Unanswered Questions from U.S. EPA's Webcast Part 3: Keeping it Going: Financing Options for your Clean Energy Programs

June 13, 2012

Questions for Neelam Patel (EPA)

1. *Is the DOE webinar you mentioned at the beginning (Practical advice for starting and managing an Energy Focused Revolving Loan Fund) open to the public? The link you provided brought me to the following webinar: DOE TAP Central Regional Peer Exchange Call. Is that correct?*

   Answer: Yes, the link is correct. The DOE contact would like additional participants interested in the topic to join the call because there are open spots available.

Questions for Pat McGuckin (Cadmus)

1. *Do banks offer Energy Efficiency Mortgages to customers or is this something that you have to search for?*

   Answer: Not many banks offer EEMs. For example, Colorado has just one bank that offers EEMs (http://www1.eere.energy.gov/wip/solutioncenter/pdfs/bank_of_colorado_presentation_120309.pdf). EEMs require extra work for a lender and a departure from standard operating procedure. In addition, there does not seem to be much call for EEMs in the absence of a program to drive demand. If your community would like to persuade a lender to offer EEMs, you may need to be prepared to help generate demand. The lenders most likely to be willing to work with you on this may be community banks, credit unions, and community development financial institutions (a national list of CDFIs is available at http://www.cdfifund.gov/what_we_do/programs_id.asp?programID=9#certified). A local lender may be interested by the prospect of having new customers driven through their doors.

2. *What is status of QECB availability at this point?*

   Answer: States and large local governments (100,000+ populations) were allocated the authority by the federal government to issue up to $3.2 billion in Qualified Energy Conservation Bonds (QECBs), but at last count only $0.6 billion have been issued. A few states have issued all their allocation, while most have not issued any. For more information on these attractive, low-cost tax credit bonds, including a list of available allocations by state, see http://naseo.org/resources/financing/qecb/EPC_Memo.pdf.

3. *Is the public revolving loan fund with deferred savings model similar to what Ann Arbor MI did? Do you have examples of communities that have done this?*

Answer: Yes, it is similar to Ann Arbor. The City of Ann Arbor issued a municipal bond for $1.4 million in energy projects and used the energy savings to pay off the bond. Once the bond was paid off, the City chose to continue making payments at a reduced rate ($100,000 per year) that were directed into their Energy Fund for six years. The Fund was then used to finance more projects, and 80% of those savings were also directed back to the Fund. For more information, see http://www.a2gov.org/government/publicservices/systems_planning/energy/Pages/FAQ3.aspx.

4. *Is there any data or projections that show the revolving fund possibilities of public transportation projects, ie: school transportation, handicap and elderly access-a-ride transportation.*

   Answer: The difficulty of using a revolving fund for public transportation projects is that there needs to be a source of revenue (or savings) to pay back the fund. The revenue needs to be sufficient to not only cover the operating costs of the program, but also the loan payments. If a program can generate sufficient revenue, then yes, a revolving fund could be a possibility. Any projections would be specific to the program being considered.

5. *Would Pat be willing to talk to me about Tax Exempt Municipal Leases?*

   Answer: I would be happy to. Please email me at patrick.mcguckin@cadmusgroup.com and we can schedule a call.

   One of the keys to a Tax Exempt Lease Purchase Agreement (TELP) is that the equipment being leased must be indispensable to the municipality. This is because the lease is subject to an annual appropriation clause – if the City Council does not appropriate funding for the lease, then the lease is terminated. This clause is why a TELP is not considered to be debt in most jurisdictions. As a result of this clause, lessors are only willing to finance improvements that the municipality cannot do without, such as lighting for City Hall or HVAC systems for the County Jail.

Questions for Niko Dietsch (EPA)

1. *The tool presented at the beginning of the webinar indicated that PACE is not available for public entities. In contrast, my understanding is that PACE is only available to public entities. Please clarify what type of entities are eligible to participate in PACE.*

   Answer: In terms of public entities, PACE repayment relies on a special assessment on the property taxes, and the public sector does not pay taxes. While this is not an insurmountable obstacle technically, assessors have generally been unwilling to add public sector properties to the tax rolls just so that a PACE assessment can be levied against those properties.

   But PACE can be used in commercial and residential, theoretically. However, the ability of a PACE lien to take priority over a mortgage without the permission of the mortgage lender caused the Federal Housing Finance Agency (FHFA) that supervises Fannie Mae and Freddie Mac to oppose and effectively suspend residential PACE programs. So while residential is still technically feasible, it would be probably a risky thing to go after at this point. There are some jurisdictions in Florida that are pursuing it. They're being very careful.

