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OCTOBER 14–17, 2014 • THE SHERATON DOWNTOWN DENVER, COLORADO

## **CDFIs and Utility Company Partnerships**

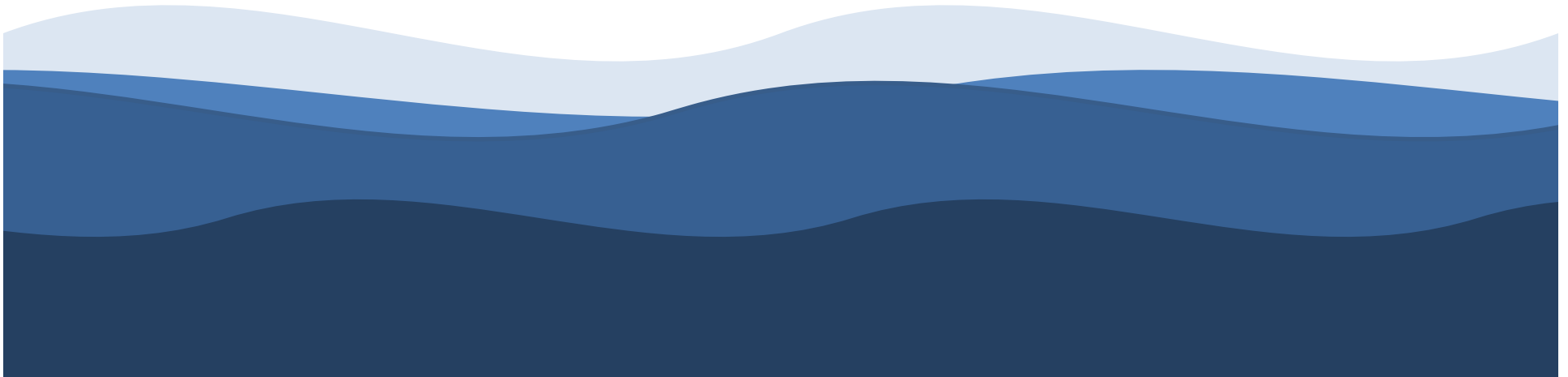
**How\$martKY™ partners with rural electric co-ops for  
On-bill financing of residential retrofits**

**Presenter: Peter Hille  
Executive Vice President  
MACED  
Berea, KY**



**Energy Efficiency for Everyone**

**On-Bill Financing**



# What is How\$martKY?

On-bill financing program

Energy savings  
pay for retrofits

## What is How\$martKY?

Investment in the electric meter

Not a personal loan

Does not affect the participating  
customer's credit

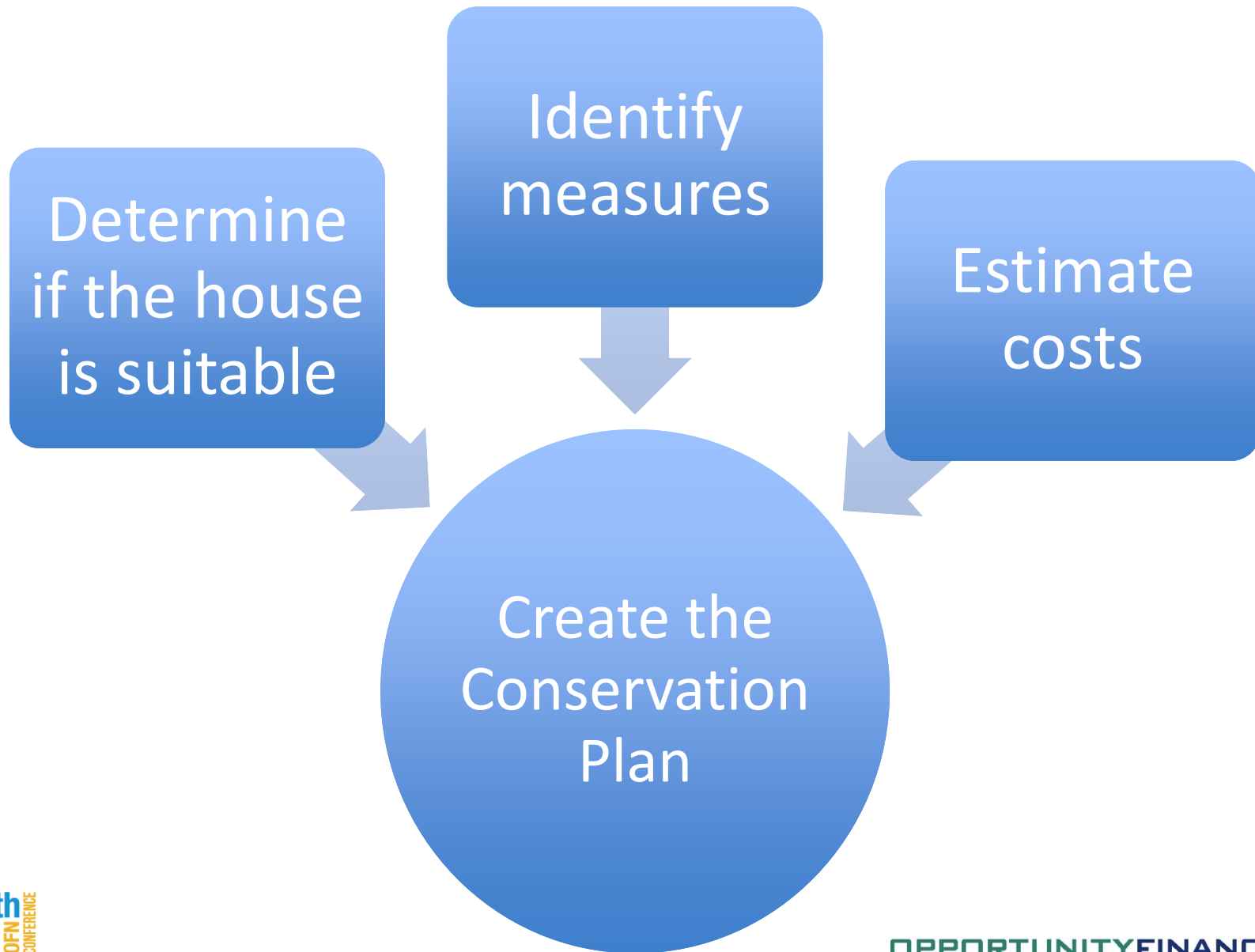
Usually starts with a  
high bill complaint

Co-op determines the  
customer is eligible

Audit is performed on  
the house

# Blower Door Test





## Conservation Plan

The retrofit payment  
cannot exceed  
90% of the projected savings

Payback in 15 years or less



# Example 1



*Single-story home with Improperly sized Heat Pump  
receiving additional insulation & air sealing*

<u>\$12,067</u>	Cost of Improvements	\$10,067	
<u>-2,000</u>	Rebates & Incentives	+ 5%	
\$10,067		\$10,570	@ 3% over 15 yrs = \$73/mo

