Energy Efficiency Financing Programs in Vermont

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Topics for today’s discussion

- Junior-lien residential PACE program
- Pre-approved cash-flow positive loans for business customers
- State Energy Program DOE grant
Vermont’s PACE lien position

In Vermont’s legislation, PACE assessments are subordinate to property taxes and mortgages.
Vermont’s PACE legislation

- PACE lien is subordinate to any existing property-secured liens currently in place
- Subordinate to a subsequent first mortgage (i.e., a refinance)
- No accelerated payments
- Residential only at this time
Vermont’s PACE legislation, continued

- Mandatory reserve account—2% from participating property owners
- Statewide loan loss reserve—5% from RGGI funds, up to $1 million
- Efficiency Vermont available to act as PACE administrator for towns—all costs paid by participating property owners
- Effective Jan. 1, 2012
EELP financing program

- Energy Efficiency Utility (EEU) guarantees loans 100% from Credit Union (CU) to business customers in order to offer immediate loan approval for eligible customers with positive cash flow
- EEU maintains deposits at CU equal to 50% of the loan value for all outstanding EELP loans
- EEU pays all fees for membership ($35)
- Checks disbursed directly to contractors
- CU bills customers directly
Program characteristics

- Minimum loan – $1,000
- Maximum loan – $10,000, exceptions possible
- Interest rate – 6.00%. Interest rate buy downs are possible, but DISCOURAGED!
- Maximum loan term – 4 years
- Automatic pre-approval on eligible projects
- Loans are unsecured
EELP program objectives

- Remove ‘last barrier’ for business customers

- Make EEU resources go further
  - Financing option allows for lower direct incentive
  - Funds are ‘recycled’, i.e., can be used to support many different sequential projects, theoretically forever

- Help customers see EE as an investment – often results in project going forward without financing through EEU
4 streams of money

- Direct incentive – from EEU to customer. One-time disbursement
- Security deposit – from EEU to CU. Money becomes available for other uses as loan is paid off
- Loan – from CU to customer. Customer repays directly to CU
- Interest Rate Buydown (IRB) – from EEU to CU. One-time disbursement
EELP transaction flowchart

Security Deposit

EEU  \(\rightarrow\)  (IRB)  \(\leftarrow\)  CU

Direct Incentive

Customer  \(\leftarrow\)  Loan
Repayment flowchart

Security deposit becomes available

- EEU
- CU

Energy savings

Customer

Loan repayment
Hypothetical program

- Reserve ratio at CU: 50%
- New loans per month: $25,000, grows 1% per month
- EEU starting deposit: $25,000
- EEU monthly deposit*: $12,000
- Average loan size: $8,000

- 1/3 of loans for 2 years, 2/3 of loans for 4 years

- * if needed, to keep CU balance at 50% of outstanding loans
Example 5-year budget

<table>
<thead>
<tr>
<th>year</th>
<th>EEU contribution</th>
<th>yearend on-loan balance</th>
<th>No. of loans</th>
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<tbody>
<tr>
<td>1</td>
<td>$145,000</td>
<td>$273,848</td>
<td>57</td>
</tr>
<tr>
<td>2</td>
<td>$108,000</td>
<td>$504,044</td>
<td>105</td>
</tr>
<tr>
<td>3</td>
<td>$108,000</td>
<td>$707,486</td>
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<tr>
<td>4</td>
<td>$96,000</td>
<td>$896,796</td>
<td>187</td>
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<tr>
<td>5</td>
<td>$84,000</td>
<td>$1,081,612</td>
<td>226</td>
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<tr>
<td></td>
<td></td>
<td>$541,000</td>
<td></td>
</tr>
</tbody>
</table>
Example yearly budget
Example cumulative impact

- Total EEU deposits
- On loan at end of period

[Diagram showing bar chart with two bars: one for Total EEU deposits and one for On loan at end of period.]
$1 million from DOE to create a commercial EE financing program

State Energy Program is grantee

Proposal addressed many DOE priorities:
- Public/private partnership
- Replicable and scalable
- Loan loss reserves (LLR)
- Qualified Energy Conservation Bonds (QECB’s)
- Existing infrastructure – Efficiency Vermont
Proposed program parameters

- $500,000 LLR
- $3,200,000 QECB’s
- $6,400,000 private capital
- Partner with State Treasurer, Dept. of Public Service, VEDA on “supply side”
- Partner with contractors and vendors on “demand side”
- Tremendous potential for funding for thermal improvements
## Comparison of EE financing programs

### Energy Efficiency Loan Program EELP

<table>
<thead>
<tr>
<th>Guarantee Level</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantor</td>
<td>EEU</td>
</tr>
<tr>
<td>Target customer/project</td>
<td>On-the-spot financing for business customer portion of energy project eligible for direct incentive. Term set to allow for positive project cash flow. More likely to include only electrical measures.</td>
</tr>
<tr>
<td>Loan size</td>
<td>$1,000 to $10,000</td>
</tr>
<tr>
<td>Loan term</td>
<td>2 to 4 years</td>
</tr>
<tr>
<td>Loan rate</td>
<td>Market rate (currently 6%)</td>
</tr>
<tr>
<td>Source of loan funds</td>
<td>Credit Union</td>
</tr>
<tr>
<td>Underwriting process</td>
<td>None – all loans are pre-approved. Borrower must fill out loan application and provide minimal documentation.</td>
</tr>
<tr>
<td>Program size 2013-2015 (estimate)</td>
<td>Up to $1 million</td>
</tr>
<tr>
<td>Financial partners</td>
<td>Credit Union</td>
</tr>
</tbody>
</table>

### State Energy Program SEP

<table>
<thead>
<tr>
<th>Guarantee Level</th>
<th>5%</th>
</tr>
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<tbody>
<tr>
<td>Guarantor</td>
<td>DOE-funded loan loss reserve (LLR)</td>
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<tr>
<td>Target customer/project</td>
<td>Long-term comprehensive financing for business customer to allow for positive project cash flow for energy project eligible for EVT direct incentive. More likely to include thermal measures.</td>
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<tr>
<td>Loan size</td>
<td>$25,000 to $100,000</td>
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<tr>
<td>Loan term</td>
<td>5 to 10 years</td>
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<tr>
<td>Loan rate</td>
<td>Below market rate (~4-5%)</td>
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<tr>
<td>Source of loan funds</td>
<td>Combination of private banks and QECB bonds</td>
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<tr>
<td>Underwriting process</td>
<td>“Stretch” criteria – considers energy savings. Borrower must fill out loan application and provide all documentation required for a business loan.</td>
</tr>
<tr>
<td>Program size 2013-2015 (estimate)</td>
<td>Up to $10 million</td>
</tr>
<tr>
<td>Financial partners</td>
<td>VT Economic Development Agency (VEDA) and VT-based private banks already lending to commercial customers</td>
</tr>
</tbody>
</table>
More information

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