Overview for Financing Programs

Chris Lohmann
Financial Market Development Team
U.S. Department of Energy

Financial mechanisms within Integrated Energy Efficiency Programs

Every successful energy efficiency program depends on four functional pillars

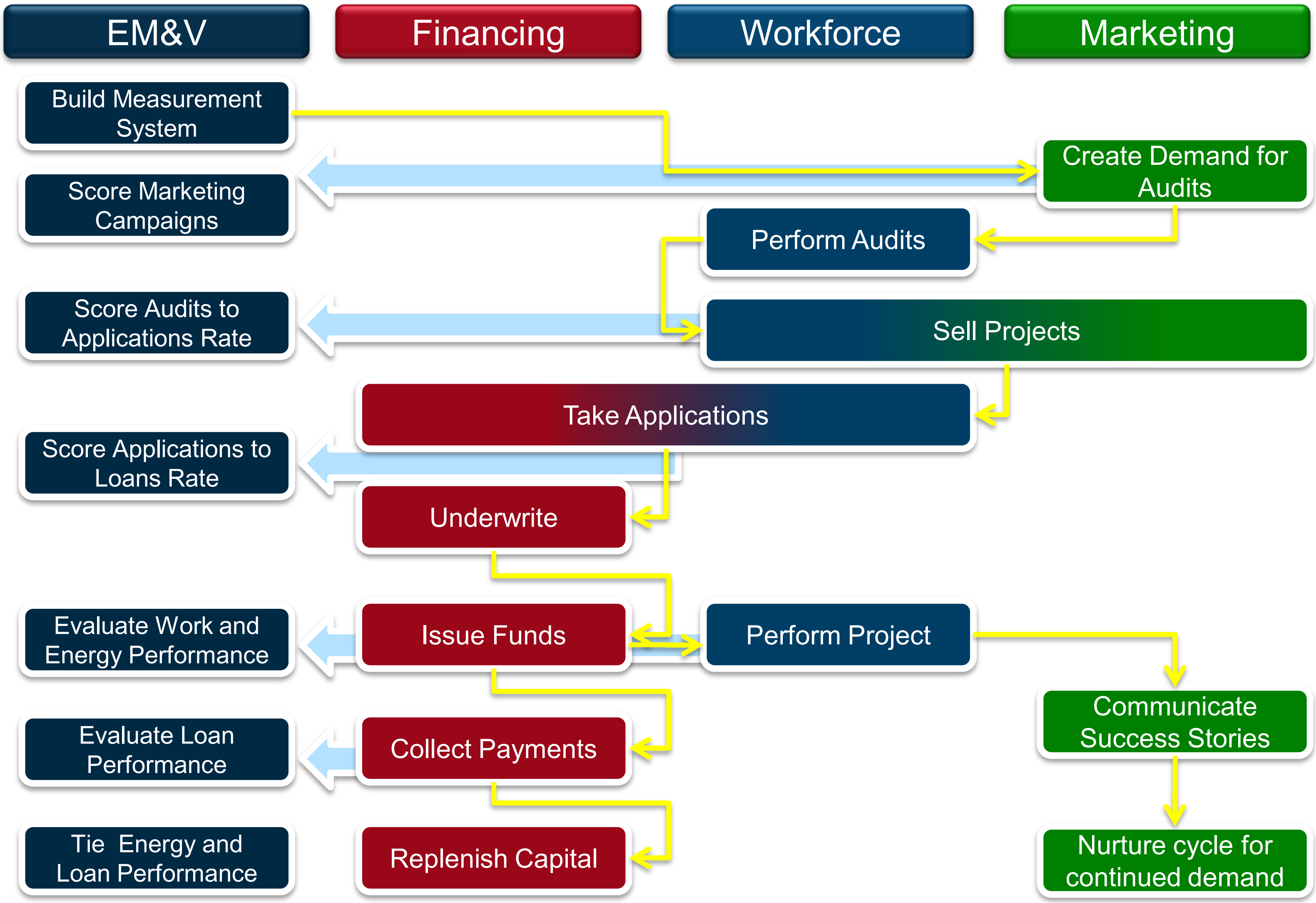
- Demand Creation
- Workforce training & certification
- EM&V, data collection, and continuous improvement
- Financing

Financing must address a broad spectrum of needs from small-dollar reactionary replacement of HVAC equipment to large-dollar, carefully planned whole-building retrofits

- No one product is effective across the entire spectrum
- Multiple complementary products maximize the effectiveness of the portfolio
- Different product serve different market segments – residential/commercial/non profit etc. and different sub-segments with each (eg. small commercial).

