Revolving Loan Funds in a Post-Incentive World

Agenda

- **County of San Luis Obispo**
  - Annie Secrest
    - Energy & Water Coordinator, Public Works
- **City of Santa Barbara**
  - Alelia Parenteau
    - Energy Program Supervisor, Public Works
- **County of Los Angeles**
  - Matthew Skolnik
    - SoCalIREN Program Manager
- **Q&A**
REVOLVING ENERGY & INNOVATION FUND

SEEC Forum
June 27, 2019
Annie Secrest, Energy & Water Coordinator
Agenda

• Background
• What is a Revolving Energy Fund?
• Fund Development Approach
• Fund Design & Tools
• Stakeholder Engagement
• Seed/Contribution Funding
• CEC Loan
What is a Revolving Energy Fund?

Incentives and rebates go back into the General Fund.

Incentives and rebates are placed in a Revolving Energy Fund, which in turn funds energy projects.
Why a Fund?

• Energy projects often compete against capital and maintenance projects
• Provides a dedicated source for funding energy projects
• As the Fund grows, additional energy and cost savings projects can be funded, thus growing the savings to the department and General Fund
• Provides a way for departments and the General Fund to track and realize savings from energy projects that would otherwise go unaccounted for
• Exhibit commitment to sustainability
Background: The County

• San Luis Obispo County
  • Approximately 284,000 people
  • Per capita income: ~$34k
  • Populated center surrounding City of San Luis Obispo
  • Predominantly rural and agricultural elsewhere

• County of San Luis Obispo
  • Approximately 3,000 staff
  • Twenty-four departments

• The Energy & Water Coordinator Position
  • Facilities Planning Division, Department of Public Works (approximately 300 staff members)
  • Filled in mid-2017 after numerous years of vacancy
Our Fund Development Approach

- Background research
- Determine fund type and develop tools
- Identify fund mechanics and financial aspects
- Develop tools v. 2
- Meetings with stakeholder groups
- Board of Supervisors approval
Background Research

Performed research
• Desktop review of eleven jurisdictions’ funds, plus other general research

Conducted phone interviews with case studies
• City of Visalia, established 2003
• City of Moreno Valley, established 2011
• City of Ann Arbor, established early 1990’s
• City of Santa Barbara, established 2016

Topics of interest
• Seed funding
• Fund replenishment
• Savings calculations/tracking
• Future of fund
Background Research – Types of Funds

Simple Model
  a. Cash inflows are limited to incentives and rebates

Moderate Model
  a. Incentives and rebates
  b. + Energy savings from a defined benefit (payback to REF) period

Complex Model
  a. Incentives and rebates
  b. Energy savings from a defined benefit (payback to REF) period
  c. + Fee on utility bills and/or to departments for project management, staff position, administrative efforts, etc.
Fund Design & Tools

Project Types
- Energy efficiency projects
- Solar and/or energy storage power purchase agreements
- Excluded: Enterprise Funds

Fund Replenishment
- All utility rebates and incentives
- Energy savings for duration of Pay-it-Forward (PIF) Period
  - EE: 100% of energy savings for two years
  - Solar/Storage: 50% of savings for three years

Tracking
- The REF provides a way for departments and the General Fund to track and realize savings from energy projects that would otherwise go unaccounted for
- Minimum number of years the General Fund would realize savings had to be greater than PIF Period  Led to determining project payback threshold
  - Payback threshold: five years for lighting, ten years for other
Fund Design & Tools

Tool: Energy Fund Tracking Workbook
- Develop a way to model financial scenarios, track projects, fund growth, and other important metrics.

