



California Hub for Energy Efficiency Financing



SMALL BUSINESS LEASE PROGRAM STAKEHOLDER ROUNDTABLE

Thursday, January 8, 2015

10am – 12pm PST

Live captioning is available at www.streamtext.net/text.aspx?event=CDIAC

Slides are available at: <http://treasurer.ca.gov/caeatfa/cheef/sflp/index.asp>

Background

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The California Public Utilities Commission (CPUC) issued a decision on September 20, 2013, creating a series of new energy efficiency financing pilots with the following goals:

- Increase the flow of private capital to energy efficiency projects (EE)
- Kick-start a new wave of financing
- Deploy approximately **\$66 Million** for credit enhancements, direct marketing and collateral, program administration, and contractor training

Workshop Goals

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- Solicit input from energy efficiency (EE) equipment lease providers and commercial EE contractors to inform CAEATFA's development of the small business lease programs.
- Inform CAEATFA's development of its competitive bid (request for proposal) which will select 2-4 lease providers to participate.

The Pilots - Overview

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- Collaboration with CPUC, CAEATFA, IOUs, financial institutions/lease providers, EE contractors, and other industry stakeholders.
- Available in Investor-Owned Utility (IOU) service territories:
 - PG&E, SCE, SoCalGas, SDG&E
- Role of CAEATFA
 - Provide the infrastructure for the California Hub for Energy Efficiency Financing – establish master administrator/servicer and trustee roles, and lender and contractor training and recruitment processes.
 - Establish program structures and requirements – regulations and contracts
- Each pilot will run for at least two years, and may ultimately be extended

The Pilots - Overview

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- **Approximately \$33 million in credit enhancements** available to participating financial institutions/lease providers for residential and commercial sectors
- Ability to add financing charges directly to the utility bill for certain programs
 - “On-Bill Repayment” (OBR) for Multifamily and Non-Residential and as an option for Lease providers.
 - “Energy-Financing Line-Item Charge” (EFLIC) for the Single Family program in PG&E territory
- For OBR, allow disconnection of utility service for non-payment for commercial projects and allows transfer to new tenants/borrowers
- **\$10 million training and marketing budget**; including co-branded marketing materials for lenders/lease providers and contractors.

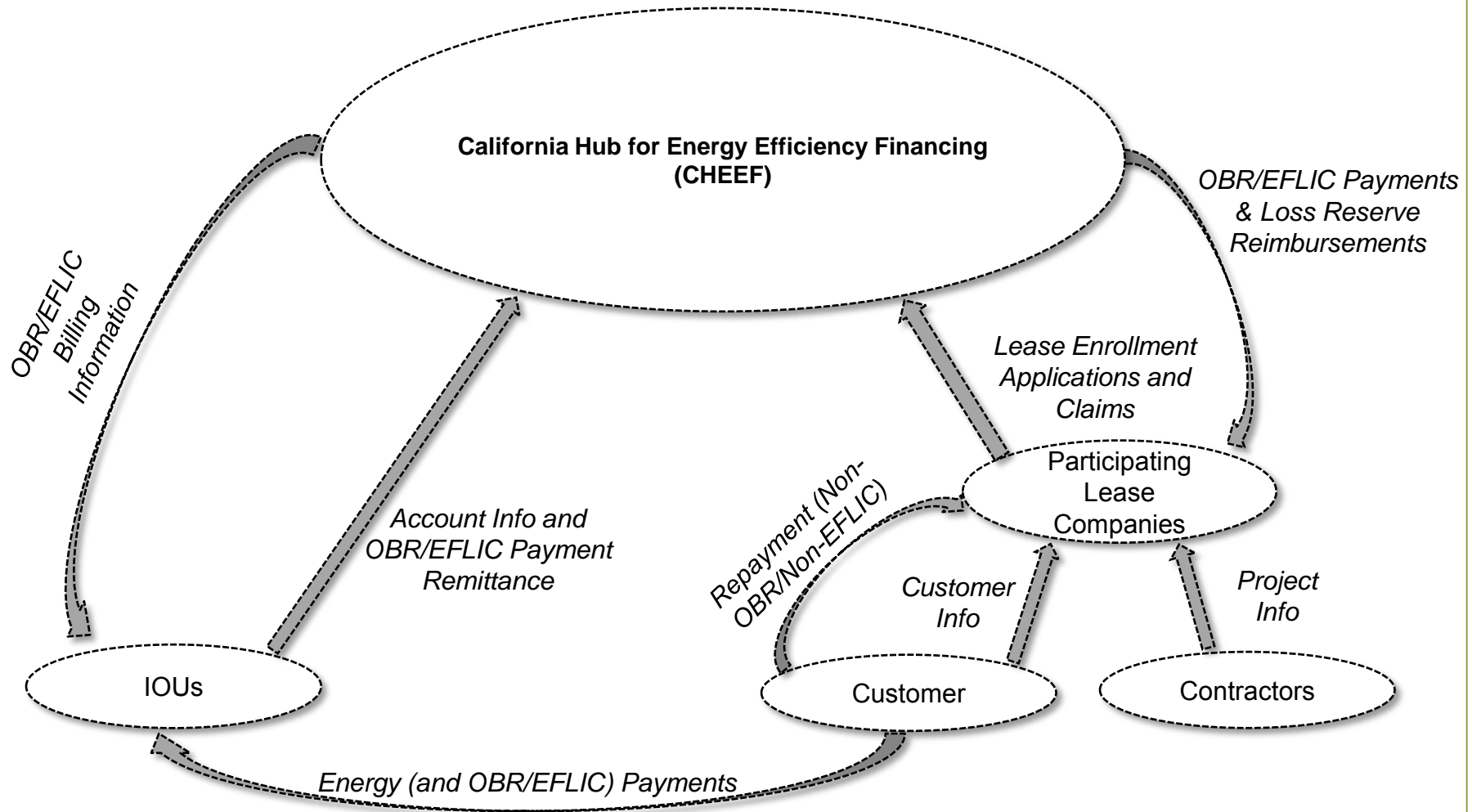
The Pilots – Overview (cont.)

