NASEO State Energy Financing Committee Call Notes
Thursday, June 7, 2012; 3-4pm ET

Attendees:

Georgia	SAIC – FL PACE Program
Efficiency Maine	NASEO
Virginia	Cadmus
Kentucky Housing	Energy Programs Consortium (EPC)
Arkansas	Summit Energy Strategies
New York	Vermont Energy Investment Corporation
Michigan	
Maryland	

Welcome and Introductions
Jeff Pitkin, NYSERDA
Jeff Pitkin, Treasurer of NYSERDA and Chair of the NASEO State Energy Financing Task Force, opened the call and introduced the topic of energy efficiency financing programs.

Update on WHEEL

Mark Wolfe and Elizabeth Bellis, Energy Programs Consortium (EPC)
Mark Wolfe from the Energy Programs Consortium (EPC) provided an update on WHEEL, which is a warehouse facility to aggregate and securitize unsecured energy efficiency loans on the secondary market. The DOE has signed off on the use of ARRA funds for the WHEEL Program. With this approval, the program is now ready to get started. EPC and NASEO have been working on this project over the last 2 ½ years. EPC and NASEO will be organizing a series of webinars to introduce the program and answer questions.

WHEEL was started a few years ago as an alternative to Fanny Mae for state and local governments to create financing opportunities for energy efficiency. This program allows financing programs to get to a scale that's not typically possible with small lenders and credit unions. It also allows interest rate buy-downs. WHEEL is unique to other programs because it is available to low-FICO borrowers and allows quick, direct access to the secondary market.

EPC and NASEO will hold a webinar on Wednesday, June 13, 2012 at 3pm ET to discuss the program in more detail and answer questions. More details and information will be sent to NASEO members soon.

For more information, please contact Elizabeth Bellis (ebellis@energyprograms.org).

Q&A / Discussion:
1. Is WHEEL only available to public structures?
    - Yes. Initially WHEEL will only be open to public structures. This is primarily because of the capital needed for the buy-down. WHEEL may be open to private structures if the buy-down capital is there. Once WHEEL is able to demonstrate success with this particular asset class, we're hoping to expand into others.
2. When bonds are bought and sold to the secondary market, what does the risk look like?
    - The private lender is taking the risk. Public participants are only held liable for the amount they put in. For example, if the public participant put in 20% and the private lender put in 80%, the public participant will only be on the hook for that 20%.
3. What is the interest rate for this program?

- Currently the program is looking at an interest rate below 10%. This rate accounts for start-up and program administration costs.

4. Is there a certain level of high-risk because the bonds could default?
   - Yes, but nothing beyond that public investment amount. Citi bank will be taking on the risk. They wouldn't have taken on this task if they didn't think they would be able to sell these bonds.
   - Once the loans are in our aggregate market and we've gathered a good amount, Citi Bank will be the first national lender to demonstrate the feasibility of this model to the national market.
   - The overall objective of WHEEL is to introduce unsecured loans to the secondary market as a package and hopefully bring down the overall cost.

Energy Efficiency Financing Programs in Vermont

Peter Adamczyk, Managing Consultant, Vermont Energy Investment Corporation (VEIC).
See presentation slides online.

Peter Adamczyk from Vermont Energy Investment Corporation (VEIC) provided a presentation covering three financing programs currently in operation and proving successful in Vermont. These three financing programs are:

1. Junior-lien residential PACE program
2. Energy Efficiency Loan Program (EELP) for small businesses: Pre-approved cash-flow positive loans for business customers
3. State Energy Program (SEP) DOE grant for commercial building retrofits

PACE (see slides 3-5)
Vermont was one of the first states to implement a residential PACE program. The initial program was put on hold when the FHFA issued a letter to stop residential PACE programs. Vermont modified its legislation to make PACE assessments subordinate to any existing mortgages or property taxes. The Vermont state legislature contacted FHFA directly to ensure that this language was acceptable to them before enacting the program.

In the case of a default, the PACE repayment would be passed along to the potential buyer / next homeowner to ensure full repayment. Vermont is currently the only state with residential PACE but no commercial PACE program. This is largely because state policy makers would want the same in-depth review given to the residential program before passing a commercial PACE program.

Vermont created two reserve accounts to hedge against defaults. (See slide 5) The homeowner must make a mandatory payment to a reserve account (2%). In addition to the mandatory reserve account, the program has also established a statewide loan loss reserve (LLR), with 5% (or up to $1M) coming from proceeds from the state's participation in the Regional Greenhouse Gas Initiative (RGGI) auctions.

Efficiency Vermont, the state's designated energy efficiency utility, is able to act as the administrator of the PACE program on behalf of all towns that do not have the in-house expertise or money to administer on their own.

Vermont's PACE program was made effective on Jan. 1, 2012. The state expects to accept its first applications early next month. An incentive for early applicants is the 2.99% interest rate available in the first year of the program. This low rate is achieved through an interest rate buy down.

