

September 2013

Anatomy of the Deal

-- CE+BFI Examines Innovative NYSERDA Energy Efficiency Bond Deal --

The New York State Energy Research and Development Authority (NYSERDA) recently issued bonds through a highly innovative structure to finance and refinance loans under the Green Jobs-Green New York (GJGNY) program. GJGNY is a statewide program that supports energy efficiency improvements for residential, small businesses, not-for-profits, and multi-family buildings. The bonds are AAA-rated and guaranteed by the New York State Environmental Facilities Corporation, which manages the largest Clean Water State Revolving Fund (SRF) program in the U.S.

This bond issuance marks a monumental accomplishment for the clean energy and bond finance industries. What is so significant is that the U.S. Environmental Protection Agency (EPA) has concurred that New York's energy efficiency projects qualify for financial assistance from the SRF program under Section 603(c)(2) of the Clean Water Act and the federal guidelines governing the SRF. For the first time in the country, SRF dollars have been used as credit enhancement for clean energy and efficiency bonds – a national precedent that could prove to be widely replicable in other states. More generally, it is a model for addressing complex barriers to implementing affordable, community-scale residential energy efficiency programs.

Full Description

In recent years it has become clear how important credit enhancement is to the securitization of energy efficiency loan portfolios. NYSERDA's effort to securitize their \$26 million residential energy efficiency loan portfolio is a great case study. NYSERDA entered into discussions with a national rating agency to provide a rating on a proposed bond issue that would be repaid from its portfolio of residential energy efficiency loans, for which it hoped to receive an A credit rating for investors.

Unfortunately, because the underlying loans were all relatively new, there was limited data on the payment performance of the portfolio to be rated. Even though **Pennsylvania's Keystone HELP program**, which is a similar residential energy efficiency loan portfolio, shared its payment data as a proxy portfolio for evaluation, the level of detail and length of payment performance was not sufficient to satisfy normal rating agency requirements for an investment grade security.

In order to create an investment-grade bond for institutional investors to purchase, credit enhancement would be necessary. Ideally, an AAA-rated issuer could be found to issue and guaranty a bond for this purpose.

The New York State Environmental Facilities Corporation (EFC), a bond authority that provides financing to municipalities, businesses, and NY State agencies for environmental projects, was deemed an excellent prospective issuer. But their issuances were primarily related to clean and waste water projects, and nonpoint source pollution abatement and control projects. It was this last category of projects that presented an opportunity that NYSERDA has worked to develop into a new credit enhancement tool to finance energy efficiency projects.

Following extensive discussions between NYSERDA and EFC, EFC submitted a letter to the U.S. Environmental Protection Agency to ask for concurrence that energy efficiency financing is an eligible program purpose under the federal EPA's Clean Water State Revolving Fund (SRF) program. EFC's argument was that burning fossil fuel to generate heat and electricity in New York State contributes to atmospheric deposition of air pollutants into the state's bodies of water. New York's Nonpoint Source Management Program (NY NPS Program) had already identified this atmospheric deposition from fossil fuels as a significant source of water quality impairment. One of the program's existing strategies was to control and reduce this atmospheric deposition of air pollutants into New

York's waters. NYSERDA's residential energy efficiency program, financed with its portfolio of consumer loans, arguably had a direct impact on mitigating this nonpoint source of water pollution.

The EPA concurred with EFC and NYSERDA's request and approved NYSERDA's Residential Energy Conservation Projects as qualifying for financial assistance from the SRF under Section 603(c)(2) of the Clean Water Act and the federal guidelines governing the Clean Water State Revolving Fund. EPA's concurrence was necessary but not sufficient in itself; further credit enhancement was required for EFC to provide its guaranty.

The bonds are over-collateralized by the GJGNY loan portfolio, with anticipated loan cash flows well in excess of the principal and interest due on the bond. The EFC Guaranty required NYSERDA to establish a Collateral Reserve Account funded with approximately \$8.5 million in federal grant funds provided by the U.S. Department of Energy through its Better Buildings program, to reimburse EFC for any draws upon its Guaranty and to protect the assets of the SRF program; the balance of the account is reduced and returned to NYSERDA on a pro-rata basis with bond principal payments.

The Bonds were sold on August 13, 2013 as taxable Qualified Energy Conservation Bonds (QECBs), which provide a partial interest subsidy from the US Treasury. The QECB interest subsidies, coupled with the interest rate from the AAA credit rating, resulted in a net interest cost on the bonds well below 1%.