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Sector	Pilot Type	Credit Enhancements	On Bill Repayment	Disconnection
Residential	Single Family	\$21 million Loan Loss Reserve	Optional in PG&E territory	No
	Master Metered Multifamily	\$2 million Loan Loss Reserve, Debt Service Reserve	Yes	No
Non-Residential	Small Business Loan & Lease	\$10 million Loss Reserve	Loans – Yes Leases – Optional	Loans -- Yes OBR Leases -- Yes Off-Bill Leases -- No
	Non-Residential On-Bill Repayment	None	Yes	Yes

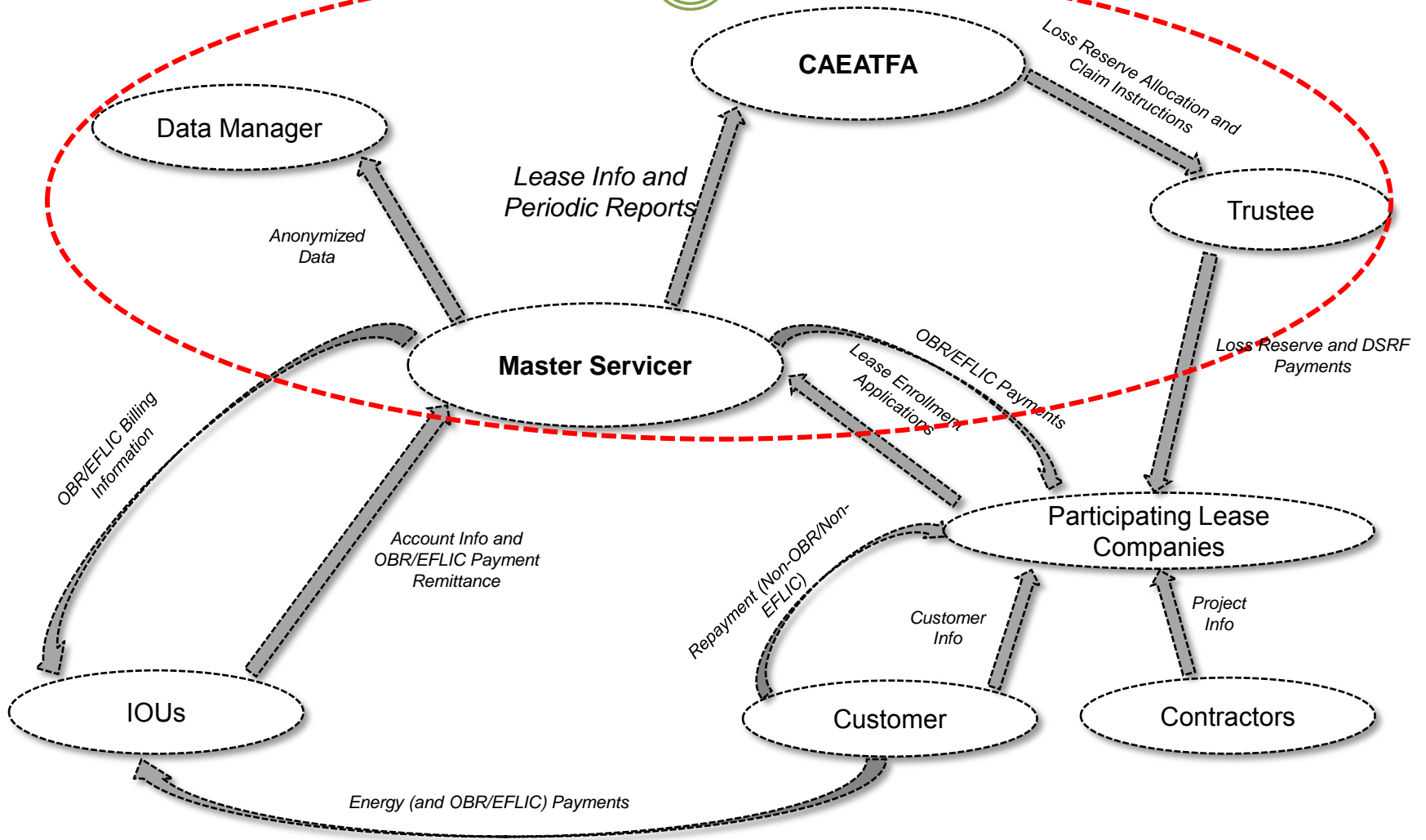
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Electric and Gas Utility Service Territories



