ECPAC Clean Energy Lending – Stakeholder Sessions

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Formerly called Grants to Non Profit Lenders, this CEF pathway offers revolving loans to homeowners and commercial building owners to install renewable energy systems and make efficiency upgrades. Initiated during the great recession, this program was designed to provide inexpensive capital to lenders to deploy tried-and-true green technologies in low-income communities. The program enables non-profit lenders to create a revolving loan fund to finance energy efficiency and renewable energy loans to consumers who otherwise lack capital necessary to make the energy investment. The loans never exceed 50 percent of the value of the project.

The Clean Energy Lending stakeholders convened for two virtual sessions on June 18 and 30, 2020 to brainstorm ideas around equity, serving high energy-burdened customers, and adapting lending tools and products to promote economic recovery. In addition to the brainstorm sessions, and other conversations with stakeholders, Commerce conducted research on what other states are doing to address these same priorities.

Stakeholders

The Clean Energy Lending stakeholder group had representation from financial institutions active in clean energy investing and financing in Washington State, including CEF Grants to Non Profit Lenders grantees, residential and commercial lenders, angel investment organizations, climate justice advocates, and project developers. Participants in one or both sessions included:

- Eli Lieberman - WA State Housing Finance Commission
- Shannon Ellis-Brock - Puget Sound Cooperative Credit Union
- Carl Seip - Craft3
- Adam Zimmerman - Craft3
- Jae Easterbrooks - Beneficial Bank
- Allison Arnold - E8
- Linda Irvine - Spark Northwest
- Sameer Ranade - Front & Centered

Questions Considered

The following is a list of questions that Commerce drafted to guide stakeholder discussions. The stakeholder sessions had the opportunity to dive more deeply into the first two questions, which were prioritized based on the current economic environment and agency goals for advancing diversity, equity, and inclusion.

1. How can the program be better structured to incorporate equity and environmental justice principles -- such as serving vulnerable populations, tribes, high-energy burdened customers?
2. How can clean energy lending help promote economic recovery during the recession? What are the opportunities and challenges?

3. How should the fund adapt to help new and emerging technologies with market adoption?
4. What should be the required leveraging amount (private/state/lender) for the loan products?
5. Should the scope of eligible lenders be limited or expanded?
6. Could changes be made to the appropriations process? Could this program be codified instead of only in budget provisos? Is a more permanent funding source out of reach?

Ideas

The group ranked the ideas into three categories (Pursue Now, Keep Open, Bike Rack) to help focus deeper dive conversations and research. The ideas are listed below and shown in the attached chart.

Pursue Now:

- Offer the ability to provide grants that are paired with loans where repayment is through utility savings requiring no cash outlay requirement
- Provide funds that directly support education and utility engagement on clean energy financing options and enrollment
- Explore funding the CEF program outside of capital budget due to limitations imposed with capital projects
- Allow use of grant funds to buy down interest rates

Keep Open:

- Leverage state procurement processes where state is developing clean tech assets (state funded/owned assets) and add a requirement or priority around contracting with minority owned businesses that could stand to benefit from the jobs created by clean energy development
- Expand on-bill financing so it’s available statewide, rather than by select utilities
- Explore a Community Power Works type model that centralized customer experience and helped target and reach underserved communities. Provided 0% interest loans.
- Broaden the eligible technologies to include energy storage, climate resilient infrastructure, and other emerging technologies
- Explore Individual Development Accounts (IDA’s) - state sponsored savings accounts with matching - look to Oregon for example

Bike Rack:

- Provide funds for administration and operational support of low income financing programs
- Add specific and intentional conditions to CEF similar to the Clean Energy Jobs Fund Investment Conditions, for example, have a broad portfolio of risk-adjusted investments, with at least 20% of the portfolio made of investments that benefit low-income, minority, underserved, frontline and/or just transition communities.
- Evaluate borrowers based on utility bill repayment history rather than solely relying on credit scores.