\$103/mo	Avg. reduction
- \$73/mo	Fixed charge
<u>\$30/mo</u>	Immediate savings

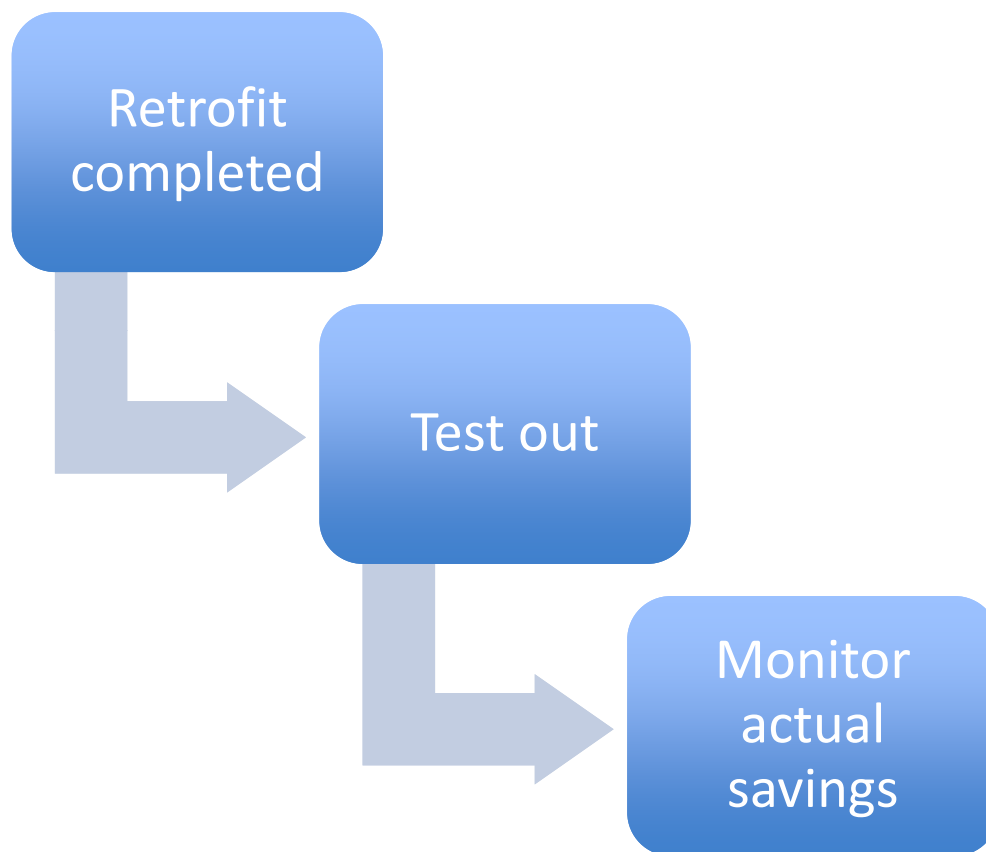
## Example 2



*Double Wide Mobile Home with Electric Furnace  
Replaced with an Energy Efficient Heat Pump*

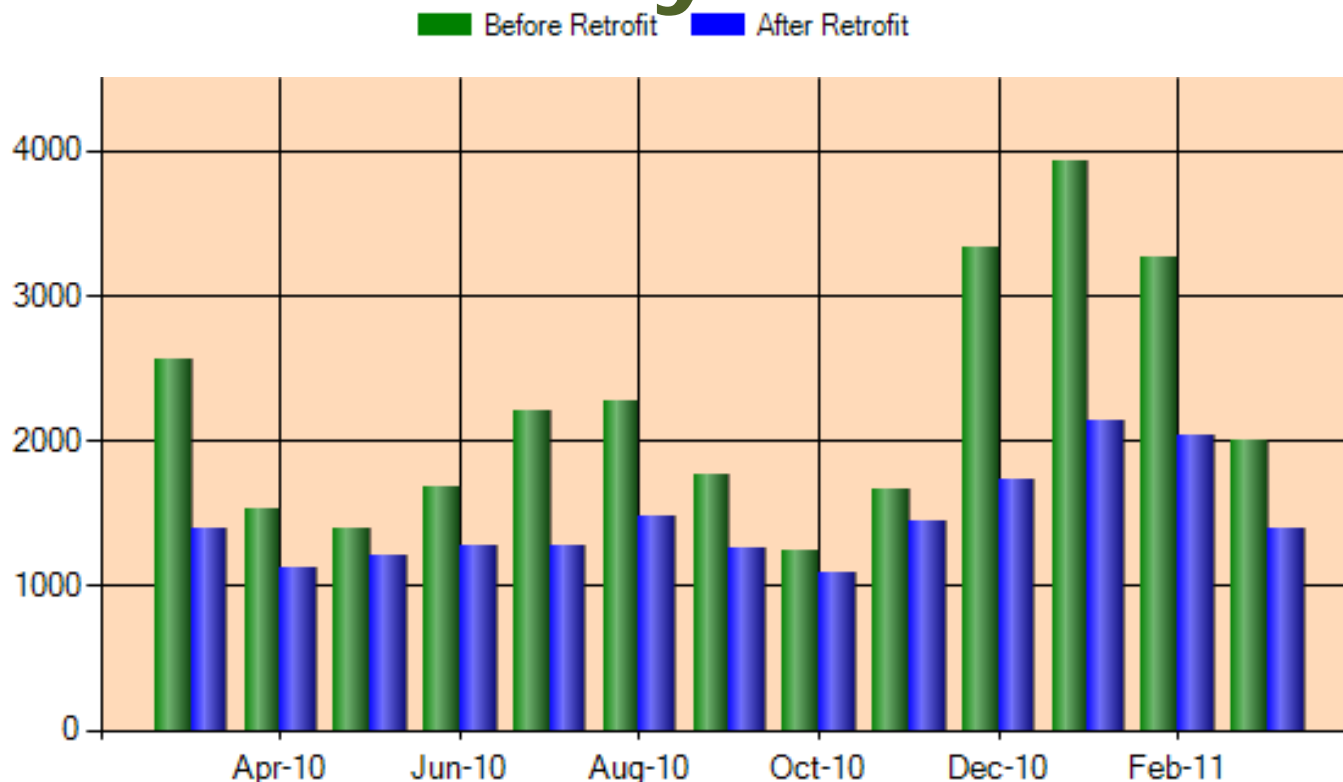
<u>\$7,350</u>	Cost of Improvements	\$5,380	
<u>-1,970</u>	Rebates & Incentives	+ 5%	
\$5,380		\$5,649	@ 3% over 15 yrs = \$39/mo

