Revolving Loan Fund Bootcamp

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Presented by U.S. DOE and Lawrence Berkeley National Laboratory

Facilitators

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Training motivation

- This training aims to help SEO staff maximize energy benefits to their states by leveraging IIJA funds and/or other capital sources to support revolving loan funds.

- Available Federal funding sources include:
  - IIJA Section 40109
  - IIJA Section 40502 (Revolving Loan Fund)
  - SEP Annual Appropriations
  - Unspent funds from the American Recovery and Reinvestment Act (ARRA)

Training objectives

- The bootcamp will help participants:
  - Understand the opportunities, needs and limitations of RLFs and other related financing mechanisms
  - Review examples of successful RLF program designs that they may wish to replicate or incorporate
  - Spur ideas on how maximize RLF impact

Agenda

- Overview of revolving loan funds (RLFs)
- Setting goals and expectations
- RLF program design: Considerations and options
- Questions and discussion among states

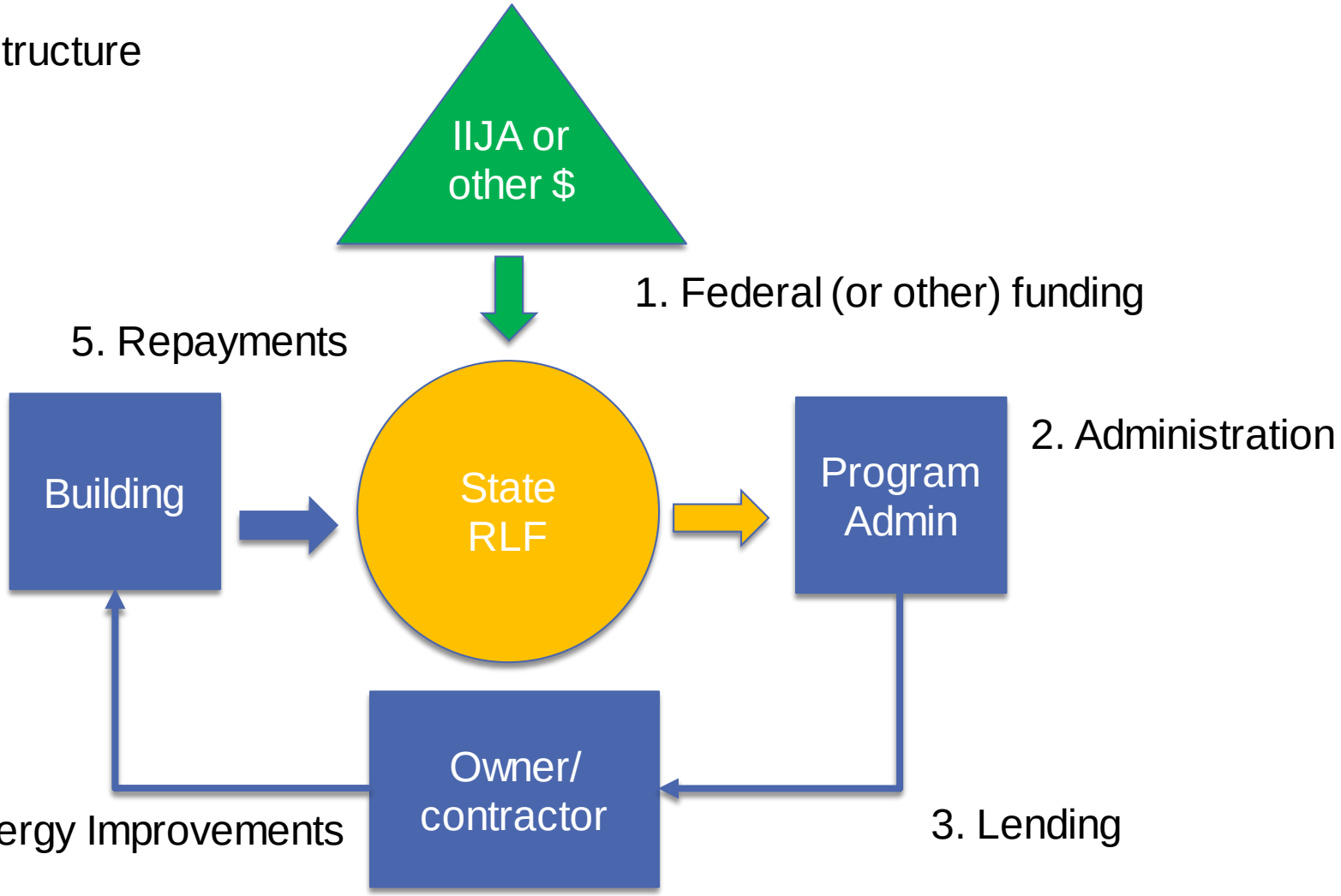
Overview of revolving loan funds

RLF description

- States use energy revolving loan funds to support a variety of projects across multiple end use sectors
  - Projects: Energy efficiency, renewable energy, and water efficiency
  - Sectors: Residential, commercial, public/institutional; some funds serve only one sector, others serve multiple sectors
- States employ a variety of program administration structures
  - Discussed in detail later in this training
- States have leveraged multiple funding sources
  - Petroleum overcharge funds
  - Federal funding: American Recovery and Reinvestment Act (2010), [forthcoming: Infrastructure Investment and Jobs Act (2021)]
  - State funding – appropriations, cap-and-trade revenues
  - Utility customer funds (less common)

