Montgomery County

GreenBank

Your partner for clean energy

Presentation to Government Finance Officer Association

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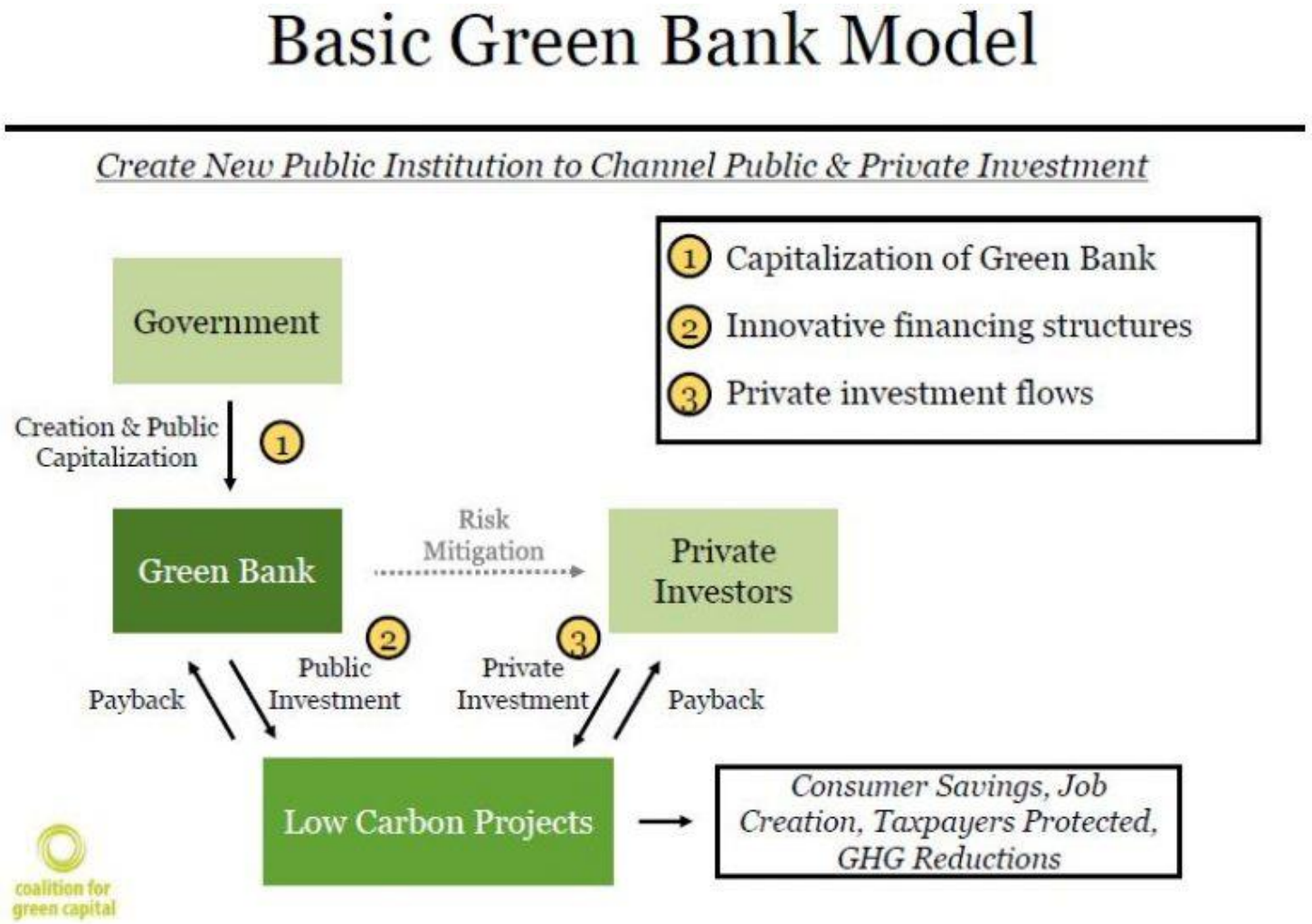
What is the Mission for a Green Bank?

Clean Energy Finance Banks - Close gaps in financing markets for energy efficiency and clean energy using market-oriented approaches in partnership with private investors

Energy Efficiency and Clean Energy	Jobs	Environment	Health	Resilience	Capital
Increase scale of uptake. Reduce operating costs of homes and businesses through energy savings.	Support or expand jobs in the energy efficiency and clean energy sector	Reduce consumption of energy and green house gas emissions	Improve health of residents and employees through cleaner living and work environments	Increase independence and create greater diversity in energy sources. Support sustainable homes and businesses	Attract a multiple of its capital Manage its resources to return capital to investor when mission complete



What are different structures for a Green Bank?