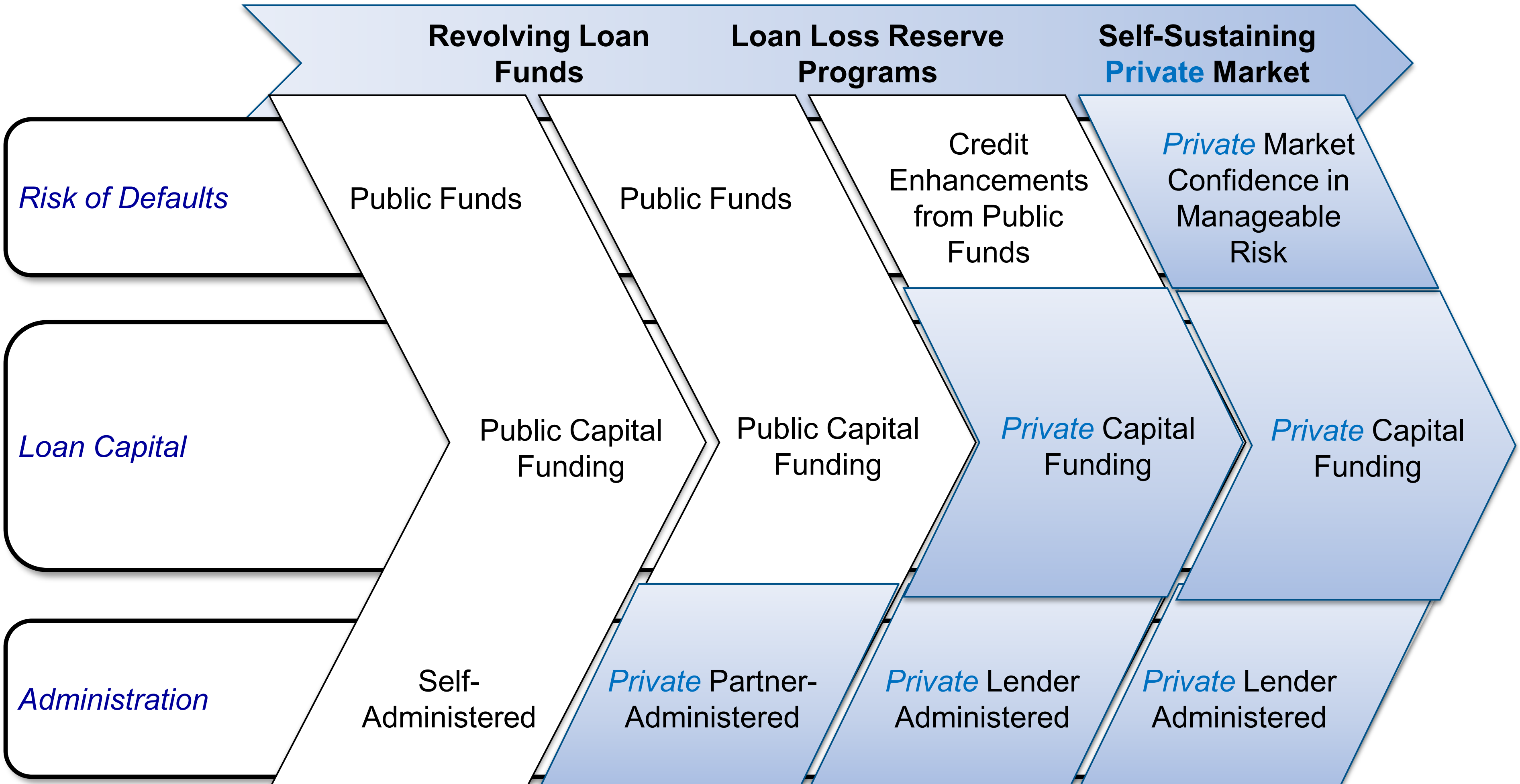
Financing programs allow payments on investments to be stretched out in time, the same way that the benefits created from the investments are accrued

A Typical Integrated Residential Energy Efficiency Program



Roadmap to a Self-Sustaining Private Market

Grantees currently are building programs at different points along the spectrum, as appropriate to their capabilities and the risk appetite of their financial partners



