NASEO

National Association of State Energy Officials

STATE ENERGY LOAN FUNDS

State energy efficiency and renewable energy Revolving Loan Funds (RLFs) enable State and Territory Energy Offices and their partners to use an initial capital fund to offer long-term, low-interest financing for a variety of uses. Because principal and interest repayments are used to reseed and revolve the fund, and because clean energy loans typically outperform conventional financing with minimal default rates, many RLFs around the country have supported designated clean energy activities successfully for decades, maximizing and leveraging the impact of the initial funding source. States have used RLFs to introduce the market to a variety of innovative financing tools, such as energy performance contracts, on-bill lending, property assessed clean energy, and public-private partnerships.

HISTORY

State energy RLFs date back to the 1970s and 1980s, when early pioneers, such as the states of Nebraska and Texas, used petroleum violation escrow and oil overcharge funds to launch financing programs. Since then, especially with the influx of funds from the American Recovery and Reinvestment Act of 2009 and with support from the U.S. Department of Energy, state use of RLFs has expanded significantly. Today, the majority of states operate at least one energy RLF, with many using federal and state funds, greenhouse gas auction revenues, bond issuances, and private capital to establish and grow their loan programs.

TRENDS

The National Association of State Energy Officials (NASEO) maintains the State Energy Loan Fund database, which tracks energy loan programs and includes key statistics such as funding source, fund size, and program purpose. Based on data shared by the State Energy Offices, NASEO's database is tracking:

$1.6-$1.7 BILLION

Known capitalization of state energy RLFs.

35 STATES

Known to have RLFs or credit enhancement programs.

32 STATES + DC

With PACE-enabling legislation enacted, according to PACENation.

$1.2 BILLION

In known issuances of Qualified Energy Conservation Bonds, according to the Energy Programs Consortium.

