Department of Energy
Washington, DC 20585

ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT PROGRAM
NOTICE 09-002
EFFECTIVE DATE: December 7, 2009

SUBJECT: REVOLVING LOAN FUNDS UNDER THE ENERGY EFFICIENCY AND CONSERVATION BLOCK GRANT PROGRAM – FORMULA AND COMPETITIVE

PURPOSE: Provides guidance to recipients for revolving loan funds under the Energy Efficiency and Conservation Block Grant (EECBG) formula and competitive ("Retrofit Ramp-up" and "General Innovation Fund") programs.

SCOPE: The provisions of this guidance apply to recipients of EECBG program funds named in the Notification of Grant Award from DOE under the EECBG program.

LEGAL AUTHORITY: Title V, Subtitle E of the Energy Independence and Security Act, as amended, authorizes the Department of Energy (DOE) to administer the EECBG program. All grant awards made under this program shall comply with applicable law including the American Recovery and Reinvestment Act of 2009 and other procedures applicable to this program.

BACKGROUND: A revolving loan fund (RLF) is self-replenishing pool of monies created when the interest and/or principal payments from previous loans (or proceeds from their sale) provide funding for additional lending. Revolving loan funds are an eligible activity under the EECBG program under 42 U.S.C. 17154 (4) authorizing the use of funds for the "establishment of financial incentive programs for energy efficiency improvements."

GUIDANCE: The following guidance applies to all recipients of EECBG program funds except where noted.

The contents of this guidance are:

1. Limitation on the Use of Funds
2. Leveraged Funds
3. Obligation and Expenditure of Funds
4. Fund Structure

Limitation on the Use of Funds

EECBG funds recipients must comply with statutory law regarding revolving loan funds. 42 U.S.C. 17155 (b)(3)(B) mandates a limitation on the use of funds for the establishment (i.e., the capitalization) of revolving loan funds by formula-eligible units of local governments and formula-eligible tribes equal to the greater of 20 percent of the recipient's allocation or $250,000. This restriction on EECBG funding applies only to the EECBG funds used to capitalize an RLF. EECBG dollars used for administrative costs to set up a RLF are not subject to this restriction, but are subject to the general limitations established by statute on administrative costs.

The restriction on use of EECBG funds to establish an RLF does not apply to EECBG program funds used for:

- Administrative costs associated with an RLF, including but not limited to loan loss reserve funds, loan insurance, or interest-rate buy-downs
- Financing programs that are not RLFs, e.g., Property-Assessed Clean Energy (PACE) financing programs that use municipal bonds or other sources of funds as the direct loan capital, loan guarantees, energy savings performance contracting (ESPC) programs that use private capital as the direct loan capital, or other financing programs permissible under 42 U.S.C. 17154 (4) that do not use EECBG funds as direct loan capital
- RLFs established by states, U.S. territories, formula-ineligible units of local government or formula-ineligible tribes

The limitations on the use of EECBG funds by formula-eligible units of local governments and formula-eligible tribes for the purpose of establishing an RLF apply to EECBG funds made available through both the formula allocation and the competitive process. In the case of a competitive award under the EECBG program, this limitation applies to any amount received by a formula-eligible unit of local government or a formula-eligible tribe for implementation of a revolving loan fund under any partnership structure, even if that entity is not the lead applicant. A list of formula-eligible units of local government can be found at http://www.eecbg.energy.gov/grantalloc.html, and a list of formula-eligible tribes can be found at http://www.eecbg.energy.gov/tribealloc.html.

States, formula-ineligible units of local government and formula-ineligible tribes may establish a revolving loan fund and are not subject to the above limitation. Multiple recipients may contribute their revolving loan fund monies into an aggregate pool, and each contributing entity to which the limitation applies must comply with it – i.e., each entity subject to the limitation may not contribute more than the greater of 20 percent of its own allocation or $250,000 towards capitalization of the aggregate pool.

Leveraged Funds

Leveraged funds are any funds the recipient secures from a source other than DOE EECBG program funds that are contributed to the activities supported by DOE EECBG program funds. The statutory limitation on use of funds referenced above does not apply to leveraged funds, and there is no limitation on the amount of leveraged funds that can be contributed to the establishment of a revolving loan fund.

Obligation and Expenditure of Funds

EECBG program monies being used for a revolving loan fund are considered obligated by the recipient once they have been used to capitalize an established revolving loan fund. EECBG recipients may draw down funds to capitalize a loan fund only when a loan application from potential borrowers has been received for such funds, unless state or local requirements (regulatory, statutory, or constitutional) dictate otherwise. If an EECBG recipient requires an earlier draw down under such requirements, they should document the relevant requirement and share that documentation with their Project Officer before making an early draw down. EECBG program monies being used for a revolving loan fund are considered expended by the recipient when the revolving loan fund has loaned to specific borrowers at least an equal amount to the program monies that initially capitalized the fund. EECBG program funds must be obligated by the recipient within 18 months of the effective date of the award and expended within 36 months of the effective date of the award, and in all cases no later than September 30, 2015.

Fund Structure

All loan repayments and income (such as fees and interest) from an RLF that uses EECBG funds to capitalize the fund must be reinvested into the RLF. The RLF must exclusively fund eligible activities under 42 U.S.C. 17154. It is DOE's expectation that the revolving loan fund will yield energy efficiency improvements in perpetuity for the life of the revolving loan fund.

CONCLUSION: In general, DOE encourages EECBG funds recipients to consider establishing revolving loan funds due to their ability to allow recipients to sustain program funds and community energy benefits beyond the period of performance. This guidance addresses certain questions asked of DOE by EECBG funds recipients and other interested parties regarding the administration and treatment of revolving loan funds under the program. Specifically, this guidance addresses limitations on use of funds, the use of leveraged funds, the definitions of "obligate" and "expend", and how repaid loans and program income must be directed.

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