RLF description

- Basic structure



Setting goals and expectations

Goals and metrics

- What are your goals for the RLF?
  - Clean energy (energy savings, decreased emissions, regulatory requirements)
  - Economic (economic development, workforce development)
  - Consumer (increased comfort, improved health outcomes, bill savings, improved asset value)
  - Societal (broader participation in the clean energy economy/transition, electric grid impacts, support for LMI households or small businesses)
  - Program self sufficiency and protecting the corpus

- How do you measure performance?
  - Clean energy: Number of projects? Size of project? Improvements with most savings (energy savings, emissions savings)? Meeting legislative or regulatory energy goals?
  - Economic: Dollars invested? Dollars leveraged? Jobs created?
  - Consumer: Dollar value of bill savings?
  - Societal: Number of participants from target groups?
  - Program sustainability: Minimizing losses? Preserving funds?

Gap analysis

- A gap analysis identifies market need for clean energy financing in a given state by:
  - Reviewing existing sources of programmatic and private-sector financing
  - Consulting with stakeholders to determine suitability of existing sources

- Gaps may exist for multiple reasons
  - Access: Certain segments of a sector (e.g., small commercial, credit-challenged residential, local governments) may not be able to access capital at all
  - Terms: capital may be available, but may be expensive, require quick payback, or be otherwise be ill-suited to certain energy projects

- State RLFs that fill gaps tend to provide more value
  - Enable new projects rather than competing with or displacing other financing already available

RLF activity

- How much clean energy have RLF programs been able to fund?
- Who participates (income, credit)? How much do they borrow? How well have RLF participants repaid their loans?
- What are the lessons learned from programs created or enhanced under ARRA?

RLF lending and sourcing

- Berkeley Lab studied 12 State Energy Office RLF programs. In 2014, those program invested approximately $74M in energy efficiency.
- Where the funds went (investment by sector):

Total Loan Volume ($M)	Residential Sector ($M)	Number of Residential Loans	Commercial / Industrial Sector ($M)	Public / Institutional Sector ($M)	Number of Non-Residential Loans
$74	$17	1,595	$12	$45	92

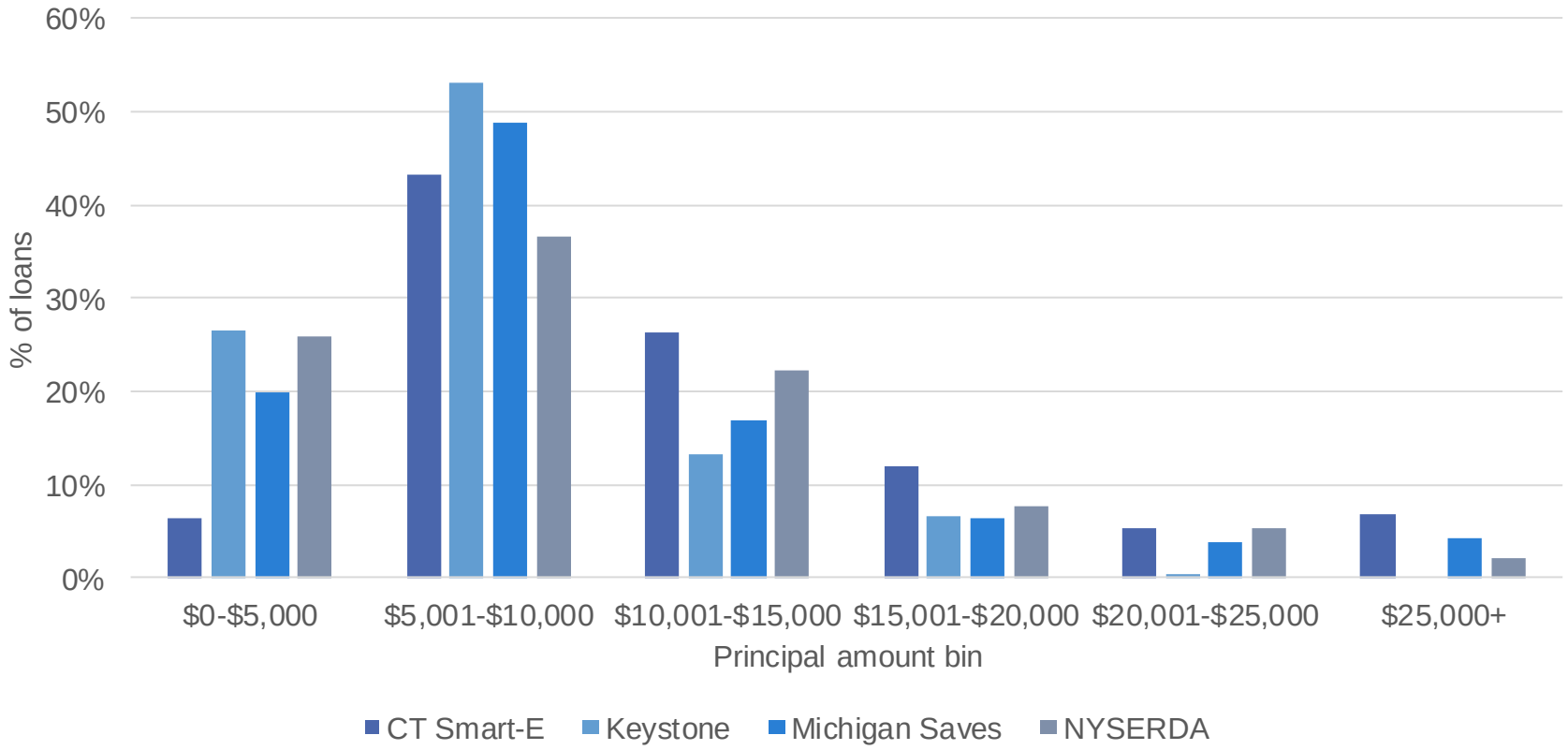
- Where the funds came from (capital source):

