

Arkansas EECBG Assistance Webinar Series **Financial Incentive Programs for Energy Improvements**



Ryan Foshee
Regional Officer
ICLEI-Local Governments
for Sustainability USA

Office #: +1 832-393-8094
Mobile #: +1 832-922-9253
ryan.foshee@iclei.org



What is ICLEI – Local Governments for Sustainability?

Association of local governments (cities and counties)

Originally named “International Council for Local Environmental Initiatives”

600+ U.S. members, 1200+ global membership

We provide planning expertise, technical assistance, and other guidance for local governments interested in environmental and economic development opportunities.



Sustainability Defined

The capacity to endure.

- Wikipedia

The ability to meet the needs of the present without compromising the ability of future generations to meet their needs.

- World Commission on Environment and Development

The ability to continue/maintain into the future.

- EcoKids Glossary

“Local governments for sustainability” are cities/counties striving to endure and improve as time goes on. **Their goal is to maintain or improve quality of life for residents into the future.** Local governments do this by protecting socially equity (fairness), economic wellbeing, and the environment. These are commonly referred to as the “triple bottom line.”



My Goal:

That everyone who watches this web series will win grant money in the EECBG Program for Arkansas Small Cities and Counties – and use it to better their community!

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Resources

ICLEI's 2009 Webinar Series on Innovative Energy Financing

<http://www.icleiusa.org/action-center/icleis-2009-innovative-financing-webinar-series>

Technical Assistance Project (TAP) Webcasts

<http://eere.typepad.com/tap/>

EPA Local Climate and Energy Webcasts

<http://www.epa.gov/statelocalclimate/web-podcasts/local-webcasts.html>

EERE Solution Center – Technical Assistance

<http://www1.eere.energy.gov/wip/solutioncenter/webcasts/default.html>

ICLEI – Learn From Others – Search “All” – 308 Resources

<http://www.icleiusa.org/action-center/learn-from-others>



Eligible Activities

Eligible Activity #2

“Establishment of financial incentive programs for energy efficiency improvements. This includes programs such as:

- Revolving Loan Funds
- Guaranteed and Low-Cost Loan Programs
- On-Bill Financing
- Other Innovative Tools

What's Not Allowed?

- PACE (Arkansas has not passed enabling legislation)
- Programs that replace state or local funds that have been appropriated or allocated for the same purpose.
- No Low-Income Weatherization (funded elsewhere)



State Programs

<http://arkansasenergy.org/incentives-and-programs.aspx>



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Incentives and Programs

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Choices, Choices

Can partner with other governmental entities (can not submit joint applications) or nonprofits

Can directly benefit residents and/or businesses

Create a fund for continual improvement of owned facilities?

Activity Type	Eligible Cities and Counties	In partnership with other governmental entities	In partnership with nonprofit organizations	Activity serving private sector businesses	Activity serving privately owned residences
1. Building energy audits	Yes	Yes	Yes	Yes	Yes
2. Financial incentive programs for energy efficiency improvements	Yes	Yes	Yes	Yes	Yes
3. Grants for energy efficiency retrofits	Yes	Yes	Yes	No	No



Financing is Key

Boost your score in nearly every category, especially:

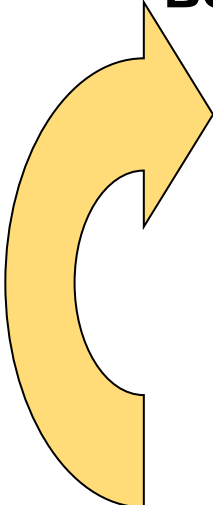
Project Element	Maximum Score
Energy Savings Strategy	25
Activity Implementation Plan	20
Project Management Capacity	10
Energy Savings & Renewable Energy Production	20
Greenhouse Gas Emission Reduction	10
Matching/Leveraging Funds	10
Jobs Created/Retained	5
Bonus – Innovation	5



What's The Point

Good financing programs will use the money again and again – simply put, more bang for the buck.

Activity Implementation Plan (20): “...persist after ARRA funds are expended and contribute to the growth of clean energy in Arkansas.”



Bonus – Innovation (5): “Applications containing exceptional factors noted by reviewers **that set the application apart from others**, including but not limited to factors such as: strong partnerships that promote regional cooperation; **innovation; sustainability of the project after the project period ends**; and/or contains activities that will enable the project or activities within the project to **serve as a model for other cities or counties in the future.**”



What's The Point? (cont'd)

Energy Savings & Renewable Energy Production (20):

“...must include an estimate of the average annual energy savings and renewable energy production from **January 2011 to December 2020...**” “...will rank applicants according to their energy savings per dollar of EECBG funds invested.”

