GREEN BANK NETWORK

Webinar Series

"Unlocking Clean Energy Investment in the Commercial and Industrial Sectors"

13 June 2018

Featuring:
Mary Templeton, Michigan Saves
Tom Deyo, Montgomery County Green Bank
Alex Kragie, Coalition for Green Capital

Michigan Saves

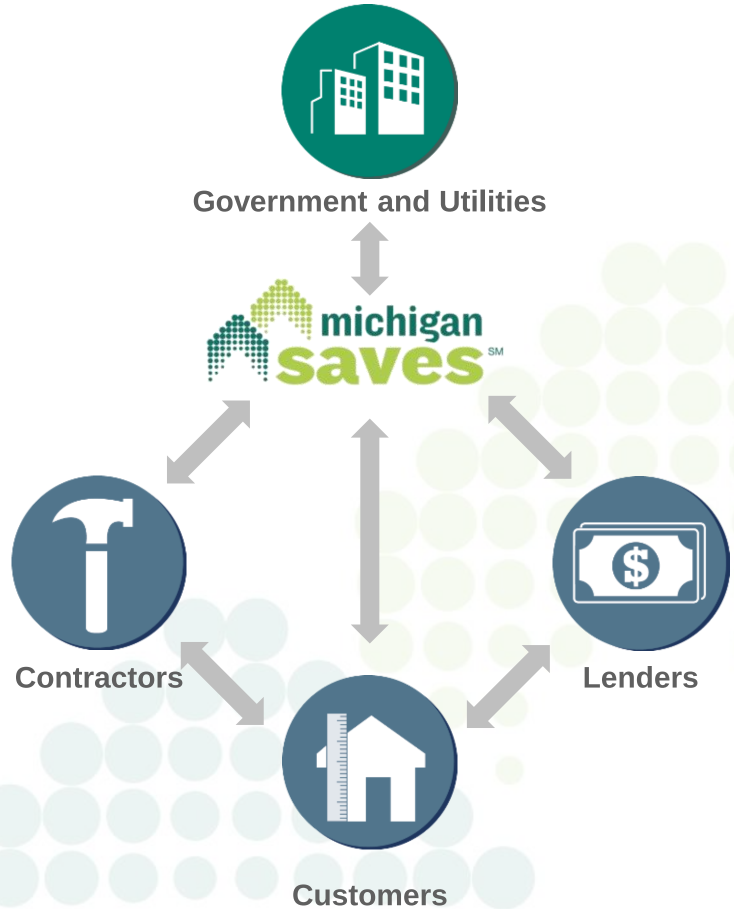
Easy, Affordable Options for Residential, Commercial, and Municipal Energy Improvements

