Financing Alternative Energy

Development Finance Organizations (DFOs) as Deal Origination & Risk-Sharing Partners in DOE's Loan Guarantee Program – Section 1705 FIPP

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November 13, 2009

Section 1705 of the Recovery Act

- Section 1705 $6 billion of program authorization can support in excess of $50 to $60 billion of eligible projects. No credit subsidy charges will be paid by the borrowers, although there are application fees

- A (so far) temporary program, under ARRA, for the rapid deployment of renewable energy and electric power transmission projects.

- Supports commercial applications of renewable energy systems that produce power or heat (and the manufacture of components), electric power transmission systems and leading edge biofuel projects.

- *A comprehensive plan for the program is under way: "Designated Lending Authority" is at the heart of that plan.*

Program Objectives

Objectives:

- Ensure program guidelines and solicitation documents facilitate the swift implementation of an effective, prudent loan program with the widest possible potential coverage;
- Ensure close coordination between each Development Finance Organization (DFO) acting as a "lender-applicant" using delegated lending or guarantee authority and DOE's Loan Guaranty Program Office (LGPO) to ensure that appropriate and creditworthy projects are submitted for final approval
- Provide avenues for less experienced DFOs to nonetheless assist in bringing qualifying projects to DOE

Program Guidelines

- No minimum size; no maximum size but over $100 million requires additional technical/underwriting assistance

- Up to 80% of senior loan amount may be guaranteed

- Minimum 20% equity requirement

- Shovel-ready; i.e. project must commence construction by 9/30/11

- Projects must receive NEPA authorization

  - ✓ ***NB: This requirements make projects that can get either a Categorical Exemption from NEPA or need only a Environmental Assessment more attractive candidates for a guarantee than those requiring a full, de novo EIS***

- Projects must comply with Davis-Bacon requirements

Program Guidelines – continued

- "Skin in the game" requirement
  - DFOs must invest at least 5% of total project costs of each transaction in which it acts as the lender-applicant
  - This risk-sharing investment can take the form of:
    - ✓ Loans
    - ✓ Guarantees
    - ✓ Equity Investment
    - ✓ Conduit lending is not sufficient except under certain circumstances
- Responding DFOs seeking to be lender-applicants can be consortia of public and/or non-profit entities with a mix of technical capabilities, experience, and risk-capital sources

Program Guidelines – continued

- Financing Options
  - DOE- guaranteed portion may be funded by issuance of Federally guaranteed taxable bonds –
    - ✓ May require an SPV structure with issuance of Series A (guaranteed) and Series B (non-guaranteed) securities
    - ✓ Some efforts to exempt guaranteed bonds from tax-exempt issuance prohibition
  - DOE-Guaranteed portion may also be funded directly by Federal Financing Bank facilitated by DOE LGPO (at like-maturity Treasury-bond yields plus 25 bps)
  - Non-guaranteed portion
    - ✓ May be taxable or tax-exempt depending on tax status of obligor
    - ✓ May be supported by DFO guarantee
    - ✓ May utilize other ARRA-created bond structures and tax-oriented initiatives

Program Status

- Request for Information (RFI) was released 15 days ago
- RFI format is being used to provide a less formal, but nonetheless complete statement of credentials from DFOs
- seeks a full description of experience and resources of DFOs seeking to become 'lender-applicants'
- 75-day response period, but responses will be reviewed as submitted
- At conclusion of review process, DFOs will be given feed-back on their potential capacity to serve as 'lender applicants'
- Upon notification of status, DFOs may underwrite and submit eligible projects to DOE for final review and approval, pursuant to the procedures and guidelines outlined in the Financial Institutions Partnership Program (FIPP) solicitation published in late October
- Complete information on FIPP process can be found at www.lgprogram.energy.gov/

FIPP Process

- Transactions solicited via the FIPP solicitation for 1705 eligible projects reviewed and recommended by DFOs (as well as other financial institutions) acting as lender-applicants
  - DFOs will perform substantial technical and credit underwriting pursuant to DOE guidelines for review of alternative energy projects
  - Projects will be informally reviewed at an early stage by DOE, for:
    - ✓ *Creditworthiness*
    - ✓ *Technical eligibility*
    - ✓ *NEPA status*
  - Upon approval by DFO, project will be submitted to DOE for final review. DOE will review the underwriting of the DFO.
  - Final formal approval by Credit Review Board of DOE, a high level committee of senior department officials.