\$51/mo	Avg. reduction
- \$39/mo	Fixed charge
<u>\$12/mo</u>	Immediate savings





# Comparison Results - Single Family Home



Estimated Savings: \$44

Actual Average Monthly Savings: \$52

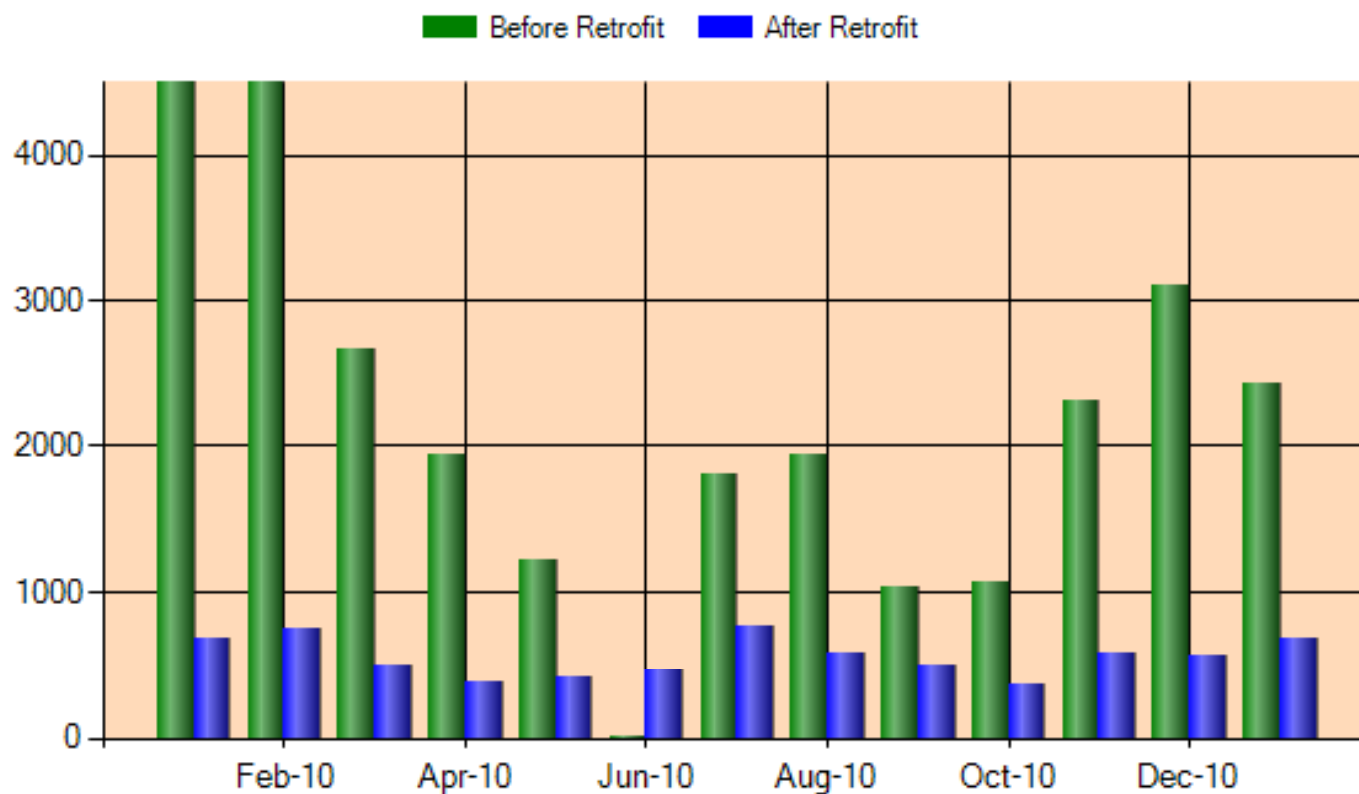
On-bill Financing Charge: \$22

Weather Normalized Savings of: 31%





# Comparison Results - Double Wide Home



Estimated Savings: \$55

