



Memorandum

December 18, 2024

To: Efficiency Maine Board of Trustees
From: James Neal, Senior Program Manager for Finance Initiatives
Michael Stoddard, Executive Director
Re: Efficiency Maine Green Bank – Coalition for Green Capital Agreements

Background:

The Efficiency Maine Green Bank (EMGB) is an initiative of the Efficiency Maine Trust (EMT). EMT has been offering various forms of loans to complement its financial incentives (e.g., rebates) since its inception in 2010. Historically, funding for EMT's loan initiatives has comprised approximately \$1 million in capital from the Electric Efficiency Procurement, approximately \$20 million from the American Recovery and Reconstruction Act (ARRA), and \$6.4 million from the Regional Greenhouse Gas Initiative (RGGI).

In 2022, Congress enacted the Inflation Reduction Act, which included a provision to establish the Greenhouse Gas Reduction Fund (GGRF). To implement the GGRF, the US EPA issued a Request for Proposals (RFP) seeking bids for proposals to form multiple, national initiatives each of which would provide financing, principally in the form of loans, for clean energy projects.

EMT joined one of the bids responding to this RFP under the umbrella of the Coalition for Green Capital (CGC). The principal characteristic of the CGC bid was that it represented participation from multiple so-called "green banks" established at the state and local level from across the country. In developing the bid, EMT was one of 18 state and local green banks that bargained for, and was accepted, special status as a "subrecipient" (of a "subgrant") in the proposal for whom, if the bid were awarded, a specific share of the grant would be guaranteed.

CGC's bid was awarded \$ 5 billion, and EMT's subgrant share of that award is approximately \$15 million. The EMT Board of Trustees voted to accept these funds on June 26, 2024 pursuant to the provision of the Efficiency Maine Trust Act (EMT Act) that:

The board may also deposit any grants or other funds received by or from any entity with which the trust has an agreement or contract

pursuant to this chapter if the board determines that receipt of those funds is consistent with the purposes of this chapter.¹

Subsequently, CGC has also offered EMT an additional \$10 million in the form of a loan with concessionary terms.

Now, several months since these awards, EMT (along with a multitude of other subrecipients and investment partners) are working through complex, detailed negotiations with CGC to finalize the terms, forms, and procedures for the subgrants and loans. Below is a brief overview of the documents that EMT Staff have reviewing, and negotiating and for which EMT ultimately will need to execute or provide if we are to formally commit to the subgrant (and the loan) from CGC and receive the funding for our green bank activities.

1. Subgrant Agreement

EMT has special status in the CGC's award from the US EPA as a subrecipient. There are two key features of EMT's status and the mechanism of the subgrant. First, as a named party in the original proposal from CGC to the EPA, EMT does not have to compete or (re)apply for the \$15 million in funding associated with this subgrant. Second, the funds take the form of a "grant" not a "loan", so EMT owes no interest on the capital.

Unlike most grants, however, the full \$15 million allocation comes with some significant conditions. Most notably, EMT has one year (to the end of calendar year 2025) to invest the funds. Any amount not invested by the deadline must be returned to CGC or may be rolled over into a loan on which we would owe interest and repayment of the principal.

Any principal and interest that is returned to EMT from the investments made before the one-year deadline are treated as "program income" and remain assets of EMT.

The subgrant agreement requires that, as a condition precedent to finalizing the agreement, EMT:

- Maintain membership in a national association of green banks organized by CGC;
- Execute a non-disclosure agreement;
- Provide an assurance letter (indemnifying CGC);
- Provide documentation of EMT's authority to issue loans and enter this agreement;
- Provide a budget and implementation for use of the subgrant funds; and,
- Provide copies of relevant investment policies.

¹ 35-A MRSA Sec. 10103(4).

Other notable features of the subgrant agreement include:

- Funds must be used for providing financial assistance (“investments”) to “qualified projects” in Maine, where qualified projects generally means any project, activity, or technology that reduces or avoids greenhouse gas emissions and other forms of air pollution in partnership with, and by leveraging investment from, the private sector.
- Funds may also be used for “predevelopment activities,” “market-building activities” and program administration.
- At least 50% of the funds must be used for financial assistance to projects located in Low-income and Disadvantaged Communities (“LIDACs”), and EMT must use commercially reasonable efforts to ensure that at least 20% of funds go to projects in rural communities and at least 2% of funds go to projects in Tribal communities.
- EMT must provide quarterly and semi-annual reports and annual disclosures with focus on accounting of the funds and program performance.
- EMT must establish and comply with internal investment and credit underwriting policies and comply with the CGC’s investment policy.
- Provide a security interest to CGC in the assets held in the bank account that is established, and funded, by this subgrant, including any proceeds of those assets.
- EMT will agree to comply with all applicable federal procurement requirements and the applicable terms and conditions of the EPA grant to CGC.
- EMT will agree to certain “information rights,” including delivering notices and materials shared with the EMT Board that pertain to the subgrant.