michigan saves℠

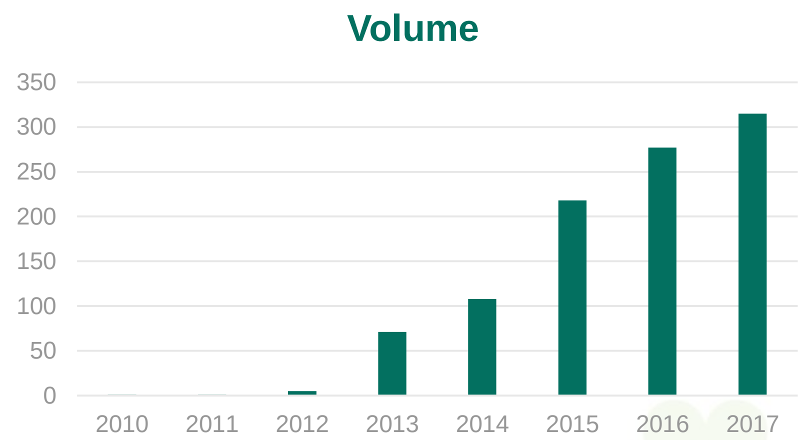
MichiganSaves.org

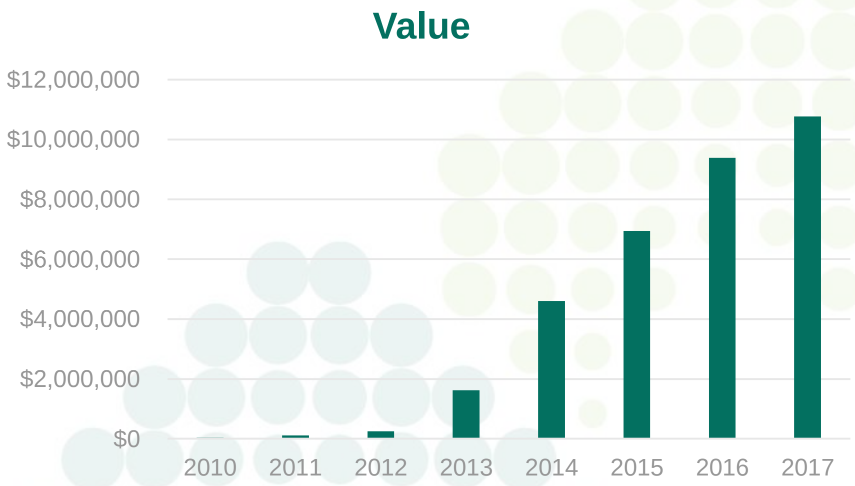
Michigan Saves: Michigan's Green Bank

- Nonprofit organization staffed by management contract
- Process driven by research and stakeholders
- Loss reserve for lenders
- Provides oversight of authorized contractors
- Monitors compliance of program guidelines
- Provides technical assistance and quality control
- Drives demand for energy efficiency through outreach and incentives
- Monitors customer satisfaction



Michigan Saves Business Energy Financing Program





The Early Years: 2010–2013

- Detroit Food Service Pilot
- Local community development financial institution lender
- Loss reserve: 50 percent
- Interest rate buydowns: 1.99%
- Free audits

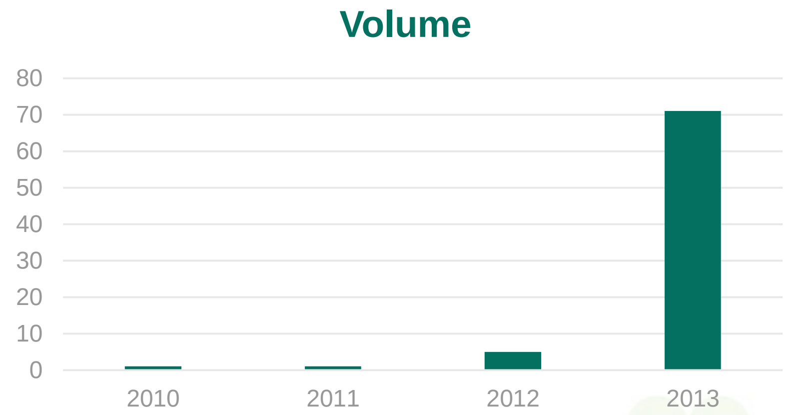
Challenges

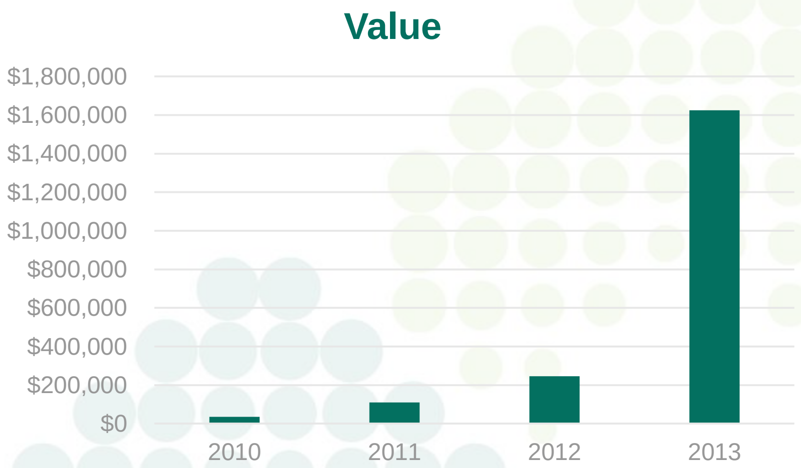
- Small businesses have limited resources
- Energy efficiency is not a priority
- Equipment is replaced when it fails
- Few contractors offered comprehensive energy-efficiency services
- Lender’s process was complex and lengthy
- Our brand was new; we were not a trusted messenger

