May 6, 2022

Re: Response to Request for Information (RFI) number: DE-FOA-0002716: Designing Equitable, Sustainable, and Effective Revolving Loan Fund Programs.

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Via Email Transmission: EERevolvingLoanFund@ee.doe.gov

The Alliance to Save Energy is a bipartisan, nonprofit coalition of business, government, environmental, and consumer leaders advocating to advance energy efficiency adoption and is a leading voice informing federal and state energy efficiency policies and standards. We thank the U.S. Department of Energy (DOE) for the opportunity to provide response and comment to the *Request for Information, Designing Equitable, Sustainable, and Effective Revolving loan Fund Programs* (RLF).

On March 29, 2022, DOE issued a Notice of Request for Information (RFI) on the subject RLF, which is authorized under the Infrastructure Investment Jobs Act (IIJA), Section 40502 (Public Law 117-58). IIJA appropriates $250 million to DOE to make funds available to States to implement energy efficiency RLF capitalization grant programs that will enable eligible states to establish RLFs to support commercial and residential energy audits, energy upgrades, and retrofits among other activities. DOE has a specific interest in driving successful and equitable outcomes. The Alliance to Save Energy provides response and comment as follows:

Category 1: Equitable Access to Financing

(1) *What program models for revolving loan funds (RLFs) exist that can drive more equitable access to residential energy efficiency financing?*

A specific focus of the current RFI is to identify how RLFs can drive equitable access to residential energy efficiency financing. As DOE considers financing models, the Alliance to Save Energy encourages DOE to consider how RLFs are operated by community development financial institutions (CDFIs), with a specific focus on CDFIs led and managed by representatives of the targeted communities, including non-depository CDFIs. That said, the Alliance would also encourage partnerships with minority-owned depository institutions (MDIs) serving disadvantaged and tribal communities. Many of these community-based financial institutions are trusted entities in the targeted demographic, where they serve and have the experience necessary to successfully provide financial services as the IIJA RLF progam envisions.

(4) *What are best practices for loan terms for borrowers for RLF program design for example regarding loan application procedures, interest rates, loan size, and mitigating penalties and risks such as delinquency and default?*

The Alliance to Save Energy recommends that DOE collaborate with Treasury, the CDFI Fund, and CDFIs led and managed by groups representative of desired target populations, including non-depository CDFIs, as one method by which to identify best practices. CDFIs are known and trusted in their communities and as a result can have lower net write-offs than traditional banks, even when delinquency rates are higher. This can be attributed to the mission focus of CDFIs, and the "shared success model where CDFIs have both a financial and social interest in a borrower's success, and work to provide them the resources and technical assistance to help them succeed."[1]

(5) ***In IIJA sec. 40502(e)(2)(E), the provision states, "[e]ach State providing loans under this paragraph shall, to the maximum extent practicable, provide loans to eligible recipients that do not have access to private capital." How might States determine which eligible recipients do not or have not had access to private capital? What resources or datasets may be useful to define this group?***

If a priority purpose of the revolving loan fund is to drive more equitable access to energy efficiency financing, the Alliance to Save Energy recommends that DOE and states use existing indicators that highlight issues of financial inequity. As one example, DOE and states could use the wealth gap as an indicator of inability to access private capital. Wealth gap data provide reasonably reliable information to demonstrate where asset values may be lowest, and where savings and ability to leverage capital may also be low on non-existent. Wealth gap as an indicator could be measured at the homeowner and renter levels, and RLFs could be designed to reach both, targeting relevant single-family homeowners in addition to multi-family property owners serving the targeted populations.

DOE could also use energy burden, particularly in the context of energy efficiency financing. Populations such as those living in rural communities often have higher percentages of their monthly income going toward energy expenses. This is also seen in many African American, Hispanic, and Native American communities, where Blacks spend 43% more of their income on energy costs, Hispanics, 20%, and Native American households 45% more, when compared to white households.[2] While the cost of energy can be factor, monthly and annual income levels are the primary components.