Bottom 10% = 2 points, and so on up to Top 10% = 20 points.

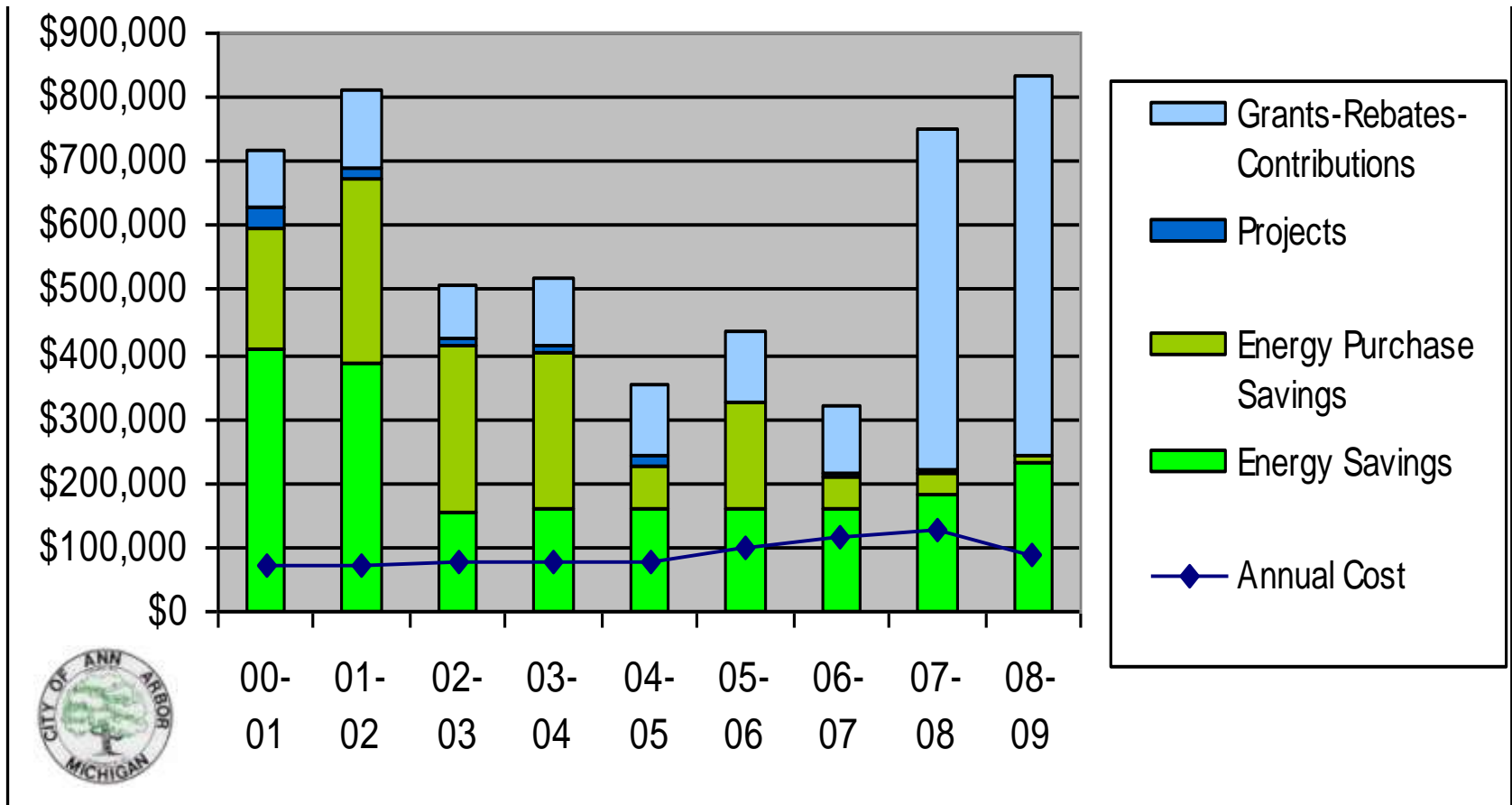
Greenhouse Gas Emissions Reduction (10): essentially the same as above, but 10 points.

Imagine continual or “step-up” savings/production out to 2020 as more projects go online. You should be able to easily get to the Top 10% in both categories in this way.



