Notes from CEI's 2nd Annual Impact Investing Roundtable

CLIMATE CHANGE, SOCIAL EQUITY, AND ECONOMIC OPPORTUNITY

CEI

Capital *for* Opportunity *and* Change

CEI 2ND ANNUAL IMPACT INVESTING ROUNDTABLE

On March 11, 2014, CEI convened its second Annual Impact Investing Roundtable with a special focus on climate change. At the Roundtable, approximately 70 community development practitioners, investors, and advocates joined CEI staff for a 90 minute exchange of information, ideas and perspectives to promote a greater understanding of and collaborative approach to impact investing for climate change mitigation and adaptation.

The Roundtable followed CEI's 36th Annual Meeting on Climate Change, Social Equity, and Economic Opportunity, featuring keynote speaker Steve Curwood, host of NPR's *Living on Earth*. Both events took place at Bowdoin College in Brunswick, Maine.

CEI invited three Roundtable panelists to speak about work that is taking place in Maine and beyond, and the challenges they see and face in the capitalization of products and services that can address climate change. John Piotti, CEO of Maine Farmland Trust (MFT) spoke about sustainable agriculture, food systems, and farmland conservation; Mark Berry, Executive Director of Downeast Lakes Land Trust (DLLT) spoke about forest conservation and carbon credits, and CEI's Director of Housing Development spoke about renewable energy and tax credits. CEI Board Member Christa Velasquez, Senior Advisor at The Giving Practice, and Lecturer at the University of Chicago, served as facilitator. Attendees were encouraged to participate in the conversation and ask and respond to questions.

The agenda attempted to cover:

- products and returns and the role of no cost and patient capital[1];
- the value of technical assistance and policy development in achieving impact; and
- how national, regional and local organizations, particularly Community Development Corporation (CDC)[2] /Community Development Finance Institution (CDFI)[3] practitioners, connect investors to impact on the ground.

[1] Patient capital refers to loans or equity investments made on a long-term basis and at flexible terms.
[2] A Community Development Corporation (CDC) is a geographically-based not-for-profit organization that promotes and supports community development in underserved communities through a variety of activities including economic development, education, community organizing real estate development and the development of affordable housing. http://www.ceimaine.org/glossary/

In introducing the three panelists, Christa Velasquez informed the audience that there is no standard, legal definition of impact investing. She highlighted the three categories of capital:

1. Grant capital (subsidy, no expected financial return, expected impact)
2. Concessionary investment (some money expected back, but not profit maximizing)
3. Market-rate investment

She underscored the fact that in the world of financing, grant and concessionary buckets are much smaller than market-rate investment, and they should be used strategically to leverage the much larger bucket of market-rate investment. Christa also commented that in regards to investment focused on climate change and the environment, there's a high "talk to action" ratio.

Maine Farmland Trust is a statewide membership organization that works to protect farmland, support farmers, and advance the future of farming through a broad range of services and programs. MFT is at present utilizing about $5 million in private capital to fund projects, mostly land protection projects.

www.mainefarmlandtrust.org

1. Examples: Programs and Projects in Maine

Christa's first question to the three panelists was, "How are you dealing with and/or seeing climate change in your work?"

John Piotti: "The agricultural sector has been affected in a number of ways including severe weather, and an increase potato bugs and other pests, and possible negative impact on pollinators. Anyone who thinks that climate change will help Maine farming is uniformed. The growing season may extend slightly, but the current season is not a big barrier—while much of what we raise (potatoes, livestock) is well suited to the current climate. And the negative impacts of severe weather, pests, and more will only grow. Beyond this, Maine is well-poised to be an important farming state only if we return more land to cultivation. We could be farming three to four million acres versus the current 700,000; but it will be critical to reclaim former farmland in an environmentally friendly manner to not make climate change ever worse. Meanwhile, climate change could adversely affect the growth of farming in Maine."

[3]Community Development Financial Institution (CDFI) is a financial institution that provides credit and financial and business development services to underserved markets and populations. http://www.ceimaine.org/glossary/

Downeast Lakes Land Trust (DLLT) in Grand Lake Stream, Maine, works to contribute to the economic and environmental well-being of the Downeast Lakes region through conservation and exemplary management of its forests and waters. They have conserved 370,000 acres and own 34,000 acres of community forest, and are in the process of raising funds to purchase another 22,000 acres with investment partnership from CEI, CEI Capital Management LLC, and Bangor Savings Bank.

www.downeastlakes.org

Mark Berry: "Climate change poses some of the same threats to forests and communities across the state. We could see the loss of iconic wildlife, including moose, salmon, and trout; the impossibility of low-impact winter timber harvesting; and loss of traditional recreation because Spring water levels aren't as high as they have been traditionally. We could see snowmobiling and ice-fishing threatened by shorter winters, and the spread of insects.

