Oregon Department of Energy

Small Scale Energy Loan Program

Biennial Report to the Oregon Legislature

OREGON
DEPARTMENT OF
ENERGY

TABLE OF CONTENTS

Contents

SMALL SCALE ENERGY LOAN PROGRAM

Introduction

In 1979, the Oregon Legislature created the Small Scale Energy Loan Program (SELP). In 1980, voters approved an amendment to the Oregon Constitution authorizing sale of general obligation bonds to finance small scale, local energy projects. SELP made its first loan in 1981.

SELP's purpose is to promote energy conservation and renewable energy resource development. Renewable resources include solar, geothermal, biomass, hydro, wind, and waste heat. SELP also funds projects that:

- Promote the use of alternative fuels
- Save transportation-related energy
- Save energy by making projects from recycled material
- Increase the production of efficiency
- Extend the operating life of a project.

ODOE's five-person SELP team serves individuals, businesses, nonprofit organizations, state and local government agencies, schools, tribes, and agencies of the federal government. Projects funded by SELP must meet local community or regional energy needs in Oregon and must save or produce reasonable amounts of energy compared to the project's cost and type.

The program provides long-term, fixed-rate financing funded primarily through the sale of taxable and tax-exempt state bonds, which results in a low cost of borrowing for the project owner. SELP staff work closely with borrowers to define flexible terms ranging from five to 20 years. Additionally, borrowers have access to ODOE energy experts who bring technical expertise and assistance to projects – a level of service that conventional banks typically do not offer.

The program is designed to be self-supporting. The use of bonds provides capital that is then loaned to eligible borrowers. Borrowers pay the costs of administering the program through fees and loan repayments. Borrowers, in turn, typically see energy savings that help with loan repayments. It is possible that loans may fund multiple projects.

Over the course of SELP's 30-plus-year history, the program has disbursed 874 loans – more than $611 million – to borrowers across the state. Details about loan activity over the reporting period are discussed below, along with information about the program's core areas – the SELP fund and the Clean Energy Deployment Fund – bond and loan background, and future program projections. ODOE also administers the Alternative Fuel Vehicle Revolving Fund, which is a separate and distinct fund governed by separate statutes. To maximize efficiency and capitalize on existing expertise, the fund is managed by SELP staff.

SMALL SCALE ENERGY LOAN PROGRAM

Energy Loan Activity

Most figures in this report are for the January 1, 2013 through December 31, 2014, time period. During that time, SELP loan disbursements totaled $29,739,260 million.

January 1, 2013 – December 31, 2014

Public sector:	11 loans	$ 29,409,756
Private sector:	5 loans	$ 329,504
Total:	16 loans	$ 29,739,260

These numbers represent both loan commitments from previous years not disbursed until this period and new loans. Below are projects financed during the reporting period:

Loan	Borrower	Amt Disbursed	Date Disb.	Schools	Universities	Private	County	
807	Portland State Univ	$ 143,621.00	5/20/2013		$ 143,621.00			
847	U of O	$ 249,727.00	6/26/2013		$ 249,727.00			
857	Southern Oregon Univ	$ 554,910.00	1/9/2013		$ 554,910.00			
862	U of O	$ 7,764,054.00	4/17/2013		$ 7,764,054.00			
		$ 517,945.00	1/13/2014		$ 517,945.00			
880	Southern OR University	$ 100,000.00	10/14/2013		$ 100,000.00			
879	Studebaker	$ 20,000.00	3/22/2013			$ 20,000.00	Marion	Salem
882	Golden Pheasant Holding	$ 28,224.00	7/5/2013			$ 28,224.00	Lane	Eugene
886	Baley-Trotman Farms	$ 226,000.00	3/25/2014			$ 226,000.00	Klamath	Malin
889	Gary Rusher	$ 35,000.00	8/25/2014			$ 35,000.00	Clackamas	Wilsonville
891	Kendra Kimbirauskas	$ 20,280.00	11/19/2014			$ 20,280.00	Linn	Scio
887	Lowell Sch. District	$ 902,000.00	6/27/2014	$ 902,000.00				
881	Vernonia Sch Dist.	$ 1,237,342.00	6/24/2013	$ 1,237,342.00				
848	OSU	$ 6,711,000.00	6/30/2014		$ 6,711,000.00			
883	U of O	$ 8,998,000.00	6/30/2014		$ 8,998,000.00			
888	Lane county	$ 2,080,000.00	7/30/2014		$ 2,080,000.00			
890	Crow-Applegate-Lorane	$ 151,157.00	11/19/2014	$ 151,157.00				
		$ 29,739,260.00		$ 2,290,499.00	$ 27,119,257.00	$ 329,504.00		