Tool: Policy and Procedure Documents
- Policy: Provides a quick guidance document for department heads, executive committees, etc.
- Procedure: Provides staff with direction of how the fund operates, when transfers occur, assigns roles and responsibility, etc.
Fund Design & Tools

**Must Have**
- Fund must support more than just EE projects

**Solution**
- Fund allows for solar and energy storage projects
- For these projects, PIF period assumes 50% of energy savings for three years (typical contract term = 20 years)
Fund Design & Tools

Must Have
- Fund must give precedence or weight to projects in rural/HTR areas

Solution
- Project workbook favors projects in rural/HTR areas
Stakeholder Engagement

- Meetings with various divisions and departments, including:
  - Finance
  - Auditor
  - Administrative Office
- Quarterly executive stakeholder meetings
- Critical lessons learned
  - Savings must be measured
  - Savings must be measured and held on a quarterly basis to ensure they aren’t earmarked for the General Fund
  - Each stakeholder group has an important, possibly fund-altering perspective
Seed/Contribution Funding

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**Seed Money**
- Incentives
- Rebates
- Grants
- Savings
- Sales

**Project Types**
- Payback threshold
- Types of projects
- CE vs renewable

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**Considerations**
- To track/utilize c. savings* ($)
- We need to have baseline data
- Is a way to increase c. moving funds
- C. Emerging Manager in future
  - MGE STEP model (funding)
  - Amount of saved money

**Questions**
- Should we be allowed to divert construction funds to BRF?* ($)
- What happened to SST 1.0 rebates?**
- Who/what entities can be allowed to use it?**

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**Next Phase**
- Vision:
- Purpose:
  - Who uses it?
  - What projects does it fund?
  - Thresholds
- “payback” terms

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**Action Items**
- SM pulls JG’s list
- AS pulls CLP list
- SST 1.0 - RF: 1
- SST 2.0 - RF: 1
- SM looks into past (where they went)
- As to ask about diversing ZLA
- SST 2.0 - RF: 1
- NTM to set up call w/ Santa Barbara (Sant)

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* = C. savings
** = C. SST 1.0 rebates
Other Funding: CEC Loan

About our CEC Loan
- Amount: $2.2 MM
- Funded: Energy efficiency projects at numerous sites

Feedback from Staff
- CEC loan is not administratively burdensome
- Low-interest loan very attractive compared to other loan options

Suitability
- Large, otherwise unfinanced projects
- One-off projects or opportunities
Thank You!

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PUBLIC WORKS DEPARTMENT

CITY OF SANTA BARBARA ENERGY REVOLVING FUND

Alelia Parenteau, Energy and Climate Program Supervisor
How we used to fund projects...

**Beg**
- One-time Capital Allocation
- Increased Budget

**Borrow**
- CEC Loans
- Municipal Bonds
- On-Bill Financing

**Steal**
- Incentives
- Strategic Planning Funds
- Direct Install Program
- Power Purchase Agmts

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And now with a Revolving Fund too!
Our Utilities Management Program (UMP)

- Located within the Facilities Division
- Manages and pays all General Fund utility bills (electric & gas)
- Allows for centralized management and analysis of over 650 City accounts
- Program completed its first full year in FY2017
How is the UMP Funded

- The program is fully funded through allocated costs
- Allocated cost model is based on a 2-year rolling average of utility usage
- Also accrues incentives, grants and rebates – as well as rate change savings
- Currently only applies to General Fund programs
How We Got Started

- Received $25k one-time seed funding
- $120k Loan from General Fund
- Prioritized quick payback projects first (1-3 years)
  - Lighting
- Regular rollovers annually approximately $90k/year
FY2019 Snapshot

- Total FY2019 UMP Budget - $1.35M
  - Electricity - $1.15M
  - Gas - $210k

- Savings are re-invested into energy efficiency and renewable energy projects

- Big One-Time Investments
  - Streetlight Incentives
  - On Bill Financing
Need to Create Pipeline

- Injection of funds means:
  - Need to identify projects
  - Prioritize projects for fund growth
  - Need staff to manage projects!
- **ZNE Roadmap**
  - Provides sequencing of projects
- Look beyond projects for potential benefits
  - Hiring assistance?
Hurdles - People

- Behavioral impacts
  - Removed financial motivation for smart energy usage
  - Inherent risk in fund design
- Budgetary hurdles
  - Unique accounting
  - Requires keen understanding of budget process
  - Needs scrutiny and increased oversight
Hurdles - Projects