- Require the use of the environmental health disparity map to the greatest extent possible to identify high need community investment areas
- Provide loan securitization to prevent defaults
- Create ability for loan terms to be extended
- Explore leveraging, partnership, with private foundations who share similar goals/focus for climate resiliency, climate justice, reducing energy burden to provide increased funding (example: Kresge Foundation)
- Pair loan program/products more intentionally with other “buckets” of CEF funding, e.g. energy storage/infrastructure grants or other CEF grants (solar deployment)

Preliminary Themes

➢ ***Grants & Loans: Offer the ability to provide grants paired with loans where repayment is through utility savings, with no cash outlay requirement***

- There are different ways of providing subsidies to lower the cost of project financing. Stakeholders commented that providing the flexibility for lenders to offer grants to consumers, paired with low-interest loans, will make it easier for borrowers to pay back. Stakeholders acknowledged that because loan administration costs are not lower for smaller loan amounts, this would not necessarily reduce their costs.
- Stakeholders also acknowledged that offering repayment through utility savings necessitates the potential challenge of getting utility companies on board. However, offering on-bill repayment statewide could provide a streamlined solution that would make this effort worthwhile.

➢ ***Utility Engagement: Provide funds that directly support education and utility engagement on clean energy financing options and enrollment***

- Stakeholders agreed that anything we can do to simplify the process for borrowers is likely to increase engagement by reducing ‘borrower inertia’. Each step that a borrower is required to take in order to receive funds effectively creates a hurdle for the borrower, and should be reduced or eliminated wherever possible.
- There is considerable potential value in having a higher level of utility engagement. Utilities have access to a wealth of valuable information that is otherwise hard to obtain, such as which customers are energy burdened and low income qualified. Stakeholders have found that utilities are wary of taking actions that could be construed as favoritism, such as promoting or simply listing CEF lenders in their communications with customers. To navigate this, Commerce could host a public facing webpage that provides borrowers with this information. Utilities could then direct customers to the Commerce webpage, potentially via regular customer communications such as bill inserts and newsletters. This would maximize the potential for utilities to educate customers on available funds, while maintaining their impartiality.

- CEF could offer grants directly to utilities for marketing and promotional purposes to help serve low income customers. These grants could be offered on a conditional basis. For example, grant dollars could be awarded on the condition that the utility takes specific steps to educate consumers on EE/RE options.
- Other possible avenues for wider promotion include working more closely with Community Action Agencies across the state who perform Wx services and LIHEAP administration, and are in a strong position to provide education to clients.
- Further research should be done on potential models for utility partnership and outreach for promoting financing products

➢ ***Interest Rate Buy-Down: Allow use of grant funds to buy down interest rates***

- Further research is warranted on the potential use of grant funds to buy down interest rates, in order to understand what is possible today.
- Stakeholders identified some limitations to this route: for one thing, it is an expensive way to use grant dollars. Additionally, borrowers may not realize that the buy down is unlikely to translate into a significant difference in monthly payments. In fact, if the resulting minimal payment reduction were a 'make or break' factor for a borrower, this would suggest that the investment was an unwise one to begin with.
- Nevertheless, 0% loans are undeniably attractive to potential borrowers, and therefore the beneficial effect on consumer perception and gaining interest through marketing should not be ignored.
- Further understanding is needed as to what degree the interest rate is a driving factor for consumers, and what the default rate would be. In addition, it is crucial to be mindful that we are not encouraging people to take on debt when they aren't in a financial position to do so.
- One field for potential research is LA County, CA, which currently has an interest rate buy down program in place.

➢ ***Fund program outside of capital budget: Explore funding the CEF program outside of capital budget due to limitations imposed with capital projects***

- Because the capital budget is funded by a variety of bonds, the restraints on how the money can be used can cause significant limitations for lenders. According to OFM, on average, the bond portfolio assets must have a minimum of 13-year life span. In addition, technical assistance and education activities are generally not able to be funded.
- One potential model for a funding program outside of the capital budget can be seen in Bill 2541 (substitute version), which did not pass in the prior legislative session, but would have created revenue through tax credit sales, and holds interest for some stakeholders.