

NASEO Financing Task Force Call Notes
Thursday, November 3, 2011; 3-4pm ET

Attendees

GA SEO
AR SEO
AL SEO
NE SEO
UT SEO
MD SEO
IL SEO
NY SEO
KY SEO
OK SEO
OR SEO

CO SEO
MO SEO
MI SEO
VA SEO
MD Treasurer's Office

The Cadmus Group
DOE
EPC
Abundant Power
AHRI

Welcome and Introductions

Update from Jeff Pitkin, NYSEERDA

Jeff Pitkin opened the call and provided a brief overview of the NASEO Financing Task Force. This particular call was open to NASEO's full membership, but if you would like to be a regular participant of the task force, please notify Diana Lin (dlin@naseo.org).

QECB Overview and Issuance Update

Presentation from Elizabeth Bellis, Energy Programs Consortium (EPC)

Background Materials: [QECB Overview Memo](#)

[See Presentation Slides](#)

Elizabeth Bellis gave a background on how QECBs work. Based on EPC's research, there have been QECB issuances for 79 projects in 21 states with a total bond volume of around \$522 million to date.

Q&A/Discussion

OR is looking to finance K-12 schools projects with QECBs but are encountering obstacles with their bond counsel on how to satisfy the 20% savings requirements. OR is unclear what are acceptable methods of measurement and verification, etc. Should the savings be modeled or measured at the meter? Are savings at the building level or the portfolio level? OR is looking to learn from other state experiences in addressing these issues. Please contact Dan Weldon (Daniel.weldon@odoe.state.or.us) if you have any insights to share.

QECB Case Study: St. Louis County, Missouri

Presentation from Lori Collins, Abundant Power

Background Materials: [LBNL St. Louis Case Study](#)

[See Presentation Online](#)

St. Louis County used a QECB issuance under the green communities eligibility category to finance a \$10.4 million residential energy efficiency loan program. "Green Communities" is

fairly vague in the guidance, but even so, St. Louis SAVES was a straightforward eligible program and bond counsel did not have any trouble approving it. In order to satisfy the QECB requirements to spend 10% of the issuance in the first 6 months, the program is designed to roll out in two phases: The first 6 months will take a prescriptive approach for pre-qualified measures. Then the program will shift into a performance-based program with required audits.

The county had to work with local municipalities for them to opt into the program. Currently, 52 municipalities, including all of the largest, have opted in. The program focused on getting all the largest municipalities on board first and will conduct outreach to the rest over time. There is no cost to the municipality to participate.

To fund the administration of the program, St. Louis County set aside \$500,000 of EECBG grant funds to cover some of program design costs. Additionally, the county issued a separate taxable bond to support the program. In hindsight, it may not have been necessary to issue a second taxable bond to cover administration costs. Instead, programs could consider the following financing options:

- Roll the admin fees into the interest rate to the borrower.
- Charge a fee to the contractors in exchange for their ability to use the program's low-interest financing as a marketing hook.
- Target larger scale programs, which will help reduce costs of origination and servicing in proportion to the overall program budget.
- Work with a firm that has experience in transactions and operations to minimize program design and delivery costs.

Q&A/Discussion

Q: How was modeling/projection on default rate done?

A: Columbia Capital Management did the modeling and LBNL helped with some research. They determined that the default was between 1-2%. St. Louis then accounted for 6% default to be on the conservative side. If there is money left over, they will refund the borrowers.

Q: Are loans being repaid on utility bills?

A: No

Q: Is there a reason to target owner-occupied homeowners?

A: St. Louis County wanted to design a consumer financial product, so they focused on that market.

State Discussion on Barriers and Challenges

Jeff Pitkin facilitated a discussion among the states regarding what their primary challenges and barriers in utilizing QECBs in their state and local jurisdictions are. Currently, only about 17% of QECBs have been accessed—what are the barriers and solutions?

Dan Weldon, OR: One of our primary barriers has been guidance around 20% savings in public buildings. It would be a great project for NASEO to make calls to the list of states that have

done QECCB issuances in public buildings to see how they modeled their energy savings. Oregon is especially interested in school projects.

Chris Tallackson, UT: Can anyone speak to that utilization of QECCBs on a county's bond rating? Salt Lake County declined to use this because of that possible impact.

- Cadmus responded saying, there are certainly issues of bond capacity, but one way around that is to see if there's a separate finance or bonding authority that may be able to issue as well. It may be possible to use a conduit authority in these instances.

Jeff Pitkin, NY: NY received about \$202 million, and the state retained about \$20 million. QECCBs have not been a main priority for the local governments and it's been a challenge in getting them to focus on them. In some instances, locals who didn't intend to use the QECCBs, also didn't want to lose face and pass a resolution by their governing body making that explicit and giving it back to the state.

- Oregon has had good success in this area. The state proactively reached out to our large municipalities and asked them if they weren't going to use them, to give them back to the state. A good portion (~70%) have done that.

Bill Babington, AL: Alabama is looking for examples of executive orders giving the SEO the authority to assess some cost recovery on the implementation of QECCBs projects and programs. If any states have an example of this, please contact Bill Babington (Bill.Babington@adeca.alabama.gov).

Generally, the uncertainty around the "Green Communities" definition tripped people up in the beginning, but since then, most have worked with their bond counsels to gain approval and have moved past it. However, in Oregon, their bond counsel declined a schools program as eligible under green communities.

In conclusion, Jeff Genzer, NASEO General Counsel, stressed that Congress is heavily scrutinizing unspent funds at the state level, and there is a real risk that QECCBs may be recaptured.

Q: Does DOE have authority to issue guidance on QECCB eligibility, energy modeling, etc?

A: No, this is under Department of Treasury's purview, and they don't see this as a priority.

Next Steps

- Summarize discussions and seek additional state and local feedback on barriers.
- Develop recommendations and next steps on how to accelerate QECCB use.
- One possible activity is to facilitate conversations between SEOs and state treasurers.

Upcoming Call

The next call is scheduled for Thursday, December 1, from 3-4pm ET.