NASEO State Energy Financing Committee Call
Thursday, May 2, 2013; 3:00pm-4:00pm ET

Attendees

Alabama Energy Division
ASHRAE
Building Performance Institute
Cadmus Group
Chevron Energy Solutions
Energy Programs Consortium
Environmental Protection Agency
Georgia Environmental Finance Authority
Harcourt Brown & Carey
Iowa Energy Division
Maryland Energy Administration
Michigan Economic Development Corporation
Missouri Division of Energy
National Association of State Energy Officials
NYSERDA
Oklahoma Office of Community Development
Oregon Department of Energy
U.S. Environmental Protection Agency
Virginia DMME Energy Division

Announcements

Jeff Pitkin, NYSERDA Treasurer and NASEO Financing Committee Co-chair, opened the call and gave an overview of the agenda. He called on Sandy Fazeli, NASEO Financing Program Manager, to announce NASEO's new website and Financing webpages. She went over the new layout of the website and instructed committee members to navigate the tabs on the Financing committee webpage (http://naseo.org/committee-financing) to access resources, the State Energy Loan Fund database, and past meeting notes. If you need assistance locating any items, please email sfazeli@naseo.org.

Presentation: "Assessing the Jobs Impacts of Clean Energy"

Al Christopher, Virginia Energy Division Director and NASEO Financing Committee Co-chair, introduced Denise Mulholland, Senior Program Manager for the U.S. Environmental Protection Agency (EPA). Ms. Mulholland described the multiple benefits of clean energy investments and initiatives and provided an overview of EPA resources that assist energy offices in estimating these benefits, particularly as they relate to economic development and job creation. Chapter 5 of EPA's report, *Assessing the Multiple Benefits of Clean Energy: A Resource for States*, offers a framework for evaluating the costs and benefits of clean energy (summary available here). Ms. Mulholland explained a range of methods to estimate how clean energy affects changes in the economy (in terms of the flow of money, goods, services, and jobs) and highlighted ways that the EPA can provide assistance to states in selecting and carrying out these methods. Ms. Mulholland's slides are available on NASEO's Financing Committee page.

Presentation: "Michigan Economic Development Corporation Programs"

Mr. Christopher next introduced representatives of the Michigan Economic Development Corporation (MEDC): Mike Flanagan, Manager, Equity Capital Programs; Antonio Luck, Senior Portfolio Manager; and Robert Jackson, Manager, Michigan Energy Office. MEDC operates a wide range of financing and investment initiatives, including lending, bond, equity capital and fund-of-fund programs.

Mr. Flanagan began by discussing the evolution of MEDC's funding model: where it once was sector-specific and driven by public sector decision makers, it now is agnostic with respect to industry and stage of development, and investment decisions are now made and executed by private sectors working in partnership with the state. Over the past decade, the state has become proactive in making venture capitalists; today, MEDC has close to 40 funds with approximately $5 billion in assets. He described

MEDC's investment and lending programs with respect to their stage of development in the capital lifecycle. (A schematic of the placement of MEDC programs within the capital lifecycle is available on Slide 2 of MEDC's presentation.) Notably, these programs are designed to form a continuum of capital to spur innovation, research, development, and deployment within the state.

Mr. Flanagan explained the program development criteria that has driven MEDC's investment programs. These include the ability of the program to address market inefficiencies, achieve public benefits, structure limited state dollars to achieve leverage, and engage private sector actors to deploy the capital. He highlighted the unique approach of MEDC's fund-of-funds, the 21st Century Investment Fund and Venture Michigan Funds. The state contracted with Credit Suisse, a professional fund manager, to recommend specific firms to receive state investments; in exchange, Credit Suisse established offices in the Michigan to attract investment and employment opportunities in the state.

Mr. Luck next described the Venture Match Fund, which is part of MEDC's early-stage venture funding program, requires that companies submit a venture capital term sheet as part of their application for funds; if selected, MEDC serves as a matching partner for up to $500,000. He also explained MEDC's efforts to change loans into convertible notes or equity. He encouraged energy offices to consider using a new instrument, convertible equity, which (unlike convertible debt) does not affect the company's balance sheet.

Mr. Jackson discussed MEDC's debt and loan programs for energy efficiency and renewable energy, including the Michigan Energy Revolving Loan Fund Program established in 2009. The Michigan Energy Office, which is housed within MEDC, works with high-risk, high-impact, and underserved customers that do not have a close relationship with a bank or other capital provider. To this end, the energy office structures loan offerings to loan terms between 36 months and 6 years, and has established a loan loss reserve fund that supports a $24 million loan program for multifamily residential buildings.

Question and Answer

Q: Virginia's Commonwealth Energy Fund uses a similar loan-to-equity model for early stage companies. When does MEDC typically expect companies to pay back the loan or achieve a return on investment?
A: Generally, MEDC expects a 5-10 year return. However, even within the energy sector, the range of technology is broad and may entail a single product, software, or process—each of which implies a different level of investment and cash flow. The philosophy of MEDC is to take on equity investments if there is a clear exit strategy to pull state involvement from the company; otherwise, it may be a wiser decision to issue a loan.

Q: How can we contact MEDC with further questions?
A: Contact information for the MEDC speakers is as follows:

- Mike Flanagan: flanaganm@michigan.org
- Antonio Luck: lucka@michigan.org
- Robert Jackson: jacksonr1@michigan.gov

Session Close and Action Items

The next Financing committee call is scheduled for July 11, 2013, at 3:00pm ET.

Financing Committee members are encouraged to contact sfazeli@naseo.org with questions or comments about the committee or with ideas for future presentations.