Utility ($M)	Private Sector ($M)	Public Sector ($M)	Portfolio Sale ($M)
$10	$9	$44	$12

Source: *Energy Efficiency Program Financing*, Deason, et al, Berkeley Lab 2016

Residential participant loan size

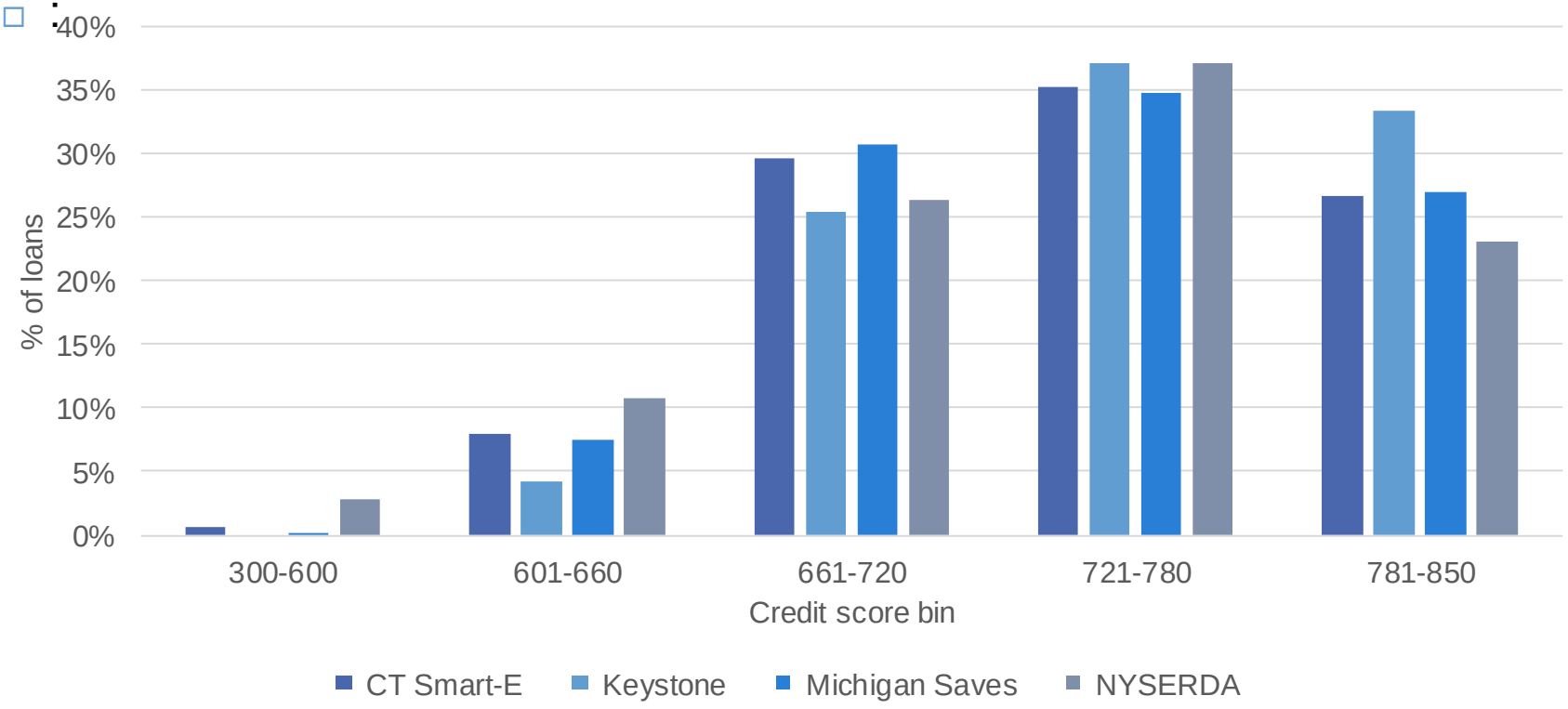
- Loan principal amounts in the Connecticut Smart-E loan, Keystone HELP, Michigan Saves, and Green Jobs Green New York programs over 10 years:



Source: *Long-Term Performance of Energy Efficiency Loan Portfolios* SEE Action 2021

