State Financing Task Force Call
Thursday, November 4, 2010
12:30-1:30pm EST

Moderator
Jeff Genzer, NASEO General Counsel

Attendees

Elizabeth Bellis, EPC	Trish German, SC	Jeff Genzer, NASEO
Jeff Pitkin, NY	Brett Johnson, CO	David Terry, NASEO
Jennifer Wilson, GA	Jack Osterman, NE	Kate Marks, NASEO
Kathy Hornsby, AL	Ashlie Lancaster, SC	Chuck Guinn, NASEO
Rob Mock, MO	Dan Bresette, MD	Diana Lin, NASEO
Joanne Morin, NH	Amy Butler, MI	Garth Otto, NASEO
Bruce Greiner, IA	Ted Peck, HI	

Introduction
David Terry: There are many financing activities going on around the country. NASEO is working to bring coordination to these efforts, and share stories among states in a way that all the states can benefit. We greatly appreciate the states' time and contribution.

Jeff Genzer: 36 states and territories have financing programs in place and we're coordinating with DOE to catalog these programs. We do not expect additional sources of funds for energy offices and local governments in financing activities; these ARRA and other financing programs will be the funds available in the out-years through 2012.

Update from Jeff Pitkin, New York
NYSERDA has been working on a statewide EE program (Green Jobs Green New York) that resulted from October 2009 legislation that provided initial funding through regional GHG auction proceeds.

- Looking at using QECB structure to support effort to have cheaper source of funding to support these loans.
- Issuing QECB bonds under the Green Communities program to finance loans for EE for homeowners, small business and multi-family buildings.

One of the issues is that there are arbitrage restrictions that limits the amount of earnings you can earn – the federal government doesn't allow states to make money under the issuance based on federal funds. Good news for the consumers because there will be an attractive interest rate, but the bad news is that there's a one-stop approach that funds initial amount of loans, but doesn't create a recurring set of funds.

- Q: What is the length of bond terms?
- A: The U.S. Treasury resets bond terms regularly. I believe the current term limit is 17 years. Normally if you were going to do a bond issuance, you'd expect to be matching the term of bonds with the term of underlying loans.

- Q: What amount of funds are you currently using to buy down the interest rate to 4%?
- A: Without a QECB structure, NY believes their unsecured loans bond rating (master trust structure) could support issuance at an A rating. For residential loans, the term would be 12 years. Spread then would be about 300 basis points or 3%; yield then 2.7%, so total 5.7% (cost of money). Cost of originating and servicing loans, getting to end cost of 7 or 8%. We're expecting

to set an interest rate of 5.99%, so difference between cost and interest rate on underlying loans was what we were preparing to subsidize. QECB dramatically reduces the cost. We will use the state's $20 million QECB allocation, and also conduct outreach to the local governments that they can revert their allocations to the state, which will benefit everyone.

- Q: In terms of reversions from cities and towns to the state, isn't there an assumption that reversion would be within those counties and towns?
- A: NY is anticipating this and is prepared to earmark funds for a period of time and then after that, it will be first come-first serve.

- Q: Is there a 20% reduction in energy use requirement?
- A: No, that only applies to public buildings, but there isn't a target specified in the green communities program.

- Q: Does NY have a residential and commercial loan program? Building off of this or starting new?
- A: Yes, NY has loan program, but one is using Fannie Mae financing product, which offers an unsecured loan of up to 10 years, with a 14% interest rate. We are offering a different product with a rate of 5.99% percent. NY is going directly to capital markets to acquire private capital to fund these loans. Working with initial Fannie Mae lender, but after a period of time, will open to other financial institutions to originate loans.

Update from Brett Johnson, Colorado

Colorado has gone about QECBs in a couple of ways – were under the same large local allocation requirements.

- The state received $50 million and had legislation that if the funds weren't used by November of 2009, that they would automatically revert back to Governor's Energy Office.
- The initial larger local entities that received an allocation were too small, so the state ran a competitive solicitation to reallocate $39 million of unused QECB funding.
- With outreach throughout the banking, ESCO and municipal communities, QECB applications were oversubscribed (received $120 million in applications).