Private Capital to be Committed to Energy Efficiency

Over $1 Billion of private capital will go to work thanks to ARRA Programs

Total

ARRA Funds in Reserve or Capital	Private Capital	Total Loan Capital
$300 Million	**$1.1 Billion**	**$1.2 Billion**

	ARRA Funds	Private Capital	Total Loan Funds
Workshop Attendees	**$132,416,000**	**$501,950,000**	**$581,300,000**
Eagle County	$900,000	$17,000,000	$17,000,000
Boulder	$8,000,000	$40,000,000	$40,000,000
American Samoa	$500,000		$500,000
Kansas City	$5,300,000	$65,000,000	$70,000,000
Maryland	$12,400,000	$12,400,000	$24,800,000
Plano	$700,000	$7,000,000	$7,000,000
Shreveport	$500,000	$5,000,000	$5,000,000
Michigan DELEG	$16,750,000		$16,750,000
Santa Barbara	$1,000,000	$20,000,000	$20,000,000
San Diego	$1,200,000	$26,000,000	$26,000,000
Rutland	$1,600,000	$4,500,000	$4,500,000
Phoenix	$4,000,000	$16,000,000	$20,000,000
Fort Worth	$500,000		$500,000
New Orleans	$706,000	$7,000,000	$7,000,000
Arkansas	$19,000,000		$19,000,000
Missouri	$9,000,000		$9,000,000
Iowa	$8,500,000	$16,500,000	$20,500,000
Chicago	$15,750,000	$99,250,000	$99,250,000
Wisconsin	$4,210,000	$74,500,000	$74,500,000
Cincinnati	$17,000,000	$85,000,000	$88,400,000
North Carolina	$4,800,000	$4,800,000	$9,600,000
Bainbridge Island	$100,000	$2,000,000	$2,000,000
Other TA Recipients	**$164,418,000**	**$599,478,000**	**$661,728,000**
Michigan Saves	$3,000,000	$60,000,000	$60,000,000
California	$54,000,000	$250,000,000	$250,000,000
Alabama	$25,000,000	$35,000,000	$60,000,000
Camden City	$250,000	$2,500,000	$2,750,000
Connecticut	$0	$25,000,000	$25,000,000
Kitsap County	$250,000	$5,000,000	$5,000,000
Los Angeles	$2,500,000	$25,000,000	$25,000,000
New Bedford	$120,000	$2,400,000	$2,400,000
Seattle	$654,000	$4,578,000	$4,578,000
Snohomish County	$654,000	$13,080,000	$13,080,000
Southampton	$1,540,000	$4,620,000	$4,620,000
Austin	$4,000,000	$40,000,000	$40,000,000
San Antonio	$3,500,000	$35,000,000	$35,000,000
Delaware	$12,000,000	$24,000,000	$24,000,000
Kansas	$34,000,000		$34,000,000
New Hampshire	$10,000,000	$50,000,000	$50,000,000
San Francisco PUC	$300,000	$3,000,000	$3,000,000
Santa Fe	$150,000	$1,500,000	$1,500,000
Toledo Port Authority	$15,000,000	$75,000,000	$78,000,000
Cleveland	$500,000	$3,800,000	$3,800,000
Maryland Clean Energy Comm	$2,800,000	$10,000,000	$10,000,000
University Park	$125,000	$1,250,000	$1,250,000

Data was collected by TA Engagement Leaders, from grantees who have engaged with TA Team to design, develop, and implement financing programs. Additional financing activity is occurring, though in smaller volume than the grantees represented here. December 2010.

Financial Terms

Financing Program An organized effort to match borrowers with capital. Both Management and supply of capital can variously be either by public entity or private partner.

Financial Incentive Covers broad range of mechanisms to convince a customer to engage in EE – can include direct payments such as rebates, coupons, and gifts, or more sophisticated financial vehicles such as Interest Rate Buy-downs and Credit Enhancements

Rebate Not a financial tool, just a controlled payment to a consumer to incent specific behavior

Interest Rate Buy-down A payment to a lender which covers a portion of the interest payments that due to them for issuing a particular loan. The IRB allows the lender to charge the borrower a lower interest rate because the public entity has covered a portion of their tab.

Financing programs allow payments on investments to be stretched out in time, the same way that the benefits created from the investments are accrued

Financial Terms

Revolving Loan Fund A financing program that lends public dollars directly to borrowers. As the loans are repaid, the dollars can be loaned out to additional borrowers. Losses will be incurred to diminish the fund, but can be mitigated with interest and fees to extend the sustainability of the fund. The RLF can be managed by either a public entity or private partner.