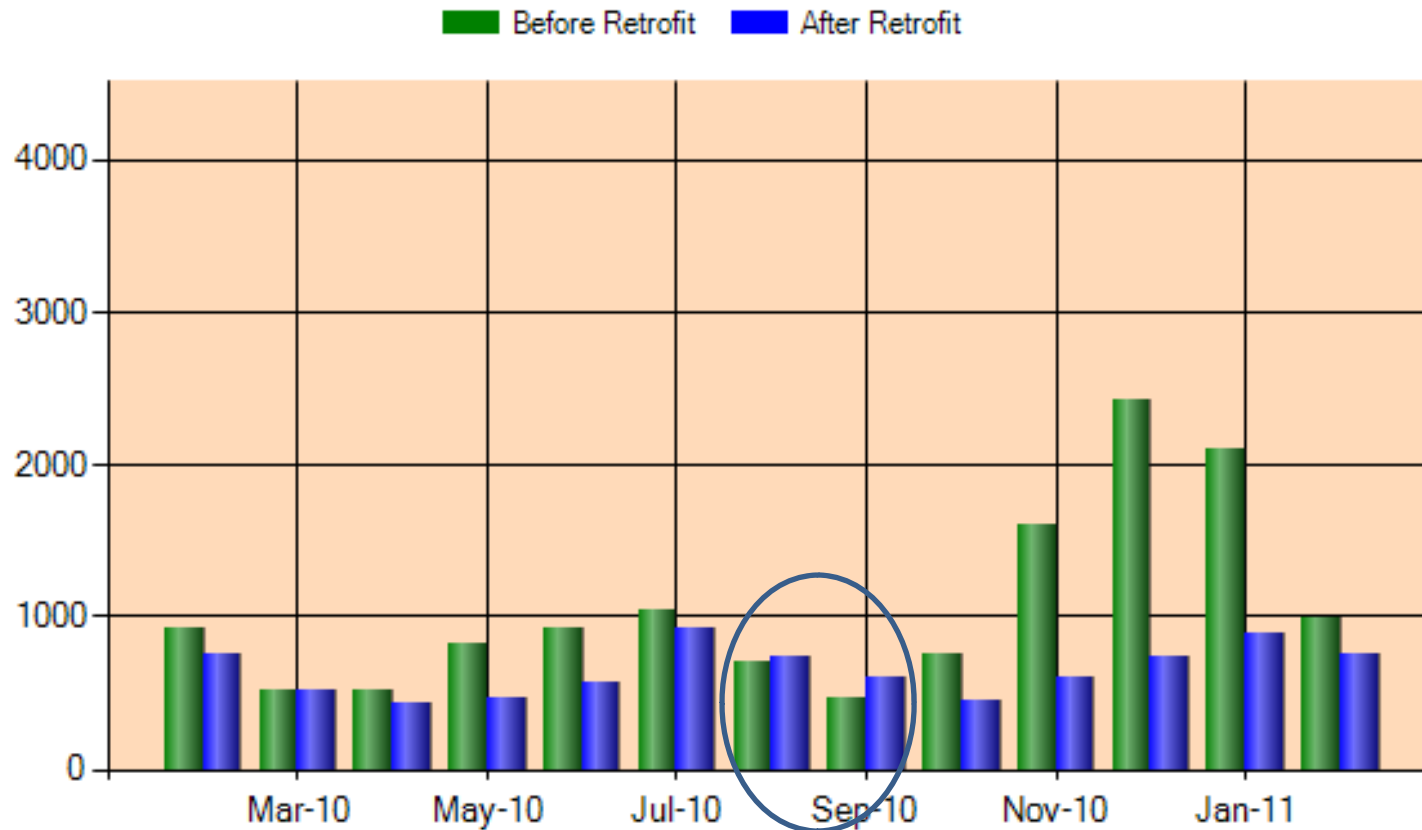
Actual Average Monthly Savings: \$146

On-bill Financing Charge: \$30

Weather Normalized Savings: 69%



# kWh Savings & Behavioral Change

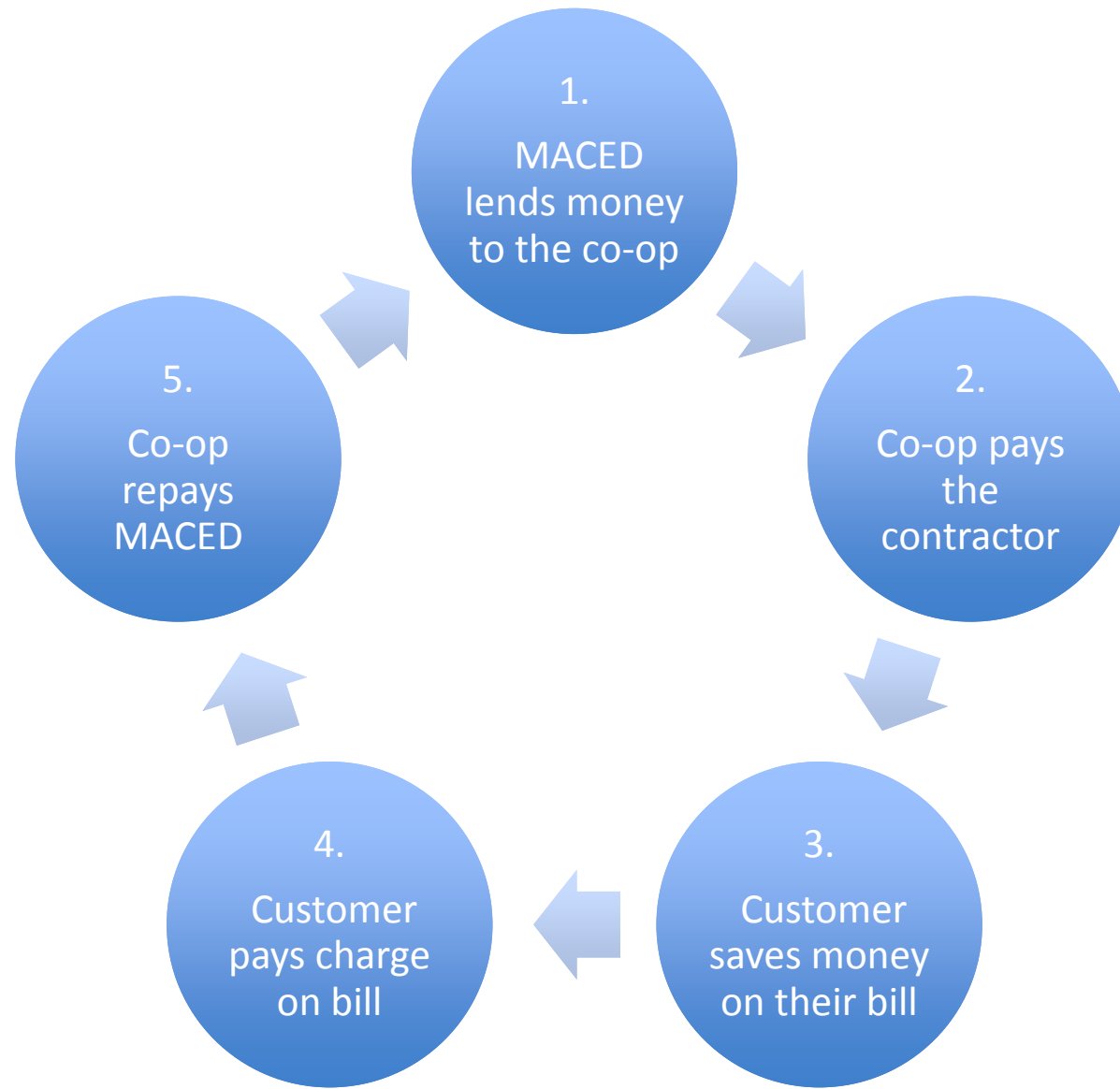


Estimated Savings: \$25

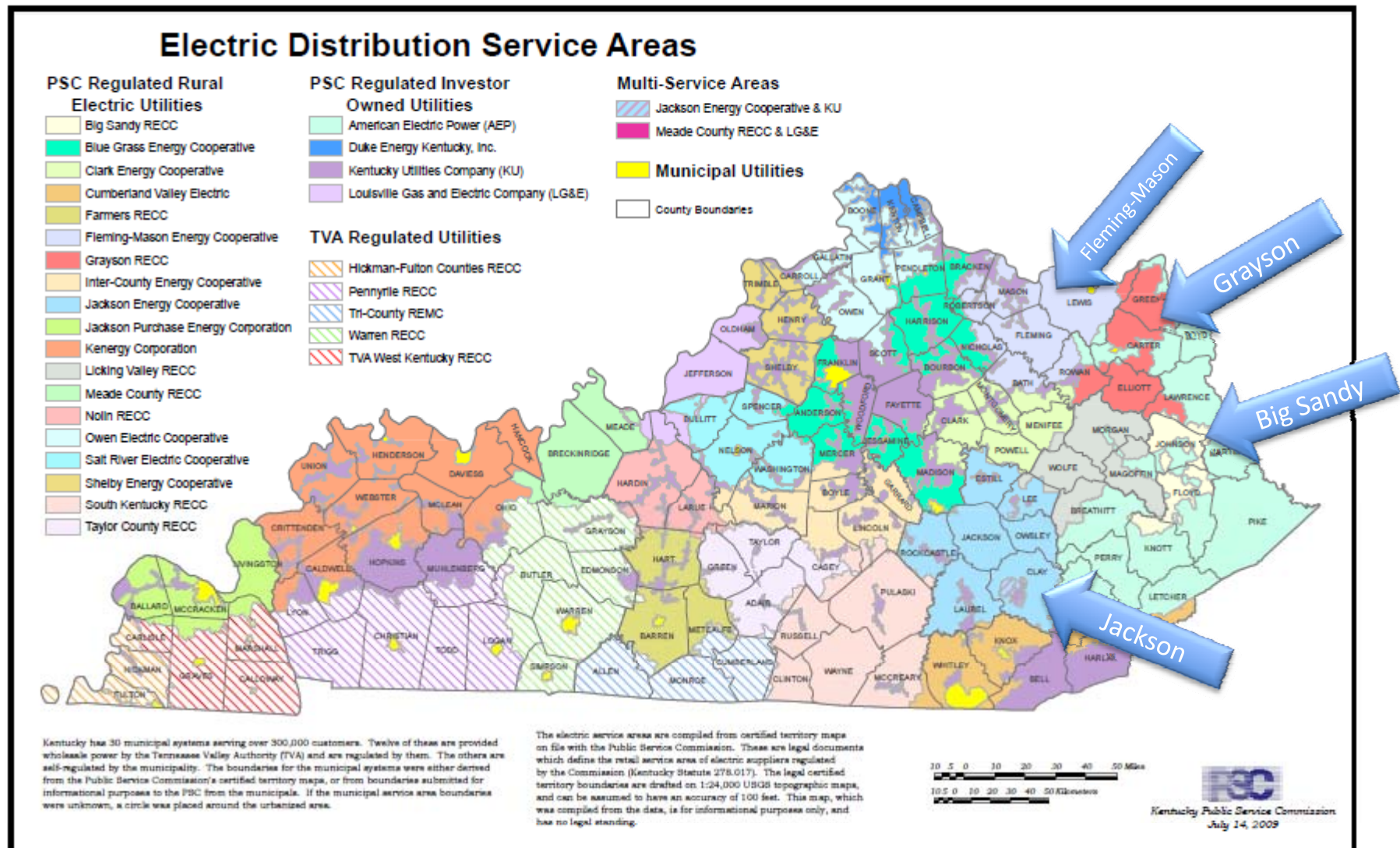
Actual Average Monthly Savings: \$35

On-bill Financing Charge: \$18

Weather Normalized Savings: 28%



