Deep Impact: Non-traditional Approaches to Financing Efficiency

Wednesday, May 17
3:45 – 5 PM
Panelists

- Ravi Malhotra, TBL Foundation
- Travis Yelverton, Southeast Energy Efficiency Alliance
- Joe Indvik, JDM Associates
Energy Efficiency Programs and Community Reinvestment Act: Deep Dive Blending
May 17, 2017

BETTER BUILDINGS SUMMIT
The Southeast Energy Efficiency Alliance (SEEA) promotes energy efficiency as a catalyst for economic growth, workforce development and energy security. We do this through collaborative public policy, thought leadership, outreach programs, and technical advisory activities.
COMMUNITY REINVESTMENT ACT

• The Community Reinvestment Act (CRA), enacted by Congress in 1977

• Encourage commercial banks and savings associations to help meet the needs of borrowers in all segments of their communities LMI neighborhoods

• Institutions that receive FDIC insurance are evaluated to determine if the bank offers credit in all communities in which they are chartered to do business

• An institution's CRA compliance record is taken into account by the banking regulatory agencies when the institution seeks to expand through merger, acquisition or branching

• The law does not mandate any other penalties for non-compliance with the CRA
EE CRA OVERVIEW

STAKEHOLDERS AND PARTNER TARGETS

- Federal Deposit Insurance Corporation (FDIC)
- Office of the Comptroller of the Currency (OCC)
- Regulated Banks – Pre and Post CRA Examination
- Community Redevelopment Agencies
- City and County Board of Commissioners
- Local and Regional NGOs also working in EE or LMI Activities
- Local Utilities & Local Governments
- Area Licensed Contractors, Auditors
- State NGOs (e.g. Florida Redevelopment Association)
PROGRAM DESIGN OVERVIEW

- Minimum and Maximum loan amounts
  - $2000-2500 minimum recommended
  - $10,000 - $15,000 maximum

- Eligible activities
  - Energy Efficient and Weatherization upgrades
  - Equipment replacement allowed if choosing an Energy Star appliance
  - Audits may or may not be required, but also can be used in underwriting criteria

- Lending Terms
  - 12-84 months, likely unable to match up with useful life of larger equipment
  - Project still provides monthly energy savings for relief from new loan payments
  - Modest administrative fee at closing (<$100)
  - Interest rates from 6% - 10%
CHALLENGES TO PROGRAM DESIGN

- Crafting acceptable underwriting guidelines
  - Customer matrix which does not uncomfortably raise the program’s risk profile, while also providing inclusion of LMI households eligible for CRA credits

- Forming beneficial alliances in each service area
  - Compliance with CRA is measured across all service areas where the bank has physical operations
  - Full compliance is not required in each individual service area, but as an aggregate of performance according to the bank’s size and footprint
  - Alliances with local willing partners is necessary in each market, to include utilities, contractors, auditors for marketing and project quality
EE CRA OVERVIEW

BEST PRACTICES IN PROGRAM DESIGN

- Set underwriting guidelines which have sets of criteria for higher and lower dollar amounts
  - Ex $2000 - $5999 and $6000 - $15,000

- Set underwriting guidelines which are more favorable for projects which have been audited and expected to provide positive cash flow

- Initiate the program in a service area where bank officers have established community development contacts
  - Allows for incremental rollout as a pilot program
  - Local utilities and municipal contacts can be leveraged for outreach and for forming relationships with quality contractors in area
  - Contractors are likely to become the best pipeline for customers into the new program
BEST PRACTICES IN PROGRAM DESIGN

- Marketing campaign for programs should be a combination of internal and external marketing.
- Program participation can provide a beneficial mix of new and existing customers.
- Previous EE programs have used a combo of various methods to reach these participants:
  - Envelope stuffers in monthly statements
  - Billboards
  - Radio advertising
  - Postcard mailers
  - Workshops (education for customers and contractors)
  - Website integration and specialty websites
  - Local energy conscious and sustainability groups
EE CRA OVERVIEW

PROGRAM SUPPORT FROM SEEA

- Technical Support on program design
  - Best practices from similar established programs
  - Effective partnerships for marketing and consumer engagement
  - Underwriting criteria
  - Peer to peer learning opportunities from lenders experienced in this market

- Risk Mitigation and Credit Enhancement Opportunities
  - Loan Loss Reserves (LLR) [Preferred]
  - Interest Rate Buydowns (IRB)
    **Subject to required capital commitment leverage ratios**
    **Negotiable for specific engagement agreements**
    **Subject to funding availability**
EE CRA OUTSIDE INVESTMENT OPTIONS

- Third Party Program Funding
  - Established CDFI entities already working in this space, multifamily and commercial properties
  - Qualified investments get immediate CRA credit
  - Up to Banks to determine best underwriting method(s) for selecting TPA for CRA investment
  - Market momentum could create new single purpose JVs or TPA entities to originate, underwrite, fund and service CRA investments
NEXT STEPS TO EXPLORE

- Internal Capacity Assessment
  - Experience and staffing capacity for energy efficiency and program management

- Service Area Community Review
  - Institution footprint and most viable communities for pilot implementation

- Program Partner Assessment
  - Local Utilities
  - Local Government Councils
  - Area Contractors
  - Community Action and Redevelopment Agencies
RECAP OF THE TAKEAWAYS

