State Energy Revolving Loan Funds – Overview and Trends

Prepared by the National Association of State Energy Officials

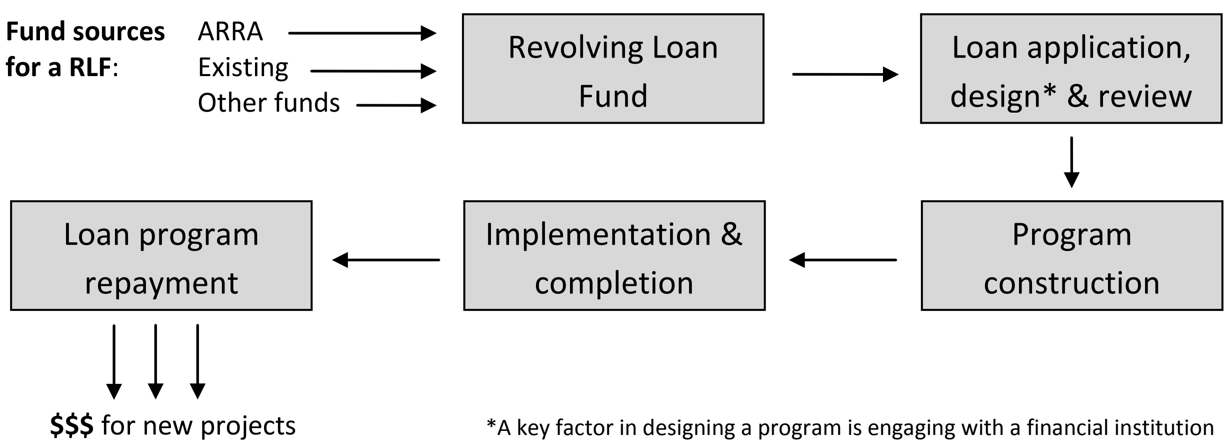
Overview and current status

Revolving Loan Funds (RLFs) have been in use since the early 1970s to trigger reductions in direct Federal financing. By 1990, a small handful of states, such as Texas, had established their own RLF programs with funds such as (and in the case of TX) oil overage charges. Through the American Recovery and Reinvestment Act (ARRA) of 2009, an increased number of states have designed and implemented an energy revolving loan program as a tool to provide long-term/low-interest loans from their initial funding. These programs range in use from residential and commercial building retrofits to clean energy job creation and industrial efficiency. And, while they differ in areas such as designated funding, the basic goal of issuing new loans as old ones are repaid, remains the same.

By extending the life of these loans through a revolving approach, programs important to the energy market can continue to operate well beyond the three year ARRA timeframe. However, since many RLFs provide low interest rates to their lenders, a secondary market or third party would leverage these fudns by allowing loans to be sold from the portfolio and the proceeds reinvested in new loans. One important restriction to remember when considering a RLF is that the entire amount allocated to the program be loaned out within the initial three year ARRA time period. Additionally, as loans are recycled, repayments may be paid back years after; however, these funds do not lose their federal and ARRA identities, making current terms and conditions applicable post-ARRA.

RLF Process

The following diagram represents the process of a revolving loan fund, from originating fund source to implementation and repayments. Through a RLF, many loans and projects can then be implemented.



*A key factor in designing a program is engaging with a financial institution that can make the loans. There are many agencies that can assist with this.

Throughout the nation, there are 56 state energy loan funds operating in 32 states, totaling over $750 million in available funds. The majority of these programs are funded with State Energy Program (SEP) ARRA money, while three are operating through the Energy Efficiency and Conservation Block Grant (EECBG). Of the total amount of programs, ten have been running prior to ARRA, with an additional five using ARRA funds to supplement their existing programs. These states include Montana, Nebraska, North Carolina, Texas, and Utah. Approximately one quarter of the programs focus on buildings (public, state, commercial, and residential), on quarter on industrial, and one quarter on energy efficiency, which includes identifying and installing conservation improvements. The remainder of programs is developing "various" projects, which include solar power, alternative fuel, and transportation. These additional "various" programs also help to promote energy independence and create jobs for developers of renewable energy systems.

State by state recaps

Below are a selection of states and a summary of their energy revolving loan funds.

Alabama

The Alabama Energy Office operates two revolving loan fund programs; 1) a $2 million Local Government Energy Loan Program that is not ARRA related and 2) a State Energy Program ARRA Plan, which includes a $25 million Energy RLF for Industry. A request for proposal for AL's ARRA funded program has been developed to engage a management firm.