Public Sector Loans

During 2013 and 2014, SELP disbursed more than $29,409,756 through 11 public sector loans. Special emphasis has been placed on this potential borrower group, with concentrated outreach and a focus on helping the state meet statutory requirements related to greenhouse gas reductions and improved energy efficiency in state buildings. Further, public sector borrowers represent a stable market that can be relied upon to meet loan repayment terms and strengthen the loan portfolio overall.

Much of this volume is from loans to the Oregon universities and colleges. For example, Oregon State University borrowed $6.7 million for deferred maintenance and energy projects at its Corvallis campus. The University of Oregon borrowed $8.9 million for energy efficiency retrofits at Straub Hall. Southern Oregon University borrowed $100,000 for energy efficiency upgrades to Taylor Hall.

Another regional government, Lane County, borrowed $2,080,000 using Qualified Energy Conservation Bonds (QECB) for an energy efficiency project. The financing allowed Lane County to improve HVAC systems at its data center in Eugene.

These loans reflect that many public sector building renovations are being designed to meet higher energy efficiency certification standards and save money on energy costs. For state agencies, the Oregon Department of Energy's State Energy Efficiency Design (SEED) program can offer additional technical resources and assistance. ODOE's SEED program ensures that cost-effective energy conservation measures are included in all new and renovated public buildings and are constructed to exceed Oregon State building code energy conservation standards by at least 20 percent, which in turn saves the state millions of dollars in energy costs.

In addition to loans to state agencies, SELP loaned $1.05 million to two school districts in Lane County and $1.24 million to Vernonia School District as part of the Cool Schools pilot program. Financing went to install cost-saving energy measures and controls that allow students to be cool in the summer and warm in the winter, thereby improving the classroom learning environment. The school loans are designed to be as close to budget-neutral as possible for the districts. The resultant energy savings from installed measures reduce the overall cost of the improvements to the school districts. In addition, schools within SB 1149 service territory may be able to access public purpose funds to offset installed measure costs and financing costs.

Private Sector Loans

During 2013 and 2014, SELP disbursed more than $329,000 through five private sector loans. Three of these loans were residential loans to install a total of 29 kW solar arrays in Marion, Clackamas, and Linn counties. Two loans were to small businesses; one was for installation of a 77.28 kW solar array at a farm in Malin, Oregon, and the other was for installation of an energy efficient water heater and washing machines at a 19-unit apartment complex in Eugene.

How SELP is funded: Bonds

For the 2013-15 biennium, the Oregon Legislature gave SELP the authority to issue up to $80 million in general obligation bonds. As of December 31, 2014, SELP had issued $29.2 million and had $50.7 million of legislatively-approved bond issuance authority remaining for the biennium ending June 30, 2015. This authority comes via the “Bond Bill,” passed by the Legislature on a biennial basis to give agencies a specific amount of bond-issuing authority.

SELP is authorized to issue five types of bonds:

- Governmental Purpose – for energy projects in publicly owned and operated facilities.
- Qualified Energy Conservation Bond (QECB) – for projects by state, local and tribal governments to finance certain types of energy projects.
- Private Activity – for projects that use renewable resources to produce energy or for energy projects for nonprofit organizations.
- Federally Taxable – for energy-saving projects in homes and businesses.
- Revenue – for qualifying projects that generate revenues that can be used to satisfy associated debt service obligation.

Governmental purpose and private activity bonds are tax-exempt and therefore provide lower interest rates than taxable bonds. Municipal and school borrowers can use tax-exempt financing as long as the facility is publicly owned and operated.

Private activity bonds may fund any facility type built by any type of borrower. However, per federal tax law, private activity bonds can fund only renewable resource generation and qualified nonprofit conservation projects. Applications for these projects must be processed and approved before bonds are sold.

