

GHGERF

Response to Request for Proposals #10-001

**2010-2011 Program Continuation for
New Hampshire Business Energy Conservation Revolving Loan Fund**

May 28, 2010

1.1 Program Type and Title

2010-2011 Program Continuation for

New Hampshire Business Energy Conservation Revolving Loan Fund

1.2 Program Summary

The proposed program continuation will enable the Business Energy Conservation Revolving Loan Fund (RLF) to continue to help NH businesses to improve their competitiveness by lowering their energy use and expense. GHGERF funds will be loaned to companies to complete cost effective energy efficiency improvements. Priority will be given to businesses that are not currently eligible for the existing utility efficiency programs, then to supplement those programs. The program will have two different lending models, a low or no interest loan program for non-profit businesses and a lower interest program for for-profits with the interest rate structured to reflect the payback for the improvements. Loan repayments will be recycled and used to help additional businesses finance their energy improvements, with a goal of making the program self-sustaining.

1.3 Identification of Applicant Organization

Business Finance Authority of the State of New Hampshire
2 Pillsbury Street, Suite 201
Concord, NH 03301

The NHBFA is an instrumentality of the State of NH, created under RSA 162-A.

TIN – 52 1304598

1.4 Length of Program

The revolving loan fund will last into perpetuity provided the NHBFA is able to get sufficient GHGERF funds to fully capitalize the fund and loan losses are manageable. Funding is being sought for a two year program running from July 1, 2010, to December 31, 2012.

1.5 Total Program Costs

Total program costs during the two year program period are estimated to be \$4 million.

1.6 GHGERF Funds Requested

The NHBFA is requesting \$1,840,000 in 2010 and \$1,350,000 in 2011 to continue the capitalization of the RLF.

Proposed Work Scope and Schedule

2.1 Success in Implementing 2009 GHGERF Proposal

Establishment of the RLF involved two types of activities – one-time start up activities to create the program and on-going activities that are repeated for each individual loan.

The major start up activities necessary to get the program going included development of loan program guidelines, development of form loan documents, and establishment of loan monitoring and accounting systems. These activities were completed in the first quarter of the 2009 program.

The on-going activities include program marketing, solicitation of individual loan applications, loan underwriting and structuring, loan closing and monitoring, and, finally, loan servicing. After a slow start, we have refined the marketing and application in-take process so that we have been able to commit \$1,960,000 of the \$2,000,000 2009 GHGERF award (98%) in the past 6 months. We believe this model will easily enable the BFA to commit the GHGERF funds being requested in this application.

2.2 Modifications to Original Proposal

The only real modification we have made has been with respect to program marketing. We had originally assumed that the NH Business Resource Center's previously completed energy audits for large NH employers would provide us a ready market for the RLF. We assumed we could supplement this list with leads from the utilities. For a variety of reasons, neither of these sources has proven to be very fruitful. Accordingly, we have expanded our marketing and outreach efforts, working in close coordination with the various Local Development Organizations and the Business Resource Center's business recruiters, to identify current prospects that we can lead through the energy assessment and application processes. As noted above, this new strategy has enabled us commit almost all our existing RLF funding in the past 6 months.

2.3 Program Plan with Completion Milestones

The BFA is proposing a two year plan.

2.3.1 Program Schedule

Attached is program schedule indicating the proposed timing of both the commitment and expenditure of funds and a typical sequence for a loan.

2.3.2 Staffing

The proposed staffing for the program continuation will be the same as for the existing program.

a) Authorized Negotiator

Jack Donovan, jackd@nhbfa.com, 603-415-0191

b) Responsibilities

Program Oversight and Grant Reporting– Jack Donovan, Executive Director NHBFA (see above)

Financial Management – Bill Rushforth, CFO NHBFA 415-0190, billr@nhbfa.com

Underwriting and Monitoring – Mike Donahue, Chief Credit Officer NHBFA 415-0190, miked@nhbfa.com

c) Staffing

The NHBFA will provide staff at its own cost on an as-needed basis to implement the program. The NHBFA will be reimbursed through interest charged on the RLF loans.

2.4 Key Partners

As noted in 2.2, we will partner with the state's Local Development Organizations and NH Business Resource Center to market the program. The Business Resource Center is the outreach arm of the Department of Resources and Economic Development and has extensive daily contact with businesses. The Center also has Stimulus funding to provide energy audits for potential borrowers and potentially grant assistance through the proposed CLUE program.

