

Market Insight
The Nonprofit Model for Green Bank Development

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Prepared by the Coalition for Green Capital

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Executive Summary

Drawing on the Coalition for Green Capital's ten years of experience working with state and local partners on Green Bank implementation, this memo provides insights into a current market trend in Green Bank development: the increasing use of the nonprofit model for Green Bank formation. Key findings include:

- **The independent nonprofit Green Bank model is gaining momentum around the country.** Nonprofit Green Banks now outnumber public and quasi-public Green Banks in the US.
- **The nonprofit model presents distinct benefits that make it preferable for many states and markets.** These include: faster time to market, reduced burden to government, and flexibility to draw on diverse sources of national capital.
- **The nonprofit model focuses on connecting clean energy projects to diverse sources of capital.** Nonprofit Green Banks are structured for capitalization from private, public and foundation dollars.
- **While nonprofit Green Banks are not public entities, a durable partnership between the Green Bank and government is critical for success.** The final form(s) of partnership depend on a state's preferences and needs. A small but meaningful commitment of public capital and/or resources can also be beneficial in drawing in philanthropic capital to the Green Bank.

This guide is intended to serve as a starting point for policy makers and other stakeholders interested in exploring the nonprofit Green Bank model in their geographies. The Coalition for Green Capital welcomes follow-up discussions with interested stakeholders on how to adopt this model to meet their specific policy and market goals and conditions.

About CGC

The Coalition for Green Capital (CGC) is a 501(c)(3) nonprofit that aims to accelerate clean energy investment through the creation and operation of Green Banks. CGC is the leading Green Bank expert, and partners with governments, NGOs, capital providers and market stakeholders to build clean energy finance institutions and innovative products that can increase deployment of GHG-reducing clean energy technologies. CGC is working in over a dozen states across the U.S. to create and operate Green Banks, and has a growing international practice to create Green Banks in developing countries. CGC has helped create six financial institutions in the U.S. which have catalyzed almost \$3 billion of clean energy investment.

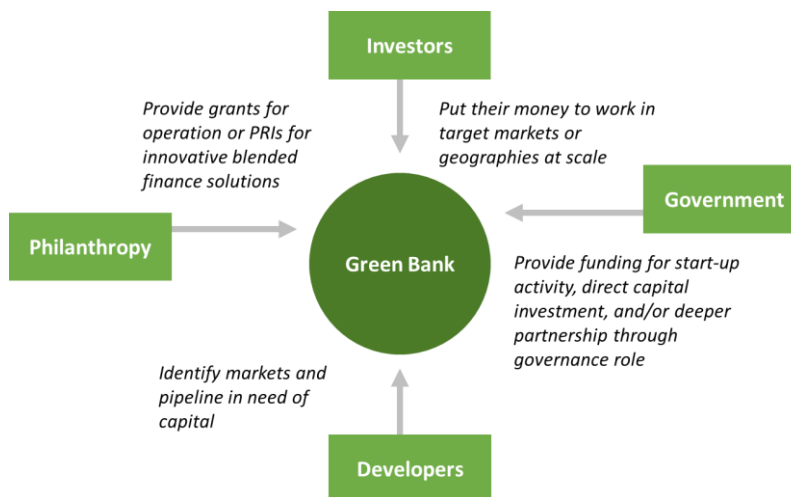
Green Banks 101

Definition

Green Banks are finance entities designed to drive greater capital into clean energy projects by addressing and alleviating financing barriers. They are market-oriented, seeking to achieve returns on their investments, in part to demonstrate to private investors that attractive returns are possible. Green Banks apply their specialized expertise in energy to undertake first-of-their-kind transactions that private sector capital providers are less likely to do on their own. They focus on scalable solutions, dedicating capital and staff time to demonstrate innovative financing structures that can be replicated across multiple projects.

The term “Green Bank” is a description of the kind of role an institution plays in the market. Green Banks are not deposit holding institutions.