# The Four Rural Electric Co-Ops Involved in the Pilot





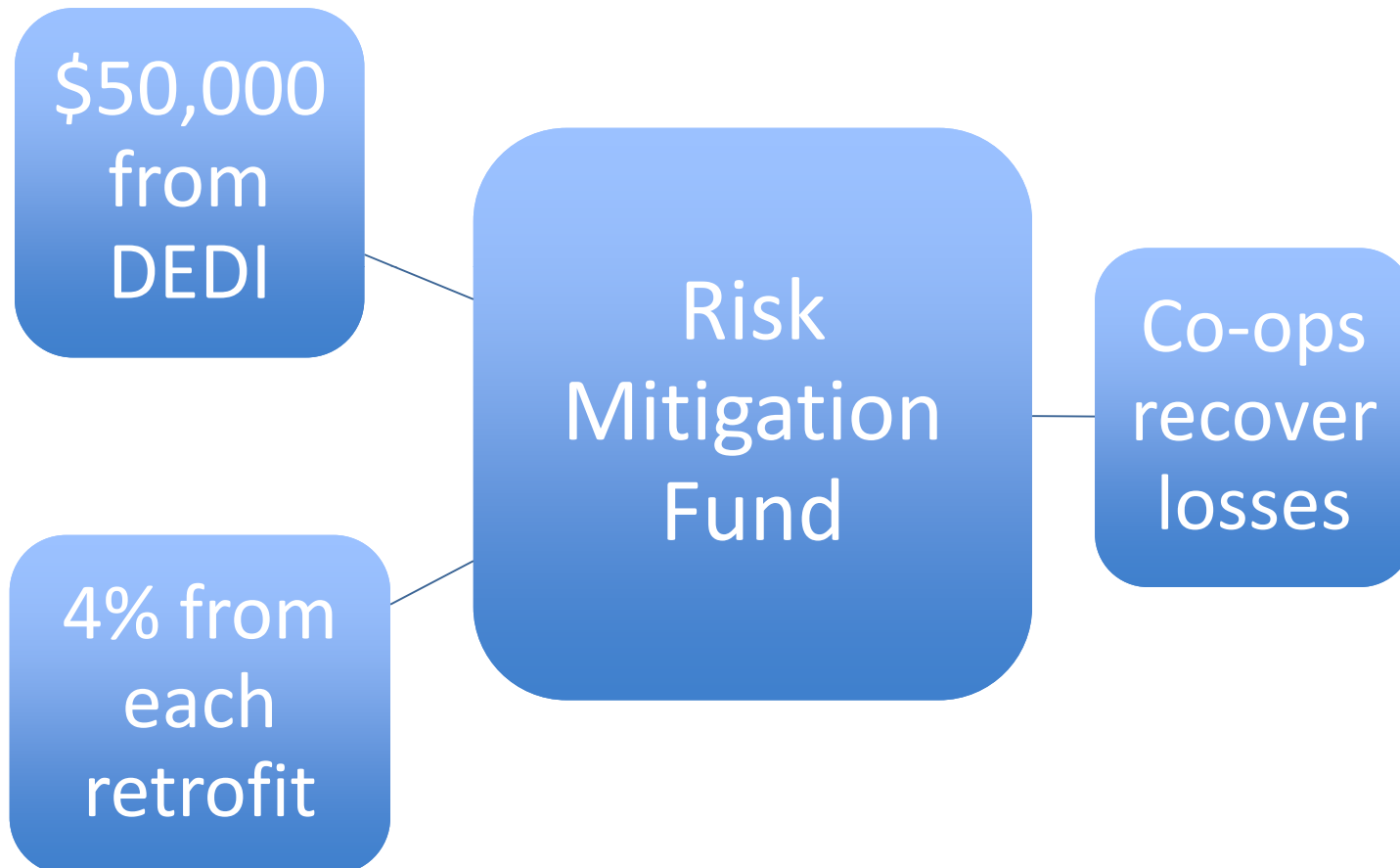
# Challenges in the Pilot Program

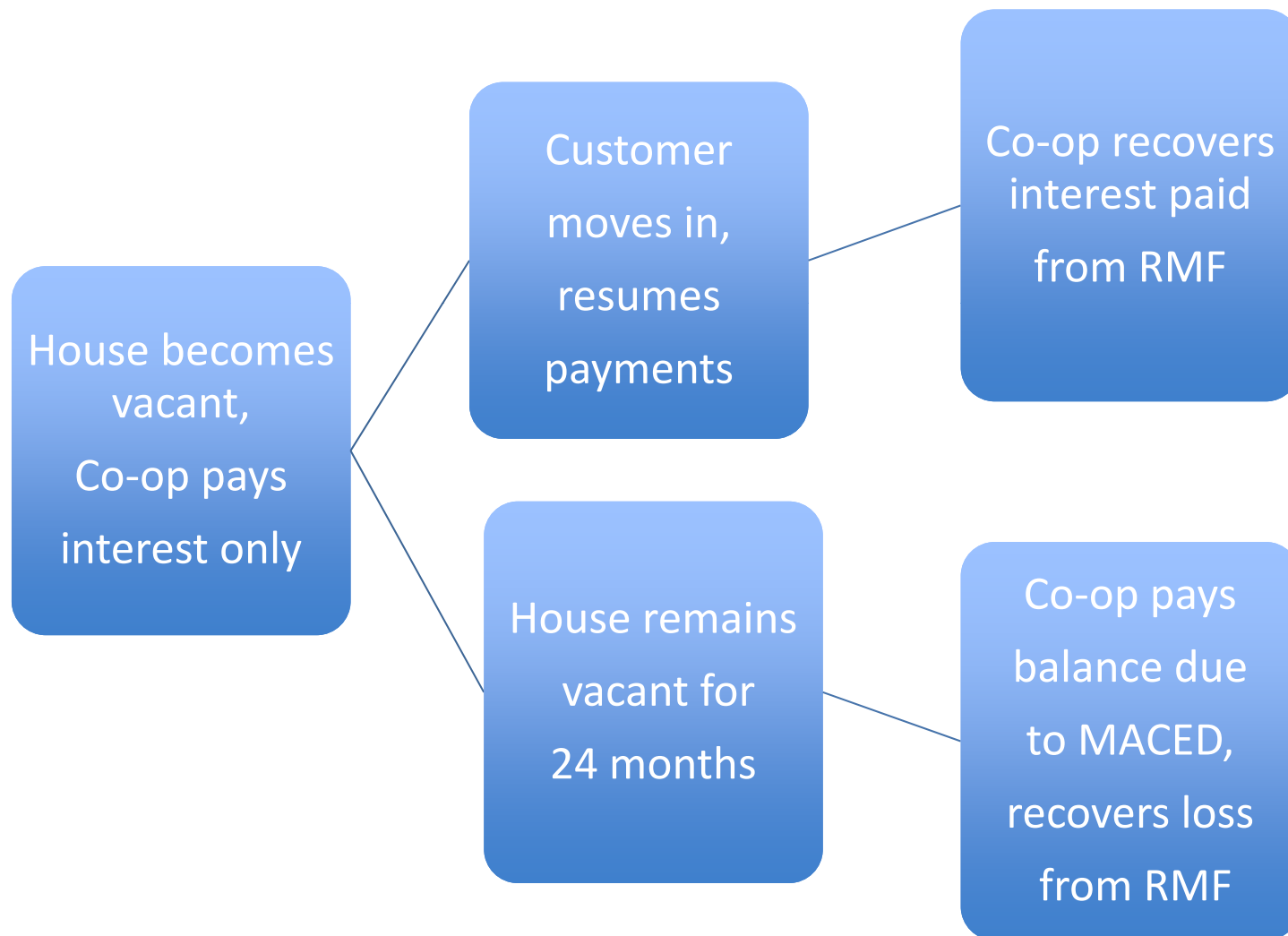
- Developing partnerships with the Rural Electric Co-ops
- Public Service Commission approval for the Pilot took 18 months
- Co-ops were slow to start
- Concerns about risk and loss
- Establishing systems