What are the Benefits to Participating Lenders and Lease Providers?

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- Reach a growing, multi-billion dollar market
- Access a Loss Reserve that may allow you to:
 - Mitigate losses
 - Access a wider range of potential borrowers
 - Offer more attractive interest rates and terms
- Incur no fees for participation
- Build relationships with contractors to source lease volume
- Benefit from the program's multi-million dollar marketing budget
 - Direct marketing
 - Marketing collateral and co-branding for lenders/lease providers and contractors

Small Business Lease Program

What is the Small Business Lease Program ?

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- Goal: Reduce cost and expand access for customers that undertake EE projects by reducing risk to participating lease providers
- Available to lease providers that originate commercial energy efficiency equipment leases and that have been selected through an RFP process run by CAEATFA
- Provides a credit enhancement to cover leases for small businesses that undergo energy efficiency projects such as:
 - HVAC, lighting and controls replacements
 - Process, demand response and related equipment

What is the Small Business Lease Program ?

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- Provides the option for lease payments to be repaid on a customer's utility bill and transferred to new tenants/lessees.
- Leverages existing IOU rebate/incentive programs; but participation in these programs is not required.
- Establishes requirements for participating contractors and quality assurance measures for projects.
- Small business as defined by the Small Business Administration (SBA)*.
- Leverages a multimillion dollar marketing campaign.

* <http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&sid=17a8b75b6d39a91bd4e087a6f4339059&rgn=div5&view=text&node=13:1.0.1.1.17&idno=13>

Proposed Participation Requirements for Lease Providers

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- Be selected through an RFP process to be run by CAEATFA.
- Hold a **California Finance Lender license** in good standing with the California Department of Business Oversight.
- Have as one of its principal businesses the origination of **commercial leases** or **retail installment contracts**.
- Demonstrate a **proven ability to originate commercial leases or retail installment contracts** in accordance with all applicable laws.
- **Net worth in excess of \$1,000,000** and assets that exceed 0.5% of assets under servicing.
- **Maintain quality control and management systems** to evaluate and monitor the overall quality of its lease or financing-related activities, including underwriting reviews.

Questions

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- Are the proposed requirements for lease providers reasonable and appropriate? Should we include others?
- In your current business process, who are your partners? Are there business structures/relationships that should be considered in the pilot/RFP process?
- We are currently considering supporting two types of leases – **capital and operating leases**. Are there other lease types we should support?
- What does your current lease financing volume look like in California? In other states?
- Do you keep your leases or sell them to third parties? If you sell them, how frequently (volume) and to how many entities?
- What type of quality control and management systems do lease providers currently administer to evaluate and monitor the overall quality of leases or financing-related activities?

Qualified Measures

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- At least 70% of each lease must finance Eligible Energy Efficiency Measures; and 30% may be used for other related improvements.
- **Eligible Energy Efficiency Measures (EEEMs)** include those that are:
 - Eligible for efficiency rebates, such as efficient HVAC systems, appliances, windows, insulation, etc.
 - Related costs such as installation, patching, painting, permits, and other legally required improvements
- Demand response measures including any measures financed to support a customer's participation in an IOU demand response program

Examples of Eligible Energy Efficiency Measures

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- A wide range of measures will be eligible for the program. A preliminary list of measures is available online at: <http://treasurer.ca.gov/caeatfa/cheef/>. A sample of non-residential measures is provided in the table below.

Measure	Measure Specification Example
Compact Fluorescent Bulb	LC107 - 9 watt int. screw-in CFL
Fan	CPN30 – Process retrofit/new-fan-other
Freezer	F175 - ENERGY STAR Glass Door Freezer, 1-Door < 15
Furnace	HA68 – 95.0 AFUE Furnace – without built-in VSM
Steam Boilers	HV021 – Steam Boiler (< 300 KBTUH, 82.0 AFUE, Forced Draft)

- In the longer term, the list of measures will be reformatted to allow search capabilities.