Credit Enhancement A mechanism that reduces the risk associated with an investment, making the investment more attractive, and lower-cost. Credit Enhancements are used to convince investors to engage in a particular investment despite a concern about its potential risk of default. Most effectively used in environments that carry a high degree of Unknown Risk, not actual likelihood of default.

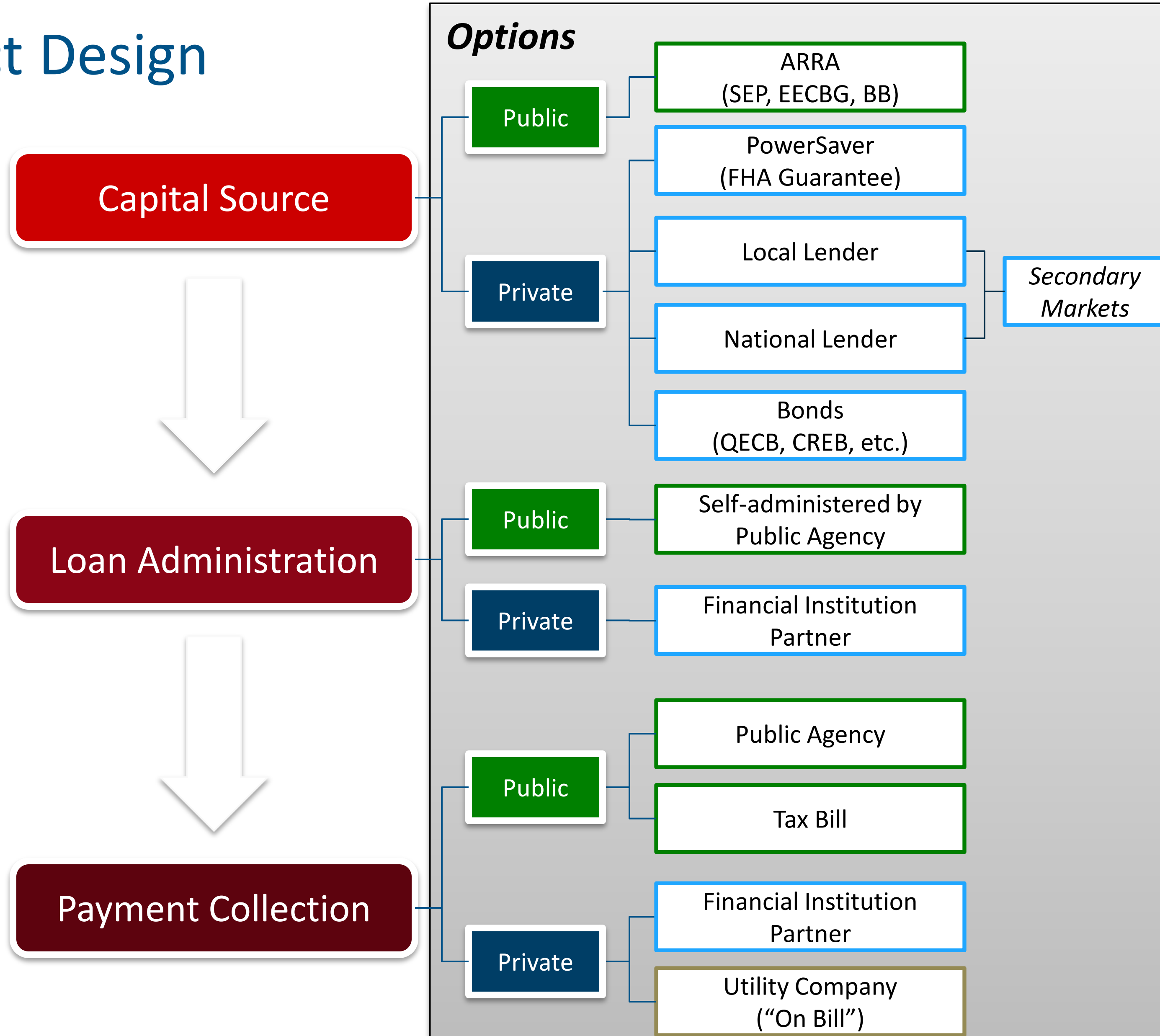
Loan Loss Reserve A financing program in which a public entity pledges to repay a lender for a portion of the losses experienced on a portfolio of loans. The LLR typically covers the first 5 – 20% of losses. Private lenders carry the capital burden, while the public funds carry the risk burden. Maximum liability for losses is limited to the funds in the reserve.