# Beyond the Pilot Program

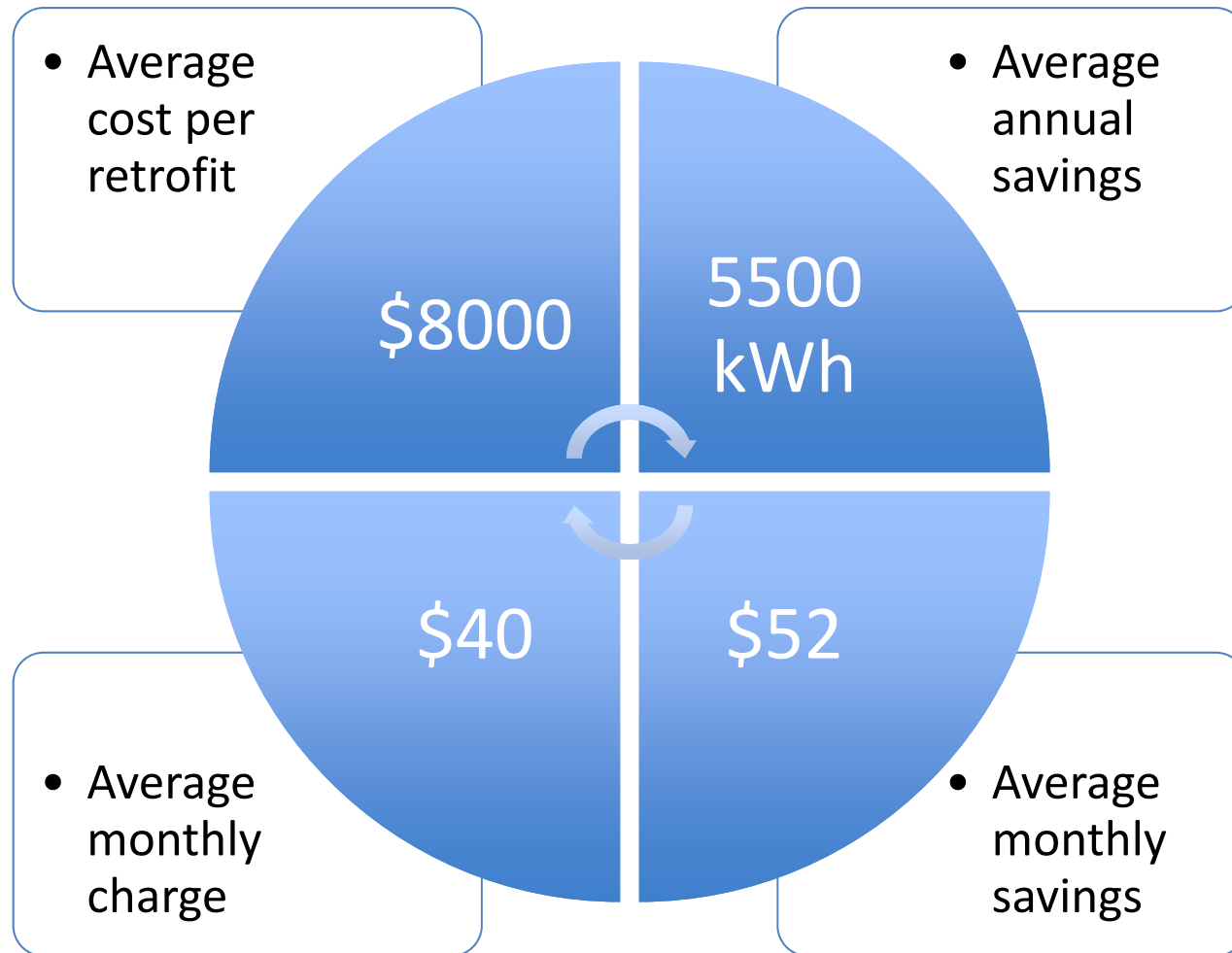
- Problem solving for 2.0:
  - Risk mitigation (system improvements and RMF)
  - Program revenue
  - Ongoing co-op participation
- Permanent tariff approval by PSC took 10 months
- PSC application template for new co-ops to use

## Risk Mitigation Fund





# Program Stats



## Status Report: August 31, 2014

Status To Date	
In Process	21
Completed Retrofits	166

324 Energy Assessments have been completed.

More than \$1.2 million invested in retrofits.