Structures

- Government
- Quasi-Government
- Government Sponsored
- Independent Non-Profit

What are Green Bank Fundamentals?

Not a Bank, **a Fund**.

Create new financing markets in energy efficiency and renewables where the market IS NOT already functioning efficiently or cost effective

Build lending products and take risks to prove a theorem to lenders – that energy efficiency and renewable energy financing is not risky and can make returns commensurate with other product and that there is a market for it

Co-invest with lenders and leverage their capital by working with lenders to achieve scale of 5, 10, or 20 times its investment.

Recapture capital to re-use or return to the government investors with self-sustainability as a goal

Use partners to get their work done

Serve all spectrums of demographics

Serve as a resource to help connect the dots across energy efficiency and renewable opportunities and demonstrate leverage of resources

Lot of Momentum for Green Banks

	Green Banks in Operations	Green Banks in Development or Under Consideration
National	United Kingdom Green Infrastructure Bank Japan Green Fund Australia Clean Energy Future Corp. Malaysia Green Technology Finance Scheme	India
State/Local	New York Green Bank Connecticut Green Bank Michigan Saves Rhode Island Infrastructure Bank California CLEEN Center Hawaii Green Infrastructure Authority Montgomery County Green Bank	Ontario, Canada Washington, DC Baltimore Nevada Colorado Missouri Pennsylvania Vermont

Note
Similar institutions such as the New York City Energy Efficiency Corporation, and some CDFIs are also closely aligned with “green bank” activities.

Montgomery County Green Bank

Your Partner for Clean Energy

- Publicly-chartered by Montgomery County, MD in June 2015
- Designated as the County's Green Bank in July 2016
- Independent, 501c3 non-profit corporation
- 11 members on the Board of Directors (2 presently from Montgomery County government)
- Set to receive $14 million in funding from the County from the Pepco-Exelon merger settlement agreement
- Supports county **greenhouse gas reduction goals, jobs, business strength, and equity**

MCGB Capital Leverage Strategy

Make investments of publicly-chartered capital—leverage, not grant-focused

Attract lender and other (donor, impact) **capital** to scale work

Grow a private sector market of clean energy lending and investment

- De-risk products - stand behind lenders; build understanding of relationship between energy savings and risk mitigation
- Lenders learn and later lend without credit enhancement--provide market capital
- Overcome gaps/barriers unique to sectors—commercial, low-mod, affordable multi-family
- MCGB recaptures funds and/or securitizes and moves on to new opportunities

Generate revenue growth to sustain MCGB

Preserve public capital; Ultimate success = market transformation--“no need” for MCGB

Interim success= **catalytic impact and replicability**

MCGB Key Performance Indicators

Community Benefit	• Households and businesses supported and energy savings achieved, including low-moderate income
Economic Benefit	• Jobs supported
Scalability	• Private sector investment leveraged
Transformation	• Lenders participating
Environment	• Green house gas reductions
Sustainability	• Generated revenues to offset expenses

MCGB Example – A Need and a Solution

Commercial Loan for Energy Efficiency and Renewables (CLEER)

Need

- Commercial Contractors identified a gap in available and affordable financing for energy efficiency projects between $25,000 and $250,000
- Pepco had a program but it did not offer strong incentives for larger projects
- Lender products were not tailored to this scope of work

Response

- MCGB could help increase lender interest by reducing risk
- MCGB could help bring greater value in underwriting and price to borrowers
- MCGB could emphasize distressed communities