2.5 Staff Time

Based upon our experience to date, each loan project will take between 45 and 60 hours of staff time to complete, broken down as follows: application review and underwriting – 10 hours, loan structuring and closing – 15-20 hours, loan monitoring – 10-20 hours, collection and performance monitoring – 10 hours.

3. Program Benefits

The program benefits for the NHBFA's Business Energy Conservation RLF were computed using the following assumptions. We used the two loans we have closed to date, Foss Manufacturing and Vitex Extrusion, as the base for our calculations because we see these as being typical projects. We then extrapolated from this to get **benefits/\$1,000,000 of GHGERF funds**. We have assumed an average loan term of 5 years, a useful life of 9 years, and that the funds will revolve three times. These are extremely conservative estimate for the RLF, but we wanted to be conservative in estimating the benefits.

3.1 Energy Savings

Foss and Vitex use a mix of fuels – natural gas, electricity and oil and adjust their usage of the various fuels based upon market pricing. Both operate out of large, 1970s era buildings and operate newer equipment. Foss is using the RLF to update lighting throughout its facility, improve electrical distribution within the plant so it can eliminate some backup diesel generators, and upgrade inefficient DC motors on its production lines. Vitex is using RLF funding to replace an inefficient (28%) gas furnace that is used to heat the aluminum billets and to complete related equipment upgrades that will increase production rates, reduce scrap material and provide substantial savings.

Based upon these existing projects, we project that each \$1,000,000 of GHGERF funding committed to the RLF will result in annual energy savings of 16,162 MMBtus, and energy savings of 436,374 MMBtus over the life of the program.

3.2 Be Cost-effective

The average simple payback (cost/annual saving) for the RLF projects funded to date is 2.56 years. Payback for individual project components has been as short as 9 months. Since this will be a revolving loan fund, we project the overall benefit/cost for the program will be at least three times as great as a grant or other one-time program.

3.3 Promote Program Goals

The RLF will promote economic development in the state and reduce energy costs for businesses, making them more competitive.

3.3.1 and 3.3.2 Market Transformation and Innovative Technologies

The RLF will not result in market transformation but will provide opportunities to introduce new energy efficient technologies and strategies. For example, we are considering partnering with a NH company to introduce a program to help businesses manage their compressed air systems, which are a major electricity user and cause of peak demand for most manufacturers.

3.3.3 Economic Development

Energy is typically the third highest operating cost for manufacturers, after labor and raw materials. The RLF, by helping reduce manufacturers' energy use and cost, will improve the competitiveness of NH businesses and result in job retention and creation. For example, the projected energy savings from the conversion from oil to landfill gas at the Gorham paper mill will help to preserve 250 high wage, full benefit manufacturing jobs and increase the chances that laid off employees will be called back to work. The RLF has preserved /created 663 jobs to date. Extrapolating this employment information, each \$1,000,000 of RLF capitalization will help to preserve 994 jobs over the life of the fund at a cost of just over \$1,000/job ($\$2,000,000 / (663 * 3)$).

3.3.4 Reduce Energy Costs

The whole purpose of the RLF is to save energy and the associated cost. Using Foss and Vitex as examples, a \$1,250,000 investment in energy efficiency projects will result in

annual savings of \$488,620, or \$390,896/\$1,000,000 of RLF capitalization. Over the projected 15 year life of the RLF and assuming the funds revolve three times, total energy savings are projected to be over \$10,000,000/\$1,000,000 of GHGERF funding!

3.4 Effectively Measure and Verify Program Performance

Please see the response to #4 below.

3.5 Promote Collaboration

The RLF is a collaborative effort with the Department of Resources and Economic Development's Business Resource Center. The BDC provides outreach and energy audits to businesses, while the NHBFA does the lending. By having each entity build upon its existing capacities and avoid duplication, the program efficiently uses public resources and provides a replicable model for other funding sources.

4. Measurement and Verification

Program performance measurement and verification will be the same as for the existing RLF. Each Loan Agreement will require the borrower to submit energy usage and employment information for the life of the loan. Working with Carbon Solution NE, we will determine the BTUs used per unit of output for each borrower both before and after the improvements. This information will be compared with energy savings projections in the initial energy audit to verify the effectiveness of the program.