Residential participant credit

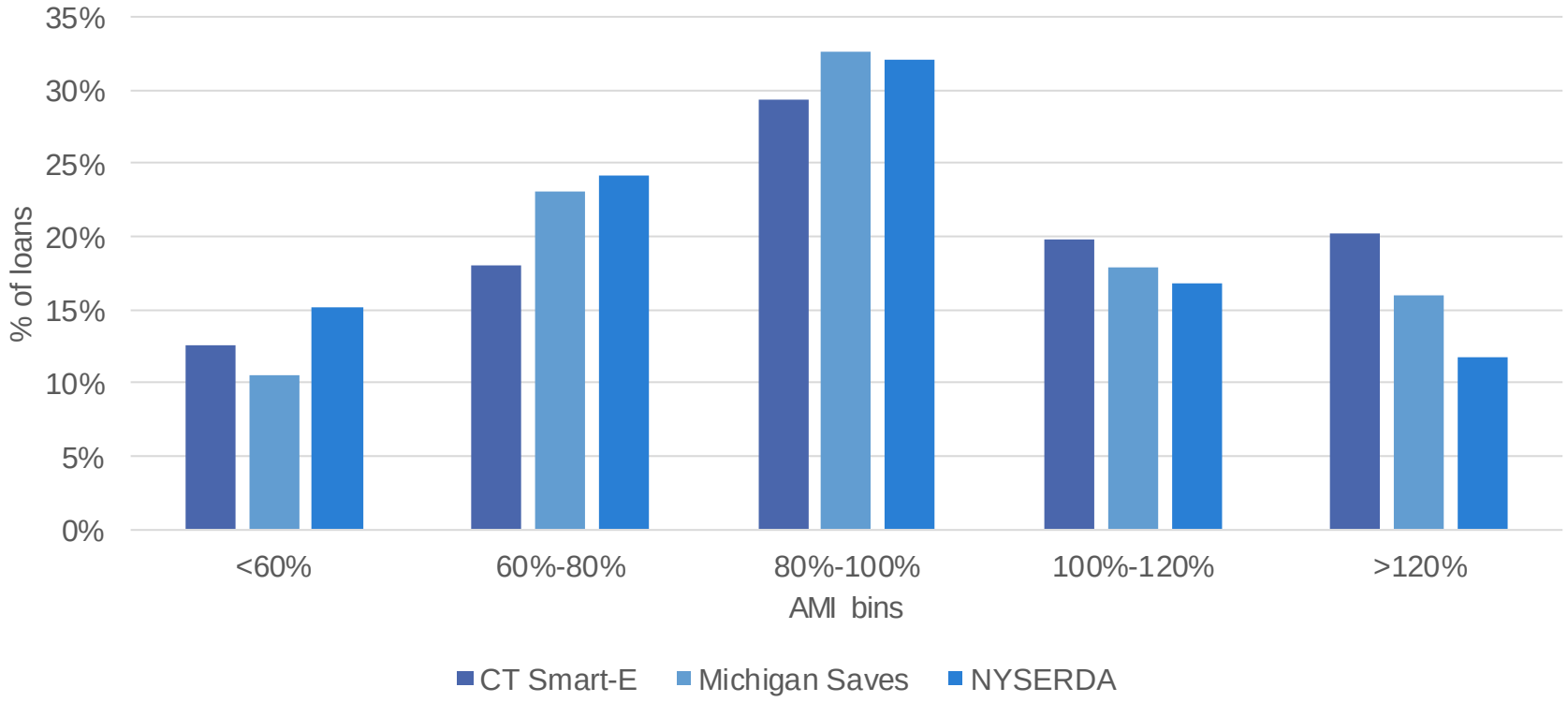
- Borrower FICO scores in the Connecticut Smart-E loan, Keystone HELP, Michigan Saves, and Green Jobs Green New York programs over 10 years:
- .



Source: *Long-Term Performance of Energy Efficiency Loan Portfolios* SEE Action 2021

Residential participant income

- Program participation in the Connecticut Smart-E loan, Michigan Saves, and Green Jobs Green New York programs by Area Median Income (AMI) bin over 10 years:



Source: *Long-Term Performance of Energy Efficiency Loan Portfolios* SEE Action 2021

ARRA funding for RLFs: Facts and figures*

- 35 states capitalized RLFs using funds from the American Recovery and Reinvestment Act; total capitalization was $566 million
- Most state RLFs have loaned out their initial capitalization amount
  - RLFs capitalized using these funds have loaned $796 million
  - Some states have loaned out funds 2+ times
- Ten states account for 68% of this loan volume ($)

* Figures and statistics based on PAGE data (as of 6.1.22). PAGE data is self-reported by states.