Finally, the Alliance again recommends that DOE and recipient states collaborate with the CDFI Fund and on-the-ground CDFIs, particularly non-depository CDFIs, who for over 25 years have focused on providing resources where depository and prime private capital has historically been unable to penetrate.

When specifically segmenting businesses as eligible recipients and determining those who do not or have not had access to capital, states and DOE should collaborate and coordinate with stakeholders who play a significant role in addressing access capital needs for relevant populations. These stakeholders are deeply entrenched in the issues DOE and the RLF are attempting to resolve, and include groups such as the U.S. Black Chambers, U.S. Hispanic Chambers, U.S. Pan Asian American Chamber of Commerce, U.S. Women's Chamber of Commerce, National Black Chamber, National LGBT

[1] https://www.mycnote.com/resources/Overview_of_the_CDFI_Industry_CNote_Whitepaper.pdf.
[2] https://www.aceee.org/press-release/2020/09/report-low-income-households-communities-color-face-high-energy-burden.

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Chamber of Commerce, the Minority Business Development Agency, the Small Business Administration, and others.

(6) ***What contractor pre-qualification conditions or labor standards will serve to ensure that the high quality workmanship that delivers the intended energy savings to consumers?***

The Alliance to Save Energy recommends collaboration with industry participants including schools, work training programs, and employers to identify contractor pre-qualification metrics, to ensure that high-quality workmanship delivers the intended energy savings to consumers. That said, DOE and states should prioritize partnerships and participation with those contractors who train, hire, and retain individuals who are representative of the RLF equity targets.

Category 4: Job Quality, Buy America, and Climate Impact

(20) ***In what ways, if any, might this RLF encourage lending for energy efficient fuel switching (e.g., electrification) projects and discourage lending for projects reliant on fossil fuels?***

The Alliance to Save Energy would encourage DOE and states to provide grants and loans to recipients based on priorities related to criteria such as access to capital, increased energy efficiency, energy affordability, carbon reductions, and overall cost to the borrower. The Alliance would not recommend fuel switching as a condition precedent to receiving grant or loan assistance, and if used as a criterion the RLF should be required to demonstrate that fuel switching results in greater energy efficiency, lower monthly energy costs, and reduces energy burden.

The Alliance would also caution against increasing loan amounts for consumers when this might be necessary for fuel switching, particularly when working with income disadvantaged borrowers. If fuel switching places the borrower into a higher loan amount than what would occur with other high or most efficient solutions, the relevant RLF program should exercise excessive care in ensuring the borrower is not committed to unneeded indebtedness. This could include financial services education, rate and term incentives, and an analysis to ensure that monthly indebtedness does not place the borrower in a worse financial position than she would be in if she made similar investments without fuel switching.

Category 5: Open Response on Revolving Loan Fund Program Design

(21) ***Is there anything else DOE should be aware of as it develops RLF program design guidance?***

<u>Training and Employment Pilot</u>

The IIJA RLF includes auditing, retrofitting, and training opportunities. As such, the Alliance recommends that DOE consider a pilot program structure that will allow loan (partial or whole) and grant assignment by the consumer or business to designated auditing and employment training programs. Designated programs would be those that provide energy audits and energy efficiency retrofitting pursuant to the IIJA RLF. Pilot programs would target specially identified segments of

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disadvantaged communities for energy audits and retrofitting, and would also be required to train, employ, place, and retain future workforce candidates who are representative of RLF equity objectives. Grant and loan funds that would have gone directly to the consumer or business would then be used by the training program to train, employ, and place energy auditors and retrofitting contractors, and those that work for them. The program would then provide auditing and retrofitting services to the specially identified segments of disadvantaged communities at low or no cost.