Approach

- Developed marketing partnership with food service experts
- Selected and worked closely with several strong contractors
- Offered aggressive financial incentives

Results


Volume
80
70
60
50
40
30
20
10
0
2010
2011
2012
2013


Value
$1,800,000
$1,600,000
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
2010
2011
2012
2013

Expanding Statewide:
2013–2014

- All commercial entities
- Statewide lender
- Loss reserve: 25 percent
- Interest rates: Starting at 5.00% APR
- Terms: Two to five years
- Amounts: $2,000–$250,000

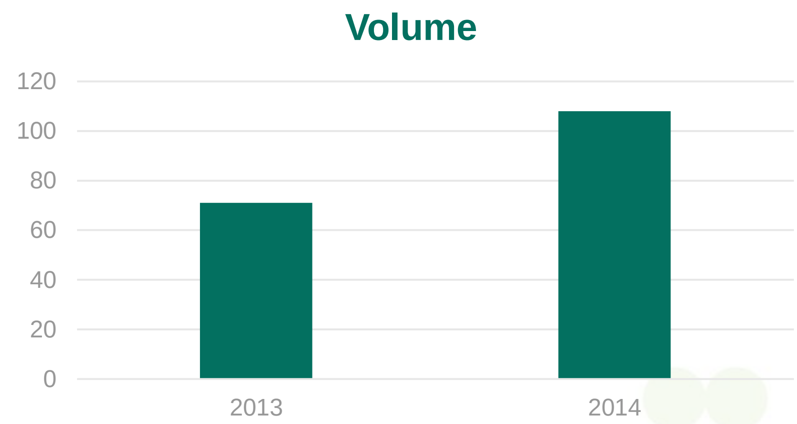
Challenges

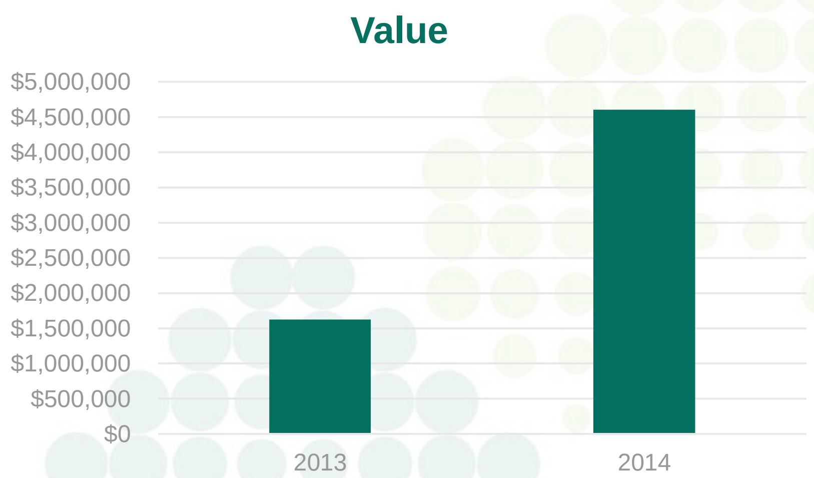
- Small businesses have limited resources
- Energy efficiency is not a priority
- Equipment is replaced when it fails
- Few contractors offered comprehensive energy-efficiency services
- ~~Lender's process was complex and lengthy~~
- Our brand was new; we were not a trusted messenger