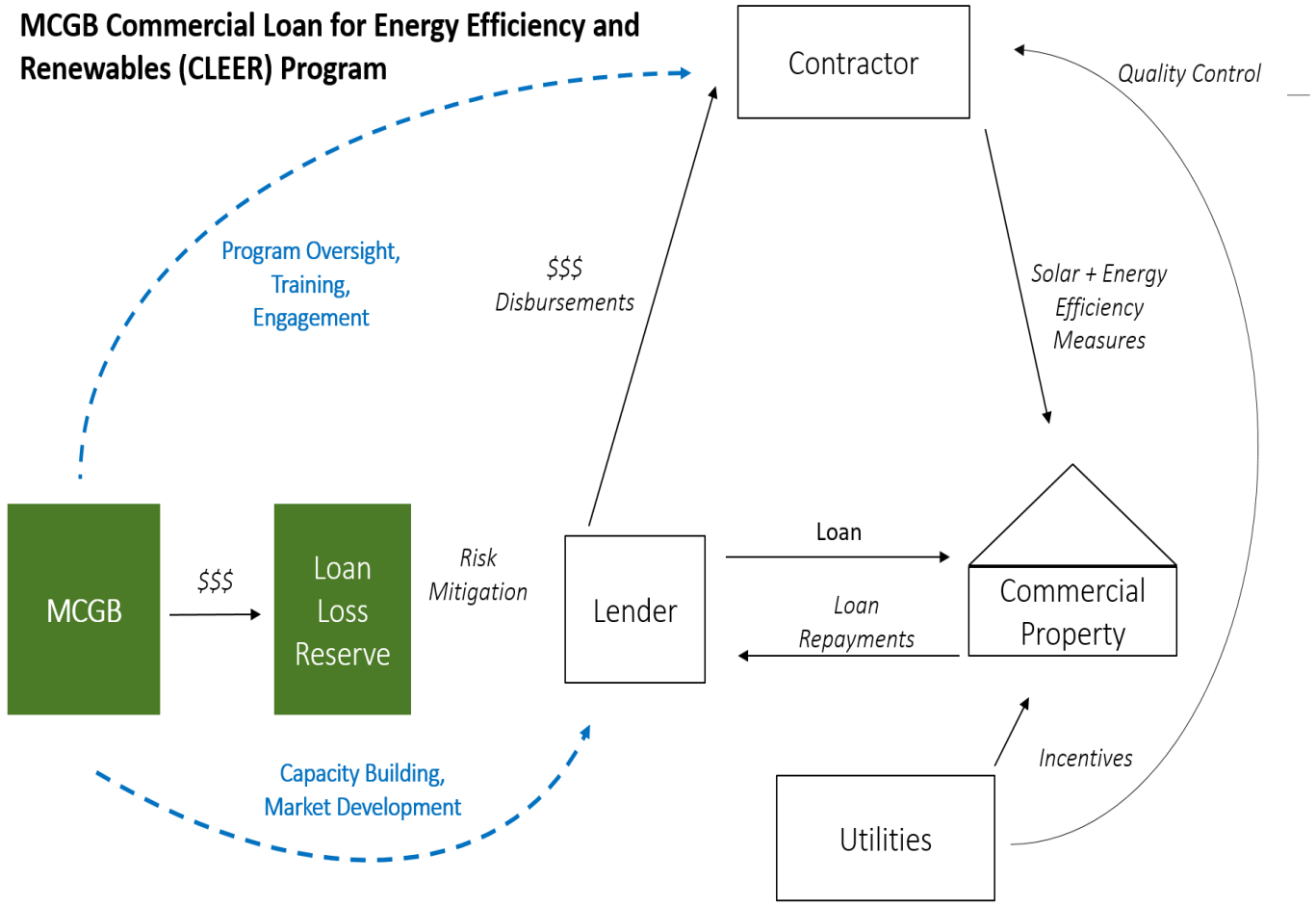
Outcomes

- Improved environment, economy, and employee health = lower green house gas emissions; more jobs and sustainable businesses; more comfort and healthy environments for employees across spectrum of businesses
- Greater private sector scale - Lenders learn lending on these scopes is better than normal
- Sustainability - MCGB obtains a return for its investment that supports operations

CLEER – Partnering to Deliver

Simple structure:

- MCGB stands behind lender for losses
- MCGB authorizes contractors for program
- Lenders make loans on specific energy efficiency and renewable scopes of work
- Borrowers approved on credit; but savings support payments
- MCGB provides oversight



Loans: 100% financing; up to 12 years; lower rates; not secured to property

MCGB Investment and Return

Investment

- Loan Loss Reserve Pool to support up to 80% of lender losses
- Maximum exposure 5% of lender's portfolio
- On MCGB Balance Sheet as a reserve
- MI Saves example of low losses

Returns

- MCGB fee that covers: Contractor use; lender guarantee
- Interest on LLR on MCGB balance sheet

Principal Recovery

- Product with defined origination period
- LLR recovered if not used

Approach Fits Impact Investing

- Focuses on social and environmental missions
- Catalyzes new markets or opportunities
- Leverages market investors by assuming a perceived higher risk position to blend with market
- Creates an investment with a return structure
- Uses an outcomes based approach for measurement
- Establishes fund-level investing
- Provides opportunity for complementary impact grants—Technical Assistance, M&V, Proof of Concept