Figure 1. Green Banks Partner with Diverse Actors to Overcome Financing Barriers



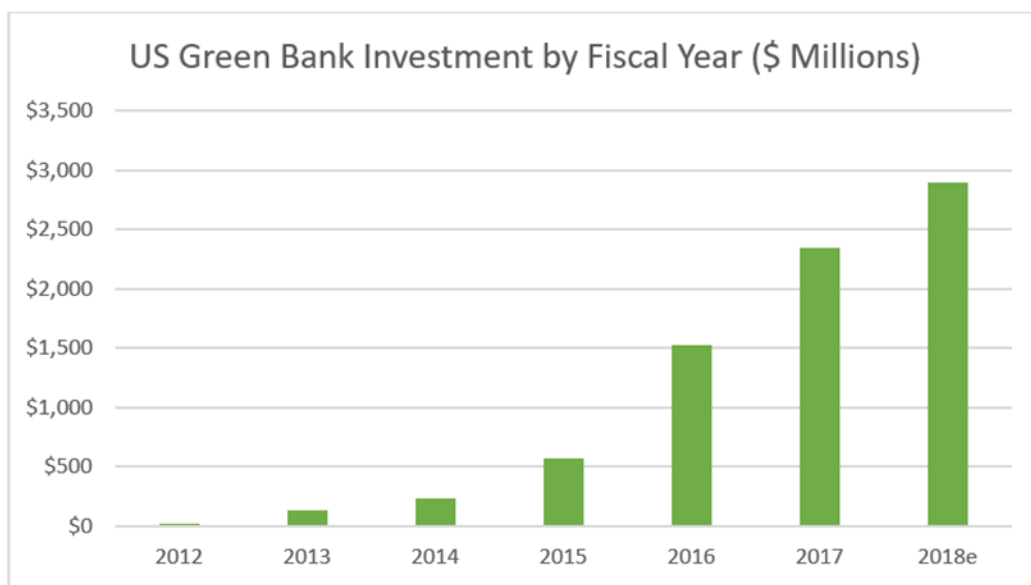
Impact

In a small but growing number of geographies, Green Banks have been formed to drive investment into undercapitalized clean energy market segments. The model has proven successful. There are now over 6

Green Banks across the country that, as seen in Figure 2, have collectively sparked almost \$3 billion of blended public-private sector clean energy investment.

Over the past six years, public to private leverage ratios have increased as Green Banks become more effective at crowding in private investment. In the past year, leverage ratios hit all-time highs. For example, the Connecticut Green Bank achieved a public to private investment leverage ratio of 8:1 for FY 2017, double the 4:1 ratio achieved in FY 2014. This new high raises Connecticut Green Bank’s overall leverage ratio to 6:1. Future leverage ratios are expected to increase as Green Banks develop streamlined methods for attracting private capital. For example, the New York Green Bank, which currently has an overall leverage ratio of 3:1, expects to increase its overall leverage portfolio to 8:1 by 2025.

Figure 2. Number of US Green Banks and Cumulative Investment



Market Role

Green Banks can play a variety of market roles. These can take the form of innovative financing techniques like credit enhancement, co-investment or warehousing, financing structures like Property Assessed Clean Energy (PACE) Finance or On-Bill Repayment, or market development like information sharing, standardization for lending processes or program coordination. An example of one of these roles can be seen in the New York Green Bank’s support of community solar through short term loans. Under the New York State Public Service Commission Standardized Interconnection Requirements and Application Process, developers seeking interconnections for their projects are required to make a deposit of 25% of the interconnection upgrade estimates followed by full payment 120 business days later. In August 2017, NYGB and Cyprus Creek Renewables closed a bridge loan for up to \$11.5 million to finance those interconnection deposit payments to NYS utilities, which will be used for as many as 72 community

distributed generation solar projects and as much as much as 168 MW of solar assets in the state.¹ Figure 3 presents a select list of common tools used by Green Banks and highlights real world examples of their successful use. In this fashion, Green Banks identify and remove key financial barriers which allow for the expansion of clean energy projects in their markets.

Figure 3. Select Green Bank Tools

Green Bank Tools	Examples
Aggregation & securitization: pooling small investments for resale to larger capital providers	Rhode Island Infrastructure Bank’s aggregation of municipal energy efficiency projects
Credit enhancement: improving customer credit to enable access to finance	Climate Access Fund’s credit enhancement for Low and Moderate Income solar
First-in-kind Investments: proving the viability of clean energy projects for private investors	Connecticut Green Bank’s investment in the Property Assessed Clean Energy market
Direct loans Direct financing for short term or difficult to finance project phases	New York Green Bank’s investment in bridge loans for solar

Existing Models

Green Banks at the state and local level have taken a variety of structures including public, quasi-public and nonprofit models. Figure 4 provides examples of currently operational Green Banks in the US across these models.

Figure 4. Example US Green Banks by Structure



¹ NY Green Bank. Transaction Profile: Bridge Loan to Support the Deployment of Community Solar Projects <https://greenbank.ny.gov/-/media/greenbanknew/files/Transaction-Profile-Cypress-Creek-Renewables.pdf>. January, 2018

The first Green Banks in the US were created as public or quasi-public entities. Armed with a large source of public capital and a clear mandate from the government, public and quasi-public Green Banks have been successful in catalyzing market development in their states. Although the investment figures in New York and Connecticut are impressive, the model does not work in all states for a variety of reasons.