The Local Government Energy Loan Program has been in operation since 1997, having funded eight projects to date and one additional pending project. $1.3 million has been invested into these projects, with the pending effort bringing the total to $1.8 million. The Local Government Energy Loan Program has leveraged $133,421 thousand. Leveraged funds for the ARRA Energy RLF for Industry are expected to be much higher.

Florida

Florida has two revolving loan fund programs they are working on; 1) the Solar Thermal RLF and 2) the Public Fueling Conversion Loan. The objective of the Solar Thermal RLF program is to create a low-interest solar loan program, providing the necessary capital to deploy commercially available solar water heaters. A Request for Proposal (RFP) will be issued to select a bank to administer this loan. Up to 5% of the total cost of this program will be used for administrative costs. The loan term will be 5 years and this program will require a low-interest rate, between 2% and 4%, to cover potential loan defaults and perpetuate the loan. The fund amount for this program is $10 million in SEP ARRA funds.

The Public Fueling Conversion program is designed to increase the availability of E85 and B20 to consumers at retail stations throughout Florida by providing low-interest loans to fuel station owners to install E85 or B20 tanks and pumps at their facilities. With this program, Floridians will have access to biofuels at as many as 166 additional locations. The administrator for this program has not yet been selected, but once completed, a revised cost budget will be produced. In the first three years, FL is aiming to award a total of 166 loans. The fund amount for this program totals $5 million.

Kentucky

The Green Bank of Kentucky revolving loan fund was established in the Kentucky Finance and Administration Cabinet to fund improvements in government buildings, initially limited to state government buildings. The revolving loan fund was capitalized with $14 million of money from the State Energy Program ARRA grant, with one loan funded thus far (in the amount of $1.2 million). This loan will cover improvements at three campuses operated by the Kentucky Department of Education. Currently, the Green Bank RLF has no leveraged funds at this time.

Kentucky is also in the process of establishing another RLF at the Kentucky Housing Corporation. The Housing RLF will be capitalized with $3 million from the State Energy Program ARRA grant. Another $1 million from the same source will be used to defray some of the start up and administrative expenses associated with the operation of the fund. The Housing RLF is expecting $2 million in leveraged funds from the Kentucky Housing Foundation.

Nebraska

Nebraska has operated the Dollar and Energy Saving Loan Program since 1990 in conjunction with participating Nebraska lenders. The Energy Office invests in energy loans generally at 50% at zero percent interest. The rate to the borrower is 5%. NE added $11 million in ARRA funding and invested in each ARRA loan at 75% at zero percent interest. This reduces the interest rate to the borrower to 2.5%. Non ARRA funds equal $23.6 million, while ARRA funds add an additional $11 million.

Texas

LoanSTAR (Saving Taxes and Resources) first kicked off as a demonstration program, but once piloted, it proved successful. TX still has the original oil overage charge fund and this program is for public buildings and/or politically chartered institutions. Energy assessment reports had to be approved; they then moved on to the design phase. TX administers the loans in-state and the program is self-sufficient. There have been no defaults (sometimes a late payment) and they have taken $134 million in ARRA funds (in addition to the $126 million and added to this program). This loan program has been in operation for twenty years and has provided 202 loans, each funding multiple projects. The new, complementary, Building Efficiency and Retrofit Program (BER) is capitalized with $158 million of ARRA funds provided to Texas through the State Energy Program. BER is a new program; less than one year. A solicitation for projects under the BER loan program was just completed, so the number of loans and selected projects is not yet known; however, TX expects the full $158 million to be invested.

Utah

The State of Utah operates the Energy Efficiency Fund. This fund is existing, but has been capitalized further (through ARRA) in the amount of $2.5 million. The Energy Efficiency Fund was created by the Utah State Legislature 03/2007, the enactment went into effect 05/2007, administrative rules were finalized 11/2007, application documents were finalized 12/2007, applications were received 03/2008 and 06/2008, and the legislature re appropriated the remaining funds 03/2009. Three projects have been funded through this program.

Note of interest

In the cases of some states, their programs are newly created. Due to this, it is too early to report the number of projects funded through their RLF, or the total dollar amount of projects invested in for each RLF. As updated information becomes available, it will appear on our SELF database, which can be visited at www.naseo.org/resources/selfs

This report was prepared by Garth Otto. For more information, call 703-399-8800 ext. 16 or visit NASEO.org.

National Association of State Energy Officials
1414 Prince Street, Suite 200 Alexandria, VA 22314 (p) 703.299.8800 (f) 703.299.6208
energy@naseo.org