There are opportunities to address climate change through forest conservation, and participation in the California carbon offset cap and trade market[4],[5] is an example of a financial incentive to do so. DLLT's first carbon offset project has generated capital that can be used towards the purchase of the adjacent property. This is a 100-year commitment, and is compatible with current forest stewardship goals. It's been a difficult process, but they are a motivated landowner. Their example may encourage others.

John Egan: "CEI is supporting the small businesses that are trying to grow the renewable energy sector in Maine. This market opportunity gets a leg-up from the renewable energy tax credit. CEI links projects that demonstrate the economic viability of renewable energy products with this tax credit. For investors that may not want to take the R&D venture capital risk of investment in renewable energy startups, this tax credit can help facilitate financing. CEI brings the available projects and companies to the marketplace, and finances them appropriately.

2. Capital Needs

David Wedick, Business Development Manager at MicroVest Capital Management, LLC, asked, "What capital is CEI looking for, and what do we need? Our collective goal should be to remove as many barriers as possible for capital flow into renewable energy, without losing sight of what we're trying to achieve. What's the size of the investment universe and what type of capital are investors looking for?"

John Egan: "CEI has been trying to answer that question. We are finding that many projects are too small for national investors, and too big for local investors. We could amass a $10 million pool of installations with just the companies that

[4]California's Assembly Bill 32 (AB 32), the Global Warming Solutions Act of 2006 set 2020 greenhouse gas emissions reduction goal into law in that state. More information: http://www.arb.ca.gov/cc/ab32/ab32.htm.

[5]Cap-and-trade is a market based regulation that is designed to reduce greenhouse gases (GHGs) from multiple sources. Cap-and-trade sets a firm limit or "cap" on GHGs and minimize the compliance costs of achieving AB 32 goals. The cap will decline approximately 3 percent each year beginning in 2013. Trading creates incentives to reduce GHGs below allowable levels through investments in clean technologies. With a carbon market, a price on carbon is established for GHGs. Market forces spur technological innovation and investments in clean energy. http://www.arb.ca.gov/cc/capandtrade/capandtrade.htm

are doing business with CEI, but it hasn't happened yet. Our philosophy has been to start small, and create a working model on a $500,000 to $750,000 investment, and gain confidence. CEI's vendor companies are already doing this; they are putting in renewable installations on institutional settings.

CEI is trying to start small but maybe we're too small. We are finding that investors aren't interested in a $500,000 deal, they want a $5 million deal.

What will the investor get? Solar energy in Maine is still in the 'concessionary' bucket where there's a return, and a social impact, but it's a below market rate. There may be opportunity for market rate investors at scale. Maine is 12 to 15 years behind the West Coast, which has third-party investor-owned renewable energy at scale. There isn't an opportunity for market rate return on three buildings in Boothbay Harbor."

3. Role of Conservation Versus Infrastructure Development

Jeffrey Gramlich, L.L. Bean/Lee Surace Professor of Accounting at the University of Southern Maine asked, "is solar energy more expensive than conservation? What don't we see more emphasis on conservation, such as insulation, or double-paned windows versus solar panels which are more expensive?"

John Egan: "You should always insulate first before you add solar. But people like solar because it's very quantifiable. You can measure it up front, and show it on the bottom line of a spreadsheet. Investors like this."

Larry Oaks, Vice President for Housing at LISC (Local Initiatives Support Coalition): "We are working on a project to do energy retrofitting in the Northeast. Our loans for this are repaid through energy savings. It's requiring a lot of loan loss reserves for risk mitigation for LISC and their investors. LISC is working with a large for-profit owner of multifamily residences, and different investors.

Dale McCormick, former executive director of MaineHousing, said, "MaineHousing created a methodology for measuring the CO2 saved when we weatherize a residential dwelling. This Methodology was accepted by the Verified Carbon Standard (VCS), and is now available to be used. The Methodology lays out formulas, guidelines and standards that a project must follow in order to measure, monitor and sell on the voluntary carbon market the tons of carbon saved from retrofitting houses. We also created an Energy Data Repository (EDR), which can be used to organize, store, and transfer the retrofit data that are needed for the calculation of tons of CO2 not emitted."

