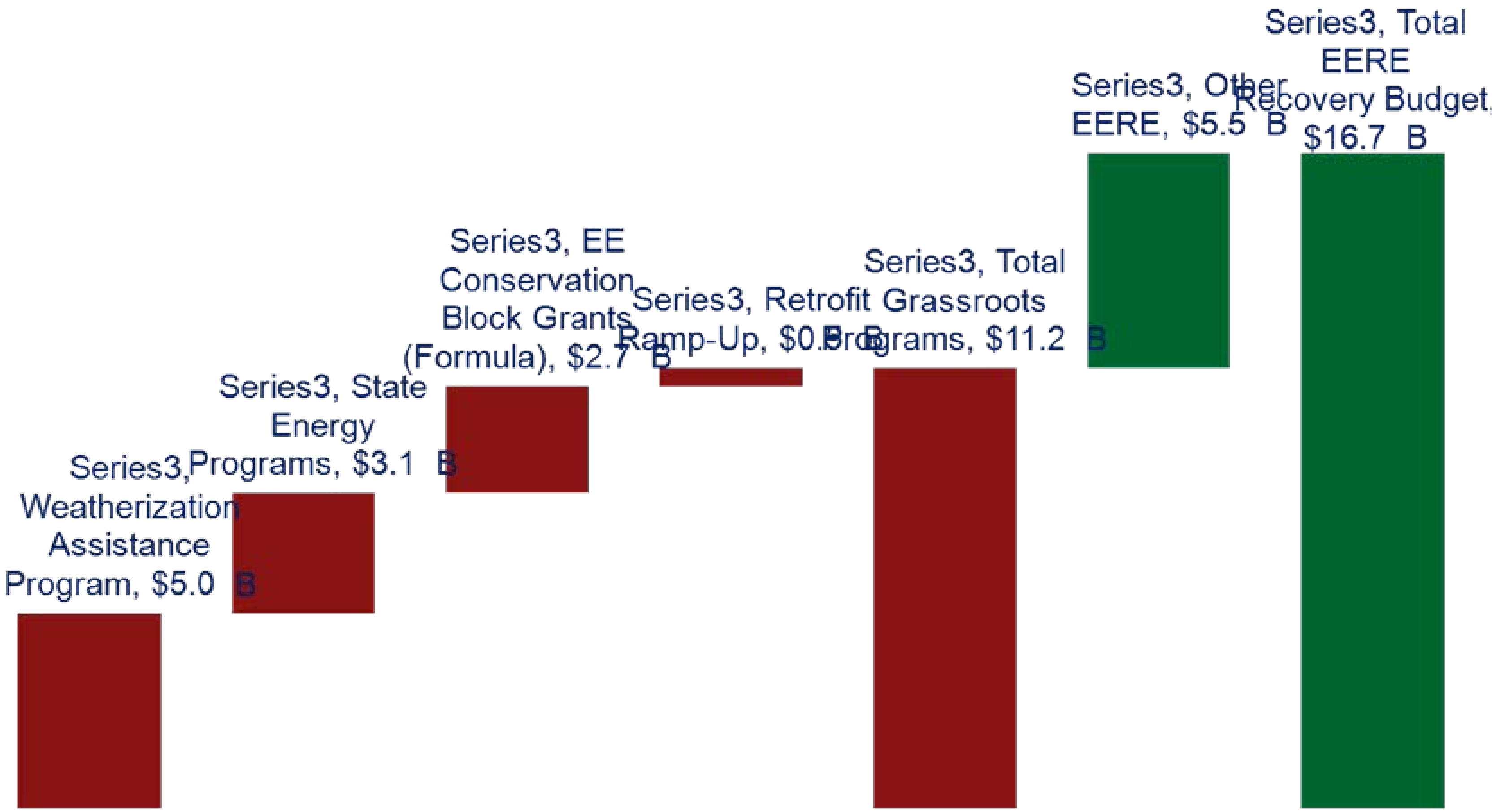
Department of Energy Recovery Act Budget



Source: American Recovery and Reinvestment Act of 2009. http://www.energy.gov/recovery/

Big Picture
Energy Efficiency & Clean Energy

Energy Efficiency & Renewable Energy Recovery Act Budget



Source: American Recovery and Reinvestment Act of 2009. http://www.energy.gov/recovery/

Sustainable Recovery Programs
ARRA-Supported Financing Mechanisms

Mechanism	Description
Revolving Loan Funds	• Loans are made to borrowers consistent with standard prudent lending practices. • As loans are repaid by the borrowers, the money is returned to the RLF to make additional loans. • In that manner, the RLF fund becomes an ongoing or "revolving" financial tool.
Loan Loss Reserves	• Loss reserves provide a liquid, immediately accessible source of cash to offset covered losses incurred by a participant. • Created at the outset or over time by assessing fees and other charges based upon activity level or other metric. • Typically protects a portfolio of loans against a limited amount of potential losses (but insufficient to cover large losses)
QECBs / New CREBs	• Qualified Energy Conservation Bonds (QECBs) may be issued by state, local and tribal governments to finance qualified energy conservation projects. • New Clean Renewable Energy Bonds (New CREBs) may be issued by public power utilities, electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments), and certain lenders to finance renewable energy projects. Bonds must be issued by October 27, 2012. • Issuer pays the investor a taxable coupon and receives a rebate from the U.S. Treasury.

