

NASEO State Financing Committee Call Notes
Thursday, November 1, 3:00-4:00pm ET

Attendees:

ASHRAE
Cadmus Group
Efficiency Maine
Energy Programs Consortium
Florida Department of Agriculture and Consumer Services
Missouri Division of Energy
NASEO
Texas State Energy Conservation Office
U.S. Department of Energy
Virginia Department of Mines, Minerals and Energy, Division of Energy
Wisconsin State Energy Office

Welcome and Announcements

Jeff Pitkin, NYSERDA Treasurer and NASEO Financing Committee Chair, opened the call. He announced that the next call would take place Thursday, December 6, at 3:00pm-4:00pm ET.

Jeff also announced the addition of a new co-chair to the NASEO Financing committee, Al Christopher. As director of the Energy Division of the Virginia Department of Mines, Minerals and Energy (DMME), Al will join Jeff in facilitating committee calls and meetings and providing guidance to NASEO's Financing staff in developing agendas and topics. Virginia has a number of state and local programs supporting financing and investment of clean energy, including a state loan program, tax exemptions and deductions for energy-efficient products, and utility partnerships. Al noted that he is excited to work more closely with the Financing committee and added that his office has recently issued a recommendation for Virginia to use its qualified energy conservation bond (QECB) allocation for performance contracting for public facilities.

NASEO, Member, and Partner Updates

Sandy Fazeli, NASEO Financing Program Manager, noted that moving forward, a representative from the U.S. Department of Energy (DOE) Office of Weatherization and Intergovernmental Programs (OWIP) will take part in Financing committee calls and meetings. She introduced John Johansen, who works on loan programs through the Energy Efficiency and Conservation Block Grant (EECBG).

Sandy next announced that NASEO is holding its 2013 State Energy Policy and Technology Outlook Conference on February 5-8, 2013 at the Fairmont Hotel in Washington, D.C. This meeting will feature an Energy and Economic Development Financing Roundtable on Thursday, February 7. NASEO's team is still developing the agenda, so interested committee members should email sfazeli@naseo.org for more information.

Sandy also noted that on October 17, 2012, DOE released guidance for EECBG grantees. The guidance contains language about the eligible use of funds for financing programs, including revolving loan funds, loan loss reserves, interest rate buy-downs, and third party loan insurance. It is available at http://www1.eere.energy.gov/wip/pdfs/eeecbg_financing_guidance_09-002D_signed.pdf.

Presentation: “Pay-It-Forward Energy Efficiency Fund Model”

Jeff introduced Pat McGuckin, who leads the Financing Programs team at The Cadmus Group, a NASEO affiliate member. Cadmus is a prime contractor for the DOE Technical Assistance Program that has consulted on over 100 state and local financing programs around the country. Pat served as the technical lead on the evaluation of California’s four major on-bill financing programs and on the evaluation of community solar gardens for the state of Massachusetts.

Pat’s presentation (available at <http://naseo.org/committees/financing/notes/2012-11-01-Pay-It-Forward.pdf>) introduced the concept of the Pay-It-Forward energy efficiency fund model. The Pay-It-Forward approach may be suitable for public agencies that have identified a pipeline of energy efficiency projects, are looking to start and grow a fund to pay for them, and know of states, municipalities, colleges or school districts that have a desire to fund energy efficiency projects. This model is also specific to accounting practices that prevent the state from recapturing savings from a specific agency or department that implements energy-saving measures.

When structured and financed appropriately, energy efficiency projects save money. But their cost savings can also be used to grow a fund that supports more and larger projects in the future. In a typical funding scenario, the savings from an energy efficiency project are first used to pay back the cost of the project itself. After that point, the ensuing savings are then used for budget relief or other goals or to meet other priorities set forth by the entity that implemented the project.

A revolving fund funds energy efficiency projects, and energy savings are used to pay back the fund to its original level. After these repayments have been used to recapitalize the fund, ensuing cost savings go toward budget relief or other goals.

The Pay-It-Forward model offers a twist on the revolving fund model. Energy savings resulting from projects are used to repay the fund, *plus* an additional Pay-It-Forward contribution. This contribution means that the agency is deferring budget savings to grow the fund with each successive project. This introduces the concept of compound growth into the revolving loan fund model, and typically enables agencies to fund more and larger projects over time. The Cadmus Group has worked to apply this concept in California, in a jurisdiction that has identified 23 projects with payback periods between one and ten years.

John Johansen noted that in these scenarios, segregating budgets is a key factor for success. In some programs, there is a temptation to blend funding sources and lump savings into a general fund or account. However, setting aside these monies will help dedicate funding to meet certain objectives—whether to continue funding public facility energy efficiency measures or sometimes to pay for state energy office salaries. He added that with DOE funds, there are certain reporting requirements that states need to follow, so keeping funds separate is a helpful strategy.

Pat resumed his presentation by noting that the growth in the fund value allows states to continue completing more projects and achieving higher levels of savings. Once the array of energy efficiency opportunities is addressed, funds can be repurposed to work on renewable energy or other projects with longer payback periods.

External financing may not be suitable for Pay-It-Forward, as it typically involves higher interest rates paid to a bank lender. Rather, Pay-It-Forward works best with an internal fund with more attractive rates. Such funding may come from state investment accounts (including state treasury funds or state school land trust funds), general budgets, capital improvement budgets, or existing projects and programs where agencies are already generating savings. Additionally, another source of seed capital may be through no-

or low-cost programs, such as behavioral change programs, utility billing audits, utility demand response programs, competitive energy procurement, and retro-commissioning. For colleges, endowment funds, student fees, grants, and donations may serve for seed funding.

Q&A/Discussion

Q: How does the Pay-It-Forward model change economies for the site owner?

A: Essentially, the site owner is foregoing short-term budget relief in order to create a larger budget for energy efficiency projects in the long term.

Q: Can the Pay-It-Forward model be combined with an existing energy saving performance contracting (ESPC) program?

A: Yes, as long as the state has a source of seed funding.

Q: How do you make the case to defer savings to “bean counters” or others who may not accept the “greater good” concept of this model? How do you get multiple parties to contribute to the fund so it is at a sufficient level to fund a pipeline of projects?

A: The Cadmus Group has worked in California to model the impact of the projected energy savings and demonstrate how this will help grow the fund over time. In this case, the compound growth concept was compelling to get buy-in. In cases where there are multiple different parties contributing to the central fund, each agency or department is able to keep a separate account, allowing it to get back an amount proportional to what it put into the fund. Finally, upon dissolution of the funds, the money is returned to the member organizations or departments, so that over time they are making money off of participating in a Pay-It-Forward structure.

Q: Please walk through Pay-It-Forward from the perspective of a single state agency? How does the transaction differ from other methods, for instance from a revolving loan fund or ESPC?

A: If the state recaptures the energy savings from the department or agency, the agency does not benefit from Pay-It-Forward. However, if the agency is able to reap the benefits from the energy savings, it essentially agrees to defer savings in year 1 by offering a Pay-It-Forward contribution. Assuming that the agency has multiple projects to implement, the deferred energy savings in the first year will amount to energy savings in future years being larger than they would otherwise be in a revolving loan fund or ESPC scenario. In this sense, the Pay-It-Forward twist allows the fund to leverage more and complete more projects than a standard fund.