



# Department of Commerce

Innovation is in our nature.

## American Recovery and Reinvestment Act of 2009

### State Energy Program

### Energy Efficiency Credit Enhancement Grant Request for Proposals



Washington State Department of Commerce  
[www.COMMERCE.wa.gov](http://www.COMMERCE.wa.gov)  
October 28, 2009

## Part I: ENERGY EFFICIENCY CREDIT ENHANCEMENT GRANT PROGRAM DESCRIPTION

This solicitation marks the launch of the State of Washington's Energy Efficiency Credit Enhancement (EECE) Grant Program, through which the Department of Commerce (the Department) will distribute a total of \$5 million in grants of State Energy Program funding. Grants will be made to financial institutions and entities working with financial institutions involved in energy efficiency lending, and are intended to reduce the risk associated with energy efficiency (EE) lending.

Grant funds are intended to be allocated to applicants within the following three categories: (i) banks and credit unions, (ii) utilities and contractors, and (iii) other financial institutions and agencies. Applicants are invited to submit proposals describing how they would use a credit enhancement grant to leverage private capital toward energy efficiency lending.

The Department encourages applicants to structure lending programs and credit enhancement mechanisms to leverage the largest amount of capital possible and to make the program as sustainable as possible, while still maintaining prudent credit screening and lending practices.

Grants will be used as credit enhancement mechanisms for EE lending programs, allowing institutions to lend to a broader pool of applicants and offer lower interest rates and longer terms. Allowable credit enhancements include capitalizing a reserve fund, subsidizing interest rates, or a combination of the two. Capitalizing a reserve fund is the preferred alternative because it has higher leveraging potential and allows the grant to support continuing rounds of lending, instead of just being used once, for example, to drive down interest rates. Details on allowable credit enhancements are as follows:

- *Reserve fund*

Credit enhancement grants may be used to partially capitalize a loan loss reserve fund to provide a backstop for losses incurred through defaults. Grant recipients may establish this backstop in different ways, depending on whether they are using it to cover their own losses, or to enhance the credit of a portfolio of loans offered in the secondary market via a bond sale or a private placement of a portfolio of loans. The reserve fund is not intended to be a loan guarantee. Instead, it is intended to reduce risk for lenders and allow them to share the burden of risk of potential defaults. In fact, unlike grants that come with spend-down schedule requirements, this grant may be best used by **not** spending, so that it remains useful as a reserve fund into the future.

- *Interest rate subsidy*

Credit enhancement grants may be used to drive down the interest rates on EE loans. Grant recipients may achieve the lower interest rates in different ways, including capitalizing a portion of the loan fund that would be at least matched by private capital or subsidizing repayment streams for particular borrowers.

The Department will make \$5 million worth of loans under this solicitation, in amounts ranging from \$500,000 to \$1 million. The Department expects to fund between five and ten lending programs in total.

## **Part II: PROGRAM GOALS**

The top goals for the American Recovery and Reinvestment Act (ARRA) State Energy Program funding are to:

- Generate energy efficiency improvements that would not otherwise have occurred, and
- Retain and create new jobs.

The Energy Efficiency Credit Enhancement Program will work towards achieving these goals by:

- Supporting the investment of private capital in lending markets for energy efficiency projects,
- Providing increased access to capital for property owners for energy efficiency upgrades and retrofits, and
- Engaging financial institutions as marketing and outreach partners for energy efficiency improvements.

Given that this is one of the first ARRA-funded credit enhancement programs in the country, the Department invites creative responses to this RFP. The Department is aware of the uncertainty in credit markets and is willing to accept ranges of acceptable outcomes, but intends to distribute grants to organizations with the best chance at achieving the goals listed above.

The lending programs that receive the initial credit enhancement grants should be implemented as quickly as possible. It is important to the success of the overall grant program that the Department be able to evaluate the usefulness and impact of the lending program and, if necessary, approach the State Legislature to adapt legislation to support changes in the lending program.