Approach

- Brought on an equipment finance lender with streamlined paperwork and processes
- Worked with utilities to build contractor network
- Created and distributed case studies
- Attended and presented at events, tradeshows, industry groups, and contractor associations

Results





michigan saves SM

Utility-funded Interest Rate Buydowns: 2014–2018

- All commercial entities
- Two statewide lenders
- Loss reserve: 10 percent
- Interest rates: Starting at 0.00% APR (with buydowns)
- Terms: Two to seven years
- Amounts: $2,000–$1,000,000

Challenges

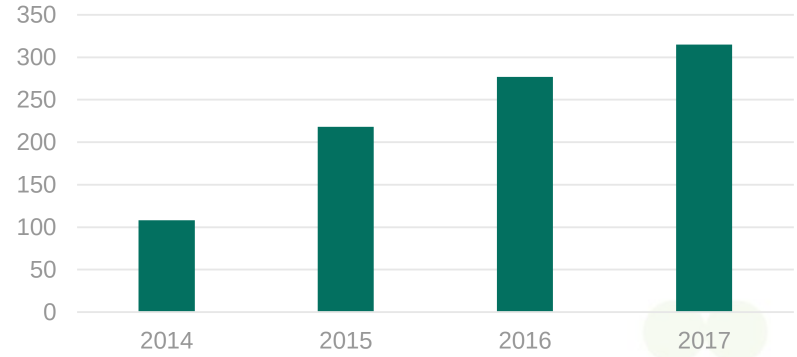
- Small businesses have limited resources
- ~~Energy efficiency is not a priority~~
- ~~Equipment is replaced when it fails~~
- ~~Few~~ Several contractors offer comprehensive energy-efficiency services
- ~~Lender's process was complex and lengthy~~
- ~~Our brand was new; we were not a trusted messenger~~

Approach

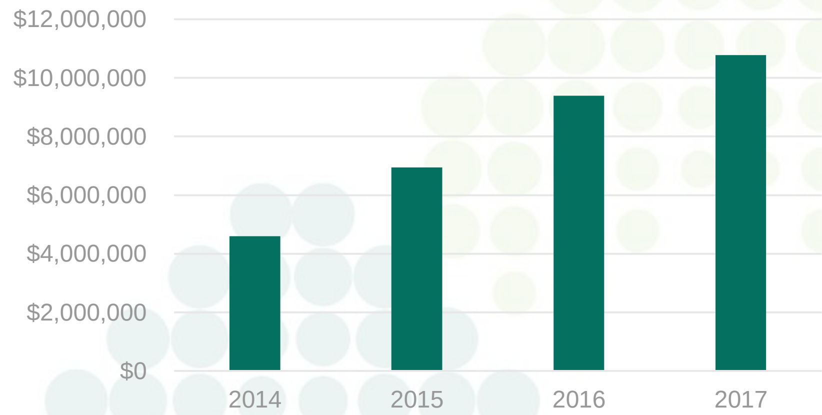
- Competitive rates and terms
- Expanded underwriting because of loss reserve
- Strong and active contractor network
- Easy process for customers, contractors, and lenders
- Minimal contractor paperwork
- Small contractor fee

Results

Volume



Value



Lessons Learned

- Low interest rates drive demand
- Ease of use for contractors and customers is essential
- Strong network of authorized contractors is key
- Partners are invaluable
- Continuously listen and adapt

What's Next?