First is the amount of public resources (focus, money, and political capital) needed to create a new institution or re-purpose an existing one. These can be considerable. New York Green Bank, for example, was formed with a \$1 billion dollar grant from the state. Next is the time it takes for public Green Banks to reach the market. Due to the large number of stakeholders and legal processes involved with a public Green Bank, the time between when a Green Bank is proposed and when a Green Bank begins to finalize their first deal can be significant. Finally, public and quasi-public Green Banks are necessarily exposed to political and budgetary pressures outside of the Green Bank's control. Facing a state budget deficit in 2017, the Connecticut legislature opted to raid the Green Bank's dedicated stream of funding. The result was that the Green Bank needed to significantly alter some programs and curtail others.² This potential for "boom and bust" financing cycles is particularly detrimental to developing nascent clean energy markets, which often require a steady hand over the course of several years.

The conditions for a public or quasi-public Green Bank cannot be found in every state. The nonprofit model has emerged as a way to bring the benefits of a Green Bank to these markets while avoiding many of the hurdles confronting public Green Banks.

First, incorporating a 501(c)(3) nonprofit takes considerably less time than passing legislation and involves many fewer stakeholders. The nonprofit incorporation process can shorten a process that could take months or years into a matter of weeks.

Second, staffing a nonprofit Green Bank is also considerably simplified when compared to public or quasi-public Green Banks. For example, at the New York Green Bank, many staff members are hired initially as contractors because of the difficulty of hiring new public sector employees in the state. In Connecticut, the costs of employees became so large that the Connecticut Green Bank is now planning to spin many members of its staff into a nonprofit. Removing state benefits like pensions is estimated to save the bank close to \$1 million in operating expenses.³ By following the nonprofit model, a Green Bank can benefit from these cost savings immediately.

Finally, the nonprofit model affords a Green Bank cost reductions by granting it the ability to access national pools of capital and expertise. By relying on the capital raising and portfolio management services available through existing Green Banks, foundations, and traditional capital providers, nonprofit Green Banks are able to focus on deal origination and market engagement. This model allows the nonprofit to save on operating costs by using a leaner staff to achieve a similar level of impact.

² Hartford Business. Financially wounded, pioneering CT Green Bank has a path forward. <http://www.hartfordbusiness.com/article/20180108/PRINTEDITION/301039919/financially-wounded-pioneering-ct-green-bank-has-a-path-forward>. January, 2018. Accessed July, 2018.

³ Hartford Business. Financially wounded, pioneering CT Green Bank has a path forward. <http://www.hartfordbusiness.com/article/20180108/PRINTEDITION/301039919/financially-wounded-pioneering-ct-green-bank-has-a-path-forward>. January, 2018. Accessed July, 2018.

The Nonprofit Model

In recent years, the model of creating a Green Bank as an independent entity outside of government has been building momentum. Examples from the list of established nonprofit Green Banks include the New York Energy Efficiency Corporation (NYCEEC), the Montgomery County Green Bank, and the Nevada Clean Energy Fund. Nonprofit Green Banks are currently being considered and developed in several states across the country. Although not all nonprofit Green Banks have been created in the same way, CGC has observed several key trends and insights in nonprofit Green Bank development.

Business Model

Nonprofit Green Banks have followed various business models to achieve meaningful impact in clean energy markets including generating revenue from direct lending and project origination. For many Green Banks, the decision to pursue the nonprofit model raises a set of questions, namely how a start-up nonprofit without access to public capital, technical assistance, or other resources endowed by the government can grow into an organization that catalyzes clean energy projects.

CGC and its philanthropic partners recognize this gap and, for the past year, have been developing and identifying funding to address it. CGC is creating solutions that will provide nonprofit Green Banks with access to investment capital on a national scale. The following represents the most current understanding of how a nonprofit Green Bank could align with this work.

CGC is developing national sources of dedicated capital for Green Banks through the American Green Bank Consortium, drawing funding from private finance, foundations, and public support. This will streamline and centralize fundraising efforts for the Green Bank movement, allowing Green Banks to focus on deal generation and market gap identification. Participating Green Banks would earn an origination fee of each project they sourced to national capital, tying their revenue directly to the volume of projects they can generate in the market. This model will allow Green Banks to maintain a small operating budget that focuses on deal origination and market development while maximizing the amount of capital they direct towards clean energy projects. By keeping operating costs low relative to revenue generated, this business model should allow a Green Bank to maximize its chances of achieving self-sustainability quickly.

Capitalization

Nonprofit Green Banks have historically drawn their capital from a variety of sources. One of the strengths of the nonprofit model is that it allows Green Banks to secure financing for capitalization from multiple sources including private, philanthropic, and public. Depending on the exact structure of the Green Bank, each capital stream can be included in different ways.