Revolving Loan Fund

Texas's Loan Star Fund / Building Efficiency Retrofit Program

LoanSTAR Fund

Existing Program

- Finances energy efficient retrofits for state agencies, public schools, county hospitals and local governments
- Created with Oil Overcharge Funds in 1988
- Made 200 loans exceeding $300M over the life of the program
- Has 60 outstanding loans totaling $126M
  - Additional 20 are in the pipeline
- Favorable loan terms
  - Maximum loan amount of $5M
  - 3% Interest Rate
  - 10 year payback

Building Energy Retrofit Program

ARRA-Funded

- Builds on the success of LoanSTAR by doubling funds available to government facilities using $130M of ARRA funds
- Enables state to fund projects on even more favorable terms
  - Increased maximum loan size to $10M
  - Decreased interest rate to 2%
  - Lengthened payback period to 15 years if over 10% is used for renewable DG
- Already received applications for over $60M in loans

As loans revolve, ARRA funds will help Texas continuously fund energy investments that deliver taxpayer value

Loan Loss Reserves
Michigan Saves

- Use of ARRA Funds
  - Michigan Saves provides 5% loss reserve
- Capital Source
  - A local bank provides loan capital
  - The local bank owns the loans and has access to loss reserve.
    - No plans currently to access secondary markets
- Terms
  - Loan terms out to 10 years for larger loans
  - Unsecured loans
  - Generally higher FICO scores
- Administration
  - Central loan origination through a national company that processes all phone and online applications
  - Local bank performs loan servicing and collection.

New CREBs / QECBs
Overview

QECBs	• Qualified Energy Conservation Bonds (QECBs) may be issued by state, local and tribal governments to finance qualified energy conservation projects. A minimum of 70% of a state's allocation must be used for governmental purposes, and the remainder may be used to finance private activity projects. • Qualified projects are defined broadly (detailed discussion to follow). Examples of qualified projects include energy efficiency capital expenditures in public buildings, green communities, renewable energy production, various research and development, efficiency/energy reduction measures for mass transit, and energy efficiency education campaigns. • The United States Treasury (U.S. Treasury) allocated $3.2 billion to states according to population. There is no statutory deadline for eligible public entities to issue QECBs. • QECBs were originally structured as tax credit bonds. However, the March 2010 HIRE Act (H.R. 2847 (Sec. 301)) changed QECBs from tax credit bonds to direct subsidy bonds similar to Build America Bonds (BABs). The QECB issuer pays the investor a taxable coupon and receives a rebate from the U.S. Treasury.
New CREBs	• New Clean Renewable Energy Bonds (New CREBs) may be issued by public power utilities, electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments), and certain lenders to finance renewable energy projects. • Qualifying technologies are generally the same as those eligible for the federal renewable energy tax credits. (i.e., solar, wind, biomass, solid waste, hydro, etc) • Treasury allocated $2.4 billion on a competitive basis. Bonds must be issued by October 27, 2012. • CREBs were originally structured as tax credit bonds. However, the March 2010 HIRE Act (H.R. 2847 (Sec. 301)) changed CREBs from tax credit bonds to direct subsidy bonds similar to Build America Bonds (BABs). The issuer pays the investor a taxable coupon and receives a rebate from the U.S. Treasury. • The net coupon payment is the lesser of the actual taxable rate or 70% of the Tax Credit Rate, established daily by the U.S. Treasury.

Financing Infrastructure

Secondary Market Development

- Creation of a secondary market is critical to providing the liquidity needed to attract private lending
- Lending to low-risk consumers yields in a more favorable risk-return profile and drives lower interest rates
- Successful deployment of this market can drive secondary markets for other segments and risk tiers

Implementation Partnership
Financing Technical Assistance

- Over 100 Grantees engaged in tailored technical assistance on financing programs

- Webinars produced and shared on developing finance, marketing, and workforce development programs

- Playbook for Finance Programs developed for grantees to access the latest information

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The Business Council for Sustainable Energy

Question and Answer Segment

To ask a question, click the Q&A tab at the top of your screen, write your question in the box below, and click "ask." We will address as many questions as time allows.





Thank you for participating.

Please direct follow-up questions to:

Carol Guest (cguest@ase.org)

Jack Thirolf (jthirolf@bcse.org)