Qualified Energy Conservation Bonds or QECBs are bonds that enable qualified state, tribal and local government issuers to borrow money at attractive rates to fund energy conservation projects. QECB proceeds can be used to fund capital expenditures on a variety of projects – for example, a project that reduces energy consumption in publically owned buildings or that replaces street lamps with more efficient lighting options.

Article XI-J of the Oregon Constitution limits the amount of State of Oregon general obligation bonds that may be issued and outstanding at any time to one-half of one percent (0.5 percent) of the true cash value of taxable property in the state. The Department of Revenue determines the market value of all nonexempt real and personal property in the state as of January 1 each year. As of January 1, 2013, the true cash value of all property in Oregon was approximately $433.4 billion. As of December 31, 2014, approximately $231 million principal amount of SELP bonds were outstanding, leaving approximately $1.9 billion of authorization remaining under Article XI-J.

SMALL SCALE ENERGY LOAN PROGRAM

In 2009, the Legislature authorized the use of revenue bonds to finance energy projects developed under HB 2626, more commonly known as the Energy Efficiency and Sustainable Technology. To date, there have been no revenue bonds issued.

Bonds Issued

July 1, 2012 through June 30, 2014

Type	Amount	Purpose
Governmental Purpose	$27,170,000	New loans for energy-saving and energy generating renewable resource projects in private and public sectors.
Private Activity	0	
Federally Taxable	0	
QECB	2,080,000	
Total	$29,250,000	

How SELP is Delivered – Loans

ODOE's SELP team markets energy loans with reasonable interest rates and fixed rate terms to interested parties around the state. Guided by a regularly updated marketing plan, SELP staff work closely with potential applicants, ensuring that customers understand their options and the resources available to them through ODOE. Often, considerable time is spent on the front-end to make sure the SELP program is a good fit, and in many cases, viable projects that are not good candidates for SELP loans are referred to private financing sources.

Discussions between SELP staff and potential borrowers cover:

- *Loan terms*. In general, loan terms are set to match the term of the bonds that funded the loans. The loan term may not exceed the expected project life.
- *Loan interest rates.* Rates are set at the bond rate plus a spread based on factors related to loan risk; generally, this adds an additional 1.00 to 3.50 percent. This differential allows for the program to recover its expenses and pays for the costs of issuing bonds, funding reserves for loan losses, and operating the loan program.
- *Loan sizes.* Loans can range from $20,000 for residential projects, to several hundred thousand dollars for schools, to millions of dollars for industrial and energy-generation projects. SELP's largest loan to date is a series of credit lines of up to $118 million with the Oregon University System to finance various campus deferred maintenance projects. All $118 million has been disbursed for efficiency-related upgrades to buildings at all seven university campuses. SELP's largest non-state agency loan currently is an $11.5 million loan for the construction of a 5.0 MW hydroelectric facility for the Juniper Ridge power plant at the Pilot Butte Canal near Bend in Deschutes County.
- *Loan fees.* Fees are based on the amount of the loan request and the approved loan amount. For example, the application fee is 1/10 of 1 percent of the loan request, with a maximum application fee of $2,500. Loan fees are 1 percent of the final loan amount. Application forms contain an explanation of fees in greater detail and are available on the Oregon Department of Energy website http://www.oregon.gov/ENERGY/LOANS.
- *Loan security.* ODOE typically requires a first position lien on project land, buildings and equipment. Additional collateral is required, often in the form of unencumbered land, assignments of income, trust deeds, and other assets. Some lands under leases and contracts can also qualify as security. Equipment and the borrower's pledge to make payments serve as security for municipal and state agency borrowers.

The SELP team reaches out to potential borrowers across the state, including state agencies, nonprofit and trade associations such as League of Oregon Cities, school boards and related associations, and tribal representatives.

SELP staff review all project applications received to determine eligibility for financing, looking at factors such as statutory requirements. Further, loan officers perform a detailed financial analysis of the energy project and the borrower, reviewing general project economics, collateral value, credit worthiness, financial status, loan risk, and projections of future stability and worth.

The SELP loan team consults with ODOE technical staff to thoroughly review project feasibility and ability to provide the required energy savings or income stream. Staff recommends loan approval based on the soundness of the energy project and the borrower's ability to repay. SELP's nine-person citizen advisory committee – which is appointed by the director – reviews loan applications over $100,000 ($500,000 for state agencies). The committee reviews loan requests at regularly public meetings and makes recommendations to the director for the approval or denial of each loan. The SELPAC is scheduled to meet at least six times per year, meetings are scheduled on a bimonthly basis; all meetings are open to the public.

