Better Buildings Neighborhood Program Financing Peer Exchange Call: *Financing Small Business Upgrades*

Call Slides and Discussion Summary

October 25, 2012

Agenda

- Call Logistics and Attendance
  - Does your program currently have a commercial financing program?
- Discussion:
  - What is the structure of programs’ small commercial financing?
  - What kind of “uptake” are programs seeing?
  - What lessons have programs learned about small commercial financing?
  - How are programs thinking about working with this sector in the future?

Participating Grant Programs

- Austin, TX
- Bedford, NY
- Boulder County, CO
- Eagle County, CO
- Lowell, MA
- Maine
- Michigan
- Missouri
- New Jersey
- New York
- Portland, OR
- Santa Barbara County, CA
- Seattle, WA
- Southeast Community Consortium
- Wisconsin

Discussion

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- What is the structure of programs' small commercial financing?
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Discussion: Structure of Program's Small Commercial Financing

- Loan-Loss Reserve
  - Michigan – $500,000 with $10 million in capital for loans.
  - Santa Barbara County, CA - for single family homes, considering expanding to small business sector.
  - Wisconsin – has a loan-loss reserve. Also uses a cash collateral account in which the financial institution uses money out of the loan-loss reserve to put 10-20% of financing into the participating business' account to buy down the cost of the project.
  - Boulder County, CO – Loan loss reserves provide leverage when negotiating with potential financing partners
- Revolving Loan Fund
  - New Jersey- revolving loan fund for commercial loans. Initially for smaller business but did not work well, so moving to larger projects.
  - Michigan- City of Detroit has a revolving loan fund.
- Partner with local credit union to leverage funds
  - Boulder County, CO – leverages $35m in funding for residents and business of all sizes.
  - Wisconsin – working through local credit unions.

Discussion: Structure of Program's Small Commercial Financing

- Incentives
  - Michigan – Offering $2,000 worth of incentives if meet 20% energy savings.
  - Wisconsin – There was interest in the program but no one going through the formal process, so Wisconsin introduced incentives. The program had a summer sale in Milwaukee and Madison where it offered 20%, 40%, or 60% of the project cost for small businesses (project cost $50,000 or less) depending on the amount of energy savings. Businesses had to meet at least 15% energy savings to qualify. For a new sale in Racine, the program is linking incentives to energy savings per unit.
  - New Jersey – originally coupled existing state incentives with lending. Businesses received a free energy assessment and, if qualified, 70% funding for up to $75,000. The intent was to have financing pay for the rest, but often the remaining amount was so small that businesses would just pay for it themselves.
- Rebates
  - Boulder County, CO – if applicants seek $15,000 or more from the commercial loan program, then they are eligible for up to $10,000 in rebates. Using to promote uptake.

Discussion: Financing Uptake

- Michigan - City of Detroit has a revolving loan program but has seen very little uptake. Michigan is reviewing its interest rates to determine if they need to be adjusted.
- Boulder County, CO – After three months, the program has about 80 residential loan applications but few commercial ones. The program has now allocated some rebate dollars in conjunction with commercial loans to promote uptake.
- Wisconsin – Uptake greatly increased after the program implemented incentives. Over 70 projects were approved during a three-month period, and 15 are complete now. About $2.2 million in incentives were committed.
- New York – the program is getting uptake on audits but not financing. It is looking into ways to get people to better understand financing options.

Lessons Learned

- Marketing is key to engaging businesses
  - Many grant programs are engaging in marketing strategies to produce brand recognition with local businesses prior to contacting them directly.
  - Case studies can be useful to show a program's worth to businesses that may not be willing to participate in what they perceive as a new, untested program.
  - Boulder County, CO has $600,000 out of its $8 million budget dedicated to marketing.
  - Boulder County, CO has a brief video that explains the loan program: http://www.youtube.com/watch?v=xzkW_wpstJk&feature=player_embedded&noredirect=1
- Partners (i.e., contractors) can be part of the marketing strategy.
  - Educated contractors can be a program asset because contractors will promote financing options and other program offerings to secure a contract.
  - Many contractors are small business owners, so they can relate to small businesses that are potential program targets.

Lessons Learned

- Trade Associations can be a useful resource to reach out to your audience
  - Michigan worked with a trade association to reach out to independent grocers in Detroit during its pilot program and was successful in greatly increasing uptake in the program. Before engaging with the trade association, the program had very little interest; through working with the trade association, the program's entire $1 million in loan capital was reserved in two weeks.
- Targeted outreach can increase uptake
  - Wisconsin targeted gas stations, convenience stores, and parking garages (lighting improvements).

Lessons Learned

- Loan Amounts:
  - Many programs have found that providing the option for smaller loans has been successful. These loans do not produce much revenue. However, some programs found it was important to offer smaller amounts of money for equipment breakdowns or similar needs.
  - New Jersey is shifting its focus to larger commercial entities with larger loan needs to move the capital, but it will still offer small loans if requested.
- Loan Terms:
  - Wisconsin allows payback periods of six months to five years; the program did not see customer interest in longer-term loans.
  - Other programs have seen customer interest in longer-term loans (with smaller monthly payments) among small businesses that are highly dependent on cash flow.

Lessons Learned

- To increase uptake by businesses, it can be useful to leverage the routine need for maintenance and upgrades of equipment.
- Work with lease companies, who have relationships with contractors. Lease arrangements are not subject to the same regulations as direct loans. Also, processing time is very fast.
- Working with small businesses can be a lengthy process.
  - The food sector has proven to be more difficult because they are dependent on day-to-day cash flow, which makes it difficult to plan ahead and take on debt.
  - While Michigan’s financing was reserved quickly by grocers, implementation of upgrade projects has taken longer because of paperwork delays, etc.
- Rebates and incentives make financing options more attractive to small businesses and can increase uptake.

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The Limits of Financing for Energy Efficiency

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ABSTRACT

Financing is an appealing concept when efficiency program budgets are a small fraction of the overall level of efficiency investment needed to achieve our public policy goals – but that does not mean financing is always the solution, and it is certainly not the *only* solution. We show that financing can, in some cases, increase the leverage of public dollars. In most cases, however, it is not able to drive demand to the same degree as direct incentives like rebates and so cannot be expected to replace other incentives in the current marketplace. We also show that subsidized financing for those who already have access to capital may be a poor use of public funds, and that increasing access for those who are currently underserved will likely require ongoing subsidy. This is not to say that financing is unimportant – financing is one of many important tools for scaling efficiency and should be employed thoughtfully with the questions outlined in this paper in mind.

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Introduction

States and utility regulators are increasingly adopting aggressive energy efficiency targets for existing buildings. To achieve those goals, utilities and governments are increasing their reliance on programs that improve the energy efficiency of the entire building, instead of focusing on single measures or end uses (e.g., lighting). These more comprehensive programs typically require customers to pay a significant portion of the improvement costs. In this environment, financing has been put forward as a tool that can drive investment in comprehensive improvements where the energy savings yield cash flows in excess of loan interest and principal payments.

This "financing is the solution" view is reinforced by the negative cost bars for many efficiency improvements on the McKinsey cost of carbon abatement curve, and the refrain that

http://www.aceee.org/files/proceedings/2012/data/papers/0193-000155.pdf

Potential Future Call Topics

- Experience and data on the performance of loans
- Establishing an Energy Efficiency Enterprise Fund
- How to make commercial energy efficiency financing programs sustainable
- Effective strategies for working with lenders
- Tying energy efficiency financing to home loans
- Financing for middle-income households
- Loan Programs for low and moderate income households
- Options for unsecured debt
- Revenue modeling tools
- Revenue streams from financial institutions