National Association of State Energy Officials

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Submitted by:
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RE: Response to the "Designing Equitable, Sustainable, and Effective Revolving Loan Fund Programs" Request for Information

Dear WIPO Document Manager:

The National Association of State Energy Officials (NASEO) appreciates the opportunity to respond to the Request for Information (RFI) on Designing Equitable, Sustainable, and Effective Revolving Loan Fund Programs. NASEO is the only national non-profit association for the governor-designated energy officials from each of the 56 States, Territories, and the District of Columbia. NASEO's Financing Committee convenes State Energy Offices to exchange knowledge and to track the impacts and lessons learned of State Energy Office-run or -supported clean energy financing programs, which provide over $1 billion in capital in more than 40 states across the country. These programs span a wide variety of sectors, investment mechanisms, and program support structures to respond to the needs of borrowers and to support unique energy, economic, and climate goals, often in partnership with private financial institutions.

Section 40502 of the *Infrastructure Investment and Jobs Act* provides an important statutory framework to build on states' efforts to scale energy efficiency investments, particularly in areas with greater needs and higher barriers to access to clean energy capital. The funds under this program will be distributed to the State Energy Offices, and Congress recognized the critical implementation and oversight role of the State Energy Offices when designing this program.

NASEO applauds the U.S. Department of Energy's (DOE) efforts to bring best practices from states and their partners as it continues to develop the Energy Efficiency Revolving Loan Fund Capitalization Grant Program (RLF Program). NASEO encourages DOE to implement program designs that enable State Energy Offices to provide financing that responds to their unique market needs and state, local, and private goals. Specifically, NASEO offers the following recommendations for DOE consideration:

Recommendation 1: Offer an expansive definition of "revolving loan fund": Thanks to their convening role among businesses, constituents, and local communities, State Energy Offices have a unique and distinct understanding of the needs, priorities, and market impacts that clean energy financing options can help address. Sometimes, the appropriate structure is a traditional RLF; in other cases, it may be a blended loan offered in partnership with local banks (a model that has met with great success in Nebraska) or a credit enhancement or subordinated to spur private sector activity and confidence in clean energy lending. To maximize the impacts of the RLF Program, NASEO recommends that DOE consider as expansive a definition of an RLF as possible, which will enable states to offer loan products that are structured to best support state, local, and private sector needs and markets. Program flexibility can also encourage creative integrations of the financing and grant elements of the funds (for instance, through a hybrid grant-loan program that addresses non-energy efficiency needs such as resilience or health and safety measures; or an interest rate buy-down that reduces costs of capital for lower-income borrowers). This approach is consistent with statutory intent.

Recommendation 2: Clarify the types of buildings that can qualify for RLF capital. Historically, states, the private sector, and DOE have included public buildings (municipalities, universities, schools, hospitals, etc.) in their definition of commercial buildings, and detached, small multifamily, and manufactured housing units as residential buildings. The breadth in these definitions is responsive to the variety of building types that need energy improvements and provide important community economic and resilience benefits, especially in underserved communities. DOE should therefore keep the definition of qualifying buildings as broad as possible to ensure that public buildings, multifamily properties, and manufactured housing are not excluded. This approach is consistent with statutory intent.

Recommendation 3: Ensure the RLF program includes both traditional energy efficiency and emerging beneficial electrification technologies. State Energy Offices use incentives and low-cost financing to support a wide array of energy improvements in homes and businesses, including energy efficiency measures as well as beneficial electrification measures that can reduce reliance on fossil fuels and promote affordability, such as Efficiency Maine's low-interest financing for electric heat pumps. NASEO encourages DOE to count a wide array of energy efficiency and beneficial electrification measures as eligible for RLF Program funding to encourage market adoption.