Next Steps

- Following the first round of evaluations, DOE will launch a significant effort to expand the program
  - Outreach – continue advising the universe of DFOs of the program's potential and its early successes
  - Education – to inform DFOs of the program's requirements and standards
  - Training and Technical Assistance – one-on-one effort to upgrade DFO capabilities to act as project preparation facilitators and/or lender-applicants in subsequent rounds of program solicitation
  - Performance Monitoring – ongoing effort to track program performance to identify program strengths and weaknesses to support fine-tuning efforts

Conclusions

- The Loan Guarantee Program is the largest clean energy financing initiative undertaken by DOE and will provide an enormous amount of funding for eligible alternative energy projects. *NB: There are no geographic or sectoral distribution formulae for the Section 1705 FIPP program*
- The lender-applicant approach, while modeled on similar guarantee programs employing risk sharing partnerships at OPIC, Ex-Im Bank and SBA, will be the largest of its kind and the first to draw on the expertise and resources of DFOs, creating an important new channel for funding alternative energy
- House and Senate Energy bills both contain provisions for extending the LGP on an autonomous basis in the "Green Bank" or Clean Energy Deployment Administration ("CEDA") and to provide additional credit subsidy
- Stay tuned…

Steven Klein

Steven Klein has worked for nearly 30 years in infrastructure finance, investment banking and the credit markets. He is the founding partner of **First Infrastructure LLC**, a consulting and advisory firm focusing on infrastructure and energy finance and capital markets. Among his current clients is the US Department of Energy for which he is assisting in the development of the expanded Loan Guarantee Program. Since the early '90's he has served in a series of progressively more senior positions in three major participants in the financial guarantee, culminating in his work since 2000 as a co-founder of a new triple-A rated company, CIFG. While at those companies, Mr. Klein has served in senior business development, product development and as head of Global Infrastructure and governmental finance. Prior to his tenure at CIFG, Mr. Klein worked in senior management positions at Enhance Financial Guaranty (now Radian) and FGIC (owned by GE Capital at that time). Prior to his financial guaranty experience, Mr. Klein served as an investment banker at Donaldson, Lufkin and Jenrette (DLJ) as a senior banker in public finance Early in his career, Mr. Klein provided policy and program development consulting advice to over 15 state and local governments, under the auspices of a small Cambridge, MA based consulting firm. Mr. Klein received a J.D. from Boston University, a Masters in Public Administration from the John F. Kennedy School of Government at Harvard University and a B.A. from Haverford College.

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Tom Cochran has served for more than 35 years in governmental and private sector roles focused on public finance policy issues and infrastructure finance transactions in the US and developing countries. He heads **CivilCredit Advisors LLC**, a consultancy focused on mobilizing capital for essential power, transport, water and other public infrastructure in the US and emerging markets, with clients including the US Department of Energy and State of Connecticut in the US, and the United Nations Capital Development Fund, World Bank Group and CMDC a planned commercial financial guarantor dedicated to locally denominated infrastructure and other transactions in emerging markets. From 1997 until 2005, he was the Director in the Global Public Finance Group of the Insured Portfolio Management Division, MBIA Insurance Corporation responsible for remediation of high profile power and other infrastructure credits in Chile, Indonesia, El Salvador and the US. Prior to joining MBIA in 1997, Mr. Cochran advised on emerging market infrastructure and sub-sovereign finance as a consultant and non-profit executive; managed the North Atlantic region for Lehman Brothers' Public Finance investment banking group; founded and led the Northeast-Midwest Institute regional policy research organization on Capitol Hill (where he now serves as Chairman of the Board of Directors); and served as a policy advisor to the Governor of New Jersey. He began his career in the Office of New York City Mayor John Lindsay. He Co-Chairs the Infrastructure Experts Group sponsored by the Swiss Agency for Development and Cooperation and the UN Development Program. He received his BA from Beloit College and his MPA from Princeton University's Woodrow Wilson School.

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