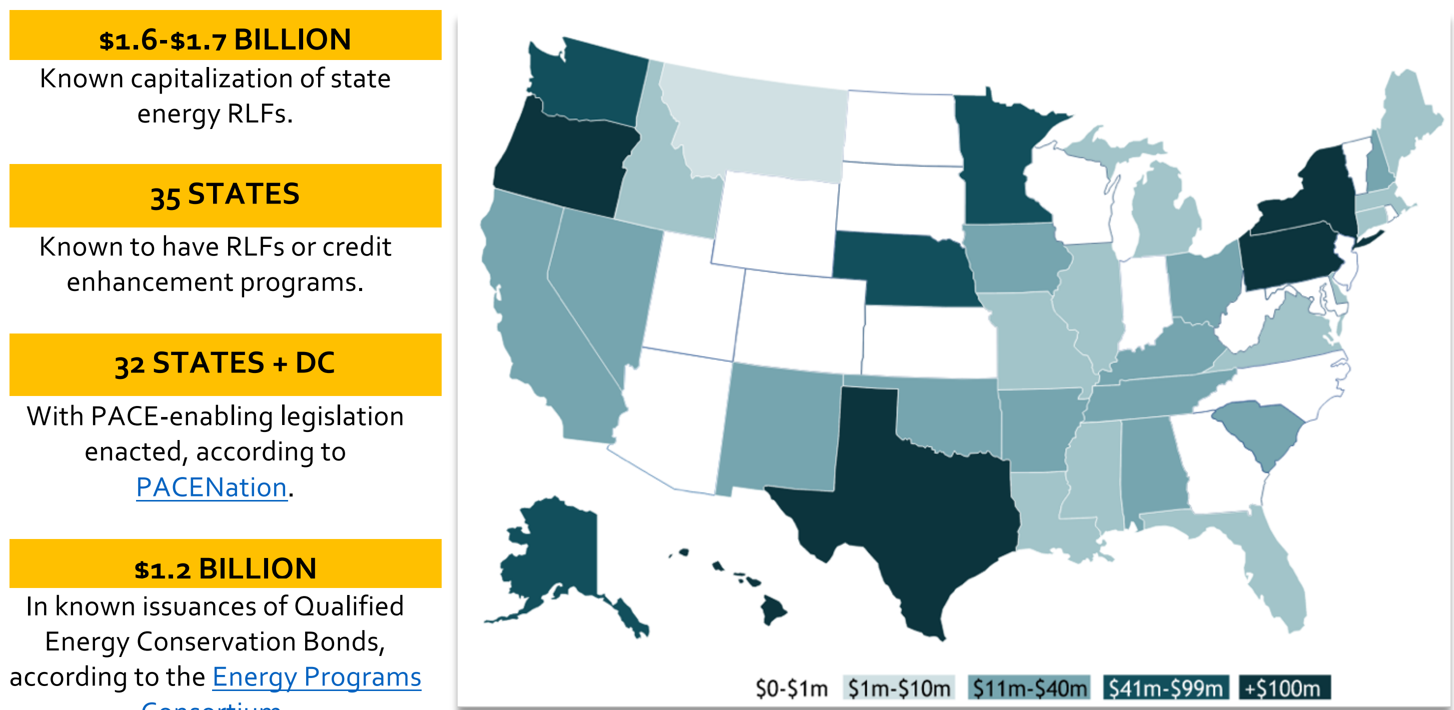

FIGURE 1: HEAT MAP OF STATE ENERGY RLFS, SOURCE: NASEO.

RLF DESIGN AND ADMINISTRATION MODELS

RLFs have been designed and implemented in different ways in order to meet states' specific market needs and maximize the impact of the funds. In addition to the origination and servicing of loans, several successful RLFs often also include non-financing program structures such as contractor training and qualification, quality control, and technical assistance for borrowers. This is where public-private partnerships can play a crucial role---trade allies, for instance, can work with states to market programs and loan offerings, and professional certification group such as the Air Conditioning Contractors of America can help ensure quality installations.

IN-HOUSE ADMINISTRATION

Some Energy Offices have opted to run their energy loan funds in-house. For instance, the Texas State Energy Conservation Office (SECO) manages the LoanSTAR loan program for publicly owned and tax-district supported facilities. SECO has developed comprehensive program guidelines, receives and reviews loan applications, provides funds for approved projects, determines the amortization schedule for each loan, monitors the design, construction, and closeout of each project, and handles repayment collection and other loan needs. Since its establishment in 1998 with a capitalization of $128 million, LoanSTAR has made over 260 loans exceeding $443 million in project costs.

THIRD-PARTY ADMINISTRATION

Some State Energy Offices have partnered with a third-party administrator (TPA) to manage their energy RLFs. A TPA may take on some or all tasks associated with operating the loan fund, including managing the application and underwriting process, servicing loans, sourcing projects, and marketing the program. The Energy Division of the Alabama Department of Economic and Community Affairs works in close partnership with a TPA, Abundant Power to administer and originate loans for the AlabamaSAVES program, which targets commercial and industrial borrowers. AlabamaSAVES has used a loan fund of $25 million to support over $50 million in projects.

LOAN PARTICIPATION PROGRAM

Another RLF design and administration option is a "participating loan" approach. Under this option, the State Energy Office may work with lenders to purchase a portion of each energy efficiency or renewable energy loan made. For instance,in Nebraska's Energy Office's Dollar and Energy Savings Loan Program, the Nebraska Energy Office (NEO) purchases a percentage of eachloan at a 0% interest rate, lowering the borrower's costs while still providing an attractive yield for their partner lenders. Nebraska has achieved a 2:1 private-to-public capital leverage ratio since the program's establishment in 1990, with NEO's $153.3 million combined with $172.2 million from private lenders to support over $320 million in loans.

GRANTS-TO-LOANS

Another way to activate public-private partnerships in an RLF is to award grants to lenders to make loans for targeted energy efficiency and renewable energy measures. The State of Washington's Clean Energy Fund, overseen by the State Energy Office, uses a competitive solicitation process to identify nonprofit lenders (such as community development financial institutions and credit unions) interested in lending for clean energy. Selected lenders manage loan underwriting and servicing, absorb any losses, and revolving these loans for at least ten years. The State Energy Office has received funds from the State legislature to manage this program, which has resulted in as much as a 20:1 leverage of state funds.

TO LEARN MORE

NASEO's Financing Committee, which is chaired by NYSERDA Treasurer Jeff Pitkin and Virginia Energy Division Director Al Christopher, tackles state energy loan funds and other financing issues of importance to state energy policy makers. This committee is open to any State and Territory Energy Office director or staff, as well as NASEO Affiliate partners. To learn how to participate in this committee, contact Sandy Fazeli at sfazeli@naseo.org.