### Part III: SCHEDULE

Information Conference Call: Monday, October 19<sup>th</sup>, 2009

RFP Issue Date: Wednesday, October 28<sup>th</sup>, 2009

**Application Due Date: Applications must be received by the Department of Commerce by 5:00 p.m., Thursday, November 12<sup>th</sup>, 2009**  
**Limit of ten pages**

**Email to [liz.green-taylor@commerce.wa.gov](mailto:liz.green-taylor@commerce.wa.gov); or hand-deliver to the State Energy Program, 906 Columbia St SW, Olympia, Washington.**

Contract Signing: Thursday, December 10<sup>th</sup>, 2009

### Part IV: CONTRACT AND AWARD

Department of Commerce management will consider staff recommendations and make the final funding decisions. The Governor will certify that any projects to be funded represent an appropriate investment for ARRA funds. Legislators will be informed and award decisions will be announced to all applicants. Award letters will be sent outlining when costs can be incurred and the contracting process.

There are significant compliance requirements associated with ARRA funding. Applicants should familiarize themselves with the terms and conditions beginning on Page 1 of Attachment C in the Department's standard ARRA contract template to ensure that they have the capacity to comply. This template will be used for the contracts for the EECE program and can be accessed at: <http://www.commerce.wa.gov/DesktopModules/CTEDPublications/CTEDPublicationsView.aspx?tabID=0&ItemID=7924&Mid=484&wversion=Staging>.

Any contract awarded as a result of this application process is contingent upon the availability of funding. The Department may reject any application not in compliance with all prescribed procedures and requirements. The Department reserves the right to cancel this solicitation or reject for good cause and to commence a new application process at any time upon a finding by the Department that it is in the public interest to do so. Proposals submitted in response to the application will become the property of the Department. If confidential information is submitted within a proposal, applicants should explicitly denote it as such. The Department cannot guarantee confidentiality, but will do its best to protect sensitive information. Names of projects and organizations of grant recipients will be released when awards are announced.

## **Part V: APPLICATION REQUIREMENTS**

### **Brief outline of application**

#### **Project Summary (two pages maximum)**

- Eligible Applicant
- Eligible Project
- Sufficient Capital
- Eligible Funding Request
- Milestone Plan / Schedule for Timely Expenditure of Funds
- Statement of Financial Need

#### **Project Plan (eight pages maximum)**

- Project Description and Lending Plan
- Project Team
- Leveraging Potential
- Underwriting Criteria
- Energy Savings Measurement and Reporting Capacity

#### **Appendices (twenty pages maximum)**

- Project Budget
- Resumes of Team Members
- Loan Term Sheet(s)
- Marketing Materials
- Evidence of Local Support and/or Partner Organizations
- Other Relevant Supporting Materials

### **Project Summary, two pages maximum**

Each applicant for credit enhancement funding must include a two-page letter addressing the following six eligibility criteria to have its proposal evaluated and scored. The summary is meant to introduce the proposal and ensure eligibility. It should be signed by the CEO, Executive Director, General Manager or other equivalent official.

#### **A. Eligible Applicant**

Eligible applicants must either administer or oversee an energy efficiency lending program with operations in Washington. Applicants need not be headquartered in Washington, but must be authorized to carry out lending operations in the State, making loans to Washington borrowers. Applicants must identify themselves as one of the following three types of applicants:

##### **Banks and Credit Unions**

- Banks
- Credit unions
- Bank holding companies
- Savings banks
- Savings and loan associations
- Trust companies
- Consumer loan companies

### **Utilities and Contractors**

- Investor-owned utilities
- Municipal utilities
- Public utility districts
- Cooperative utilities
- Energy services companies
- Equipment leasing and project finance companies

### **Other Financial Institutions and Agencies**

- Community development financial institutions
- State bonding authorities
- Non-profit organizations
- Local governments

Federal agencies and individual persons are not eligible to apply for funding under this offering.

### **B. Eligible Project**

Eligible projects will consist of credit enhancement for a lending program targeted at the upfront costs of energy efficiency improvements to existing, privately-owned buildings located in Washington State. The credit enhancement grant may be used as an interest rate subsidy, a reserve fund or a combination of those mechanisms.