- Blending of EE and CRA an ideal multi-win for Banks and LMI connected buildings (incl. related Stakeholders)
- Local Partnerships are key among City, County, Utilities, Contractors and Banks
- Increase CRA performance by creating internal or funding external EE programs with LMI goals
- Vertical connections with housing rehabilitation and community redevelopment entities can revitalize this aging housing stock
THANK YOU FOR JOINING US TODAY!
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Deep Impact: Non-traditional Approaches to Financing Efficiency

Ravi Malhotra
Founder & President
ravim@TBLFund.org
720.261.1086
Introduction

Community Development Financial Institution (CDFI)

Financial Ally to Better Building Challenge

Property Assessed Clean Energy Lender in Texas
Sources and Uses

Sources

1. CRA:
   ✓ Banks and Credit Unions

2. PRI/MRI:
   ✓ Foundations

3. Crowd Funding:
   ✓ FFF
   ✓ Accredited/Institutional Investors

4. Government:
   ✓ Grants
   ✓ Loans

Uses

1. Financing of green retrofits:
   ✓ Energy efficiency
   ✓ Renewable energy
   ✓ Water conservation
   ✓ Health and safety upgrades
Program Related Investments

1. Substitute to Grants:
   ✓ Counts towards 5%

2. Return is not important:
   ✓ Competes against Grants

3. Longer Term:
   ✓ Up to 10 years

4. Credit Enhancement:
   ✓ Last money out / LLR
   ✓ LOC

Mission Related Investments

1. From Endowment Fund:
   ✓ Competes with other investments
   ✓ Requires ~ Market returns
   ✓ Larger amounts possible
Services

1. Financing of green rehabilitation of existing multifamily affordable housing
   ✓ Energy efficiency
   ✓ Renewable energy
   ✓ Water conservation
   ✓ Health and safety upgrades

2. Target Client:
   ✓ Small Urban MF Properties
   ✓ Rural MF Properties

3. Geographic Focus:
   ✓ Current - CO, NM and TX
   ✓ 3-Yr Plan – Serve Nationally

Green Investments in:
1. Affordable Housing,
2. Climate Change, and
3. Economic Development
Products

1. Off-Balance Sheet Financing
   - Energy Performance Contract (EPC)
   - PACE (Debt)
   - PACE

2. Debt Financing
   - Fixed rate, up to 10 years
   - Variable rate, up to 25 years

3. Renewables
   - Debt financing for PACE/PPA/Lease

4. Project Financing
   - Access to multiple Financing Partners
## Why EE Financing Works

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current annual utility cost</td>
<td>$100,000</td>
</tr>
<tr>
<td>25% utility savings due to Efficiency Upgrades</td>
<td>$25,000</td>
</tr>
<tr>
<td>Reductions in O&amp;M costs from EE retrofit</td>
<td>$9,000</td>
</tr>
<tr>
<td>Increase in profits due to higher occupancy &amp; lower turnover due to better comfort &amp; safety</td>
<td>$6,000</td>
</tr>
<tr>
<td>Total Savings/Year</td>
<td>$40,000</td>
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<tr>
<td>Cost of capital</td>
<td>5%</td>
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<tr>
<td>Increase in value of property</td>
<td>$800,000</td>
</tr>
<tr>
<td>Lifetime of retrofit measures (in years)</td>
<td>15</td>
</tr>
<tr>
<td>Total Savings from EE retrofit</td>
<td>$600,000</td>
</tr>
</tbody>
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Case Study - Debt

Financial Details
• Total Project Cost: $316,000
• Loan: $250,000 for 5 years at 4.5%
• Annual Savings: $30,000
• Simple Payback on Loan = 8.33 Yrs

Scope of Work
• Replace old boilers with 96% efficient boilers
• Add boiler pipe insulation
• Add attic & crawlspace insulation
• LED lighting upgrades

104 Units MFAH, 27 x 4-plexes, Senior Housing
Case Study - EPC

Financial Details
• Total Project Cost: $287,000
• EPC financial at 10% for 15 years

Scope of Work
• Low Flow Devices
• Windows and Doors
• Lighting
• Insulation

100 Units PHA, Senior Housing
Case Study - PPA

Scope of Work
• 250 kW of solar PV
• Car Port

Financial Details
• Total Project Cost: $665,000
• 20% prepay
• PPA at 8.8 cents/kWh for 15 years
• Debt at 6% for 15 years
Case Study - PACE

Scope of Work
• Heating and Cooling
• Lighting
• Windows
• 100kW Solar PV
• Low Flow devices

Financial Details
Total Project Cost: $955,000
  o Solar PV Costs $225,000 on PPA
PACE at 6% for 20 years

124 Units LIHTC, High Rise, Senior Housing
Summary

- 100% of investments are CRA eligible
- Simultaneously impacts: affordable housing, climate change & community development
- ICAST and TBL Fund have a 15 year history of managing Green Retrofit projects
- Future opportunities lie with off-balance sheet financing including PACE, EPC, PFS and PPAs
- Innovation is using a CDFI and mission-based service providers to maximize impact
Thank you!

Ravi Malhotra
Ravim@TBLFund.org
720-261-1086
www.TBLFund.org
Questions?
Thank You

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