Commercial PACE liens have not been opposed, since commercial mortgages and loans typically require the borrower to get the lender's permission before voluntarily taking on an additional liability, such as a PACE assessment. We are seeing commercial PACE in San Francisco and Los Angeles in kind of a unique form with micro bonding, micro lending. And that maybe an interesting option as well.

Thus, PACE is limited to the commercial and industrial sector unless FHFA's position is reversed or overridden.

2. *I don't think the EPA Clean Energy Financing Guide discusses mechanisms such as Community Choice Aggregation, Sustainable Energy Utility, or hybrid public bond-PPA (the so-called "Morris Model"). Does EPA have resources on these?*

   Answer: The guide does not address Community Choice Aggregation (CCA). One resource for more information is: http://www.lgc.org/cca/what_is_cca.html. We will consider including CCA in a future update of the guide. Thank you for the suggestion.

   The hybrid bond-PPA is not included, per se, although it does include a section on "Power Purchase Agreements and Solar Leasing". See p. 49 of the PDF file (p. 43 of the document itself). Information on the "Morris Model" can be found at https://financere.nrel.gov/finance/content/solar-ppa-v20-hybrid-morris-model-saves-public-facilities-money.

   The Sustainable Energy Utility (SEU) is one option for administering ratepayer-funded efficiency programs, and has been notably effective in Vermont. New Jersey, Delaware, and the District of Columbia have also adopted versions of the SEU approach to program administration. To this point, the guide addresses the importance of "linking financing to effective clean energy program." See p. 10 of the PDF file (p. 4 of the document itself).

3. *Does the guide cover "tax exempt municipal leases" as a financing option?*
   Answer: Yes, they are briefly addressed, along with three other leasing arrangements. See p. 17 of the PDF file (p. 11 of the document itself): http://epa.gov/statelocalclimate/documents/pdf/FinancingProgramsResourceGuide.pdf

Questions for Keith Canfield (Little Rock)

1. *What is your program's average sized loan and how long was the average term of loans?*

Answer: The average loan was, net of rebates, probably right around $1,500. And the employer chooses a term that they wish to offer and that was either a 2- or 3-year term depending on the employer.

2. *Are there any associated Measurement and Verification activities to ensure that the measures are delivering the savings?*

   Answer: Yes, on the commercial and residential side, we request 13+ months of post-retrofit utility bills, which are weather normalized and compared to our estimates.

3. *Who in particular are you looking for partnerships to expand your HEAL program? Are you hoping to work directly with municipalities, employers, etc.? I represent a non-profit organization that works with over 40 communities in Michigan on energy programs - could we be potential partner?*

   Answer: Partners could be municipalities, counties, planning commissions, utilities, large employers or non-profits. The program is made up of modules, so an organization like yours may choose to implement only those that augment your existing offerings. I would be happy to discuss in more detail with interested organizations, just contact me at kcanfield@clintonfoundation.org.

Questions for Yvette Rincon and James Christensen (Sacramento)

1. *Why did Sacramento County pursue solar if they are giving the RECs to the utility? What end goals do they achieve?*

   Answer: The reason we were pursuing the project was basically to demonstrate environmental leadership in the community in a financially viable manner. And the reason the utility got the REC was because they offered higher rebates if they own the REC. And for them owning the REC meant they would be able to comply with the state law that requires that they generate clean energy. So for us it was about leadership as well as contributing to clean energy production in our community. And then on the back-end we get some financial savings from the project as well.

2. *How is the PPA arrangement different from utility net metering?*

   Answer: As I understand net metering, the jurisdiction can still take advantage of it whether they have a PPA or not. Net metering is merely getting credit for energy produced that is not used.

3. *How advantageous was the fact that you were working within the confines of a municipal utility? How different would it be for independent power producer, especially one not operating within the requirements of a RPS?*

Answer: The major advantage that we had was that our utility was cooperative and offered great rebates. The disadvantage was low electricity rates. If you are in an investor owned utility area, then your advantage is likely more expensive energy, which makes it easier to get financially viable solar projects. Again, there are many factors that make a PPA work financially and include: 1) rebates, 2) cost of energy, 3) scales of economy, 4) skilled solar companies, etc.

4. *Regarding the rebates, is that 35 cents per kWh?*

   Answer: Yes, the incentive from the utility company is cents per kWh, produced over 5 years. It is referred to as a Performance Based Incentive (PBI). The projects varied from 35 cents / kWh, down to 17 cents / kWh for the last project.

5. *Would Sacramento be willing to share their RFQ and RFP?*

   Answer: Yes.