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Leveraging State Funds in Energy Efficiency Financing

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NASEO National Association of State Energy Officials

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About NASEO

- Only national non-profit organization whose membership includes the 56 governor-designated energy officials from each state and territory.
- Created to improve the effectiveness and quality of state energy programs and policies, provide policy input and analysis, and share successes among the states.
- Members are senior officials from the State and Territory Energy Offices, as well as affiliates from the private and public sectors, who work on a wide range of energy programs and policies, including:
  - Energy efficiency in residential, commercial, public and industrial buildings;
  - Renewable energy, such as solar, wind, geothermal and biomass;
  - Oil, natural gas, electricity and other forms of energy production and distribution;
  - New and emerging high efficiency transportation fuels and technologies;
  - Energy security and emergency preparedness, and many other energy matters.

Overview of State Energy Offices (SEOs):

- 56 Governor-designated State and Territory Energy Offices (SEOs) nationwide.
- States spur energy-related economic development, minimize the environmental impact of growth, crafting energy solutions that address their citizens' needs and increase our national energy security.
- Funding form for programs under the direction of the governors or legislatures, as well as federal appropriations for the cost-shared U.S. State Energy Program.
- SEOs invest $4 billion of their own funds derived from appropriations, bonding, and system benefit charges each year.
- NASEO represents all 56 SEOs, and is organized around seven regions with coordinators that aid State and Local governments in sharing lessons learned.

U.S. State Energy Program (SEP):

Overview

- Authorized by Congress at $125 million and is delivered by the 56 Governor-designated State and Territory Energy Offices (SEOs).
  - Fosters greater energy efficiency in manufacturing to retain jobs and improve competitiveness.
  - Supports private sector energy innovations through business incubators, job training, pilots, and demonstrations.
- Each $1 of SEP funding is associated with annual savings of 1.03 million source BTUs and a cost savings of $7.22, and is leveraged by $10.71 of state and private funds.
- Under ARRA, an additional $3 billion was allocated to SEOs. Over 90% of these funds are under contract and expended for state-selected projects.

State Energy Office Investments in Technology and Commercialization

- State Energy Offices and their in-state partners provide support for technology and commercialization as an economic development strategy.
- Support is targeted to specific intervention points along the commercialization curve.
- States can provide flexible solutions in:
  - Grants
  - Equity investments
  - Debt through loans
  - Convertible debt
  - Credit enhancements
- States are investing funds from a variety of sources such as:
  - Public bonding initiatives
  - Utility ratepayer funds
  - State appropriations
  - Federal grants
  - Revolving loan funds

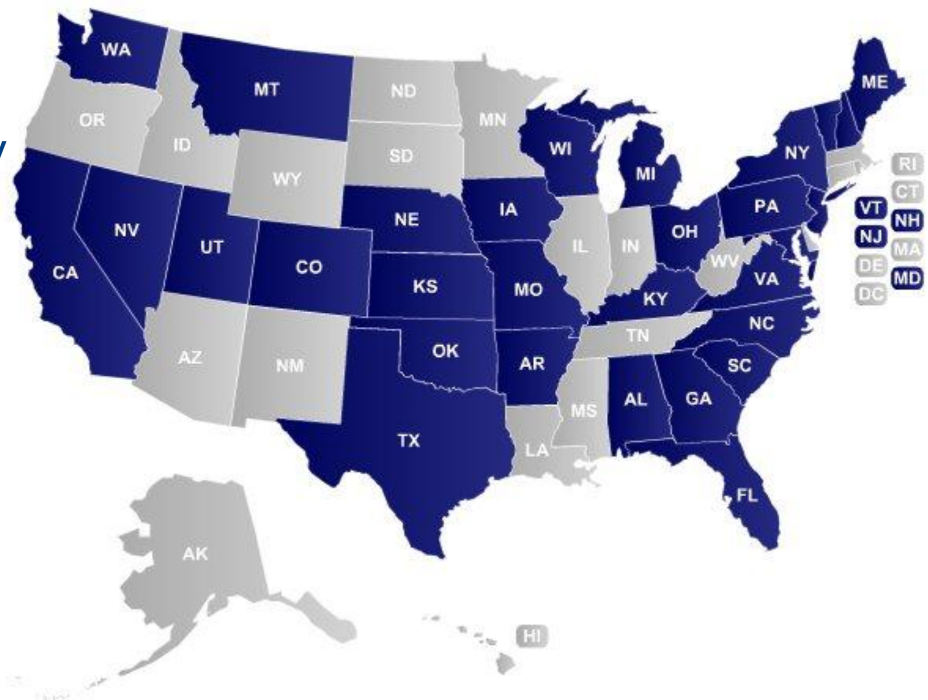
State Energy Efficiency Financial Incentives