Q&A / Discussion

1. In the PACE program the property owners bear all of the cost. What kind of fees to does the EEU have to charge to administer the program for all participating towns?
   - As the state's energy efficiency utility, already running numerous efficiency programs, the EEU already had programs for calculating risks and costs. The EEU already possessed a majority of the

functions needed to administer the PACE program. Because the EEU is a non-profit organization, it does not charge a profit – which helps to keep administration costs low. The EEU does charge an application fee of $300 and has an annual adder of about $100 to account for program administration costs.

EELP financing program (see slides 6-15)
The Vermont Energy Efficiency Loan Program (EELP) is a new commercial energy efficiency financing program that is a partnership between the local credit union (CU) and the state's energy efficiency utility, Efficiency Vermont, to offer guaranteed immediate loans to eligible customers with positive cash flow. In order to qualify for the loan, customers only need to join the credit union. The paperwork is very minimal and the CU pays all membership fees in order to streamline the approval process. The program offers automatic pre-approval with no credit check.

The state energy efficiency utility (EEU) backs 50% of loan value by making a deposit to the CU. To date, the EELP has a zero default rate, which is in part attributed to the program's positive cash flow requirement. The loan minimum is $1,000 and the loan maximum is $10,000 with exceptions possible. The maximum loan term is currently 4 years, though this could be altered in the future if need be. The EELP interest rate is 6% – interest rate buy downs are possible, but are discouraged. Vermont treats an interest rate buy-down as a one-time disbursement and not as a direct incentive. The state believes that too many IRBs could become cost-prohibitive in the long run.

The program is still in its infancy and any changes will be determined based on actual date collected in the first few years of the program. Benefits of the program include smaller EEU investments over time and an increased number of loans due to recycling of funds as loans are repaid and money is recycled to issue new loans.

Q&A / Discussion:

1. If a 50% deposit is made to the CU, does that accrue interest? And if so, in whose name is it accrued?
    - Interest accrues in the account in the program's name, not the CU's name. The benefit to making a 50% deposit is that the risk is fully backed. In the future Vermont may consider a 25% deposit instead, but is unsure how the CU and borrowers feel about partially supported loans.

2. What are some of the measures that small businesses are implementing? Is there a package of eligible measures or are measures determined through an audit process?
    - There is not a strict list of eligible measures. Because these measures are supported by the EEU (electricity only) funds, we support electricity-related measures only. We do an energy assessment for each building to determine the best retrofit measures for reducing electricity use.

3. What building types are included in the EELP?
    - The program sees a wide range, but any type of small business is eligible. The program covers many small businesses like mom-n-pop convenience stores to larger buildings like bowling alleys.

State Energy Program DOE Grant (see slides 16-18)
Vermont's State Energy Program (SEP) received a $1M competitive grant to create a commercial energy efficiency financing program. On the 'supply side' this is a public-private partnership between the State Energy Program, State Treasurer, Dept. of Public Service and VEDA lenders. On the 'demand side' this is a partnership between the State Energy Program, contractors and vendors. The program is just getting underway and the state expects to issue its first loans in October of this year.

The state is qualified to issue Qualified Energy Conservation Bonds (QECBs), however Vermont's QECB allocation is quite small ($3.2m). The program established a loan loss reserve (LLR) to secure a lending pool. The lending pool is comprised of QECBs blended with capital from commercial lenders. The program targets those commercial lenders that have customers that they may have unwritten in the past but didn't make a loan to.

Under this program, customers that may have qualified for a loan if energy savings were included in the underwriting can now receive a loan. The hope is that the state will be able to demonstrate that the actual default rate is much lower than expected, in order to push lenders to increase their number of loans for energy efficiency projects in the future.

With each of the two commercial financing programs, the state tried to solve two perceived problems. The EELP aims to solve the problem of upfront financing for business owners that want to fix something but can't find the immediate cash to do so. The State Energy Program Grant financing program aims to help small business owners invest in their business by bringing down cost of energy use. The SEP grant program allows lending institutions to take into account one additional factor, energy savings, when deciding to make the loan.

Q&A / Discussion

1. What percentage of the loan does the LLR support?
    - The LLR will support 5% of the loan. Efficiency Vermont brings the banks a seal of approval for the project with its energy savings. Banks usually won't make loans based on the energy savings when they aren't certain of the actual savings. The state anticipates that banks will see the 5% as enough to make the loan when combined with the Efficiency Vermont 'seal of approval' for the estimated energy savings. Blending QECBs allows a bank to pay for only part of the total loan. The program's overall objective is to show that energy savings can be verifiable and credible and should be included in the underwriting for loans.

Upcoming Calls:

There will not be a Financing Committee call held in July due to the holiday. The next call is scheduled for Thursday, August 2, 2012 from 3:00 – 4:00pm ET.

NASEO and EPC will hold a webinar on WHEEL on Wednesday, June 13, 2012 from 3-4pm ET. More details will be provided soon.