Loan repayment could be achieved through payment for services outside and inside the pilot, and could also include grant funds received from the RLF program in addition to grants from the IIJA Energy Auditor Training Program (EATP) (IIJA sec. 4503). The Alliance recommends that DOE consider linking the EATP to the RLF and prioritize EATP grants for those states who in their energy auditor training program plan include development and implementation of RLF training pilots.

Energy Efficiency Strategy Group Recommendations

The Alliance to Save Energy is a part of the Energy Efficiency Strategy Group (EESG), a collation of energy efficiency advocates dedicated to forwarding energy efficiency policy. As part of IIJA implementation, EESG members have prepared a series of recommendations related to IIJA's energy efficiency provisions, including the Revolving Loan Fund, and propose the following:

Release of Funds

- It is critical that the funding is released to the states as quickly as possible in order for the states to act expeditiously to meet the requirements of the statute.
- Given the relatively low level of funding to each state and complexity around standing up loan programs, we recommend that DOE release the funding, in full, as quickly as possible instead of gradually distributing it over future years

Guidance

- We recommend DOE issue guidance – even preliminary - as soon as possible and address all of the recommendations herein. States will be working with local governments and private sector partners to leverage financing and retrofit approaches from a variety of funding sources. Early guidance that facilitates this work now will deliver earlier successes. This will also allow States to plan programs and reduce the back and forth of questions with DOE.

Flexibility on types of Revolving Loan Funds

- State Energy Offices have used a wide range of innovative financing for building sector projects for decades. DOE should find means to affirmatively support states' use of variations on traditional, low-leverage revolving loan funds, such as a revolving loan loss reserve fund. In this example, states utilizing a revolving loan loss reserve fund for projects (or packages of projects) would leverage the scale of the program substantially. Once the project loans are repaid to the primary lender (non-IIJA funded), the IIJA-funded loss reserve revolves back to be used again.

Clarify Priority States

- States eligible for funding under the SEP are any of the states found in either the 15 states with the highest annual per capita combined residential and commercial sector energy consumption or the 15 states with the highest annual per-capita energy-related carbon dioxide emissions. With overlap, there are currently 25 states in this list.

<u>Clarify Davis Bacon</u>

- Residential buildings: for projects on buildings of 5 units or less, Davis Bacon does not apply.
- Commercial buildings: for projects of $100,000 or less, Davis Bacon does not apply.

<u>Clarify Use of Grant funds</u>

- These funds are limited to just 25% of the allocation, and therefore states should have the flexibility to use this limited resource for where the need is greatest, through rebates, low-income support, technical assistance, or other solutions.
- When leveraging financing, grant funds may be used to buy-down interest rates or establish a loan loss reserve to support the ability to pay for the target building owners.

<u>Clarify Amortization for Leveraged Financing</u>

- When using leveraged financing as directed by the statute, the amortization of non-leveraged financing (15 years or expected useful life of longest-lived upgrade measure), the leveraged financing can be at 10 years for residential or 7 years for commercial as long as it is deemed cost-effective by the applicable audit.
- The ability to pre-pay a loan prior to its amortization shall be allowed without penalty.

<u>Clarify Leveraging of Funding Resources</u>

- Funds utilized by the states to capitalize revolving loan funds may be used alongside other funds or financing mechanisms (such as C-PACE) without changing the character or reporting of those other funds.

<u>Clarify Federal Character of Federal "Capitalization" Grants</u>

- As these funds are "capitalization" grants to establish revolving loan funds, the federal character of the capital will change after a revolution (being paid back to the state). These funds may continue to revolve or become grants without federal reporting requirements.

<u>Project priorities</u>

- Clarify that states may identify priority recipients and project types. For example, a state may prioritize recipients that are small businesses or buildings located in underinvested areas. A state may prioritize projects that achieve deeper levels of energy savings and/or that incorporate third-party verification systems such as LEED Existing Buildings.
- States may prioritize recipients and projects to align with federal Justice40 Initiative objectives for investments in buildings and workforce development.

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