

# Clean Energy Loan Funds – TRF Sustainable Development Fund

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TRF Sustainable Development Fund



- In these difficult financial times, there is a critical need for predictable access to capital for clean energy and energy efficiency projects.
- Institutional lenders are no longer lending, or when they do lend, it is on terms that incorporate high risk premiums.
- Projects that were feasible and ready to go six months ago can no longer obtain financing on commercially reasonable terms, if at all.
- Many entities have no ability to take advantage of grants, rebates or tax credits that may be available for clean energy projects since they are unable to finance the balance of the project costs.

- Traditional public role: Establish public policies that use grant resources / tax incentives and regulatory tools to encourage desired development and punish undesired development.
- Enterprise approach: allocate capital directly to companies and projects through loans, equity investments & performance-based grants to address barriers to market development:
  - Uncertainty of market demand
  - Absence of liquidity
  - Existence of certain costs that cannot be internalized by developers & businesses
- Enterprise model is more than providing financial assistance; also about being an entrepreneurial organization that is flexible and responsive to changing market conditions

- Public subsidy is to be used only to mitigate risks that market participants are unable to assume, and should not replace conventional debt or equity risk/reward.
- Proper due diligence is as important in underwriting grant investments as it is for underwriting project financing. Treat grants as the equity they are.
- The level and structure of subsidy should change as market conditions change. Subsidy should become increasingly efficient, moving along a continuum:
  - grants →
    - subordinated debt with concessionary pricing →
    - conventional debt financing.



# The Reinvestment Fund



Capital at the point of impact.

- Recognized as one of the leading Community Development Financial Institutions in the US - **\$572 million** in capital now under management from over **800 investors**
- Headquarters in Philadelphia - offices in Baltimore and Washington, DC
- Active portfolios in housing, community facilities, small business, commercial real estate, venture financing and clean energy



# TRF Sustainable Development Fund



[www.trfund.com/sdf](http://www.trfund.com/sdf)

- NESIP – \$4.5 million energy revolving loan fund to finance energy efficiency measures for non-profit organizations
  - Seeded with \$2.25MM from Pew Charitable Trusts
  - Managed by TRF since 1993
- SDF – \$32 million of funding to promote renewable energy market development and energy efficiency
  - Funded from electric utility restructuring and merger cases
  - Managed by TRF since 1998

- Construction/renovation loans for energy-related project costs
- Permanent/term loans - take-out financing for energy-related construction loans, equipment financing
- Lease financing for energy conservation and clean energy equipment lease financing (energy-efficient equipment, green building and energy conservation measures)
- Predevelopment loans/grants for incentives to encourage high performance energy measures, offset portion of energy audit/design fees



1. Customer Acquisition
2. Underwriting
  - Investigation/due diligence
  - Financial analysis
  - Adherence to loan policy
  - Funding suitability (match funding)
3. Loan Approval
  - Approval authority
  - Credit memos
  - Committees
4. Loan Processing
5. Documentation and Closing
6. Funding and Booking of Loans
7. Loan Accounting
8. Loan Servicing/  
Administration
9. Information and Reporting
10. Work Outs and Paid Loans

- \$12 million in wind production incentives for 7 new Pennsylvania wind farms totaling 257 MW
  - Leveraged \$324 million of private investment
  - 4 utilities buying PA wind power
- Syndicated subordinated debt for a 9 MW wind farm
- Financed the equity pay-in for 24 MW wind farm (Babcock & Brown model)





# Declining Subsidy of SDF Wind Grants

	TRF Grant	MW	MWH/yr	TRF Grant	TRF Grant
				in \$/MW	in \$/KWH/yr
Mill Run/Somerset	\$2,000,000	24	59,342	\$83,333	\$0.0337
Waymart	\$3,250,000	64.5	150,445	\$50,388	\$0.0216
Meyersdale	\$2,500,000	30	81,243	\$83,333	\$0.0308
Bear Creek	\$2,000,000	24	71,173	\$83,333	\$0.0281
Casselman	\$1,000,000	34.5	99,733	\$28,986	\$0.0100
Allegheny Ridge	\$750,000	80	217,248	\$9,375	\$0.0035

## Leveraged Babcock & Brown model

- Co-developers: Community Energy, Inc. and Babcock & Brown
- 24 MW (12 Gamesa 2 MW turbines)
- 20-year PPA with PPL Energy
- 2 classes of equity: tax-advantaged and non-tax advantaged
- SDF syndicated \$5.75 MM in debt to leverage the pay-in of one of the equity participants



- Competitive RFP process involving same due diligence used to approve project financing:
  - project team experience and capacity
  - detailed equipment & project cost information
  - project pro formas
  - developer's financial capacity
  - project site control
  - site wind resource studies
  - permits and regulatory approvals
  - environmental impact/local community response
  - grid interconnection approvals
  - PPA negotiations
- Use of project milestones secured by performance deposits

- Public money is used to leverage private sector resources.
- Funds are deployed and recovered with a return, to be used again.
- Grant and public subsidy are only used to incur costs that the market cannot bear (e.g., early stage predevelopment expenses and certain capital costs).
- Public and private resources are managed by an institution that has both a public sector mission and a private sector (market) discipline.



# Issues for Funds Considering Lending/Investing

- Management / governance:
  - Board approval of all grants, financing?
  - In-house or contracted lending/investing operations?
  - Ensuring independence when approving fund transactions
- Business model:
  - A perpetual fund?
  - RFPs or “first come, first serve?”
  - Equity investments?



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