Qualified Measure Questions

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- How do the qualified measures align with your existing business model/measures?
- Aside from actual measure costs, what other costs are typically included in your lease structure? Do your leases include financing for other improvements, and if so, what might those include?
- To verify the 70/30 EEEMs, and “Other Improvements” requirement, we propose that contractors will prepare itemized invoices. Does this requirement pose a barrier?
- What is the likelihood of leveraging IOU rebate/incentive processes? Do your current customers participate in rebate/incentive programs?
- What percentage of your current (or anticipated) financing are single measure vs. comprehensive projects?

Contractor Requirements and Management Questions

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- What vendors/contractors do you currently work with in California?
- Do you have any contractor requirements and/or relationships with contractors?
- Please describe any, quality assurance and/or quality control processes that you use to maintain high quality installations.
- What do you currently do to manage the contractors with whom you work?
- Would it be helpful to have access to a separate contractor management system operated by CAEATFA? If so, what would the scope of that system ideally include?

Credit Enhancement Key Features

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- Standard Loss Reserve Approach –
 - Contribute **10%** of principal value to reserve for each enrollment of a capital lease, and **10%** of net present value of operating lease payments.
 - Reimbursement up to **90%** of charged-off principal, up to lease provider's reserve balance for capital leases. Reimbursement of 90% of present value of remaining payments for operating leases.
 - Early-stage losses reimbursed, regardless of loss reserve balance.
- **No fees** for participation or access to credit enhancement

Loss Reserve Account Structure

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- Credit enhancement funds are provided by the IOUs for their respective customers. CAEATFA manages the CE process.
- Participating lease providers will have a loss reserve account established for their benefit with the Trustee
 - If a lease provider works with borrowers in multiple IOU territories, it will have a separate reserve account for each IOU territory
 - The account(s) will include subaccounts for each pilot program in which the lease provider is participating
 - If a project is in a split utility territory (gas and electric provided by different IOUs), loss reserve contributions will be split between the two accounts in proportion to the corresponding gas and electric savings

Process for Filing a Claim

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1. If a lessee becomes delinquent, the lease provider will use its collections process to bring the lease current
2. If the lease is charged off, the lease provider may file a claim for loss reserve reimbursement by submitting the following information:
 - Lease enrollment number and other basic information about the lease
 - Amount and date of charge-off and amount of claim
 - Statement whether the lease is secured, and whether the lease provider commenced its standard enforcement proceedings
3. Complete loss claims packages will be approved within 30 days; and paid within 5 business days of the claim approval date
4. For lease providers participating in multiple IOU territories, claim reimbursements will be paid from their account associated with that IOU
5. Lease providers will refund claim reimbursements on recovered losses, net of management and recovery costs

Credit Enhancement and Loss Reserve Questions

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- Is the standard loss reserve structure the most effective for lease providers? Would another type of risk-mitigation/credit enhancement (CE) be more effective?
- How will the credit enhancement provide lower cost and broader access for leases for small businesses?
- What is the best way to measure the impact of the CE on your lease product?
- How do we calculate the benefit to the borrower/business?
- Does the functionality of On-Bill Repayment and the option of 1) shut off for lack of payment, and 2) transferability to a new tenant further enhance the lease product?

Credit Enhancement and Loss Reserve Questions

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- Do you have any concerns with loss reserve contributions being transferred on a monthly basis rather than lease-by-lease?
- Would loss reserve reservations or project pre-approvals be useful to you? If so, how long should a reservation last (project time from start/commitment to finish)?
- What type of documentation could you submit as proof of a viable lease when requesting a reservation?
- What is your standard delinquency and collections process? Is the process for the claim/draw on the reserve reasonable and effective?

Proposed Timeline

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Proposed Dates *Subject to Change	Activity
Q1 (January/February)	CAEATFA develops scope of RFP
Q1/Q2 (March/April)	Advertise RFP/ Lease providers develop proposals
Q2 (May)	Review and Select 2-4 Lease Providers
Q2/Q3 (June/July)	Contracts approved by CA Department of General Services; Small Business Lease Pilot Launches
Q3	On-Bill Functionality and On-Bill Lease Launch
Q3 2017	2-year pilot term

NEXT STEPS

Please submit written comments to CAEATFA at CHEEF@treasurer.ca.gov by January 16th at 5pm PST.

*For more information please visit <http://www.treasurer.ca.gov/caeatfa/cheef/> or
Contact Sarah Taheri at Sarah.Taheri@treasurer.ca.gov*

Thank You