Since then, the state has had 8 QECB pricings (after tax credit structure to a super-BAB bond structure). States' average net interest cost after the reimbursement has been about 1.9%. It has been a way to show different kinds of public finance: capital leases to general obligation bonds and revenue bonds, but the demand is greater than what the state has available. We've done an audit and it looks like there will still be a balance of $10-15 million available. They plan to solicit for private applications of QECBs - hope to show a wide use for these and also prove that there should be future allocations of QECBs.

Municipal finance - there's still the political side of this. The city council or commissioners decided not to move forward with financing even after audit; there wasn't always 100% approval. Part of the award letters spelled out milestones in order to use the QECB allocation. The state is poised to make a second reallocation process for projects that weren't approved fully.

Ultimately, a large portion of the solicitation had a large amount of state agency requests to use the funds (at least $60 million):

- State saw a greater benefit in making smaller allocations to local entities because there's a more significant impact to those entities as opposed to a state aggregated financing.

  - They worked with state treasury to design and push through a bill that would allow for a COP transaction for up to $80 million of projects in a way they could use another bond mechanism (recovery zone economic development bond) in which they saw a tremendous value to locals and as aggregated, there was less of a value.
  - At the time, there was a market for $50 million COP bond, but the mission of what they've shown is that there's a broad and large use for QECBs.

- Q: The private applications – if those are awarded, will they be funded under the green communities purpose?
- A: It's possible that some applicants may be interested in using the green communities designation.

Update from Ashlie Lancaster/South Carolina
SC developed a volume cap advisory council to take care of the process of determining which communities were going to utilize their QECB and other bond allocations, as well as plan a process at the state level to reallocate unused state level funds. SC also tracked private activity caps on bonds.

The allocation authority at the energy office is based on ConserFund revolving loan fund. The state has received applications for reallocation and have only reissued a total of $4 million back to Greenville for a performance contract.

- Q: When it got to the point of requiring the allocation to come back to the state, what authority did the state rely on to do this?
- A: There's nothing to require it, but they didn't want the bonds to just sit out there, and since there's been no push back, they moved forward.

In Maryland, there's an executive order that had to stop with forcing allocations to come back to the state. There was an opinion somewhere along the line that the reallocation back to the state could be encouraged, but could not be forced. Michigan was able to have it suffice with a letter. In a lot of cases, the community's legal counsel is telling them not to give back the allocation because they don't expire. And in Michigan, the attorney general said you could not force allocations (because there was no expiration on these funds).

In NY's communications with local governments, they're reminding them they were authorized under ARRA and are strongly encouraging them to put plans in place to use or revert to avoid subsequent take-back authority.

Hawaii is going to enter a bill for a multi-purpose loan fund. Want to use the state's power to float bonds and to integrate the tax credit they give for EE and RE, so looking for ideas on structuring a program that allows them to do multiple vehicles and make the best use of funding. They are looking for help in doing this. Ted should email Diana Lin and suggest dates/times for a call to connect states that have been involved in these financing programs for advice.

National Recommendations
The task force will be asked to develop a national set of recommendations on financing in the following categories: 1) federal legislation; 2) federal administrative action that would not require legislation; 3) model state programs or practices at state and local level.

Hawaii tried to do a PACE bill last session and alerted banks to their presence. There's an opportunity to alienate or bring along banks. Creating state mechanisms is something the financial community could push back against – how have financial institutions reacted to state-run programs?

- In Michigan, since banks didn't want to loan money anyways, they found that credit unions and CMFAs have been involved, but not public or private banks.
- In New York, the discussions with banks suggest they may warm up to their involvement. Banks are concerned about state programs competing with them.
- In Nebraska, the state's plan leverages bank loans by participating as a passive investor. State drives the interest rate down and continues to expand program to new technologies, so they've never had a program with the lenders. Jack and Ted will connect.
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Next Steps

- Next Call: Friday, December 3, 12:30-1:30pm EST (this is tentatively scheduled and subject to change). Details will follow as they become available.
- The NASEO SELF database and State Financing Energy Resources page are ongoing efforts; please submit any financing resources, RLF samples, and/or other documents to Garth Otto (gotto@naseo.org) to post.