5. Budget

5.1 Proposed Budget

The NHBFA is requesting two additional years of GHGERF funding to capitalize the revolving loan fund - \$1,840,000 in 2010 and \$1,350,000 in 2011. A budget worksheet reflecting these two amounts is attached. An additional million dollars is the minimum amount we believe is necessary to make the RLF viable. The requested amounts are what

are necessary to eventually create a fully self-sustaining fund, providing average available annual loan capital of \$2 million, and represent an ideal appropriation.

5.2 Details on Key Personnel

Not applicable. All GHGERF funds will be used to capitalize the revolving loan fund and provide direct assistance to business. **No GHGERF funds will be used for administration.** The NHBFA will fund all operating costs with its own funds and at its own risk, just as it has done with its first year appropriation. The NHBFA is an instrumentality of the State of New Hampshire with a \$2.6 million annual operating budget and a net worth of \$8.5 million. The NHBFA will be reimbursed through interest charged on the RLF loans.

5.3 Indirect Cost

Not applicable.

5.4 Other Funding

Every possible effort will be made to leverage GHGERF funds. Bankable projects will be referred to the NH Business Resource Center/Ocean National Bank's Energy Efficiency Loan Program. Matching funds will be sought through the Federal Stimulus Programs being operated by NHCDDFA, USDA's Renewable Energy and Energy Efficiency Program (our RLF will be a perfect source for their required 50% match), the utilities' energy efficiency programs, and other GHGERF programs. We anticipate each dollar of GHGERF funding will leverage another dollar for improvements.

6. Applicant Qualifications

6.1 Prior Experience

The NHBFA is a public instrumentality of the State of New Hampshire and serves as the State's business and economic development lender. The NHBFA and its predecessor agencies, the New Hampshire Industrial Park Authority and New Hampshire Industrial Development Authority, have provided financing to New Hampshire businesses since

1972. The NHBFA has successfully implemented a 2009 GHGERF grant, committing 98% of the \$2,000,000 in program funding.

6.1.1 Key Personnel

The NHBFA's key personnel are Jack Donovan, Executive Director, Michael Donahue, Senior Credit Officer, and William Rushforth, Chief Financial Officer. This core management team has worked together for over 13 years. Capsule resumes are attached for these individuals.

6.2 Subcontractors

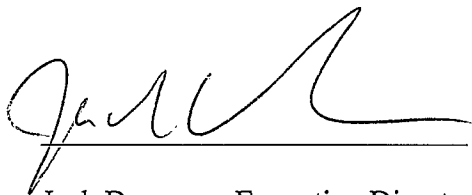
David M. Howe
Attorney at Law
4 Wildemere Terrace
Concord, NH 03301

6.2.1 Subcontractors

The only subcontractor the NHBFA will use is David Howe. Mr. Howe has served as the NHBFA legal counsel for over 10 years and also provides legal services for the State's Brownfields and Water and Sewer RLFs. Howe will be paid solely from NHBFA funds.

6.3 Disclosures

None of the NHBFA's officers, directors or employees has been criminally convicted by a court within the past 5 years.

A handwritten signature in black ink, appearing to read 'Jack Donovan', is written over a horizontal line.

Jack Donovan, Executive Director

Attachments:

Program Schedule

Proposed Budget Worksheet

Capsule Resumes

Attachment 2.3.1

Program Schedule

LOAN COMMITMENT SCHEDULE	Commit	Spend
December 31, 2010	\$750,000	\$250,000
June 30, 2011	\$2,000,000	\$1,000,000
December 31, 2011	\$3,000,000	\$2,000,000
June 30, 2012	\$4,000,000	\$3,000,000
December 31, 2012	\$4,000,000	\$4,000,000
TYPICAL LOAN REVIEW	TIME (WEEK)	RESPONSIBILITY
Energy audit	varies	BRC/Applicant
Application	1	Applicant
Application review	1-3	NHBFA
Loan structuring	1-3	NHBFA
Loan closing	4-6	NHBFA/Howe
Loan implementation	various	NHBFA/borrower
Collection	Life of loan	NHBFA
Performance monitoring	Life of loan	NHBFA