MCGB Investment Products Under Development

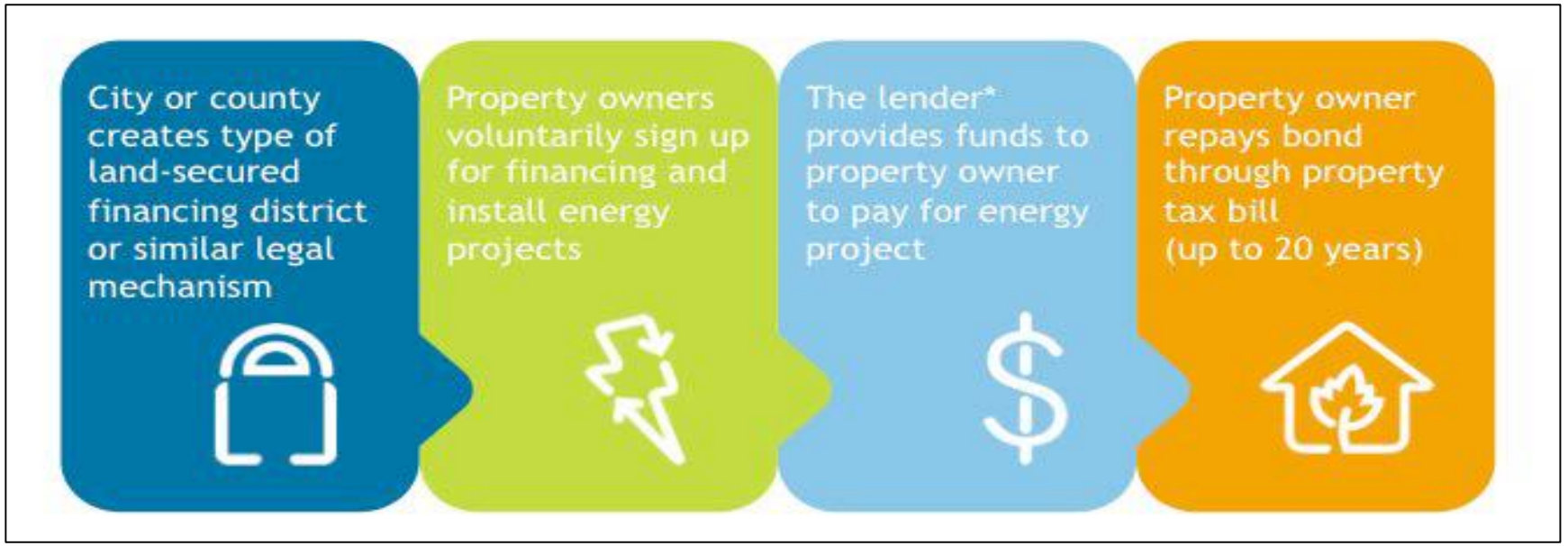
Resilience | Energy | Health | Community

Commercial Loan for Energy Efficiency and Renewables small / medium businesses distressed communities	**Residential Energy Efficiency and Renewables** homeowners throughout county focus on low and moderate income households
Affordable Rental low and moderate income communities	**Solar and community solar** Supports market and low and moderate income communities

Sample of Other Green Bank Products

- **Connecticut Green Bank** – Over $1 billion total Investment since 2011
  - Commercial Property Assessed Clean Energy (C-PACE)
  - Residential EE and Solar for Low Moderate Income Households – Leasing and Buying
  - Affordable Multifamily - Pre-development and project financing
- **New York Green Bank** – Over $400 million since 2015
  - Energy Efficiency and Renewable Energy Transactions
- **Michigan Saves** – Over $80 million in project financing since 2009
  - Commercial Loan for Energy Efficiency
  - Residential Loan for Energy Efficiency
- **Climate Access Fund** (in formation)
  - Community Solar

Property Assessed Clean Energy (PACE)



- Property assessment stays with property; transfers with sale
- Can reach 100% financing for projects
- Potential for positive cash flow to property owner with 20 year term
- Lower cost financing; generally need to be sizeable to defray costs of loan

Challenges For Standing up a Green Bank

Capital

Key to effort. Best source offers few requirements

Infrastructure

Emerging sector with many operational structures. But sharing is helping to create efficiencies

Sustainability

Achieving returns that can support operations. Takes time to build revenue streams, especially when taking risk positions at less than risk-based returns. Need operational subsidies for at least 3 years

Market Assumptions

Presenting as an investor when market looking for subsidy

Models

Early in green bank movement offers models for replication but must know models are not long-time tested. BUT, emerging network is a freely sharing one

Potential Outlook as Investing Tool for Sustainable Financing

- **Excitement** - More states and localities investigating
- **Alignment** - Keeps off government books yet supports government goals
- **Scale** - Means to achieve repeating results versus one time results of rebate programs
- **Independent** - Operates more fluidly in market to work more easily with private investors
- **Flexible** - Can take risks with less than market return on risk to stimulate markets
- **Collective** - Can leverage experience of other Green Banks and possibly gain collective leverage as a network

Why Not Try One in Your Jurisdiction?