Borrowers and properties for the program must be located in the State. Properties may be residential (single family or multi-family), commercial or industrial. Improvements paid for by the loan fund must be efficiency or conservation measures (in addition to other improvement measures that support energy efficiency upgrades as outlined on the next page). It is expected that delivery of services, installation of improvements, and auditing and tracking of energy savings associated with the projects will contribute to the creation or retention of jobs in the State. Typical improvements include, but are not limited to, the list below:

- Residential:
  - Water heater replacement and/or insulation
  - Insulation
  - Installation of Energy Star-rated or better windows, skylights and glass doors
  - Blower door installation
  - Air duct sealing and house-tightening measures
  - Appliance replacement
  - Lighting
  - Central heating systems
  - Building envelope improvements
  - HVAC equipment upgrades
- Commercial
  - Efficient lighting
  - HVAC equipment upgrades
  - Appliance replacement
  - Building envelope improvements

- Installation of storm windows
- Insulation
- Ventilation measures
- Refrigeration / chiller improvements
- Pump and fan replacement
- Industrial
  - Efficient lighting
  - Building envelope improvements
  - Energy management systems
  - HVAC equipment upgrades
  - Appliance replacement
  - Building envelope improvements
  - Installation of storm windows
  - Insulation
  - Ventilation measures
  - Refrigeration / chiller improvements
  - Pump and fan replacement
  - Furnace upgrades
  - Power factor improvement

A more detailed list of eligible projects is available via the Regional Technical Forum at <http://www.nwcouncil.org/energy/rtf/crd/recommendations/origappendix.htm>. Lending may also encompass other improvement measures, which may not exceed 20% of total project costs, in order to support energy efficiency (e.g., roof repair that may be necessary in order to insulate a home). If these other improvement measures require a larger loan, then a separate loan (that does not rely on the credit enhancement grant) will need to be secured. Overall, improvements financed by the applicant must generate energy savings and the applicant must have a process to measure, verify and report savings.

Lending programs that fund renewable energy projects, even micro-renewable projects, are **not** eligible for credit enhancement funding. ARRA also prohibits the use of funds for swimming pools, gambling establishments, aquariums, zoos and golf courses. No funds can be used for or lent to any activity whatsoever at a prohibited establishment. Any activities at facilities that are adjacent to any of the prohibited establishments and benefit any of the prohibited establishments are also prohibited.

Projects already funded under State Energy Program or Energy Efficiency and Conservation Block Grants are eligible projects and may apply for funding through this program.

### **C. Sufficient Capital**

The Department expects that credit enhancement grants will leverage, at the very least, matching private capital from the grant recipient towards EE lending.

### **D. Credit Enhancement Funding Request**

The Credit Enhancement funding request must be for an amount between \$500,000 and \$1 million for the project to be eligible.

## **E. Milestone Plan**

The Department anticipates signing contracts with grant recipients in December 2009, and recipients must make initial loans relying on the credit enhancement funding no later than December 31, 2011. Each applicant should include a Milestone Plan, detailing a schedule of objectives and anticipated fund obligations against the credit enhancement grant through April 30, 2012.

The intention of the Milestone Plan is not to encourage the spending of the credit enhancement grant, though information about spending down the grant should be included. It is the Department's hope that the grant will continue to be used to support lending far beyond the period of performance associated with this program. The Milestone Plan will be used to evaluate the grant recipients' progress during the grant period (through April 30, 2012). Objectives included in the

The Milestone Plan should provide a timeline for tracking:

- projected lending,
- energy savings associated with the loans,
- usage/spending of the grant, and
- jobs retained or created.

## **F. Statement of Financial Need**

Applicants must include a statement that, if not for the credit enhancement funding, the lending program could not proceed at the scale or schedule proposed in the application. When crafting this statement, please quantify the impact (in terms of the dollar amount of lending, the loan terms, and the type of borrower) that the credit enhancement will have for your organization.

### **Project Plan, eight pages maximum**

Each applicant for credit enhancement funding must discuss the following six project plan components to have its proposal evaluated and scored.

- Lending Plan
- Project Team
- Leveraging Potential and Grant Usage
- Underwriting Criteria
- Energy Savings, Measurement and Reporting

### **A. Lending Plan**

Please provide your lending plan, including origination, marketing and servicing of loans associated with the credit enhancement grant. Provide an overview of projected lending, including targeted property type, average/minimum/maximum loan size and track record for any lending carried out to date.

