FINANCING OPTIONS FOR LOCAL GOVERNMENTS

Matthew Brown & Heather Braithwaite
KEY QUESTIONS WE WANT TO ANSWER TODAY

• What are the most effective available financing tools to accelerate market development for energy efficiency?

• How can effective financing strategies support local economic development?

• How can local governments help to create a robust set of financing strategies?

• What is the most appropriate role for local governments?

**Note – This presentation focuses on the commercial market.**
What are the most effective available financing tools to accelerate market development for energy efficiency?
FINANCE TOOLS FOR ENERGY EFFICIENCY

1. **PACE** (property assessed clean energy): Project financing repaid through the property tax bill.

2. **On-bill Repayment**; Project financing repaid through the utility bill.

3. **Efficiency Services Agreements (ESAs)**: Project financing repaid through third party billing or utility bill. Total payments are based on estimates of energy saved. This is offered by finance companies e.g. Metrus and SCIEnergy.

4. **Commercial Lease**: Project financing repaid through direct customer payments to a lease company.
<table>
<thead>
<tr>
<th>Description</th>
<th>PACE</th>
<th>On-Bill Repayment</th>
<th>Efficiency Services Agreement</th>
<th>Commercial Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Installation cost repaid through property tax bill</td>
<td>Installation cost repaid on utility bill</td>
<td>Clients pays $x/energy saved</td>
<td>Direct-to-Customer repaid to lease company</td>
</tr>
<tr>
<td>Source of Funds</td>
<td>Muni bonds</td>
<td>Private capital</td>
<td>Private Capital</td>
<td>Private capital</td>
</tr>
<tr>
<td>Eligible Scope</td>
<td>All improvements</td>
<td>All improvements</td>
<td>All improvements</td>
<td>All improvements</td>
</tr>
<tr>
<td>Rate</td>
<td>7%</td>
<td>5-12% dependent on credit and project size</td>
<td>NA</td>
<td>5-12% dependent on credit and project size</td>
</tr>
<tr>
<td>Term</td>
<td>20 years</td>
<td>3-10 years fro Commercial and 7-20 for gov’t</td>
<td>5 – 10 years</td>
<td>3-10 years fro Commercial and 7-20 for gov’t</td>
</tr>
<tr>
<td>Security</td>
<td>Property lien</td>
<td>Varies</td>
<td>None</td>
<td>Equipment Installed</td>
</tr>
<tr>
<td>Off Balance Sheet</td>
<td></td>
<td></td>
<td></td>
<td>Maybe – It Depends</td>
</tr>
<tr>
<td>Non-payment</td>
<td>Foreclosure</td>
<td>Utility disconnect</td>
<td>No action</td>
<td>Depends on Program Rules</td>
</tr>
<tr>
<td>Examples</td>
<td>CO</td>
<td>California</td>
<td>SciEnergy</td>
<td>Xcel Energy</td>
</tr>
</tbody>
</table>
How can effective financing strategies support local economic development?
LOCAL ECONOMIC DEVELOPMENT: JOB CREATION

Program Summary
Jobs Created/Retained

Harcourt Brown & Carey
ENERGY & FINANCE
Better Building Neighborhood Program

3 Years of Data

• **10,912** jobs created

• Average **990** a Quarter – **3900** a Year

• Based on estimated **$167 million** in loans provided for commercial and residential

• **23** jobs for every **$1 million**
How can local governments help to create a robust set of financing strategies?
STEPS TO ACHIEVE A ROBUST SET OF FINANCING STRATEGIES

• Characterize the Market

• Choose the Right Finance Tool
STEP 1 – CHARACTERIZE THE MARKET

1. Characterize the Size of the Market
   a. What are Typical Project Sizes (MAX and MIN)?
   b. What Project Size do you Want to Serve?

2. Characterize the Competition in the Market
   a. What Finance Products are Currently Being Used in the Market?
   b. What Competitive Advantage Might your Finance Product Bring to the Market?

3. Characterize the Market Delivery Channels
   a. Identify Contractor Types that Deliver EE Products to Customers
### STEP 2 – CHOOSE THE RIGHT FINANCE TOOL

<table>
<thead>
<tr>
<th>Ideal Project Size (dollars)</th>
<th>PACE</th>
<th>On-Bill Repayment</th>
<th>Efficiency Services Agreement</th>
<th>Commercial Lease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess of $1 million and Workable for Smaller Projects</td>
<td>All Project Sizes</td>
<td>Excess of $1 million</td>
<td>$3,000 and Up</td>
<td></td>
</tr>
</tbody>
</table>
What is the most appropriate role for local governments?
Deciding Your Role

MONEY

Sponsorship

NO MONEY

Revolving Loan Fund

Credit Enhancements
- Loan Loss Reserve
- Loan Guarantee
- Debt Service Reserve
- Subordinated Capital Structures
- Interest Rate Buydown
Three C’s Approach

**Confidence:** Do borrowers and contractors know about and trust the finance offerings?

**Capital:** Does the program provide access to financing (capital) with attractive rates, minimal fees, and good terms?

**Convenience:** Is the process for obtaining financing simple and quick for both the contractor and the customer?
Thank You!

Harcourt Brown & Carey: Energy and Finance

Matthew Brown

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