ARRA RLF success factors

- *Leverage*: Funds with high lending volume either:
  - Used multiple sources of revolving capital (e.g., funds established before ARRA that used ARRA funds to supplement their existing resources);
  - Engaged private capital providers – through co-lending models or by using federal money as a credit enhancement to spur private lending; or
  - Replenished capital via secondary market transactions

- *Administration*: Many successful funds engaged third parties to help with some aspects of program administration, rather than relying exclusively on SEO staff and resources

- *Partnerships*: Many successful funds partnered with contractors, community groups, local credit unions, or banks to help advertise the program and drive uptake

RLF program design: Considerations and options

RLF functions

- Marketing and outreach
- Loan origination
- Loan servicing
- Monitoring and reporting

Marketing and outreach

- Stimulate awareness and uptake of financing product
- May be most effective to integrate with contractor sales process

Loan origination

- Process financing application
- Perform credit evaluation (e.g., loan origination/underwriting)
- Generate loan documents
- Disburse loan proceeds

Loan servicing

- Collecting and processing loan repayments
- Sending out statements (if required)
- Delinquency collections
- Default collections

Monitoring and reporting

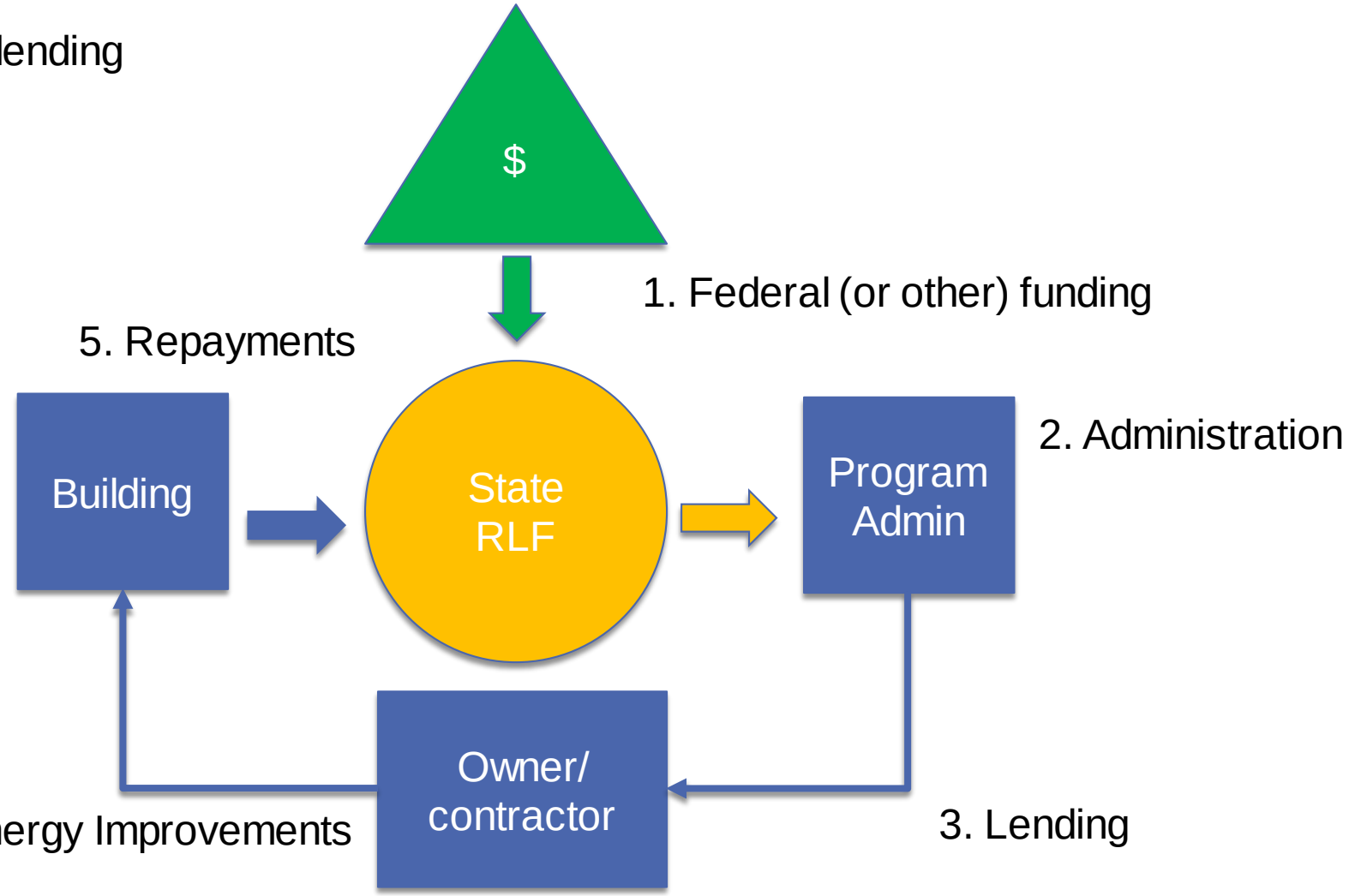
- Regular and consistent process (monthly)
- Review applications received/processed, loan issued, repayments, and delinquencies/defaults
- Comply with reporting requirements from capital provider and Federal flow down requirements (where applicable)

Options for RLF lending structure

- Direct lending
- Co-lending
- Interest rate buydown
- Credit enhancement (loan loss reserves)