Loan processing time varies with the size, type and complexity of each application. Small municipal and commercial loans may be approved in two to three weeks. Larger commercial or industrial loans and loans, which must be reviewed by the advisory committee, may take 60 days or more. For large, complex projects, processing time may take several months. Loans financed with private activity bonds can take more than 90 days due to additional public hearing requirements imposed by federal tax law. Through pre-application meetings, customers are able to submit all necessary information with the application to avoid unnecessary delays.

Upon loan approval and closing, SELP monitors project completion. Throughout the life of the loan, SELP verifies insurance coverage and monitors compliance with loan terms and borrower financial strength. SELP reviews the financial statements of major borrowers annually to verify borrowers' continuing financial stability.

Program Financial Highlights

These financial highlights are drawn from the SELP financial statements for the periods ending June 30, 2013, and June 30, 2014.

	Period Ending June 30, 2013	Period Ending June 30, 2014
SELP operating revenue	$12.09 million	$12.18 million
SELP operating expenses	$13.2 million	$11.66 million

Operating revenues include interest and fees on program loans as well as earnings on cash and any investments related to SELP's loan program. Administrative expenses and bond program related expenses are factored into operating expenses. Salary expenses for the period 2013 to 2014 were down 6.5 percent or $46,393; for services and supplies, expenses were down 20.5 percent or $156,123.

Article XI-J of the Oregon Constitution and ORS Chapter 470 established two accounts for SELP funds. They are the Small Scale Local Energy Project Loan Fund (Loan Fund) and the Small Scale Local Energy Project Administration and Bond Sinking Fund (Sinking Fund). Proceeds of general obligation bonds issued under Article XI-J are held in the Loan Fund until disbursed to borrowers. Repayments of loans funded by the Loan Fund and interest earnings are held in the Sinking Fund. Amounts in the Sinking Fund pay for costs associated with the issuance and management of outstanding bonds, bond debt service, and administrative costs of SELP.

As of June 30, 2014, the cash and investments of the two SELP funds were as follows:

SELP Cash and Investments

As of June 30, 2014

	Cash	Investments
Loan Fund	$3,889,972	$0
Sinking Fund		
Borrowers Reserve Accounts	6,819,765	
Program Account	8,304,918	
Arbitrage Rebate	0	
Bond Principal and Interest Account	8,157,619	
Extraordinary Expense Account	6,030,642	
Fiscal agent cash	0	
Redemption Account	0	
TOTAL	$33,202,916	$0

SMALL SCALE ENERGY LOAN PROGRAM

As of December 31, 2014

Number of outstanding loans	181
Total amount of outstanding loans	$214.4 million
Outstanding loan amounts: businesses individuals, nonprofits, municipalities	$94.3 million
Outstanding loan amounts: state agencies	$120.1 million

Cash and investments related to the SELP program totaled $33.2 million on June 30, 2014. Article XI-J Bonds payable at June 30, 2014 totaled $222.7 million.

Additional Programs and Funds

The 2012 Legislature, via HB 2960 (aka Cool Schools) provided additional authorization to SELP to finance seismic retrofit projects in conjunction with an energy project on a facility. To date, no seismic projects have been underwritten.

In 2009, the 75th Legislative Assembly created the Energy Efficiency and Sustainable Technology Program (EEAST) through House Bill 2626. EEAST provides authority to finance residential and commercial energy efficiency and renewable energy projects by allowing consumers to repay energy loans as a line item charge on their monthly utility bill. SELP received lottery bond proceeds to carry out the EEAST pilot program in May 2010.

EEAST provisions amended ORS Chapter 470 establishing the Loan Offset Grant Fund and the Supplemental Fund. Lottery bond proceeds and any other funds directed by gift, grant or donation to the EEAST program is deposited into the Loan Offset Grant Fund. A one-time energy supplier assessment (ESA) transfer of $300,000 was deposited into the Supplemental Fund to pay for the administrative costs to set up the EEAST program. ESA funds were fully expended in 2011. EEAST no longer uses ESA funds to support the EEAST program.

