State Energy Revolving Loan Funds

State Energy Revolving loan funds (RLFs) enable State and Territory Energy Offices (SEOs) and their partners to use an initial capital fund to offer long-term, low-interest financing for a variety of uses, ranging from residential and commercial building retrofits to job creation and industrial efficiency. Because principal and interest repayments are used to reseed the fund, the revolving nature of RLFs allows state programs to support designated clean energy activities indefinitely. Additionally, RLFs offer states a flexible tool through which they can introduce the market to a variety of clean energy financing approaches, such as energy savings performance contracts (ESPCs), on-bill repayment mechanisms, and public-private partnerships.

Trends

State RLFs date back to the 1970s and 1980s, when early pioneers, such as the states of Nebraska and Texas, seeded their state RLFs with petroleum violation escrow (PVE) and oil overcharge allocations. Since then, especially with the influx of funds from the American Recovery and Reinvestment Act (ARRA) of 2009 and increasing state interest in clean energy financing, state use of RLFs has expanded significantly. Today, the vast majority of states operate at least one RLF, with many using federal and state funds, greenhouse gas auction revenues, bonding authority, and/or private capital to establish and grow their loan pools.

The National Association of State Energy Officials (NASEO) maintains the State Energy Loan Fund (SELF) database, which tracks energy loan programs and includes key statistics such as funding source, fund size, and program purpose (see http://naseo.org/state-energy-financing-programs). As of July 2013, NASEO has tracked 79 programs operating in 44 states and territories, representing a total of $2 billion in available financing.

Mechanics of Revolving Loan Funds

State energy RLFs typically hold borrowers to a standard financial requirements in loan security, have a maximum allowable payback period for projects, and explicitly state what types of projects are eligible for funding (often including the need to meet certain efficiency or performance standards). As borrowers repay their principal and interest, the money is returned to the fund to make additional loans, enabling the RLF to continue operating without exhausting its pool of capital. Typically, the interest and fees paid by borrowers support program administration costs, to keep the fund’s capital base intact.

The diagram below depicts the process of a RLF, from originating fund source to implementation and repayments:

Certain conditions apply to RLFs using ARRA funds, because these funds maintain their federal character in perpetuity. The U.S. Department of Treasury has issued guidance on this topic:


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Noteworthy Programs

**Nebraska’s Dollar and Energy Saving Loan Program Helps Meet Energy Efficiency Goals:** Administered by the Nebraska Energy Office (NEO), the Dollar and Energy Saving Loan Program is a RLF that reduces the interest rate for energy-related projects meeting minimum efficiency standards. Active since 1990, it is one of the longest standing and highest volume energy efficiency loan programs in the country. It was created with $10 million in PVE funds, and expanded with an additional $15 million in PVE, state, and trust funds (along with U.S. State Energy Program competitive grant funds added over time). Its current total loan pool today is approximately $37 million and as of June 2013, the program has financed 27,948 projects, a majority of which were in the residential market. Currently, more than 265 lenders, operating in over 900 locations across the state, are eligible to offer Dollar and Energy Saving loans. Over 22 years, the program’s extraordinarily low default rate has cost the state just $106,000 on over $294 million in loans.

**Texas LoanSTAR Continues to Thrive as Largest Building Conservation Program in Nation:** Since being established in 1988, the Texas LoanSTAR Program uses a revolving loan mechanism to issue loans targeted for public buildings, including state agencies, school districts, higher education, local governments, and hospitals. The program was initiated by the Texas Energy Office (now the State Energy Conservation Office, or SECO) and was approved by DOE as a statewide energy efficiency demonstration program. It began with $90 million from petroleum violation escrow (PVE) funds, and is now the largest-state run building energy efficiency program in the country, having funded more than 200 loans totaling over $250 million. Three different types of borrower-vendor contracting mechanisms are approved for LoanSTAR: traditional design/build; traditional design/build retrofits; and 3)ESPCs. As of November 2012, LoanSTAR has administered over 70 active loans in approximately 35 local jurisdictions, in addition to healthcare facilities, community colleges, and universities. This program has saved taxpayers more than $299 million through energy-efficiency projects for state agencies, institutions of higher education, school districts, county hospitals and local governments, and has also prevented the release of approximately 9,644 tons of nitrogen oxides, 3.0 million tons of carbon dioxide, and 6,807 tons of sulfur dioxide.

**New York Offers On-Bill Recovery Financing to Assist Homeowners:** Through the Green Jobs, Green New York program, the New York State Energy Research and Development Authority (NYSERDA) is introducing on-bill recovery financing to the market. This innovative program allows for the financing of energy efficiency improvements through a charge on utility bills for residential, small business/non-profit, and multifamily customers statewide through seven utility companies. It allows for loan amounts of up to $25,000 (currently the typical loan size is $9200), with an interest rate of 3.49 percent as of January 1, 2013 and loan terms of 5, 10, or 15 years. The borrower(s) must be the owner of the property and at least one of the borrowers must be named on the utility account. Looking ahead, NYSERDA is attempting to use this program, as well as other loan offerings within its residential energy efficiency financing portfolio, to demonstrate that energy efficiency loans have lower delinquency and default rates and may not necessarily add to the consumer’s debt burden.

**Ohio Provides Energy Loan Fund and Multiple Resources for Manufacturers Statewide:** The Ohio Department of Development, Office of Energy, launched the Energy Loan Fund for Manufacturers in January 2012. This loan pool combines funding from several different sources, including annual U.S. State Energy Program (SEP) appropriations, utility rider payments (expired since 2010), and unobligated ARRA funds. Ohio manufacturers that have participated in the Energy Efficiency Program for Manufacturers (EEPM) are eligible for low-cost financing through this loan fund. Through this loan fund, Ohio is expecting energy, economic, and environmental impacts that include a minimum of 15 percent energy use reduction from existing conditions, a return on investment that allows the loan to be paid back within a reasonable time period, increased job creation or retention, and improved environmental quality. Eligible activities include energy efficiency retrofits, distributed generation (including combined heat and power systems) and traffic signals and street lighting. One example of a company working with the Office of Energy is Process Technology, which is a leading manufacturer of electric immersion heaters, heating and cooling coils, controls, instantaneous heaters, liquid level controls, over-temperature protection systems and accessories. This company is participating in the EEPM to replace aging HID lighting with energy efficient fluorescent lighting, reducing energy consumption by 57 percent.

**Contact**

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