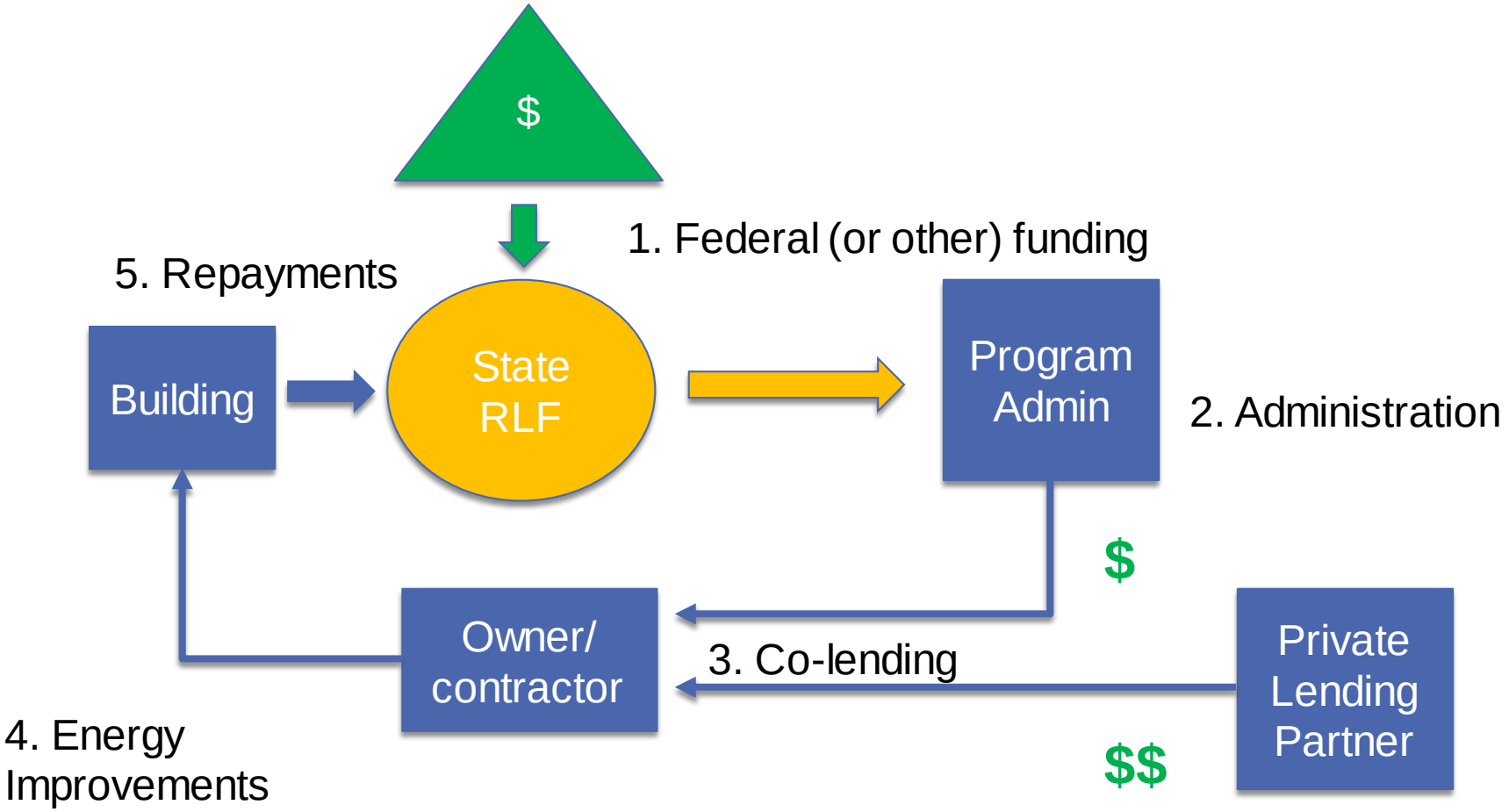
Program structure: Direct lending

- Direct lending



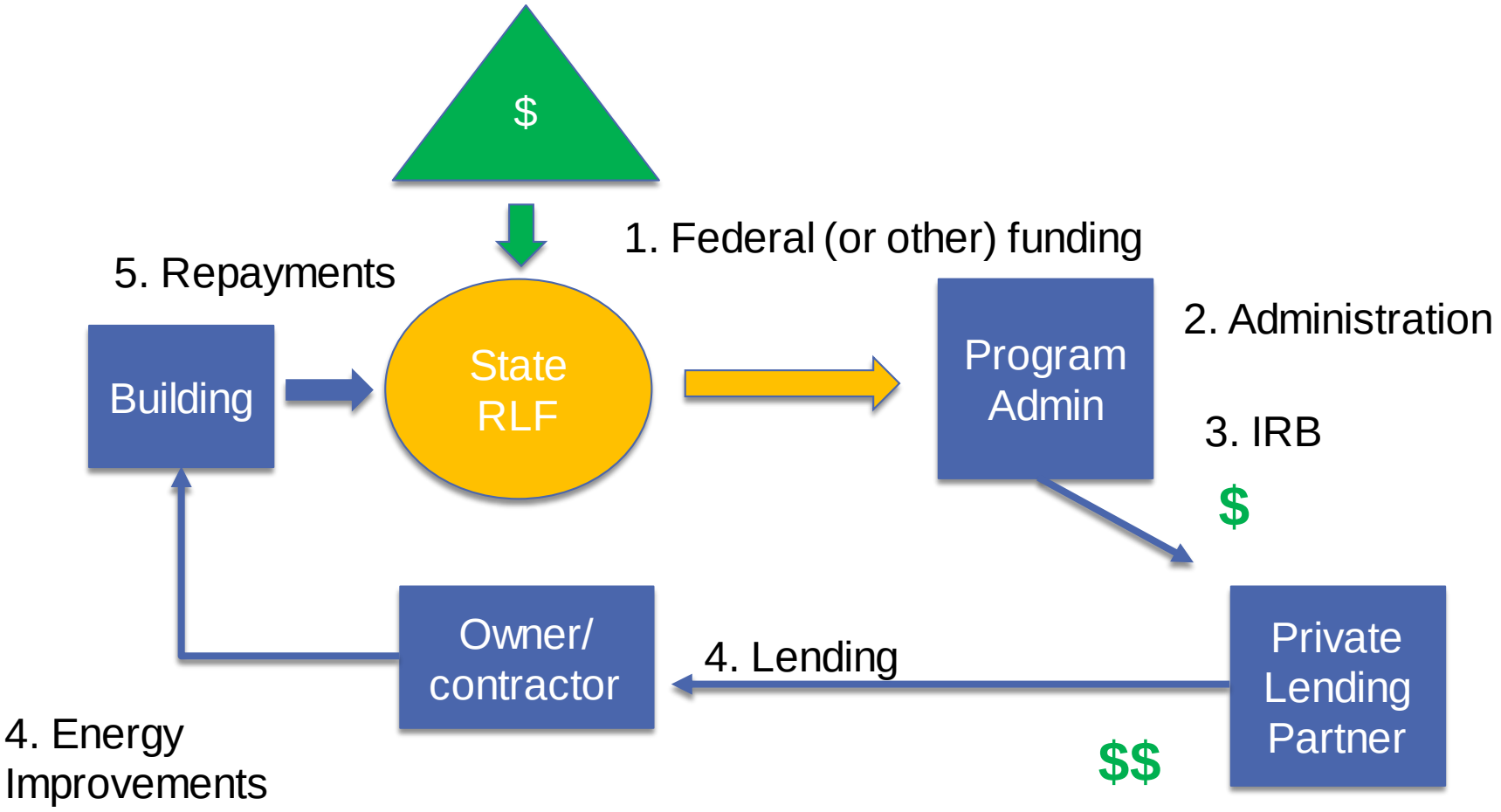