The Energy Office

Energy Coordinator - Annual Cost vs Savings



Types of Financing

Revolving Loan Funds

Guaranteed and Low-Cost Loan Programs

On-Bill Financing

Other Innovative Tools



Revolving Loan Funds

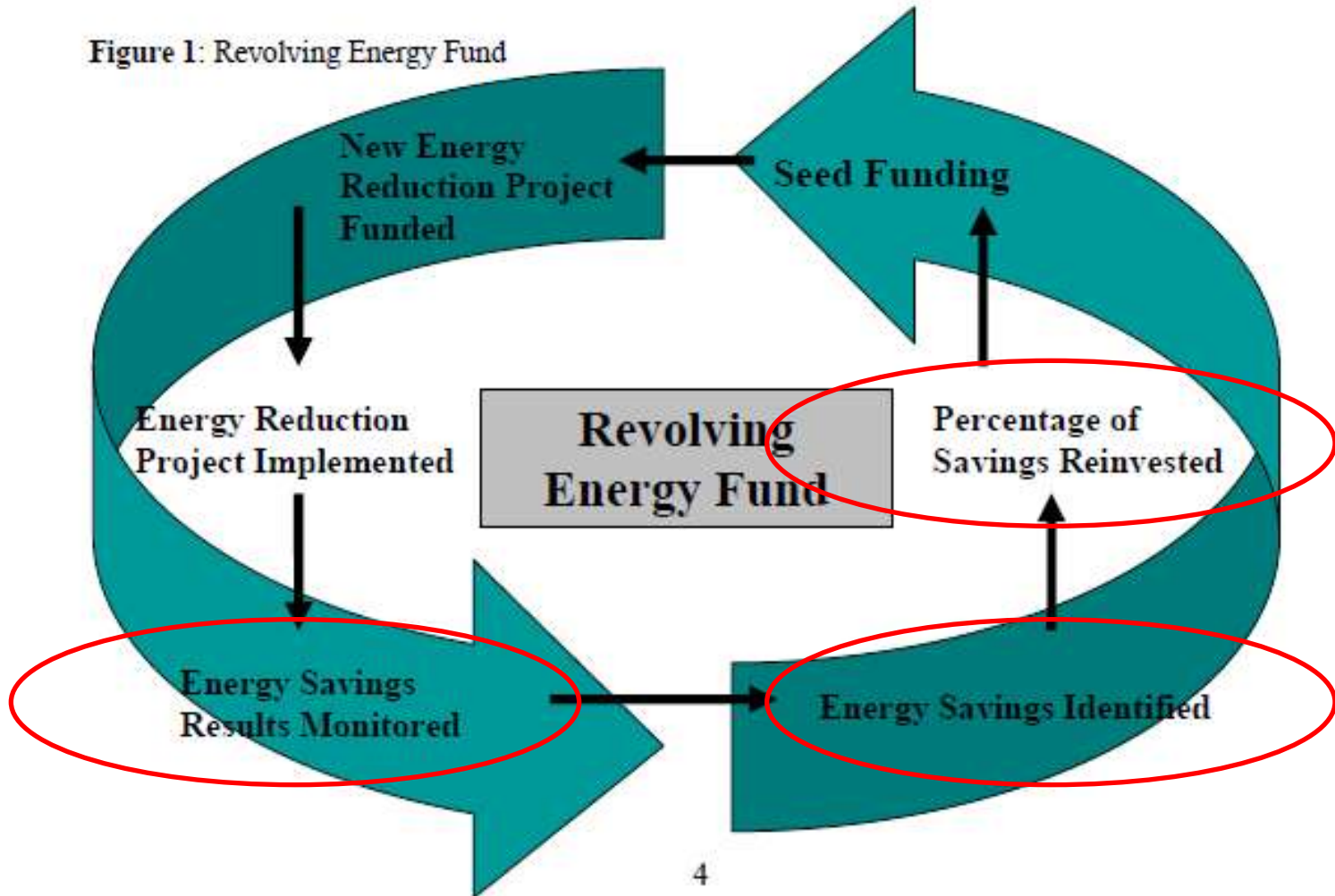
What is a RLF?

- A pool of money designated for a specific purpose, loaned out to qualified applicants
- The fund is replenished via repayment of the loan plus interest (if applicable)
- Often set up to support projects requiring initial seed money that will generate revenues over time



Revolving Loan Funds

Figure 1: Revolving Energy Fund



Examples



Best Practices

Toronto, Canada

In Toronto, their revolving energy fund, known as the Toronto Atmospheric Fund, provides loans to all interested parties in the Toronto community, including municipal agencies, private businesses, school districts, and private residents.