In June, 2011, the Loan Offset Grant Fund (ORS 470.575) was renamed the Jobs Energy and Schools Fund. The use of grants available through the Jobs Energy Schools Fund was expanded to support public K-12 schools across the state. As of June 30, 2014, the cash and investments of the funds were as follows:

JESF Cash and Investments

As of June 30, 2014

	Cash	Investments
Jobs Energy Schools Fund	$751,398	$0
Loan Offset Grant Fund	806	
Supplemental Fund	0	
TOTAL	$752,204	$0

The Small-scale Energy Loan Program administers the Alternative Fuel Vehicle Revolving Loan Fund. The fund is a continual, revolving pool of funds, borrowers use to support expansion of alternative fuel vehicle fleets while helping to reduce carbon emissions. As borrowers repay the loans, the department re-loans to additional borrowers.

Borrowers can use loan proceeds to:

- Convert existing gasoline or diesel vehicles to alternative fuels.
- Purchase new alternative fuel vehicles (incremental costs).
- Offset cost of purchases and/or conversions made no more than 60 days prior to the department receiving the loan application.

The AFVRLF was funded by the sale of tax incentive bonds which amounted to approximately $3 million dollars available for alternative fuel vehicle loans. To date, no loans have been issued under this program.

Program Challenges

During the period covered by this report, SELP initiated foreclosure proceedings on a large defaulted loan. The program subsequently incurred a write-off of approximately $11.1 million taken over a two year period. SELP has been able to liquidate a large portion of the equipment and continues to market the sale of the real property. Full recovery is not expected which has caused the program to carry the underlying debt.

The majority of SELP borrowers have met and/or meet their loan obligations. However, there are occasions where borrowers experience financial difficulties. SELP has identified and is monitoring five borrowers experiencing financial difficulties due to challenges presented by economic and various other operational factors. These borrowers represent five loans aggregated at approximately $16.8 million, or 7.8 percent of total outstanding loans as of on June 30, 2014.

Addressing Forecasted Deficit Concerns

The program is currently using existing reserves to offset the debt service on outstanding bonds associated with various, high dollar loan defaults detailed in prior reports. The agency believes that improved loan underwriting standards and increased loan volumes can improve cash flow to a level adequate to or exceeding existing bond payments.

Current cash flow projections indicate that SELP will have sufficient funds to meet its semi-annual bond payments and pay administrative expenses in the next several years without additional infusion of cash. Program loan loss reserves appear to be adequate for the next biennium.

In the event that loan repayments and other resources available to SELP are not sufficient to pay debt service on outstanding bonds, ODOE anticipates that the state will use its general fund to pay the bonds or use other resources to loan funds to SELP for the bond payments.

Using current projection tables with total revenue sources and debt requirements, the SELP program may face a shortfall in funds beginning in late 2019. This projection is based upon booked loans being paid as agreed. Should there be additional loan losses or other mitigating factors such as early payoff requests, the timeframe for a potential deficit would likely be sooner rather than later. Part of the definitive answer to the shortfall will directly link to collection efforts on any and all of the non-paying accounts.

As previously mentioned, ODOE is actively working to book new loans; a 2013 analysis estimated that at least $25 million in loans annually, through 2023, would be needed to correct the deficit. However, it may become necessary for the Legislature to approve general fund support for SELP to meet future debt service obligations in the 2017-2019 biennium and thereafter.

To help address future cash flow funding needs and mitigate the need for potential general fund support, SELP has focused on lending strategies designed to lower the program's loan loss risk exposure.

1. Greater utilization of Federal Guarantee Programs such as the USDOE loan guarantee program and the USDA loan guarantee program
2. Requesting and using more guarantees of large municipal agencies
3. Seeking stronger primary and secondary sources of repayment
4. Allowing other third parties to fund and build the construction phase of projects and then fund only the term portion of the transaction once the project is complete and meets agreed upon benchmarks or goals.
5. Utilizing more robust collection efforts in coordination with the Department of Justice.

Conclusion

The agency welcomes ideas and recommendations to support the program and meet the goals outlined by the Oregon State Legislature. ODOE staff are committed to promoting and supporting energy conservation and renewable energy resource development across the state, and SELP serves as an important tool to meet these objectives.