Program structure: Co-lending

- Co-lending model



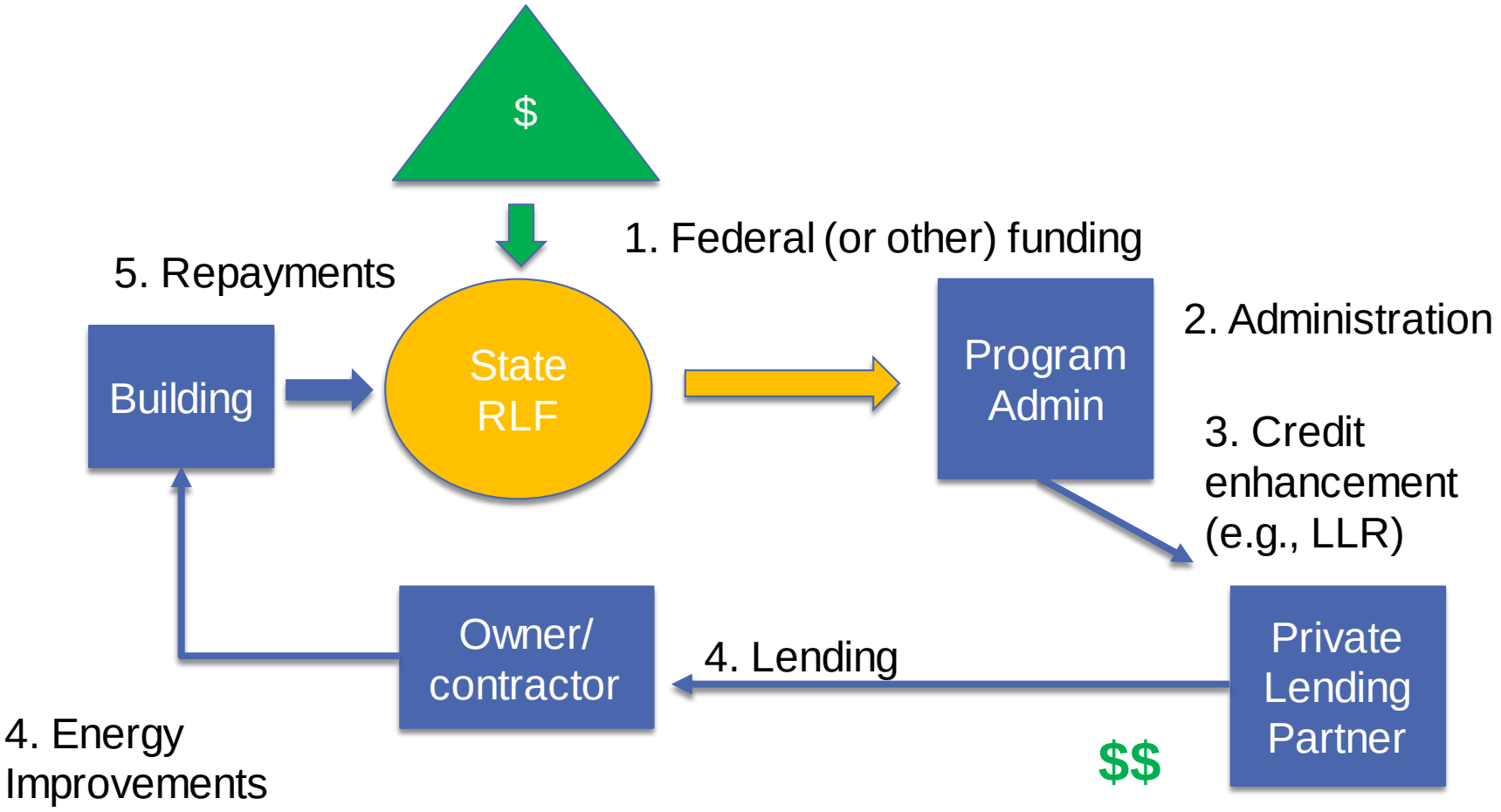
Program structure: Interest rate buydown