Financial Incentive	Number of States
Personal or Corporate Tax Credit	11
Sales Tax Deduction/Exemption	9
Rebates	25
Grants	12
State Property Tax Incentives	7
Loan Programs	44
Bonds	3

Source: Database of State Incentives for Renewable Energy & Efficiency. www.dsireusa.org

NASEO Initiatives:
State Energy Loan Fund(SELF) Database

- 34 states
- 66 funds
- Nearly $1 billion in state energy loan funds



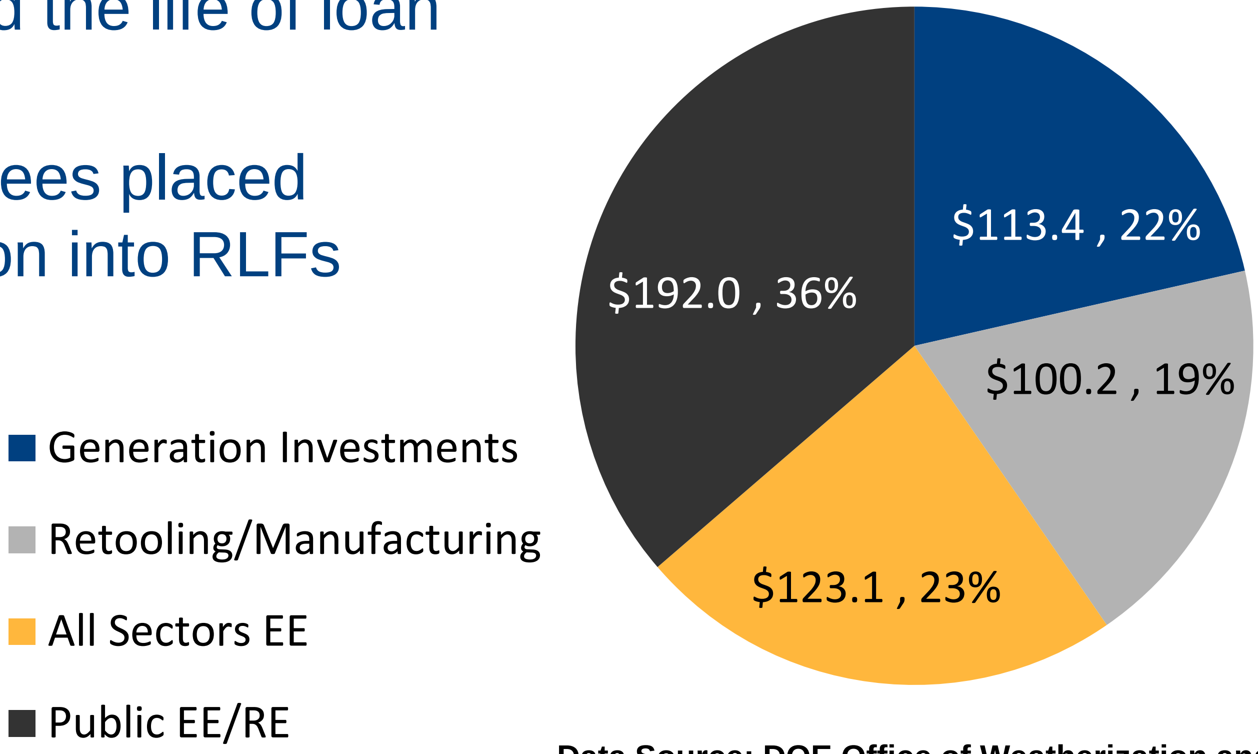
- Contains Information on:
  - Funding sources
  - Fund size and focus
  - Web links
  - Contact information

http://www.naseo.org/resources/selfs

Revolving Loan Funds:
Extending the impact of ARRA Funds

- Long-term funding mechanisms that "revolve" and extend the life of loan funds
- SEP grantees placed $529 million into RLFs

SEP RLF Allocations
(in million USD)



Data Source: DOE Office of Weatherization and Intergovernmental Program

+ NASEO Initiatives: State Financing Task Force

- **Monthly calls and periodic meetings to share energy-related financing best practices in such areas as:**
  - PACE programs – *commercial and residential (ME, FL, VT)*
  - Self-Funding, Statewide Energy Savings Performance Contracting Programs – *state and local government buildings and facilities (MN, CT, GA, NC, WA, WI)*
  - Statewide utility on-bill financing for energy efficiency retrofits – *residential and small business (e.g., NY, KS)*
  - QECBs linked to public facilities retrofits and loan fund leverage ($3.2 billion allocated by Congress for QECBs in 2009)
  - Technology commercialization and investment funds linking equity investments, business incubators, and private and university research (FL, VA, CA, NY)

NASEO Partner Initiatives:
Warehouse for Energy Efficiency Loans (WHEEL)