Recommendation 4: Clarify, streamline, and minimize program reporting requirements. Funds provided by the American Recovery and Reinvestment Act (ARRA) maintained their federal character in perpetuity, resulting in the need for states to provide extensive reporting to DOE, straining program resources and capacity at both the federal and state levels. Moreover, certain guidance required from DOE for perpetual reporting, at least in the case of ARRA funds, is not always available which makes compliance difficult. NASEO encourages DOE to streamline and minimize RLF Program requirements and reporting to maximize states' focus on the successful implementation and delivery of financing. DOE should allow the funds to be exempt from federal reporting once they have been revolved through the fund once, and interest

earned on these loans should not be subject to federal reporting or requirements. Funding that is made available by a state to support the direct lending of the RLF should remain exempt as well.

Recommendation 5: Provide flexibility in program administration options. State Energy Offices vary greatly in terms of their size, their staff's expertise in financing programs, and their bandwidth to take on large programs. Some states may be well-positioned to administer the RLF program in-house, while others may choose to work with other state agencies or third-party implementation partners. Others may be further interested in streamlining program administration by sharing third-party services with other states. NASEO suggests that DOE give State Energy Offices the option to administer RLF programs based on their priorities, partnerships, and capacity.

Recommendation 6: Enable various energy audit options. A building audit is required to use RLF Program capital. NASEO recommends that DOE allow both traditional (in-person) audits as well as remote audits or Home Energy Scores, so long as the remote audits conform to an ASHRAE standard or equivalent quality control.

Recommendation 7: Release funds as soon as possible. It is critical that the RLF Program funding be released to the State Energy Offices as quickly as possible, and all at once, to maximize the impacts of the funds. State Energy Offices will need from DOE clarity in program guidance, flexibility in the program timing and design, and a clear sense of their overall funding allocation to engage stakeholders, develop program plans, and receive approval from their legislatures and/or governors before they begin the work of implementing the program.

NASEO recommends that DOE integrate the above recommendations into all aspects of the RLF program design. The additional responses set forth below are to select RFI questions that we feel help illustrate the deep need for flexibility and streamlined reporting and program administration.

Question 1. Key aspects of RLF program design that open access for residential borrowers, particularly those with lower incomes, include: (1) low interest rates and upfront costs; (2) limited or no emphasis on credit scores; (3) customized offerings for hard-to-reach markets such as renter-occupied housing; (4) ease of repayment; and (5) the ability to address foundational occupant health, resilience, and safety improvements in concert with energy efficiency improvements. State Energy Office-supported financing programs offer these features in different ways. For instance, New York's Green Jobs Green New York Loan Fund offers rates as low as 3.49 percent, which present homeowners with much more attractive rates than they may receive from credit cards, home equity lines of credit, or other options. In Florida, the State Energy Office provides guidance and partners with the Florida Housing Finance Corporation to provide targeted loans for energy retrofits in affordable multifamily rental properties placed in service prior to 2005. Lower-income borrowers, including affordable multifamily properties, in Hawaii's Green Energy Market Securitization (GEMS) program qualify for energy efficiency and solar improvements based on past utility bill history, not credit scores, and repay the loan directly on their utility bills. Similarly, loans in Washington's Sustainable Energy Trust are structured so that repayments are less than bill savings, enabling borrowers to see net cost

savings on their utility bills. Finally, the Washington State Energy Office's Weatherization Plus Health initiative integrates healthy homes measures, home durability improvements, and occupant safety upgrades with energy efficiency projects.

Question 7a. Nebraska's Dollar and Energy Savings Loan Fund is a revolving loan program that engages a network of more than 300 private lenders to provide low-cost financing for residential and commercial properties in the state. Once a lender has made a loan, the fund purchases 50 to 75 percent of the loan at zero percent interest, reducing the overall interest rate the customer pays (the net rate is no more than five percent). The partner lenders set the loan terms, which can range from 5 to 10 years, and repayment frequency, and then use loan repayments to repay the program, reseeding it for future lending. Since its inception, the fund has supported over 30,000 loans totaling more than $320 million. The Energy Office's share of these loans is $153 million, which has leveraged more than twice that amount (over $172 million) from partner lenders such as banks, credit unions, and savings and loan institutions. Nebraska's approach offers a compelling example of a RLF program design that engages private lenders directly to build their capacity and confidence in providing capital to energy efficiency projects. The blended loan approach taken by this RLF has resulted in hundreds of millions of dollars loaned and a sustainable funding approach for over three decades, with next to no defaults.