• No low hanging fruit
  • Slow account growth

• Retirement of most incentives

• Cost of renewable energy and storage projects
Best Practices

Determine:
• What does your agency want the fund to look like (projects, departments to involve/exclude)
• How fast does your agency want to grow the fund
• Who are the appropriate parties to involve
• Where will the day-to-day of the fund live and who will manage the fund
• How will the energy savings be estimated and measured

Don’t Forget:
• This is a significant work effort
• Invite a diverse range of stakeholders to weigh in on fund development…and invite them into the process early!
• Think about the future of the fund, but remember there can always be a phase II, III, etc.
• Funding Enterprise Fund Departments can present legal and accounting complexities
• Even best-laid plans can be impacted by conditions beyond City’s control
  • Rate increases
  • Behavioral use
Thank you
ISD’s RLF - Design

1. EMD supports more than 30 County departments
   a. Except Public Works and Parks and Recreation

1. EMD is self-funded
   a. A service fee is added to utility bills of other departments

1. EMD provides much needed Services along with the RLF funds
   a. Project Identification, Scoping, Project Management etc.
ISD’s RLF - Design

4. Loan Administration by County Finance
   a. Amortization schedules, invoicing and account management

4. No payback threshold requirement
   a. RLF loans based on project savings and availability of funds

4. Combination of EIP loans and EMD’s services
   a. Both needed for successful program and project implementation
The Southern California Regional Energy Network (SoCalREN) was created to harness the collective power of residents, businesses and the public sector to achieve an unprecedented level of energy savings across Southern California.

The SoCalREN Public Agency Programs are administered by the County of Los Angeles and funded by California utility ratepayers under the auspices of the California Public Utilities Commission. Learn more at socalren.org.
Who’s in the Network?

- 130 Agency Enrollments
- 87 Citis
- 4 Counties
- 3 Special Districts
- 14 School Districts
- 22 Water Agencies
SoCalREN Expertise

- Project management
- Energy use analysis
- Facility energy audits
- Project performance specifications
- Construction management support
- Expedited construction
- Financial services
- Objective third party review
SoCalREN Experience

- Expiring measures translate to less incentives and Utility On-Bill Financing (OBF) available
- Need for new and creative financing options for energy efficiency
- The internal revolving loan fund (RLF) is part of the solution
SoCalIREN’s Public Agency Programs

- Project Delivery Program
- Pathway to Zero
- Metered Savings Program
- Revolving Loan Fund
SoCalREN Revolving Loan Fund (RLF): a new solution

→ Short-term construction bridge financing
  ◆ 100% of project costs covered upfront

→ Simple application, efficient processing
  ◆ Energy Efficiency Project Financing
  ◆ 0% interest rate, 1% servicing fee
  ◆ 24-month term
SoCalREN Revolving Loan Fund (RLF): complementary to other options

- **Utility On-Bill Financing (OBF)**
  - Reimbursable
  - Up to 10 Year Term
  - Only certain projects are eligible

- **California Energy Commission (CEC) Loan**
  - Reimbursable
  - 1% interest rate

- **Grant Funding**
  - Can combine with other funds
  - Competitive
  - Varying qualifications

- **Energy Lease Financing**
  - Upfront funds distribution
  - 15 Year Term
  - Market Rate Interest

- **Internal Agency RLF**
  - Supplement Internal RLF
  - Allow for more expensive projects
  - Adds flexibility

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SoCal REN REGIONAL ENERGY NETWORK
SoCalREN Revolving Loan Fund (RLF): how does it work

1. Speak to your SoCalREN Project Manager
2. Submit a Revolving Loan Fund Application
3. Offer to finance provided for approval
4. Obtain governing board approval & receive the funds
5. Install your energy efficiency project
6. Obtain other forms of funding/financing
7. Repay the loan so the cycle can continue!
SoCalREN Revolving Loan Fund (RLF): in summary

- A tailored solution for public agencies
- Comprehensive support when combined with other SoCalREN Public Sector Programs
- Assist public agencies in overcoming barriers related to the lack of access to capital
- Compliment others sources of funds / financing
- Provide an innovative and low-cost solution for short-term energy project financing

Authorizes Funds for RLF Marketing and Administration

Funds for RLF Loan Servicing

Southern California Regional Energy Network