## **B. Project Team**

Please include brief bios, contact information and role description for each project team member. Also, please comment on the amount of time each team member will devote to the lending program to ensure its success. One-page resumes may be included as an appendix.

## **C. Leveraging Potential and Grant Usage**

Please include a detailed description of and budget for how the credit enhancement grant will be used and how it will allow you to leverage other capital towards energy efficiency lending.

In addition, please outline the procedures and mechanisms that you will put in place with regards to managing and using the credit enhancement grant in concert with your loan program. Provide details on the degree of risk sharing that your plan incorporates, the loss events that would cause you to access the reserve fund or interest rate subsidy, how the grant will be administered and the ratio of grant money to private capital you project in your lending program.

## **D. Underwriting Criteria**

Please provide a summary of your approach to credit analysis and screening for borrowers. Please highlight how the credit enhancement grant will allow increased access to financing for a broader pool of borrowers.

## **E. Energy Savings, Measurement and Reporting**

Given the scope of eligible applicants for the program, the level of exposure to and knowledge of energy savings potential among applicants will vary widely.

Applicants should describe how they intend to measure and report on energy savings achieved in projects funded by applicant's loans. For applicants in the Banks and Credit Unions and Other Financial Institutions and Agencies categories, this might take the form of partnering with another agency, contractor or energy services company, and/or requiring energy audits as part of the overall project or underwriting criteria. Include relevant materials detailing and/or substantiating the partnership as an appendix.

All applicants should include an estimate of the average annual energy savings associated with the funded projects from January 2010 to December 2015 and calculate the annual energy saved, as measured below, per credit enhancement dollar invested.

### *Energy Savings*

- Annual reduction in natural gas consumption (mmcf)
- Annual reduction in electricity consumption (MWh)
- Annual reduction in electricity demand (MW)
- Annual reduction in fuel oil consumption (gallons)
- Annual reduction in propane consumption (gallons)
- Annual reduction in gasoline and diesel fuel consumption (gallons)

Proposals must include the assumptions for estimates and the methodology used to calculate the estimates.

## **Appendices, twenty pages maximum**

- **Project Budget**

Please provide a budget for the proposed lending program, including a breakdown of how the credit enhancement grant funds will be used.

- **Resumes of Team Members**

Please provide one-page resumes for each team member who will be involved in the implementation of the lending program and credit enhancement grant administration.

- **Loan Product Term Sheet(s)**

Please provide a one-page term sheet for each loan product that will rely on the credit enhancement grant in any way. Include the following details in the term sheet: Loan amount, term (years), use of proceeds, loan application requirements, repayment method, interest rates (fixed or floating), collateral and fees.

- **Marketing Materials**

To substantiate outreach plans included in the lending plans, please provide examples of marketing materials that your organization has used for existing lending programs or plans to use for its proposed loan programs.

- **Evidence of Local Support and/or Partner Organizations**

If your organization has partnered with or will receive support from any organizations, including lenders, contractors, utilities or non-profits, please include evidence of their support as an appendix.

- **Other Relevant Supporting Materials (if appropriate)**

- The most recent annual report or publication describing your organization.
- A current financial statement or most recent audit report prepared, compiled or reviewed by a Certified Public Accountant independent of the applicant's organization (must include a balance sheet).
- A current copy of your nonprofit letter of determination from the IRS.
- A W-9 form from the IRS (which lists your taxpayer identification number).

## Part VI: APPLICATION EVALUATION PROCESS

Applications will be reviewed and graded in three stages: threshold review, scoring evaluation and overlay evaluation.

### Threshold Review

Department staff will review Project Summary to determine whether the application meets the eligibility requirements listed in Part V. If an application does not meet these threshold criteria or if it is submitted after the stated deadline, it will not be scored.

### Scoring Evaluation

The criteria and weighting system for evaluating proposals are as follows:

Lending Plan	40 points maximum
Project Team	10 points maximum
Leveraging Potential and Grant Usage	30 points maximum
Underwriting Criteria	10 points maximum
<u>Energy Savings, Measurement and Reporting</u>	<u>10 points maximum</u>
<b>Total Points Possible</b>	<b>100 points maximum</b>

Each proposal will be scored based on its performance against these criteria, and proposals will be ranked based on each proposal's total score.