The Clean Energy + Bond Finance Initiative has compiled the following resources to share the anatomy of this deal from program creation through national recognition. Click on the links below to access this information:

Program Documents:

- [NYSERDA Green Jobs – Green New York Program Information](#)

- [NYSERDA Green Jobs – Green New York Program/On-Bill Recovery Financing Webinar](#)

Enabling Documents:

- [NYSERDA Green Jobs – Green New York Program Establishing Legislation](#)

- [Eligibility Question: New York State Environmental Facilities Corporation President &CEO to U.S. Environmental Protection Agency's Chief of State Revolving Fund Branch](#)

- [U.S. Environmental Protection Agency to New York State Environmental Facilities Corporation: Favorable Ruling on Eligibility of NYSERDA Bonds Supported by a Clean Water State Revolving Fund Guaranty](#)

Deal Documents:

- [NYSERDA Residential Energy Efficiency Financing Revenue Bonds Investor Presentation](#)

- [NYSERDA Residential Energy Efficiency Financing Revenue Bonds: Preliminary Official Statement](#)

Press Documents:

- [New Data Project Seeks to Raise Investor Confidence in Energy Efficiency](#)

- [FierceEnergy: NY Sets Stage for National Energy-Efficiency Project Financing](#)

- [CE+BFI Press Release: Clean Energy Group President Praises New York Bond Financing](#)

Reports:

- [Reduce Risk, Increase Clean Energy: How States and Cities are Using Old Finance Tools to Scale Up a New Industry](#)

For More Information

About Clean Energy + Bond Finance Initiative (CE+BFI): CE+BFI, created by CEG and CDFA, is working with finance and energy professionals across the country to find ways to increase clean energy investment by an additional \$5 billion to \$20 billion in the next five years. For more information, visit: www.cleanenergybondfinance.org.

About Clean Energy Group (CEG): CEG is a leading national, non-profit advocacy organization working in the U.S. and internationally on innovative technology, finance, and policy programs in the areas of clean energy and climate change. For more information, see www.cleangroup.org.

About the Council of Development Finance Agencies (CDFA): CDFA 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. For more information, visit www.cdfa.net.

CEG and CDFA are not engaged in rendering legal, accounting, or other professional services, nor do they intend that this material be relied upon to the exclusion of outside counsel. Those seeking to conduct complex financial deals are encouraged to seek the advice of a skilled legal/consulting professional.

In the event that the above links do not work properly, use the following direct URLs:

- <http://www.nysersda.ny.gov/Energy-Efficiency-and-Renewable-Programs/Green-Jobs-Green-New-York.aspx>
- [http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/\\$FILE/gjgnylaw_palsection1890-1899-A.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/$FILE/gjgnylaw_palsection1890-1899-A.pdf)
- [http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/\\$FILE/NYSERDA%20on-bill%20financing%20program%20-%20GJGNY%20Financing%20Webinar%2010-2-12.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/$FILE/NYSERDA%20on-bill%20financing%20program%20-%20GJGNY%20Financing%20Webinar%2010-2-12.pdf)
- [http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/\\$FILE/NYSERDA%20Clean%20Water%20SRF%20Eligibility%20Question%20for%20EPA%2003.04.13.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/$FILE/NYSERDA%20Clean%20Water%20SRF%20Eligibility%20Question%20for%20EPA%2003.04.13.pdf)
- [http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/\\$FILE/NYSERDA%20-%20EPA%20SRF%20ruling%20in%20favor%20of%20EE%20projects%27%20eligibility.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/$FILE/NYSERDA%20-%20EPA%20SRF%20ruling%20in%20favor%20of%20EE%20projects%27%20eligibility.pdf)
- [http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/\\$FILE/NYSERDA%20GJGNY%202013%20Investor%20Presentation%20%28FINAL%29.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/$FILE/NYSERDA%20GJGNY%202013%20Investor%20Presentation%20%28FINAL%29.pdf)
- <http://www.greentechmedia.com/articles/read/New-Data-Project-Seeks-to-Raise-Investor-Confidence-in-Energy-Efficiency>
- [http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/\\$FILE/Preliminary%20Official%20Statement%20-%20NYSERDA%20Residential%20Energy%20Efficiency%20Financing%20Revenue%20Bonds%20Series%202013A.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/$FILE/Preliminary%20Official%20Statement%20-%20NYSERDA%20Residential%20Energy%20Efficiency%20Financing%20Revenue%20Bonds%20Series%202013A.pdf)
- <http://www.fierceenergy.com/story/ny-sets-stage-national-energy-efficiency-project-financing/2013-08-16>
- [http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/\\$FILE/NYSERDA%20EE%20Bonds%20Press%20Release%208.13.13.pdf](http://www.cdfa.net/cdfa/cdfaweb.nsf/fbaad5956b2928b086256efa005c5f78/ad2ad287a1245c40862573830083767c/$FILE/NYSERDA%20EE%20Bonds%20Press%20Release%208.13.13.pdf)
- <http://www.cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=cebfi-scefi-report-2013.html#page=22>
- <http://cdfa.net/cdfa/cdfaweb.nsf/ordredirect.html?open&id=bostonia-paHELP-casestudy.html>