Question 7b. Minnesota used ARRA capital to establish a RLF to finance C-PACE small business loans with the St. Paul Port Authority acting as administrator. The RLF provides the initial loan for C-PACE projects and then sells into the secondary market to replenish its funds. Since its inception, the fund has financed over 250 projects comprising over $100 million in total investment. Most projects (approximately 86 percent) funded through this program have supported small businesses, with a combined value of $24.5 million.

Question 7c. Hawaii's GEMS program, which is run by the Hawaii Green Infrastructure Authority and was established and is overseen by the Hawaii State Energy Office, provides quarterly and annual reports that track specific environmental metrics to gauge the fund's progress. Key metrics include total kWh reductions; installed renewable energy capacity; total barrels of petroleum displaced; total greenhouse gas emissions (GHGs) avoided; and jobs created/retained. Michigan Saves tracks GHG avoidance, cumulative energy savings, total utility bill savings and average bill savings per project.

Question 7e. As part of its Green Jobs Green New York (GJGNY) initiative, the New York State Energy and Research Development Authority developed a workforce training development initiative to complement its revolving loan fund and other programs. The initiative incents businesses to hire and train workers on the job when installing efficiency products using GJGNY funds and offers additional wage subsidies for employers who hire workers with barriers to employment. As of 2021, the program supported the hiring of 4,233 workers.

Question 7f. The Pennsylvania Green Energy Loan Fund is designed to specifically prioritize local community development efforts with a critical focus on projects in designated Environmental Justice areas. The Fund has invested nearly 30 percent of its capital into projects in buildings owned by low-income persons or by persons of color, and over half into projects

located in low-income census tracts. The Fund is now self-sustaining because it has revolved the entire fund several times with interest, which pays for its administration costs.

Question 9. In addition to Nebraska's program referenced above, another way in which an RLF program can increase lender confidence is through establishing a "Revolving Loan Loss Reserve." The fund would back loans made by private lenders by covering a specific portion of loans lent with a specific capital amount. Once the loan is paid back, the capital used to back that loan is revolved back into the fund and used again. The structure provides private lenders with a backing that lessens risk and spurs increased lending. A RLF could also co-lend with private capital by offering capital as a subordinated tranche of funding, where the private lender is paid back before the RLF in the event of a default, which could also increase lender confidence.

Question 11. Texas' LoanSTAR Revolving Loan Fund offers financing for public and institutional buildings such as local office buildings, public hospitals, public school districts, and public colleges and universities. LoanSTAR has produced energy savings of over $711 million to its customers since its inception, with zero defaults. While LoanSTAR offers direct lending to these entities for energy-related improvements, it also is a capital provider for projects that wish to use Energy Savings Performance Contracts (ESPCs). The savings guarantee inherent to ESPCs provides an extra level of security to loans made by LoanSTAR and decreases the chance of a delinquency or default by the customer.

Question 12. Virginia established the Commonwealth Energy Fund to make loans to high growth potential early-stage Virginia companies capable of driving job creation, reducing energy consumption, increasing energy generation from renewable resources, and reducing greenhouse emissions. The fund finances portfolio companies using an optional convertible debt structure and leverages private capital at a 13:1 lending ratio. The fund also helped the state develop its infrastructure and expertise to evaluate the use of other sources of capital in backing innovative companies in the energy and climate space. Virginia's experience illustrates that, given the freedom to do so, states can develop innovative solutions that can drive substantial lending in different sectors using the same sources of seed capital.

NASEO appreciates the opportunity to submit comments and is happy to provide follow-up information to any of the answers provided here. Thank you for your consideration.

Best regards,

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