# The Next Phase of How\$martKY

Permanent tariff approved in August 2013

Recruiting additional co-ops

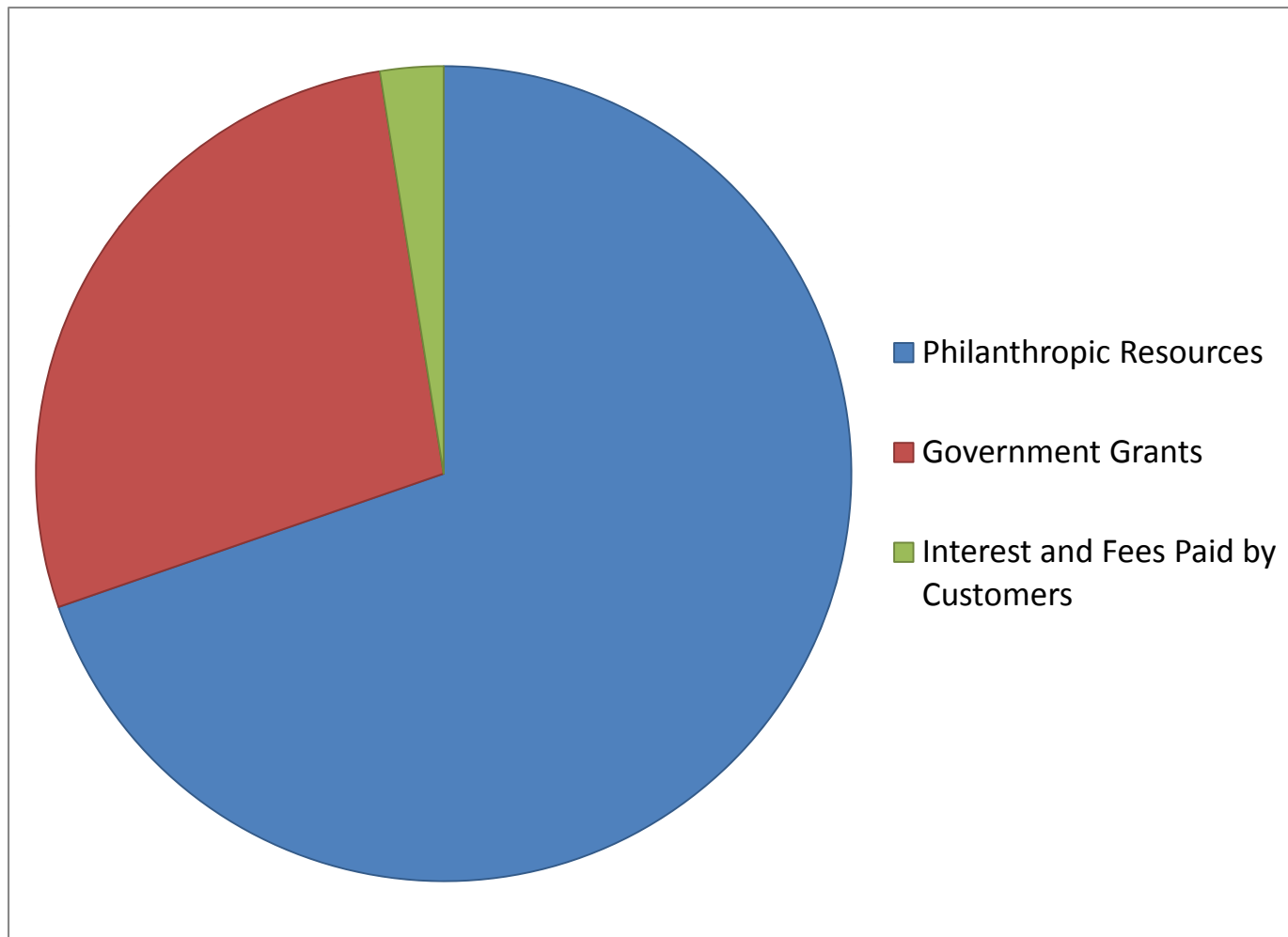
Expanding the program to scale

# Challenges Going Forward

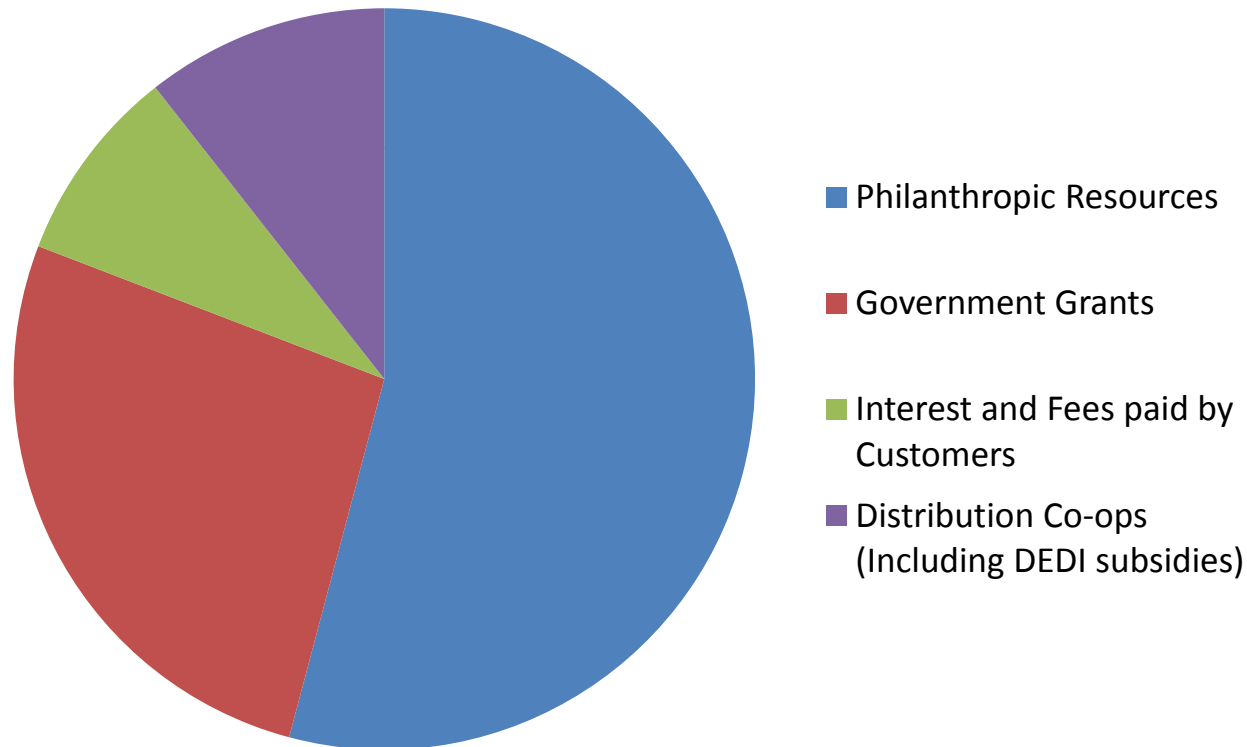
- Expanding participation of the distribution co-ops and uptake by the members to get to scale
- Reducing transaction costs
- Developing the pool of contractors who can take on a bigger share of the work
- Establishing revenue structures to sustain the program as it grows (fixed and variable costs)



# Sources of Funding: Pilot

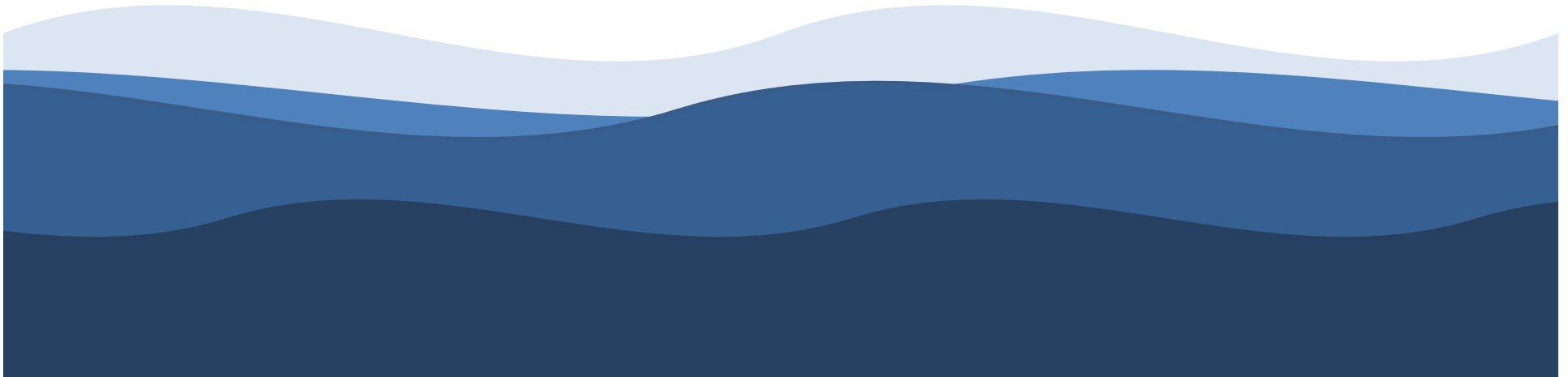


# Sources of Funding: Current Program





For more information contact: [www.maced.org](http://www.maced.org)



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## CDFIs and Utility Company Partnerships


Kevin Porter  
VP of Lending  
Connecticut Housing Investment Fund, Inc.

October 15, 2014

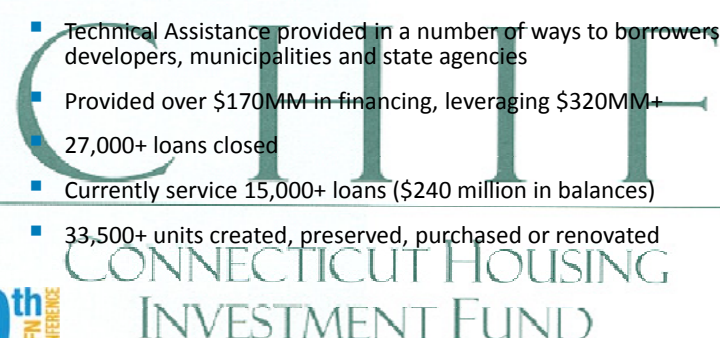


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## About CHIF – History



- 501 (c) 3 organization founded in 1968 to address housing segregation issues in Hartford, Connecticut; have since grown to provide many housing-related programs
- Treasury-certified CDFI (1993)
- Statewide lender and loan servicer
- Technical Assistance provided in a number of ways to borrowers, developers, municipalities and state agencies
- Provided over \$170MM in financing, leveraging \$320MM+
- 27,000+ loans closed
- Currently service 15,000+ loans (\$240 million in balances)
- 33,500+ units created, preserved, purchased or renovated



# CONNECTICUT HOUSING INVESTMENT FUND



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## About CHIF – Products/Services

### Energy Efficiency Lending

- State of CT Energy Conservation Loan (ECL) and Multi-family Energy Conservation Loan (MEL)
  - Income-targeted loan programs started by Utilities in 1979
  - Shifted to state bonding with companies paying net bond interest bond
  - \$12M last five years, \$2.5M/year, volume limited to bonding approvals
- Home Energy Solutions (HES) Residential Financing
  - As of June 2011, CHIF was selected to administer this program, an energy efficiency program offered by Connecticut Light & Power (CL&P) and United Illuminating (UI), state's two largest electric utilities, in partnership with their three natural gas subs.
  - CHIF originates these loans for both utilities and services CL&P's loans.
- Low-Income Multi-family Energy (LIME) Loan
  - Launched in 2013 with OFN/BofA, CDFI Fund and state funding support