Ann Arbor, Michigan

In contrast to the community-level REF approach, Ann Arbor's municipal energy fund provides financing only for operations in municipal departments.

Consider The Specific Purpose and Users of the Fund



Implementation

Task 1: Determine Feasibility of Creating a Revolving Energy Fund

Meet with financial representatives from the Town/County to discuss the internal feasibility of creating a Revolving Energy Fund.

Schedule a meeting with your municipality's legal team to identify if there are any legal barriers to the creation of your Fund. If not, continue to Task 2.

- Remember to check State regulations.
- Remember to check municipal regulations and policies.



Case Study – Amherst, MA



Population: 34,874



Case Study – Amherst, MA

Meet with John and any other financial reps from the Town to discuss the internal feasibility of creating a Revolving Energy Fund.

Schedule a meeting with legal team to identify if there are any legal barriers to the creation of your Fund. If not, continue to Task 2.

- Remember to check State regulations.
- Remember to check municipal regulations and policies.

If you find there might be legal barriers, discuss feasibility of including energy efficiency and clean energy criteria into the Capital Improvement Program. This can be done by:

- Including specific questions inquiring as to the energy benefit of proposed projects.

Providing additional points to projects that have energy efficiency and/or clean energy components.



Implementation

Task 2: Organize Your Revolving Energy Fund

Clearly identify why a Revolving Energy Fund is a strategic idea for your local government. Write up your final results into a 1-page handout that you can provide to elected officials, the media, or the public upon request.

Create a team of individuals (2-5) who will be responsible for advocating for and potentially administering the Fund if successfully created.

Determine if you want your Fund to be municipal focused or community-wide. Important things to consider are that a community-wide fund will need substantially more seed funding and more administration than a municipally focused fund.



Make Two Decisions: First...

Narrow Focus:

1. Achieves measurable progress toward objectives *or* completely accomplishes the objective over set period of time
2. Prevents use of REF that is outside intended objectives or supplants funding that is normally provided from another source
3. Limits resources needed to administer REF by soliciting an appropriate number and diversity of applications

Broad Focus:

1. Allows for innovative projects or approaches that match REF objectives
2. Improves project quality by soliciting a wider variety of applicants
3. Provides for long-term use of REF in the future even if primary goals have been reached



Make Two Decisions: Second...

Community Focus:

1. Allows for community-wide results in achieving energy efficiency
2. Allows for municipal and community projects to be implemented in tandem, allowing exchange of best practices

Municipal Focus:

1. Allows municipality to demonstrate its leadership and commitment to energy efficiency and environmental initiatives
2. Reduces the amount of resources, both capital and man hours, that are needed to manage the REF



Implementation

Task 3: Identify and Secure Seed Funding for Your Revolving Energy Fund

Thanks @ICLEI



Other Examples



Best Practices

Nashua, NH

The City of Nashua, New Hampshire, was able to create their Fund with a \$20,000 surplus due to energy savings from a lighting conversion.

Newcastle & Rockingham, Australia

The City of Newcastle, Australia, set up a REF using \$300,000 from the Council's reserve fund. Similarly, the City of Rockingham, Australia, created their REF and allocated an annual contribution of \$10,000 as part of a five-year strategic budgetary planning process.

Create a Gift that Keeps on Giving



Two More



Best Practices

Ann Arbor, MI

Ann Arbor, Michigan, created their REF by maintaining repayment for a recently repaid bond in their operating budget. The amount retained in the budget was only 50% of the original repayments but still provided \$100,000 a year for the REF, for a five year period. This allowed Ann Arbor to create a Fund with seed capital of \$500,000 without making drastic alterations to their municipal budget.

Falmouth, ME

Starting in fiscal year 2007-2008, the Town of Falmouth allocated \$50,000, extra capital from defunct accounts, to a special reserved account to be used explicitly for financing energy efficiency and other energy saving measures. The reserved account is structured to run through the Town's Capital Improvement Process and decision about funding are made by an internal energy committee consisting of the Town Manager, Sustainability Coordinator, Facilities, Purchasing, and Fire Departments. Allocated funds to date have helped finance boiler upgrades, the Town's first hybrid, lighting changes, and part of the Sustainability Coordinator's salary. All grantees that have quantifiable savings associated with proposed measures, are required to repay their loan amount back to the fund



Implementation

Task 4: Structuring Your Fund (Part One of Two)

With your core group, identify the goals and objectives for your Fund.