#### A. Lending Plan (40 points maximum)

- To what degree does the applicant have a well-considered lending and loan servicing plan with a clear schedule to produce tangible results?
- How much capacity does the applicant have for marketing, outreach and origination?
- To what extent does the applicant's lending plan complement and tie in with existing State, local and/or utility energy conservation efforts (e.g., Energy Efficiency and Conservation Block Grant programs, utility programs and other ARRA-funded initiatives)?
- Are the applicant's assumptions and application of credit enhancement grant funds realistic and reasonable?
- To what extent does the applicant demonstrate the financial and management capacity to absorb setbacks to the proposed lending plan?

#### B. Project Team (10 points maximum)

Application evaluators will score the experience and qualifications of the project team members in relation to their assigned role with the project. The evaluators will review the relevant work experience and qualifications of the team members as well as the completeness of the team for the proposed work program.

**C. Leveraging Potential and Grant Usage(30 points maximum)**

- What leverage ratio of private dollars to credit enhancement grant dollars does the applicant expect to achieve?
- To what extent does the applicant propose to share in loan losses if the grant is being used as a reserve fund?
- To what degree has the applicant considered the procedures and mechanisms for accessing the grant for interest rate subsidy or to cover a loss?
- To what degree does the applicant consider the sustainability of the credit enhancement grant?
- To what extent is sustainability of the program addressed if the grant is being used to buy down interest rates?

**D. Underwriting Criteria (10 points maximum)**

- To what extent will the credit enhancement grant allow the lender to offer lower rates and longer terms to borrowers for EE improvements?
- To what degree does the applicant ensure quality lending practices, regardless of credit enhancement?

**E. Energy Savings, Measurement and Reporting (10 points maximum)**

- Proposals will be evaluated on the assumptions used to generate estimates and estimates of energy savings associated with loans.

*Energy Savings*

- Annual reduction in natural gas consumption (mmcf)
- Annual reduction in electricity consumption (MWh)
- Annual reduction in electricity demand (MW)
- Annual reduction in fuel oil consumption (gallons)
- Annual reduction in propane consumption (gallons)
- Annual reduction in gasoline and diesel fuel consumption (gallons)

While energy savings per dollar of credit enhancement will be an important factor in scoring this section, the Department fundamentally wants to ensure that applicants are equipped to measure, track and verify energy savings that result from lending.

- To what extent is the applicant equipped to manage and report – either internally or with partners – the measurement and verification of energy savings?
- To what extent has the applicant developed a plan to measure, monitor and report on energy savings associated with the lending program?

## Overlay Evaluation

The Department will score all of the applications and create one ranked list, from the highest to lowest ranked projects.

If sufficient applicants that meet the threshold requirements are submitted, then the rating team may apply the following overlays to the ranked list.

- Award grants to the ranked list from top to bottom until \$5 million is allocated.
- If less than \$1 million of combined grants and loans goes into one or more of the three applicant categories – banks and credit unions, utilities and contractors, and other financial institutions - then shift funds from the lowest ranked projects in the categories with over \$1 million in funding until each of the three categories has at least \$1 million.

<b>Part VII: ADDITIONAL APPLICATION INSTRUCTIONS</b>
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- If submitted in hard copy, the application and supporting materials should be photocopied two-sided whenever possible. Submit all materials in one packet. No additional materials will be accepted after the application deadline.
- The application must be signed by a member of the applicant's board or its executive director or business owner.

Please email [liz.green-taylor@commerce.wa.gov](mailto:liz.green-taylor@commerce.wa.gov) with any questions you may have. Also, applicants are strongly encouraged to sign up for the Commerce Energy Program's listserv by e-mailing [carolee.sharp@commerce.wa.gov](mailto:carolee.sharp@commerce.wa.gov). Please check the Commerce website for any updates or answers to frequently asked questions.

All materials are available on our website: [www.commerce.wa.gov/recovery](http://www.commerce.wa.gov/recovery). If you need an electronic form e-mailed to you, please call (360) 725-3118.