



Milwaukee Energy Efficiency

Smart energy pays.

Commercial Financing Plan

Finance and Personnel Committee June 9, 2010



Commercial Me²

- Program and financial incentives for commercial businesses of all sizes to make energy efficiency improvements to buildings
- Commercial program will fall under Me² umbrella, and leverage BetterBuildings grant dollars
- Multipronged approach to meet energy efficiency needs of commercial properties of all sizes
- Program designed to last beyond grant funding/reporting period



Today's Proposal

- Approve a \$3.8m strategy consistent with DOE guidelines for BetterBuildings grantees
- Stimulate \$24-\$30m in private sector energy efficiency investments in the commercial real estate sector.
- Approve a Clean Energy Financing Ordinance



Program Sponsors



MILWAUKEE
OFFICE OF ENVIRONMENTAL SUSTAINABILITY



focus on energysm

Partnering with Wisconsin utilities





Legislative History

- Common Council has already approved:
 - Overall BetterBuildings grant
 - Residential financing program
 - \$12m cooperation agreement to operate Me² in Milwaukee
 - Directed DOA to develop energy efficiency financing programs that do not make the City financially liable



Stimulating energy efficiency investment in commercial properties

The wide variety of commercial property types leads to different needs

- **Small Businesses**
- **Medium/Large Businesses** (when property owner pays utilities)
- **Medium/Large Businesses** (when tenants pay utilities and property taxes)



Small Business Program

- Small Businesses want turnkey energy efficiency improvements
 1. Easy and affordable financing
 2. Do-it-all contractors
- Solution: smaller Me² loans through Summit Credit Union



Summit Credit Union Proposal

- Summit Credit Union wrote the winning proposal for the Me² residential program
- Utilize a \$500k grant agreement to leverage \$10m in Summit CU capital
 - Loans of \$5k-\$20k
 - 3-7 year terms
 - Interest rates of 5.25%-6.25% fixed for term of loan*
 - Loans not secured by property equity





Medium/Large Business (1)

- Businesses where:
 - Energy projects that exceed \$20,000
 - *Property owner pays utility bills*
 - Prefer to work with their own bank
 - Prefer to use their working capital for non-energy efficiency projects
- Solution: Cash Collateral Account



Cash Collateral Account

- Commercial loans typically require a 20% down payment or property equity to provide collateral
- Proposal : 20% collateral would come from the ARRA funds
- Allows for 100% financing, better interest rates, or longer loan terms
- The bank follows its normal procedures for reviewing the credit worthiness of the customer (skin-in-the-game for property owner)

Medium/Large Business (2)

- Businesses where:
 - Energy projects that exceed \$20,000
 - *Tenants pay utility bills + taxes and special charges*
 - Prefer to work with their own bank
- Solution: ***Clean Energy Financing Ordinance*** allows property owners to pass on the costs *and* savings of energy efficiency projects to their tenants.



Clean Energy Financing Ordinance

- Survey results show substantial interest from Milwaukee commercial property owners
- Authorized by Wisconsin Statute 66.0627(8)
- Loan between property owner and lender may be considered a municipal special charge, thus allowing pass through to tenants.



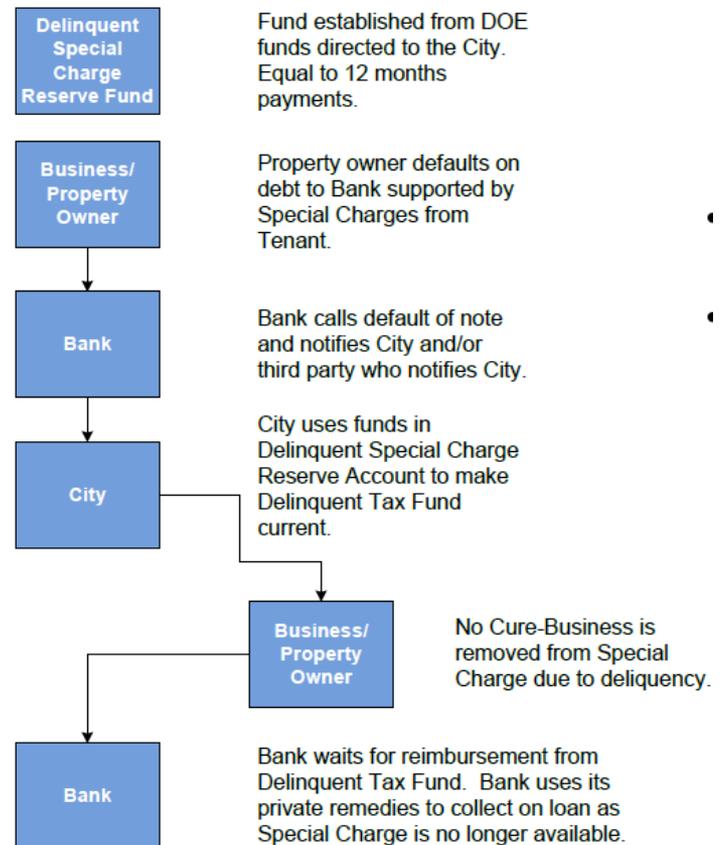
Clean Energy Financing Mechanics

- Property owner applies to Department of Administration
- If application is approved, City approves 3-party agreement between property owner, lender, and City
- City takes 20% of the project costs from the federal grant as a Debt Service Reserve Fund (up to \$1.5m as projects are approved)
- Property owner makes regular loan payments to bank
- If commercial lease allows, property owner may delegate loan payments to tenants

Clean Energy Financing Mechanics II

- If property owner defaults, that year's loan payment is placed on tax roll for collection
- City collects and repays bank
- If the property owner defaults on their taxes, city makes the lender whole through the reserve fund (ARRA funds), and any additional amount left on the loan ceases to be a special charge
- Zero liability for City

PACE DEFAULT PROCESS





Interest Rate Buy-downs

- \$500,000 to buy down interest rates on commercial loans by 2-3% percentage points.
- Offered during roll-out of Commercial Me2 program on first-come, first-served basis
- May be used on conjunction with other programs.
- This program, the closest to a traditional grant, is not a sustainable financing model but immediately stimulates down market.



Summary

Target Market	Credit Enhancement	Federal Funds*/Private Leverage	Financial Sustainability
Small Businesses (want simple loans)	Loan Loss Reserve to Summit Credit Union	\$500,000 leverages \$10m	Sustainable
Medium/Large Businesses (when property owner pays utilities)	Cash Collateral Account to bank	\$2.85m leverages \$14m	Sustainable
Medium/Large Businesses (when tenants pay utilities and property taxes)	Clean Energy Finance Ordinance, Cash Collateral to protect City Delinquent Tax Fund		Sustainable
All Qualifying Properties	Interest Rate Buy-down, in conjunction with above offerings	\$500,000	Unsustainable

*Funds may be reallocated between offers to meet market demand