When creating your goals, consider what is it you ultimately want your Fund to achieve.

Determine whom or what organization should be the legal holder of your Fund. Potential holders include: the municipality; private institutions; economic development corporations; or a new third party entity.

Determine who will be the manager or grant awarder of Fund monies. This could be the core group you have established or a separate fund manager.

Determine the types of projects and the various project components your Fund will finance. Potential project components include:

- All project costs
- Non-personnel costs
- Incremental costs
- Training costs
- Research costs



Implementation

Task 4: Structuring Your Fund (Part Two of Two)

Determine if you will require Fund recipients to payback their loan. If so, you need to determine the payback period (years); if you will utilize interest (which will allow the Fund to grow); and if they will be required to payback 100% of the loan or some other percentage (possibly based on energy savings or a fixed annual amount).

Determine the maximum and the minimum amount you will loan out per applicant. These figures can change from year to year.

Determine how frequently you will be accepting and approving applications.

Establish decision criteria that will be used to evaluate all applications.

Decision criteria should be based on the overall goals and objectives of your Fund.

Create the Revolving Energy Fund application form.

Advertise the Fund and release application forms to potential applicants.



Example



Best Practices

Ann Arbor, MI

In Ann Arbor, Michigan the REF is administered by the City's Energy Office, which is responsible for collecting and tracking applications (among other things) and relaying them to a three-person board which is responsible for reviewing applications and making final decisions on which projects to finance.



Best Practices

Ann Arbor, MI

In Ann Arbor, Michigan's municipal REF, loan grantees are responsible for repaying 80% of energy savings to the Fund for a 5-year period of time. By only requiring 80% of energy savings to be repaid, the Fund allows 20% of the savings to be retained by the department implementing the reduction measures. This allows the departments to immediately realize a portion of the energy savings attained via implementation of the identified efficiency measure, thereby creating an incentive for departments to continue implementing energy efficiency efforts. After the 5-year payback period, 100% of the energy savings are retained by the implementer.



Implementation

Task 5: Monitor and Evaluate

Discuss reporting requirements with Arkansas Energy Office, and base your Fund's monitoring and reporting system off of that.

Design for convenience.

Base repayments on energy savings since you need to track that anyway.



Pause For Questions



What is a Guaranteed Loan Program?

- The loan comes from a commercial lender, not the Government.
- A small business applies directly to a lender for financing. The lender reviews the application and decides if it merits a loan on its own or if it requires additional support in the form of a guaranty.
- The guaranty assures the lender that if the borrower does not repay the loan, the Government will reimburse the lender for its loss, up to the guaranty.



Examples

DOE - The Energy Policy Act of 2005 (EPAAct05) authorizes the U.S. Department of Energy to issue loan guarantees to eligible projects that "*avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases*" and "*employ new or significantly improved technologies as compared to technologies in service in the United States at the time the guarantee is issued.*"


USDA Rural Development

HUD

Small Business Association



What is a Low-Cost Loan Program?

- Frequently refers to RLF's that have an interest rate and are loaned outside of Government.
-  **Missouri Department of Natural Resources**
- Provides loans to public schools, universities, colleges, cities, and counties to help reduce energy costs.
- These loans are not defined as debt, so the loan financing does not count against debt limits or require a public vote or bond issuance.
- Since the fund was initiated in 1989, the Division of Energy has loaned more than \$80 million for completed energy-efficiency projects, for more than \$146 million in cumulative energy savings.



What is On-Bill Financing?

- On-Bill Financing (OBF) offers eligible customers financing for qualifying energy-efficient improvements to be repaid through the utility bill.
- Frequently works in conjunction with rebate and incentive programs.
- To develop an OBF, you will need to work very closely with your local utility. Becomes more realistic if local government owns the utility.



An Example

RADISSON SUITE HOTEL

AT-A-GLANCE

Total Project Cost
\$25,267

Total Rebates Applied
\$6,750

Project Loan Amount
\$18,517

Simple Payback
in 4.62 years

**Estimated Annual
Energy Savings**
\$4,005

Radisson Suite Hotel Achieves Energy-Efficient Renovations at No Extra Charge



Not Bad!

These high-efficiency PTAC units can reduce cooling costs by up to 40%, paying for themselves in an average 56 months and then continuing to save energy and money.



The Radisson's chief engineer reviews their SDG&E bill, noting that the cost of the improvements was entirely offset by energy savings.



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Q&A, Discussion

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