Secondary Market When the originator of a loan sells it to another investor, a secondary market is said to exist. This can take many forms, from open liquid markets for bundled securities, to highly conservative participations in diversified portfolios of investments. In general, financial institutions often specialize in either origination of loans or investment in large blocks of loans. When the originator is able to sell a portion or all of a loan to a secondary investor, that originator's capital is replenished and they are able to make additional loans.

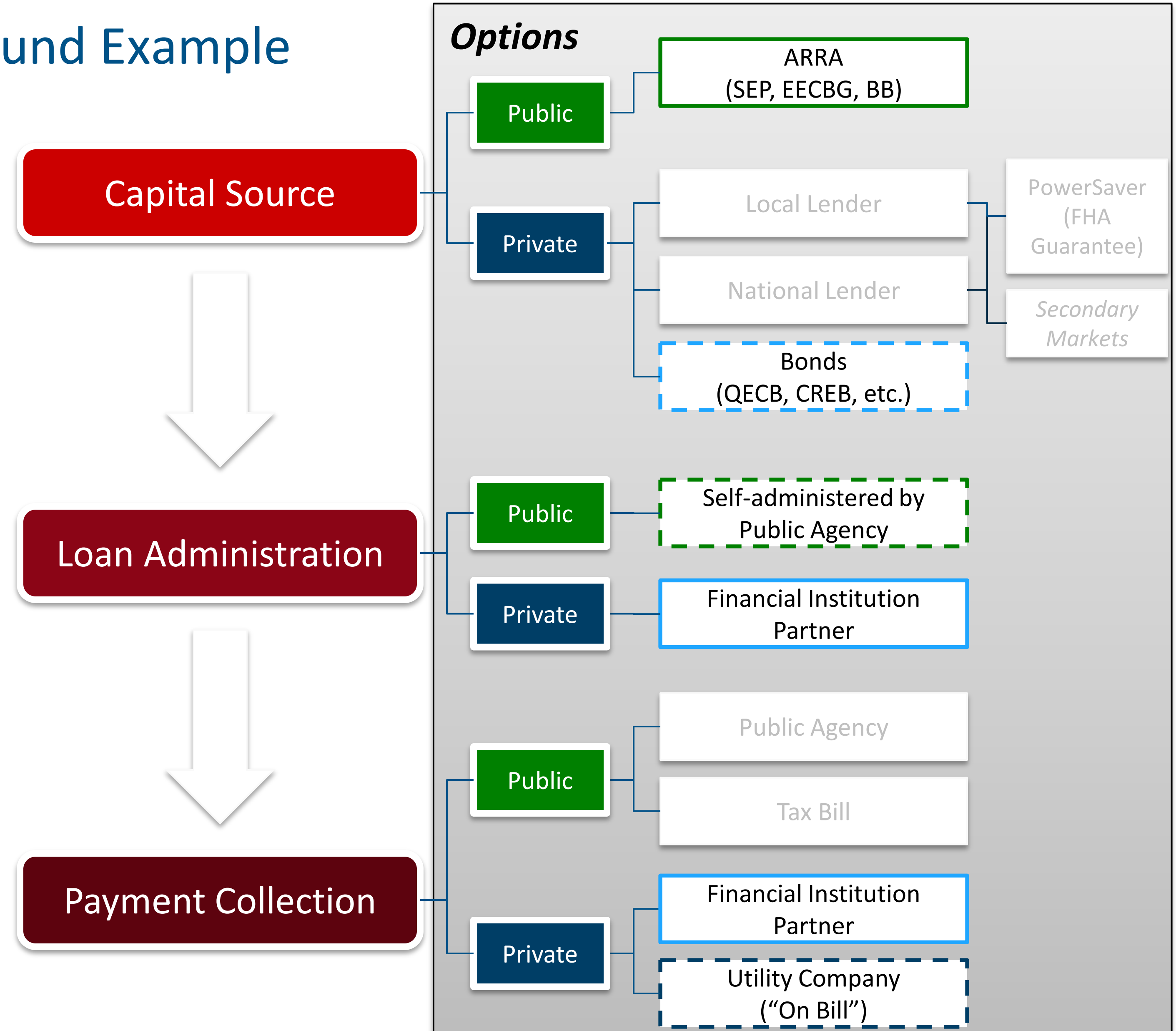
Financing programs allow payments on investments to be stretched out in time, the same way that the benefits created from the investments are accrued

