FINANCING OPTIONS/POSSIBILITIES FOR RESIDENTIAL WEATHERIZATION

Presented by Bob Barton
bobcatalyst@gmail.com

Non-Traditional Funding

1) Social, Sustainability, and Green Bonds ("SSG Bonds")

- Differentiator: Bonds issued for particular purposes (e.g., Green Bonds → clean tech)
- Global Market: $1+ Trillion since the first bond was issued in 2007.
    - 2020: Total $425B (Moody's). Green Bond's = $250B; Social Bonds = $100B; Sustainability Bonds = $75B.
- Example: Liberty (Green) Bonds issued by CT Green Bank (2020)
    - ~$17MM of 1-15 year bonds in $1000 denominations.
        - 1 yr bond = .95 %, 5 yr. =1.6%, and 15 yr.= 2.9%.
    - Sold via brokerage firms (not all buyers were from CT).
        - 74% of bonds were retail and 26% were institutional investors.
            - CT buyers were about 50% of the retail buyers.
- Suggestion: VHFA could issue some form of SSG Bonds. VHFA might brand these as "Unity" Bonds akin to VT's successful Citizen's Bonds program.

2) Federal Zero-Interest Loans

- Differentiator: USDA's Rural Energy Savings Program (RESP) provides 0% twenty-year loans to launch or expand energy efficiency and renewable energy programs.
    - Borrowers can be rural electric coops and other rural utilities as well as "state agencies, nonprofits or mutual associations that provide power to rural areas through financing of RESP eligible measures…."
    - Loans generally range from $1-8 million.
- Suggestion: Explore whether VHFA is an eligible borrower. If not, select Vermont utilities could borrow 0% money. VHFA could buy the weatherization loans in bulk from the utilities as it does for mortgages from banks and credit unions. With the money from the sale of their loans utilities could re-lend more money to their customers, thereby creating a perpetual revolving loan fund for weatherization for LMI people in their service territory.

3) Program-Related Investments ("PRIs")

- Differentiator: Foundation and/or family offices make investments (loans, equity, loan guarantees, provide loan loss monies, etc.) for high impact projects aligned with their grant funding. Investments are made out of their yearly grant funding budget.
    - Offer *concessionary terms at below-market rates.*
    - Recipients are typically limited to *501(c)3s and social corporations*.
- Examples
    - Ford Foundation: $200MM pool. Invests $17MM a year in PRI. Loans $1-3MM, 7-10 years, 1% for existing grantees. Has invested $600+MM in PRI.
    - The Gates Foundation: Has dedicated $1.5B to PRIs.
    - The David and Lucile Packard Foundation has dedicated up to $180MM of their endowment to MRI. To date, through reinvesting, they have invested $760MM in 240 investments.
- Suggestion: Do research to determine whether VHFA can attract regional, national or larger VT foundation PRI investments.

4) Mission-Related Investments ("MRIs")

- Differentiator: Foundation and/or family offices make investments (loans/equity, subordinated debt, etc.) out of their *endowment funds.*
    - Seek to make a *market rate of return.*
    - Recipients can be *for-profits and nonprofits*.
- Examples
    - Ford Foundation has committed up to $1B from their endowment for MRIs with a focus on affordable housing and financial services promoting financial inclusion for low-income families. Has made $129MM in investments, as of June 2019, in 10 different funds.
    - The Gates Foundation makes dozens of MRI investments in the $1-4MM range. It invested $3MM in the Rose Affordable Housing Preservation Fund in 2019.
    - The Heron Foundation invests 100% of its endowment in PRI and MRI investments in addition to its grantmaking. Heavy focus on low-income populations. Made a $1MM PRI and $1MM MRI to finance low-income housing in the San Joaquin Valley, CA. Chair of Board lives in southern Vermont.
- Suggestion: Do research to determine whether VHFA can attract regional and/or national MRI investments.

5) Community Investing Guarantee Pool

- Differentiator: In 2020, the Kresge Foundation with other foundations pioneered a Loan Guarantee pool for community investing. Affordable housing and climate are eligible investments. The original pool was $31MM and they hope to increase the pool to $75MM. The minimum guarantee is $1MM and the maximum term is 15 years. An annual fee of 1-2% is charged for the guarantee.
- Suggestion: Assess whether this credit enhancement would result in debt issuance cost savings.

6) Pay For Success Bonds

- Differentiator: Repayment is based on the achievement of *specific outcomes*.
    - Impact Investors are funders. If outcomes are not met, less than full payment is made to the investor or, in some cases, the investor pays the issuer.
    - More expensive than other bonds because they are complex and the risk is shifted to the investors and/or contractors.
    - 5-20 year term; from below-market to above-market rates.
    - Because this kind of bond addresses risks related to bonds, this is a way to access capital when there is big risk aversion.
- Global Market: ~$1B
- Example: SocialFinance.org is evaluating the use of Pay for Success Bonds for energy efficiency improvements for low-moderate income for NYSERDA.
    - They created a template to roll out a program.
- Suggestion: Consider using this program when there is resistance to funding because outcomes are questionable.

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Non-Traditional Financing/Collection Mechanisms

On-Bill-to-the-Meter Financing ("OBMF") for Efficiency Improvements

- **Characteristics**
  - OBMF improves energy affordability for all.
  - Numerous programs have been operating for decades in the U.S (and Canada). Bad debts have been remarkably low.
  - Can be used for energy efficiency improvements, weatherization, solar, heat pumps, and non-energy measures needed to make the improvements.
  - Utilities need Public Service Board program and tariff approval.
- **Benefits**
  - Not a Loan or a Debt for the Customer
    - Loan is to the utility meter, not the customer so overcomes debt aversion.
    - Customer makes on-bill payments only while they live in the residence.
    - Subsequent owner/occupant assumes the monthly payment.
    - For landlords, this is "off balance sheet" debt and does not impact bank loans/lines.
  - Can Include Renters because the obligation automatically transfers to the next bill payer.
  - Alternative Underwriting Embraces LMI Borrowers
    - Relaxed underwriting is used to expand credit to the most needy (e.g., utility bill payment history and/or drastically reduced FICO score).
  - Immediate Positive Cashflow or Bill Neutrality
    - Generally, monthly payments must be lower than the expected savings.
    - Provides immediate cash to customers and increases the likelihood of timely payments.
  - Overcomes Split Incentives where the building owner is not the bill payer.
    - Landlords may be willing to make energy improvements because the tenant pays for the improvements when they pay their utility bill and when they leave the next tenant assumes the payment (and benefits from the energy cost savings).
  - Overcomes Uncertainty about Length of Occupancy because payment obligation ceases when a customer moves.
- **Example**
  - Pay as You Save (PAYS®), a system created by Vermont's Energy Efficiency Institute (Paul Cillo and Harlan Lachman), is a good example of a broadly used on-bill-to-the-meter financing system that has worked with multiple utilities in several states.