- Collaboration between Energy Programs Consortium, PA Treasury Dept., Renewable Funding, and Citigroup Global Markets
- Developing the first true secondary market for energy efficiency loans
- How WHEEL works:
  - Public funds transferred to custodial account.
  - Funds drawn to support purchase of loan in sponsor’s jurisdiction.
  - Aggregated loans secure bond issuance to secondary market investors.
  - Revenues from loan pool returned to private investors and sponsors.
  - Option to recycle program income to support future lending.
- NASEO primer on WHEEL: http://www.naseo.org/committees/financing/documents/WHEEL_Primer.pdf

NASEO Briefing Report:
Qualified Energy Conservation Bonds

- Major findings:
  - At least 101 projects financed with QECBs were completed in 23 states for a total of $624 million
  - Higher state involvement can result in increased use of QECBs
  - States and cities need support to ensure that bonds are being used effectively
- Recent guidance issued from the IRS clarifies qualified uses of QECB proceeds

Figure 1: Number of Projects (by percentage)

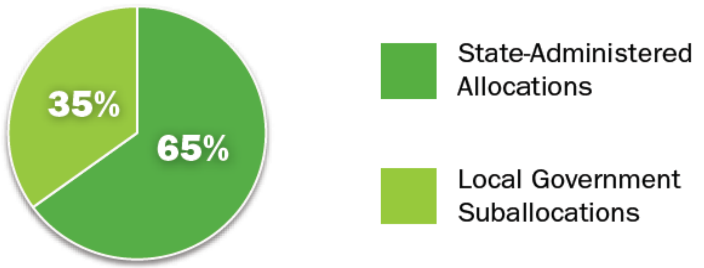
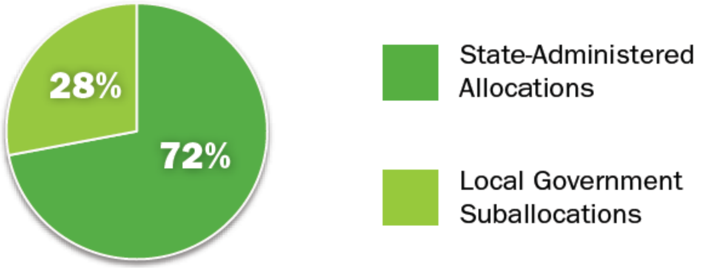


Figure 2: Amount of Funding (by percentage)



Source: www.naseo.org/resources/financing/qecb/QECB_Briefing_Report.pdf

State Case Study: Ohio Third Frontier

- $2.3 billion initiative supported by state bond issuances
- Objectives are:
  - Create new technology-based products, companies, industries and jobs
  - Support applied research and technology commercialization
  - Provide entrepreneurial assistance and early-stage capital
  - Support expansion of skilled workforce
- Energy is a priority with dedicated funding for energy efficiency, wind, biomass, storage, photovoltaics, and fuel cells
- $681 million of state investments achieved (2003 – 2008):
  - $6.6 billion of economic activity
  - 41,300 total jobs
  - $2.4 billion in employee wages and benefits

New York’s On-Bill Recovery Financing Program

- Administered by NYSERDA
- On-Bill Recovery Financing Program is a way to obtain loans for all-fuel EE improvements
- Loans are repaid through a charge on the customer’s electric and/or gas utility bill
- Home improvements must meet Home Performance with ENERGY STAR standards
- Loan is structured so that projected energy savings equal or exceed loan payments
- Homeowner may finance up to $25k if payback period is 15 years or less ($13k if period is longer)

- Loan loss reserve created by Colorado Energy Office (CEO)
  - Administered by the Colorado Housing Finance Authority on behalf of the CEO
- Strong economic development rationale:
  - Provides incentives to private lenders throughout CO to make small commercial loans up to $100k for capital improvements promoting EE and RE
- Reserve serves as “backup” to enable participating lenders to make loans to borrowers who would not normally qualify

Green Bank of Kentucky

- Founded 2009 with $14.17 million from SEP funds
  - First loan issued 2010 to KY Department of Education
- Managed through partnership between the Energy and Environment Cabinet and the Finance and Administration Cabinet
- Among the first funds in the nation to provide low-interest RLF dedicated to energy efficiency upgraded for state facilities
- 3 loan types:
  - eSELF: Projects between $50k and $225k
  - Hybrid: Between $50k and $600k
  - ESPC: More than $600k
- Projects to-date include: schools, training centers, state agency and cabinet offices, correctional facilities

NASEO Regional Coordinators

- Chuck Clinton, Regional Coordinator – Mid Atlantic
- Chuck Guinn, Regional Coordinator – Northeast
- Brian Henderson, Regional Coordinator – Southeast
- Jeff Pillon, Regional Coordinator – Midwest
- Jim Ploger, Regional Coordinator – Central
- Jim Arwood, Regional Coordinator – Southwest
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Questions?
Thank you!

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