



# The Public Sector Role in Financing Energy Improvements

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## Benefits of Public Financing

- Can leverage private capital
- Used to achieve greatest public benefit rather than highest rate of return
- Can increase the attractiveness of financing and design the terms for certain participants/aims, e.g. lower-income participants, retrofits with greater energy savings



## Drawbacks to Public Financing

- Not enough available capital to finance meaningful level of retrofits (residential, commercial, etc.)
- Funds subject to raids from legislature
- Often need outside expertise to administer program



## California Energy Commission background in financing

- Energy Conservation Assistance Act (ECAA) loan program established in late 1970s
  - Seeded with \$6M from General Fund
  - RLF providing loans for energy efficiency and renewable energy improvements on existing public buildings; can finance up to 100% of project cost
  - \$3M maximum loan amount; no minimum
  - 3% interest rate; projects must have 11 years simple payback; last round of funding = \$20M
  - 1% interest rate pool seeded with \$25M in ARRA funding; projects must meet ARRA restrictions and have 13 years simple payback



## Municipal Financing Program

- \$30M in ARRA SEP funding directed toward PACE financing programs\*
- Solicitation went out in October 2009; 16 proposals requesting from \$2M - \$20M submitted by local governments; 5 proposals chosen for awards
- Funded programs include loading order, HERS II audit and other requirements

\*Determining impact of recent FHFA and OCC direction.



## Some Examples in Other States

- Keystone HELP (PA)
  - Partnered with AFC First Financial to offer range of financing products with lower interest rates for deeper efficiency retrofits
- NYSERDA Residential Loan Fund (NY)
  - Uses System Benefits Charge to reduce interest rate for installation of efficiency improvements
- LoanSTAR Revolving Loan Program
  - Uses PVE Fund to seed RLF to finance efficiency and renewable improvements on public buildings



## Types of public lending programs

Type of program	Eligible participants	Interest rate	Minimum/maximum financing amounts	Special features
PACE	Owners of real property (usually res. and comm.)	3-8% (generally b/w 6 and 8%)	2.5k-50k residential; 3k-500k+ comm.	Tied to property; priority lien
RLF	Public buildings	1-3%	No minimum-5M	Amortized based on svgs.
Un/secured loans with LLR or int. rate buydown	Residential (may expand to multi-family)	4-14%	1k -35k	Can be tailored to allow range of options



## What State Energy Offices Can Do

- Look into options for obtaining seed money
  - Ex., PVE, public goods charge, general fund, federal grants, solid waste fund (Babylon, NY)
  - Use funds that are not borrowed
- Determine target consumers and design program guidelines
  - Some examples:
    - Multi-family: need to resolve split incentive problem
    - Low-income: lower interest rate and amortize payments for positive cash flow



## What State Energy Offices Can Do (cont.)

- Identify private sources of additional funding/private partnerships
  - Credit unions
  - Specialty lenders
  - CDFI lenders
  - Others
- If setting up RLF (including loan loss reserve), determine how to replenish
  - Small charge on each loan
  - Additional infusions from GF, public goods charge, bond sale, etc.



Thank you!

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