Five- to seven-year goal: Finance **$1 billion** of energy improvements

- Introduce lender to serve market gap between current program and Commercial PACE
  - Terms: Seven to ten years
  - Project size: $250,000 and up
  - Interest rates: Start at 6.00% APR
  - Loss reserve: Not required

HBC ENERGY CAPITAL
a division of NEIF
National Energy Improvement Fund

- Continue to use interest rate buydowns when available
- Analyze effectiveness of loss reserve
- Identify additional market gaps and develop programs that serve needs of commercial market

Questions

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Montgomery County GreenBank

Your partner for clean energy ™

Tom Deyo, CEO of the Montgomery County Green Bank

Montgomery County Green Bank

*Your **"Local"** Partner for Clean Energy*

- Nation's FIRST County-level green bank, chartered by the County in 2015, established in 2016
- Independent, 501c3 non-profit corporation (11 member board, 2 from county)
- $14 million in funding from the County from the Pepco-Exelon merger settlement agreement

Challenges For Standing up a Green Bank

Capital

Key to effort. Best source offers few requirements

Infrastructure

Emerging sector with many operational structures. But sharing is helping to create efficiencies

Sustainability

Achieving returns that can support operations. Takes time to build revenue streams, especially when taking risk positions at less than risk-based returns. Need operational subsidies for at least 3 years

Market Assumptions

Presenting as an investor when market looking for subsidy

Models

Early in green bank movement offers models for replication but must know models are not long-time tested. BUT, emerging network is a freely sharing one

Initial Lessons Learned

- Local is a benefit – everything is local:
  - Understand and connect to local energy sector issues
  - Define products that meet specific gaps
  - Build partnerships that bring new resources
  - Support local goals: **greenhouse gas reduction goals, jobs, business strength, and equity**
- Being local does not mean being alone - green banks have network
  - Knowledge exchange
  - Resources
  - Peer mentoring
- Scale – many different considerations
  - Production is important
  - Scale of connections on energy efficiency and clean energy
  - Scale of Partnerships – bring new players into markets
  - Scale on voice – identify issues and get parties focuses on a response

Developing First Product

Market Due Diligence

- Utilities
- Contractor
- Lenders
- Customers

Insights:
- Identify key terms
- Starts relationships
- Identifies dead ends

Product Framing

- Quality Control
- Operational Burden
- Lender Package – Process, Terms, Structure

Insights:
- Methods narrowed
- Means assessed
- Marketing focused

Product Marketing/ Feedback

- Lenders
- Contractors

Insights:
- Builds real interest
- Develops partners
- Shows collaboration

Product Revision / Testing

- Lender Targets
- Contractor Buy-in

Insights:
- Real partners found
- Builds rapport
- Sets up for long-term

Closing

- Lender Agreement
- Contractor Agreements

Insights:
- Takes more time
- Fallout happens
- Excitement fills fallout

Marketing

- Training
- Outreach

Insights
- Not over at launch
- Constant attention

First Product - Learn and Respond

Identify Need, Collaborate on Response, Deliver Value

Due Diligence – Commercial and Industrial Sector

- Contractors identified a gap in available and affordable financing for projects between $25k and $250k
- Utility did not offer strong incentives for larger projects
- Lenders were not offering a tailored product for energy efficiency / renewable energy scope of work

Program Design Stage

- Reduce Lender risk with a loss reserve for a specific scope of energy efficiency / renewables
- Meet customer interests for no property lien
- Test with contractors who would market