Requested

NH PUC Greenhouse Gas Emissions Reduction Fund 04-30-10 RFP Proposed Budget Worksheet												
Program Title: NH Business Energy Conservation RLF												
Applicant Name: NH Business Finance Authority												
	Year 1				Year 2				Year 3			
	Q1	Q2	Q3	Q4	Total Year	Q1	Q2	Q3	Q4	Total Year	Total Year	
USE OF FUNDS												
EXPENSES	\$0				\$0	\$0				\$0		
Salaries & Wages	\$0				\$0	\$0	\$3			\$3		
Benefits/Fringe	\$0				\$0	\$0				\$0		
Contracted Labor & Services	\$0				\$0	\$0				\$0		
Rent & Utilities	\$0				\$0	\$0				\$0		
Advertising & Marketing	\$0				\$0	\$0				\$0		
Travel & Mileage Reimbursement	\$0				\$0	\$0				\$0		
Tools, Supplies, Subscriptions	\$0				\$0	\$0				\$0		
Other Current Expenses (such as office expense, insurance, maintenance, repairs, taxes, legal, etc.)	\$0				\$0	\$0				\$0		
Cost of Goods Installed	\$0				\$0	\$0				\$0		
General Overhead & Profit*	\$0	\$0			\$0	\$0	\$3			\$3		
TOTAL EXPENSES	\$0	\$0	\$0	\$0	\$0	\$0	\$3			\$3		\$0
Capital Invested in Building Improvements	\$0				\$0	\$0				\$0		
Funds used for Loan Fund capital	\$250,000	\$500,000	\$500,000	\$750,000	\$2,000,000	\$500,000	\$500,000	\$500,000	\$500,000	\$2,000,000		\$2,000,000
Loan Fund credit enhancement (such as interest rate buy-down)	\$0				\$0	\$0				\$0		
TOTAL USE OF FUNDS	\$250,000	\$500,000	\$500,000	\$750,000	\$2,000,000	\$500,000	\$500,000	\$500,000	\$500,000	\$2,000,000		\$2,000,000
SOURCES OF FUNDS												
Applicant Cash Contribution	\$0				\$0					\$0		
Applicant In-kind Contribution	\$0				\$0					\$0		
Program Participant Contribution	\$0				\$0					\$0		
Loans & Other Financing -Repayments	\$0	\$0	\$60,000	\$120,000	\$180,000	\$120,000	\$150,000	\$180,000	\$200,000	\$650,000		\$900,000
Forward Capacity Market Payments	\$0				\$0					\$0		
Other Grants	\$0				\$0					\$0		
GHGER Fund (this proposal)	\$250,000	\$500,000	\$440,000	\$630,000	\$1,820,000	\$380,000	\$350,000	\$320,000	\$300,000	\$1,350,000		\$1,100,000
TOTAL SOURCES OF FUNDS	\$250,000	\$500,000	\$500,000	\$750,000	\$2,000,000	\$500,000	\$500,000	\$500,000	\$500,000	\$2,000,000		\$2,000,000
GHGER Funds as a % of TOTAL					91%					68%		55%

Note: for General Overhead & Profit, please indicate to what extent any amounts are proposed to be contingent on program performance.

Attachment 6.1.1

Capsule Resumes

Jack Donovan has over 25 years experience in real estate development and finance. He was project manager for the \$225 million redevelopment of the former Columbia Point Public Housing Project, the first Low Income Housing Tax Credit project in the country, and was responsible for the start-up and capitalization of the NH Community Development Finance Authority, a statewide community development finance corporation. In his current position, Mr. Donovan has helped over 100 NH businesses to access over \$600 million in capital. Mr. Donovan received his undergraduate degree from the University of Wisconsin at Green Bay and has a master in Community Economic Development from Southern NH University.

Michael Donahue, the NHBFA's Senior Credit Officer, is responsible for loan underwriting, closing, and monitoring. Mr. Donahue currently serves in a similar role for the NHBFA and its \$60 million loan portfolio, overseeing credit operations and setting policies for loan management and compliance. Mr. Donahue has over 25 years of progressively responsible banking experience. Mr. Donahue is a graduate of Niagara University.

William Rushforth has over 30 years of manufacturing and corporate finance experience. As the NHBFA's Chief Financial Officer, Mr. Rushforth is responsible for managing a \$2.6 million annual operating budget, coordinating the organization's financial reporting, and overseeing day-to-day asset management and compliance reporting. The NHBFA has not had a single audit finding since Mr. Rushforth's joined the organization 12 years ago. Mr. Rushforth previously served as Treasurer of Damart USA. Mr. Rushforth received his undergraduate degree from the University of New Hampshire.