Finance Product Design

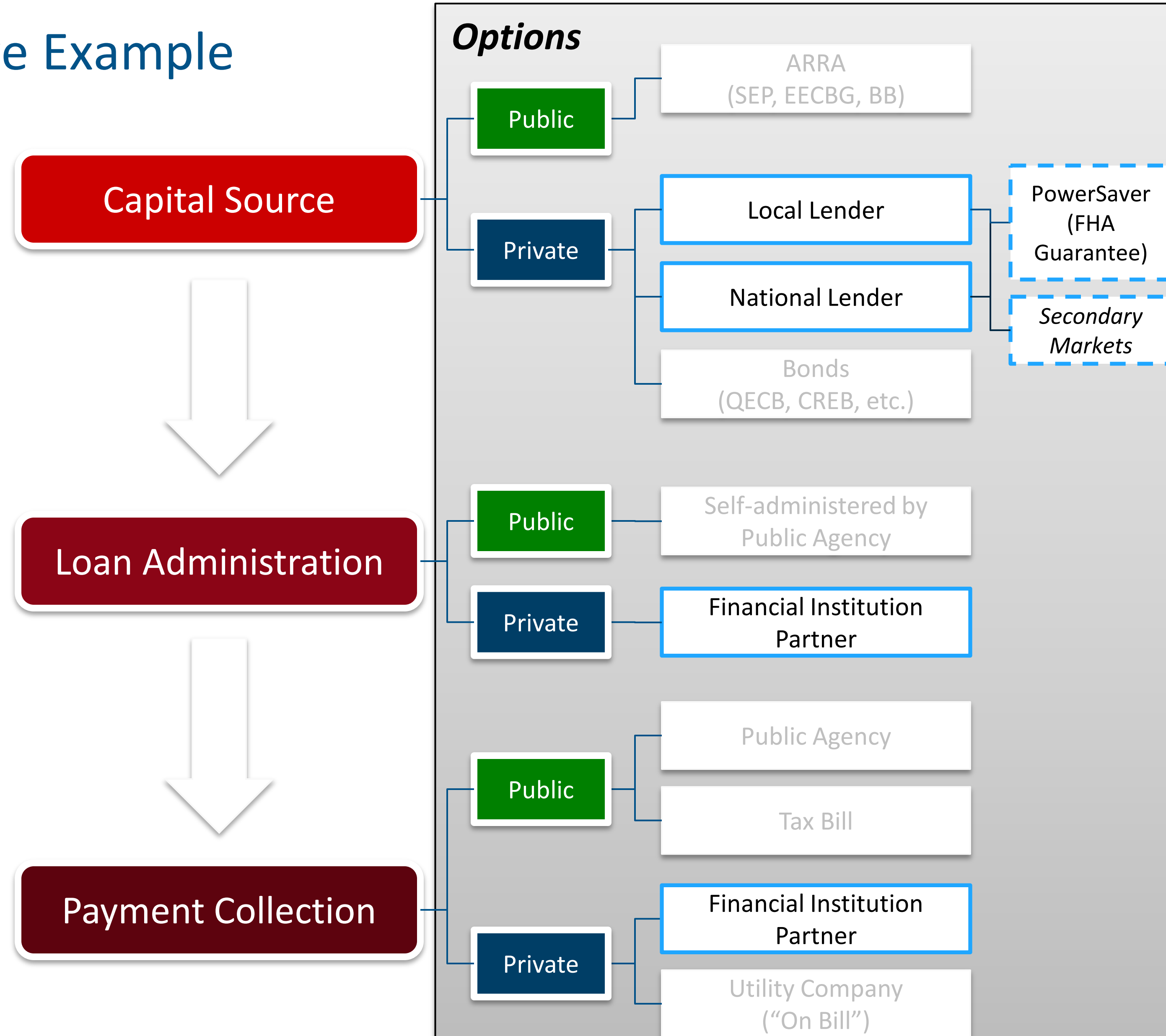
Every finance program must address the same basic functions, but an array of options can be selected within each function to meet local goals, and solve specific challenges.



Revolving Loan Fund Example



Loan Loss Reserve Example



Questions

Chris Lohmann
Financial Market Development Team
U.S. Department of Energy