### Other Housing Lending

- Pre-dev, bridge, construction and permanent financing to facilitate neighborhood stabilization and the development/operation of affordable/workforce housing

### Loan Servicing

- Servicing for municipalities, non-profits, state agencies

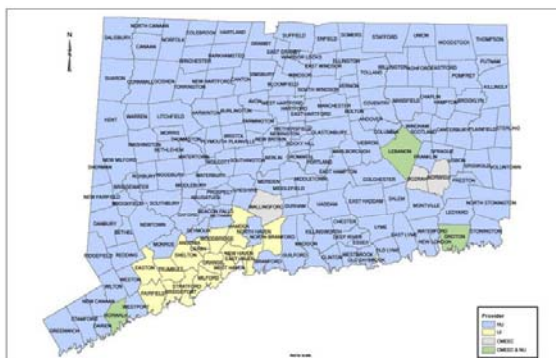
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## Utility/Energy Environment in Connecticut

- ~3.6MM people in ~1.6MM housing units; urban poverty (mostly renters)/suburban wealth (mostly homeowners)
- Densely populated, but relatively low nat gas penetration rates
- Robust public policy goals and efforts around energy efficiency and renewables



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## Utility/Energy Environment in Connecticut (cont.)

- **2007 ruling:** IOUs required to establish a residential revolving loan fund with on-bill repayment feature
  - 2010: Rolled out as a pilot
  - 2011: Cost effectiveness standards; program “self-funded” with \$6MM of CL&P ratepayer funds, then another \$5.5MM (granted to CHIF’s affiliate, CT Energy Efficiency Finance Co. “CEEFCo”)
- **PA 11-80:** established DEEP, CT Green Bank (f/k/a CEFIA), goal of weatherizing 80% of the state’s housing stock by 2020; EnergizeCT; gas conversion, distribution expansion goals; move from subsidy to private capital

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## Home Energy Solutions (HES) Residential Financing



Transitioned from a pilot to program (another lender) to CHIF in **June, 2011**.  
CHIF granted **\$11.5MM in ratepayer funds (CL&P)** for program admin, IRB, LLR and servicing; loans bought on a flow basis with **shareholder and ratepayer capital (UI)**

- Proof of concept: Residential energy efficiency lending and on-bill repayment
- Build capacity (both internally and externally - statewide data collection, program management, contractor network, marketing, etc.)
- CHIF goal of segmenting market to focus on LMI/credit challenged homeowners
  - Launched 0% micro loan based on utility pay history underwrite
  - Leveraging relationships with utility companies to bring in other resources

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## Great Needs/Opportunities in Connecticut's Multi-family Market

- **Leverage and build off of existing HES-IE resources** – rebates and processes are available to assist lower-income households; financing can stretch these resources to have greater impact and reach more people
- **Provide financing to property owners who lack capital to make energy improvements**
- **“Low-hanging fruit”** – affordable multi-family properties are often less efficient than market-rate and high-end rental housing
- **Health and Safety** – financing can include other home improvements funded by net energy savings
- **Economic development impact** – It is estimated that CT residents spend \$1.6 billion a year on fuel oil, of which about 78% leaves the state; reducing this amount through energy efficiency can leave more \$ to circulate in the local economy, create jobs and pay local taxes
- **Higher economic impact for vulnerable households** – lower-income households have less disposable income and savings; every dollar reduction in energy expenses more impactful to these households (who are more likely to spend in the local economy than higher-income households, who are more likely to save)

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## Great Needs/Opportunities in Connecticut's Multi-family Market (cont.)

- **High access to natural gas infrastructure** - high concentration in urban areas, high energy savings potential
- **Frequently older properties needing improvements** - blends well with general renovation projects, leverages other project financing
- **Cash flow benefits** - *Permanent financing* - shares net energy savings with property owners; *bridging requisitions* - assures contractor payments are timely, allowing smaller contracting firms to compete, helps scale production, cost can be financed.
- **Provides critical project capital** – Especially for Housing Authorities (HAs) due to their legal structure and regulatory requirements, typical debt financing frequently not possible for HAs, HAs lack capital for non-rebated costs,
- **Mitigate air quality issues in low-income communities** – low-income communities are often disproportionately affected by air pollution; energy efficiency is one step in working for environmental justice
- **Deeper and broader measures** - Financing can include non-rebated improvements fundable under net energy savings (e.g. health safety)

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## CHIF Responded to These Needs with Two Multi-family Loan Products

- Short-term **bridge loan/line of credit** to CAP agencies serving as the GC for large-scale energy retrofits
  - Specifically targeted at low-income, multi-family properties
  - Gap the time between project start and receipt of rebates
    - More projects, happier contractors
  - CHIF received permission to set aside \$1MM of ratepayer funding previously received for this loan product



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## CHIF Responded to These Needs with Two Multi-family Loan Products (cont.)

- **Permanent financing** – LIME (Low-Income Multi-family Energy) loan to owner/operators of affordable properties
  - Can be unsecured (HUD, CHFA, other multi-family lenders do not want additional liens)
  - Underwritten around projected energy savings
  - Up to 12 year term
  - TA is key – project vetting, energy calculations, M&V



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## Capitalizing the LIME Loan

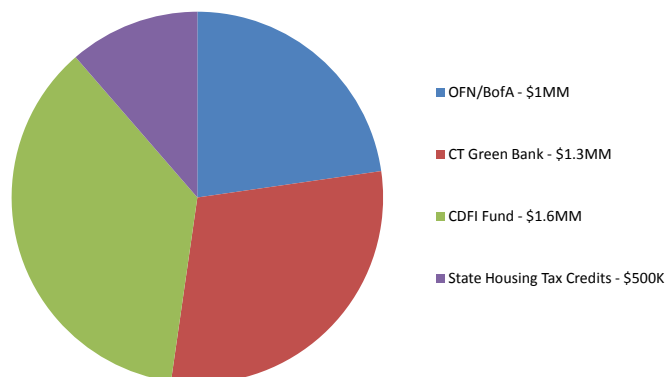
- **\$4.4MM in total** debt and grants raised
- \$1MM OFN/BofA debt first in, goal of leveraging other sources
- CT Green Bank (f/k/a Clean Energy Finance and Investment Authority) loan of \$1MM plus \$300K in LLR
  - Utility companies pledged support if CT Green Bank funding did not materialize
- \$2.1MM of state tax credits and CDFI Fund funding

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## LIME Loan Sources of Capital



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## LIME Loan Process

- Property owner/manager completes energy audit with utility-approved vendor
  - Blower door test, unit sampling, etc.
- CHIF/New Ecology/property manager gets buildings uploaded into WegoWise



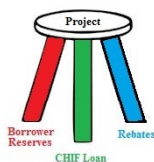
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## LIME Loan Process (cont.)

- Utility rebates calculated and shared with CHIF
- New Ecology projects energy savings to be achieved
- CHIF shapes loan based on term, amortization and size that the projected savings can support (1.30X "Energy Savings Coverage Ratio")



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## LIME Loan Process (cont.)

- CHIF presents energy savings calculations along with standard underwriting to its Loan Committee
- New Ecology retained for commissioning, optimization once work is underway



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## LIME Loan Example

- Elderly apartments in Waterbury, owned by local, for-profit investor; long-term financing requested to implement boiler and insulation upgrades and window replacements (\$195,000, closed September, 2014).
  - WegoWise identified other areas that could benefit from energy improvements (lighting and water measures); provided additional savings so that loan could be sized to meet the borrower's needs



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