2. Investment Policy

As noted above, the subgrant agreement (and the loan agreement) with CGC require that EMT have its own written investment policies and also that it agree to certain investment policies of the CGC. EMT already has some investment policies in place, and may add more in the future, which it will share with CGC as required. However, Staff will not be able to finalize the agreements with CGC unless and until it can reach agreement on abiding by CGC’s own Investment Policy. The final terms of this are still under negotiation, but at present, the core elements of the CGC Investment Policy comprise (a) Investment Target Considerations and (b) Risk Management Principles. The components of these elements are enumerated here:

Investment Target Considerations:

- Primarily debt or debt-like investment which may be either senior or subordinate in priority;
- Primarily current cash pay;
- Primarily maturities of 3-10 years (with mini-perm structures for long lived project finance assets);
- Commercially proven technologies being deployed with proven management team;
- Equity cushion, financial sponsorship, and/or contractual relationships such that borrower can withstand reasonably expected potential market volatility without default;
- Returns on a portfolio basis will be expected to exceed portfolio losses and cost of operations and produce a positive entity-level return in most financial market environments;
- Investments must provide Financial Assistance to Qualified Projects in accordance with the NCIF Grant Award;
- At financial close for an investment, it should be expected that the Target Investment borrower will remain solvent and be able to meet its contractual commitments under the financing obligations to Coalition Members such that impairment of the investment is not expected;
- Expectation that the investments on a portfolio basis will support CGC's portfolio target of 9-14x mobilization over 10 years via combination of mobilization of capital at the investment level (total cost divided by CGC at-risk capital invested), expected CGC portfolio monetization for further deployment, and/or recycling of capital via maturities and refinancings; and
- Consistent with Coalition Member Investment Target Investment Risk Management Principles as discussed below.

Risk Management Principles:

- Evaluate investments and apply an internal risk rating consistent with market practices or inferred in rating agency publications.
- Apply maximum at-risk tolerances for Sponsor Risk Mitigated Investment, Non-Sponsor Risk Mitigated, BB- and B- Transactions.
- Apply risk tolerances are on a per transaction basis. Risk tolerances only apply pending a calculation of the transaction amount divided by the Assets Under Management (AUM) of the Efficiency Maine Green Bank. The minimum threshold for risk tolerance is 2.5% (i.e., if EMGB AUM were \$40 million, the threshold for applying this limitation is a transaction exceeding \$1 million).

- Apply maximum portfolio exposures on construction finance obligations, maturities in excess of 10 years, Paid-in-kind interest, or risk rating of less than B- equivalent.

3. Loan Agreement

By virtue of its role as a subrecipient, CGC has offered EMT the option of borrowing an additional \$10 million to expand the capital available for financing clean energy projects (Qualified Projects) in Maine. Staff is confident that EMT programs can generate demand for more project loans than can be met with the subgrant (\$15 million) described in section 1 of this memo, and because the interest rate on the money borrowed (0.5%) is very attractive, Staff's recommendation is to accept this offer and borrow the capital.

If EMT wishes to borrow these funds, it must sign a Loan Agreement with CGC that memorializes the terms of the loan. While the details of this Loan Agreement are still being negotiated, the main elements are outlined below:

Amount: \$10,000,000.

Availability: Immediate upon completion of all relevant documents.

Terms:

- Interest rate: 0.5% (50bps);
- Interest-only through December 2027;
- Equal principal payments plus interest payments on outstanding balance 2028 through December 2033.

Security Interest:

- Budget Account: CGC will have a security interest through an Account Control Agreement with the undeployed funds in a defined CITI Bank Account;
- Reserve Account: CGC will have a security interest through an Account Control Agreement with reserved funds in a defined CITI Bank Account;
- Program Income Account: CGC may have a security interest through an Account Control Agreement with program income that has revolved back from deployed loans;
- The form of the security interest that CGC will have, if any, remains the subject of negotiations. Staff expects that EMT will likely need to provide collateral to CGC in the loan and grant assets that are funded using capital from the CGC.

4. Network Partner Agreement (Membership)

As a condition precedent for receiving the above-referenced subgrant and loan, CGC is requiring EMT, and all other subgrantees, to establish and membership in the American Green Bank Consortium (AGBC).

The stated purpose of the AGBC is “to foster an ecosystem of green banks, community leaders and community partners and create, support and expand a vibrant and self-sustaining national network of green banks and other clean energy and sustainable finance supporters... to accelerate the construction of the clean power platform in every American community.” Part of the CGC’s proposal to win the grant was to continue fostering support for this ecosystem of green banks. The benefits for network partners such as EMT are described as:

- Participation in co-investment and investment referral opportunities;
- Eligibility for catalytic funding from CGC with a first allotment of up to \$10 million per institution;
- Consultation and collaboration concerning the creation and operation of finance and lending activities dedicated generally to expanding clean energy investment;
- Access to CGC’s technical support services, including but not limited to legal support guidance, accounting support guidance, administration and operations, pre-development and market development grants and trainings, guidance in blended public and private investment strategies, scaling, and post-grant sustainability and fund recycling training;
- Support from CGC in connecting with impact strategies and reporting, LIDAC community engagement and partnership development, and embedding climate and energy justice and diversity, equity and inclusion into organizational culture and investment activities;
- Access to AGBC vendor marketplace portal to provide exclusive access to goods and services designed specifically for green banks and community lenders, including but not limited to compliance-based support (e.g., vendors that qualify for the Disadvantaged Business Enterprise program or The Build America, Buy America Act);
- Participation in volume purchasing opportunities to leverage combined product and services purchasing demand of AGBC network partners;

- Collaboration with AGBC to seek grants and other sources of funding to support the green bank movement, including through the implementation of CGC's national green bank;

EMT's membership dues would be \$5,000 annually.