

Webinar on the U.S. Department of Energy Loan Guarantee Program Office's (LGPO) RFI from Development Finance Organizations

Hosted By :

The Clean Energy States Alliance (CESA) and
The Council of Development Finance Agencies (CDFA)



November 23, 2009



CDFA and CESA

About CDFA:

The Council of Development Finance Agencies is a national association dedicated to the advancement of development finance concerns and interests. CDFA is comprised of the nation's leading and most knowledgeable members of the development finance community representing public, private and non-profit entities alike. For more information about CDFA, visit www.cdfa.net or e-mail info@cdfa.net.

About Clean Energy States Alliance:

Clean Energy States Alliance (CESA) is a national nonprofit organization that works with clean energy funds and state agencies to expand the nation's clean energy infrastructure and advance markets for clean energy technologies. CESA provides information and technical services to its members and shares its knowledge with the federal government and influential policymakers. CESA's member states manage programs that will invest nearly \$6 billion in the next ten years to support clean energy. Clean Energy Group (CEG) created CESA in 2002 and now manages it. For more information about CESA, visit www.cleanenergystates.org.

Roles for Development Finance Organizations in DOE 's Loan Guarantee Program- Financial Institution Partnership Program

Thomas H. Cochran & Steven Klein
Advisors to the U.S. Department of Energy

November 23, 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. \$2 billion diverted to "clunkers" program has yet to be restored.
- No credit subsidy charges will be paid by the borrowers, although there are application fees – fee schedule may be made more size-appropriate.
- A (so far) temporary program, under ARRA, for the rapid deployment of renewable energy generation and manufacturing, and electric power transmission projects.
- Supports commercial applications of renewable energy systems that produce power or heat and the manufacture of system components, electric power transmission systems and leading edge biofuel projects.
- *A comprehensive plan for accelerated implementation of the program is under way: "Designated Lending Authority" is at the heart of that plan.*

November 23, 2009

4

FIPP and DFO Program Objectives

- Ensure program guidelines and solicitation documents facilitate the swift implementation of an effective, prudent loan program with the widest possible coverage
- Provide close coordination between each institutions (either commercial financial organizations or public/non-profit development finance organizations, "DFOs") acting as a "lender-applicants" and DOE's Loan Guaranty Program Office (LGPO)
- Provide avenues for less experienced DFOs to nonetheless assist in bringing qualifying projects to lender-applicants and ultimately to DOE

November 23, 2009

5

DFO Program Guidelines

- No minimum size; no maximum size but for DFO lender applicants, transactions over \$100 MM require 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 requirement makes projects that can either obtain a Categorical Exemption from NEPA or require only a Environmental Assessment more attractive candidates for a guarantee than those requiring a full, de novo Environmental Impact Statement*
- Projects must comply with Davis-Bacon requirements

November 23, 2009

6

DFO Program Guidelines – continued

- “Skin in the game” requirement for loan portion of transactions:
 - DFOs must invest and retain risk in 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 may be consortia of public and/or non-profit entities with a mix of technical capabilities, experience, and risk-capital sources

November 23, 2009

7

Debt Portion Funding Options

Either:

At closing, deposit loan and guarantee into an SPV structure and issue Series A (supported by guarantee) and Series B (not supported by guarantee) securities

- Guarantee-supported portion funded by issuance of taxable securities
 - ✓ Some efforts to exempt guarantee supported securities issued by tax exempt sponsors of clean energy projects from tax-exempt issuance prohibition
- Unsupported portion -
 - ✓ May be funded by 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

Or:

Place partially (up to 80%) DOE-guaranteed debt in whole with financial institutions which may internally allocate guaranteed and non-guaranteed portions for risk management purposes

November 23, 2009

8

FIPP Solicitation for Manufacturing Projects and inclusion of Energy Efficiency Projects

- **FIPP – Manufacturing Solicitation Now Being Drafted**
 - Debt portion funding options for lender-applicants will be identical to FIPP generation options
 - Efforts being made to make new solicitation as appropriate to small and medium-sized projects as to large projects
- **Energy Efficiency Projects Using Innovative Technologies**
 - programs for EE supply, manufacturing or installation projects not yet available

November 23, 2009

9

DFO Program Status

- FIPP-Generation projects solicitation released 10/7, RFI for DFOs released 10/29, FIPP-Manufacturing projects solicitation now being drafted
- 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'
- Response deadline of 1/15/10, responses will be reviewed as submitted
- At conclusion of review process, DFOs will be given feed-back on their 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 FIPP solicitations
- Complete information on FIPP process can be found at www.lgprogram.energy.gov/

November 23, 2009

10

FIPP Process

- Transactions submitted via the FIPP solicitations for 1705 eligible projects reviewed and recommended by lender-applicants
 - Lender-applicants will perform substantial technical and credit underwriting pursuant to DOE guidelines for review of alternative energy projects
 - Part I applications will be reviewed by DOE for:
 - ✓ *Creditworthiness*
 - ✓ *Technical eligibility*
 - ✓ *NEPA status*
 - Upon approval of Part I + Phase II application by lender-applicant, project will be submitted to DOE for final review. DOE will review the underwriting of the lender-applicant.
 - Final formal approval by Credit Review Board of DOE, a high level committee of senior department officials.

November 23, 2009

11

Next Steps in DFO Initiative

- Following the first round of RFI response evaluations , DOE will launch a significant effort to expand the DFO 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

November 23, 2009

12

Conclusions

- The Loan Guarantee Program is the largest clean energy financing initiative undertaken by DOE and will provide an substantial 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...

November 23, 2009

13

Thomas H. Cochran

Tom Cochran has served for more than 35 years in governmental and private sector roles concentrating 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 Programme. He received his BA from Beloit College and his MPA from Princeton University's Woodrow Wilson School.

November 23, 2009

14

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 Inc.**, 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.

November 23, 2009

15

Contact Information

FIRST INFRASTRUCTURE


41 Watchung Avenue, #82
 Montclair, NJ 07042
sklein@firstinfra.com
 973.783.0088 (O)
 973.626.3417 (M)
 973.783.3543 (F)

www.1stinfrastucture.com

CivilCredit Advisors LLC

32 Stanford Place
 Montclair, NJ 07042
thomashcochran@civilcreditllc.com
 973.746-2370 (O)
 973.519-1830 (M)
 973.746.6425 (F)

www.civilcreditllc.com

November 23, 2009

16