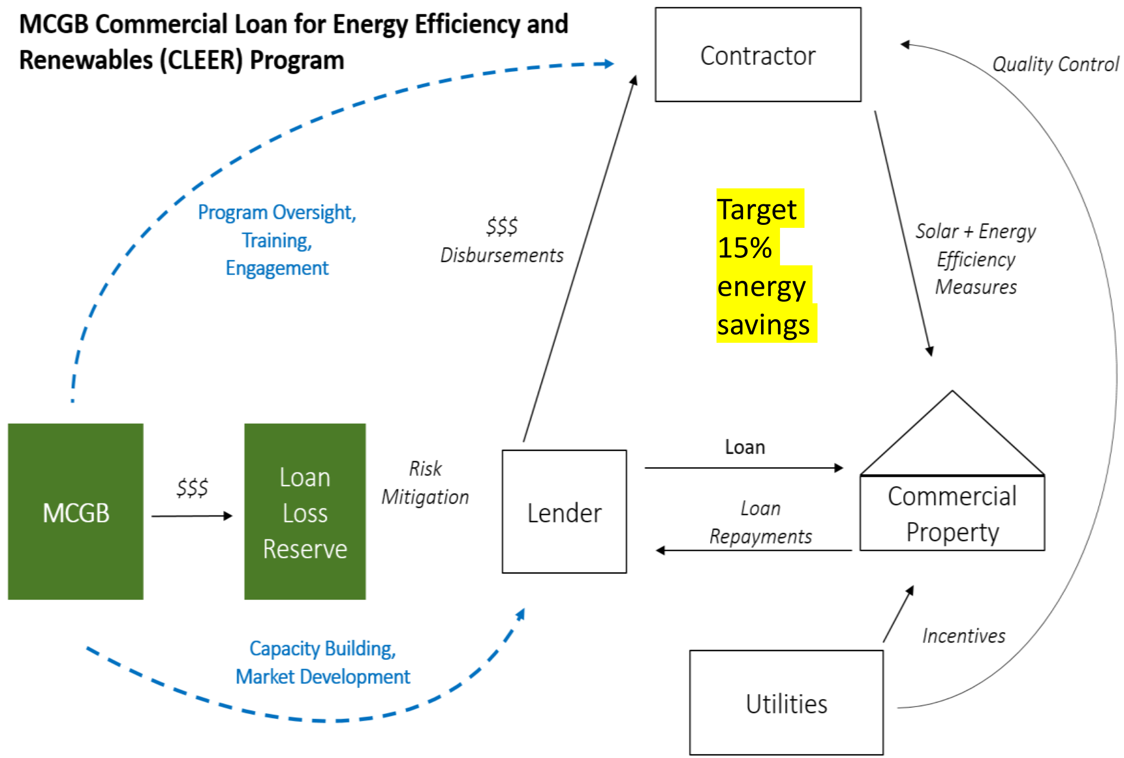
Product

- 100% financing
- Unsecured Loan
- Up to 12 years to match energy savings
- Credit underwriting
- Quality control review

Responding With A Construct:
Showing How the Green Bank Works

Structure:

- We stand behind lender for losses
- We authorize contractors for program
- Lenders make loans on specific energy efficiency and renewable scopes of work
- Borrowers approved on credit; but savings support payments
- We provide oversight



Lift Off: First Product in 9 months

Commercial Loan for Energy Efficiency and Renewables (CLEER)

- Lender Partners: Revere Bank (local) and Ascentium Capital LLC (national) lenders in pilot
- Property type: Commercial buildings and businesses (include multifamily properties)
- Scope of work: energy efficiency, Co-Gen, Solar PV, Energy Storage, water conservation
- Quality Control: Contractors are on PEPCO list for Commercial and Industrial Program

CLEER Terms

- Loans generally between $10,000 to $250,000
- Lower Interest rates for product type
- 100% financing for retrofits
- Up to 12 years – helps match savings to loan payment
- Not secured by property
- Customer underwritten for credit and not energy savings

Keys to Launch

- Outreach / Relationship Building – Getting insights of partners early and repeatedly
- Network – Providing wisdom, examples, and materials to learn and adapt
- Alignment – Finding lenders with an interest and drive to be a part of the effort and understanding this is a pilot that will need to adapt
- Patience – Set aggressive timeline and keep it in mind, but be flexible to amend but not lose sight

Opportunity: Build a Continuum of Products By Leveraging Local and National Green Bank Resources

Locally Created by Green Bank

CLEER

<$250k

Locally Available County Program

C-PACE

$250k+

National Opportunities Brought Locally

Consortium of Green Banks

Large Scale

GREEN BANK NETWORK

Questions

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