- Interest Rate Buydown (IRB) model



Program structure: Credit enhancements (loan loss reserve)

- Loan Loss Reserve (LLR)



Options for RLF administration

- Self-administered – SEO performs all functions internally
  - Example: Texas State Energy Conservation Office LoanSTAR Program
- Partially Outsourced – SEO contracts out for certain tasks (e.g. loan origination, loan servicing)
  - Example: NYSERDA Green Jobs-Green New York Program
- Fully Outsourced – SEO contracts out for program delivery
  - Example: AlabamaSAVES Program

Advantages/disadvantages of administration options

Option	Advantages	Disadvantages
Self-administered	• Control program delivery	• Requires expertise that may not be available in house • May compete with other staff and program priorities
Partially Outsourced	• Access external expertise (particularly important for compliance with federal/state regulations for lending and loan servicing) • Alleviate some staff burden	• Small number of fee-for-service providers (except servicing)
Fully Outsourced	• Same as Partially outsourced • Alleviate more staff burden	• Same as Partially outsourced • Less control over program delivery

RLF program design tradeoffs

- Risk tolerance
- Beat the market or complement the market
- Broadening access to underserved borrowers
- Policy goals vs financial goals

RLF program design elements

- Project eligibility
- Borrower eligibility
- Loan underwriting standards
- Types of loans
- Loan terms

Leveraging partnerships

- Engaging private capital can dramatically expand the potential volume of lending and resultant energy impacts that a RLF can achieve
  - Many RLFs that have attained high volumes (though not all) have engaged private capital
- Infrastructure Investment and Jobs Act directs that State shall, to maximum extent practicable, use the grant to leverage private capital
- How to do this?
  - Listening sessions with stakeholders – contractors; lenders; utilities
  - Deliberately and persistently build partnerships
  - Attract private capital – avoid competing with it
  - Cross-promotion opportunities

Financial terms

- The financial terms offered to customers impact fund uptake, fund sustainability

- Balancing act
  - Low interest rates = higher demand, potential run on the money; high interest rates may result in little demand
  - Long loan terms = more projects that pencil out for borrowers, but slow repayment; some private capital providers will be unwilling to offer longer terms

- Changes to terms create timing considerations

Protecting the corpus

- Successful RLFs often face challenges in maintaining available funding
  - Unavailability could have negative market impacts (e.g., frustrated program partners, frustrated program participants/potential participants, and reputational impacts that could hinder participation in future program initiatives)

- Factors that can improve fund sustainability:
  - Strong underwriting criteria
  - Effective servicing and monitoring
  - Setting interest rates sufficient to cover anticipated losses and expenses, including administration costs
    - IIJA RLF provision caps administrative costs at 10%

Generating program participation

- Determine who is best equipped to be responsible for lead generation
  - Contractors
  - Program staff
  - Community organizations
- Integrated approach to project generation – financing is one piece
- Community-based participation

Resources

- NASEO State Energy Revolving Loan Fund resources
  - www.naseo.org/issues/energy-financing/revolving-loan-funds
- NASEO Energy Finance
  - https://www.naseo.org/issues/energy-financing
- DOE resources
  - https://www.energy.gov/eere/slsc/revolving-loan-funds
- Berkeley Lab research on energy efficiency financing
  - https://emp.lbl.gov/projects/financing-energy
- Specific Berkeley Lab reports:
  - Long-term Performance of Energy Efficiency Loan Portfolios https://emp.lbl.gov/publications/long-term-performance-energy
  - Energy Efficiency Program Financing https://emp.lbl.gov/publications/energy-efficiency-program-financing
  - Energy Efficiency Financing Program Implementation Primer https://emp.lbl.gov/publications/energy-efficiency-financing-program
- NYSERDA Green Jobs-Green New York loan data
  - www.nyserda.ny.gov/Researchers-and-Policymakers/Green-Jobs-Green-New-York/Data-and-Trends
- Minnesota Trillion BTU application document
  - https://www.sppa.com/wp-content/uploads/Trillion-BTU-Loan-Application.pdf

Questions and discussion among states

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