Private capital can be used to capitalize the Green Bank by securing a direct loan. The Green Bank can blend this capital with mission oriented capital to keep its own capital terms and costs attractive. Any private capital used to finance projects is separate and distinct from the private capital the Green Bank crowds into the market and can then be used in combination with that other private capital to maximize overall investment.

Philanthropic capital can also be used to capitalize a Green Bank through securing direct grants or program related investments (PRI). This capital is relatively cheap and can be used in combination with private and public capital to maintain attractive rates at the Green Bank. Foundations have become increasingly interested in Green Bank PRI opportunities and several nonprofit Green Banks have added foundation PRI to their portfolios.

Public capital can be allocated to the Green Bank. For example, the legislature could pass a bill, directly allocating funds from the state budget to support Green Bank operations or the executive could direct the state's energy office or another agency to allocate a portion of its budget to capitalize the Green Bank. There have been many instances of nonprofit Green Banks successfully deploying public capital. For example, the nonprofit NYCEEC was awarded \$37 million in ARRA funding by New York City in 2011.⁴ In Michigan, the nonprofit energy finance company Michigan Saves was awarded money by the state after it won a \$30 million Department of Energy grant to create an energy efficiency market.⁵ Demonstrated public commitment to the Green Bank can help the institution secure capital from private and philanthropic sources.

Formation

Most nonprofit Green Banks are created as new entities. Through this process, the Green Bank is registered in the state as a nonprofit corporation before the entity then applies for federal 501(c)(3) status. Having 501(c)(3) status as a nonprofit is typically a requirement for a non-governmental organization to be eligible for support from foundations, a key aspect of the nonprofit model.

A nonprofit Green Bank is governed by a board of directors, the formation of which is a key step in forming the entity. The nonprofit's board of directors retain governance authority over the nonprofit. The sizes of nonprofit boards have varied widely, however CGC has observed the greatest efficiency and success for smaller boards between 3-7 individuals. Public sector representation on the board may be included through ex officio seats. "Ex officio" board seats are given to an individual by virtue of that individual holding an office. For example, a potential ex officio member could be someone from the Governor's Office or the state's energy or environmental protection office.

Determining a nonprofit Green Bank's relationship with the public sector is another key part of the formation process. Partnership between a nonprofit Green Bank and the government is critical to success in the market. A link between the public sector and a nonprofit Green Bank provides tangible benefits to both the government and the Green Bank. For the Green Bank, public partnership:

- Clarifies the public purpose of the Green Bank to market participants, ensuring that other actors understand the Green Bank exists as a mission driven market catalyst
- Decreases the Green Bank's time to market by providing advice, resources and introductions that enable a startup timeline to match the urgency of the Green Bank's mission

⁴ NYC Mayor's Office of Sustainability. Green Buildings & Energy Efficiency. <http://www.nyc.gov/html/gbee/html/incentives/incentives.shtml>. Accessed July, 2018

⁵ Michigan Saves. Michigan Saves Celebrates \$50 Million in Energy Investments. <https://michigansaves.org/michigan-saves-celebrates-50-million-in-energy-investments/> Published September, 2015. Accessed July, 2018.

- Serves to clarify state priorities and ensure programmatic alignment between the state and Green Bank activity

For the state, partnership with a Green Bank:

- Demonstrates the state's commitment to energy and climate priorities to stakeholders
- Increases the efficiency of existing state initiatives which could benefit from synchronized operations
- Provides access to a market-oriented sounding board with deep expertise in clean energy finance to support the formation and operation of clean energy programs

Given the importance of government partnership to the Green Bank's success, CGC has not seen a successful formation pathway for a nonprofit Green Bank without commitment from the state.

Key Takeaways

The public and quasi-public Green Bank pathway has been successful in states where there is robust support from both the executive and legislature. In contrast, Green Bank legislation or similar public efforts have failed to advance in states where either funding, political will, or both are lacking to create a Green Bank.

The nonprofit model has been increasingly common as it presents distinct benefits that overcome the political and operational barriers facing public Green Banks. Most importantly, the model presents significant cost savings opportunities while allowing a Green Bank to access distinct capital offered at the national level. The nonprofit model also presents an agile structure which significantly shortens the creation timeline and avoids the need for a time consuming legislative process.

When creating a nonprofit Green Bank, a lean staffing model can maximize efficiency and take advantage of national pools of capital and expertise. Green Bank personnel hired with an eye toward developing project pipeline can allow the institution to focus on what will likely be its main source of revenue, origination fees.

The nonprofit model is building momentum with multiple nonprofit Green Banks operating in different markets across the country. Through its work with philanthropy, states, and the Green Bank community, CGC will continue to develop innovative structures that support the effective creation, operationalization, and optimization of new and existing nonprofit Green Banks.