Steve Rohde, Vice President of the Northern Forest Center: "It's important to use

CEI is an experienced and committed lender to businesses in the natural resource sectors, including renewable energy, environmental, and clean technology sectors.

The organization, a Community Development Finance Institution (CDFI) has financed solar, biomass, anaerobic digestion, hydropower, marine turbine, retail electricity, compost and energy services companies--both start-ups and established businesses.

CEI's triple bottom line lending practices target energy and environmental businesses that:

- Demonstrate market promise
- Offer skilled employment
- Provide environmental benefit/ mitigate climate change
- Diversify energy choices
- Make people/ communities/regions economically resilient

www.ceimaine.org

The Energy Data Repository will provide one source for statistical information and reporting on weatherization activities, outcomes, and carbon savings.

Objectives:

- Store statistical data from all participants regarding weatherization activities performed, costs, resulting savings and all data required to meet policy and legislative goals and to calculate and report carbon savings.
- Provide reporting data for monitoring program progress at the state and national level.
- Provide a validated source of combined carbon, alleviating the need for participants to go through the steps of carbon validation and sale separately.
- Shorten the timeframe required to generate required reports

different sources of capital, including concessionary capital. New Markets Tax Credits (NMTC), for example, could be used to provide subsidized financing for projects that address climate change. In this connection, it is important that mission underwriting criteria be flexible to ensure that this potential is realized. For example, the Northern Forest Center is working with the rural town of Colebrook, NH on a proposed Biomass District Heating System that can become a pioneering model for such systems in rural areas. Biomass District Heating directly addresses the climate change challenge, and this project could set the stage for the spread of such District Heating systems. While the Colebrook project would have a real positive economic impact on the community, its direct job creation is modest. But from a mission standpoint, I think that the important positive impact on addressing climate change by creating an important model should be a powerful factor in underwriting such a potential NMTC financing."

4. Fixed Income Instruments

Steve Curwood, host of NPR's Living on Earth, asked, "What are you doing to use fixed income instruments for the development of eco-friendly projects? There might be appeals to these instruments for endowments, pension funds, and some investors, and I don't see a lot of it happening."

John Piotti: "Maine Farmland Trust does this to cover working capital, purchase and protect farms. This is happening on a small scale, and is adjusted to the scale and terms the investor is looking for. We are using program-related investment (PRI) investors, as well as some market-rate private investors. Being small, we negotiate everything. The business model can work without grant subsidy for some areas of work."

Art Casavant, Vice President of People's United, commented, "This type of fixed income transaction needs to be simplified for the large market of investors. You need to simplify the offering, and sell one thing: a tax credit, or a revenue stream, for example. NMTC is a great but limited tool, but one major problem is that the deals must be large because the high cost of structuring the transaction can be greater than the value of the credit. Liquidity is overrated in this sector because investors are concerned about what they're getting. We can learn from what happened with the Low-Income Housing Tax Credit program. It started with 18% and now buy for 0% because the tax credit works. People's United Bank has not invested in solar. There are too many possible yield streams and too much risk."

David Wedick, Microvest: "The largest fund MicroVest has is $70 million and only

now are we starting to talk to institutional investors. There are fewer barriers for high wealth investors and family foundations. The biggest growth in impact investing in the USA in the past 20 years has been through private investors. Investment opportunities need to be presented to these high net wealth individuals in an appropriate way, because they typically have fewer defined restrictions to investment than institutional investors."

Mark Berry: "Most of Maine's forest is currently investment-owned. Current investor incentives are not always the incentives you'd want if your goal is to mitigate climate change. If your goal is to have a lot of carbon in the woods, the forest is very poorly stocked. From a conservation perspective, if you want a greater percentage of permanent conservation, there is an enormous challenge ahead despite recent progress. So how do we conserve more forest as forest? And how do we shift incentives so that more wood stays on the ground, and yet we can still support the timber economy? We have a huge need for philanthropy. We need investment coupled with subsidies like NMTC. The Nature Conservancy and The Conservation Fund are working on products like these, but they're not up to scale yet.

5. **Product Simplification**

Christa Velasquez turned back to the panelists with a related question, "So much of what we do is high-touch, personalized "one-off" investments. Is there a time or way to simplify products to get to something more streamlined and available to a broader audience?"

John Piotti responded that MFT investments are personalized but not complicated, and actually can be as simple as two-page investment documents.

John Egan said, "I'm glad LIHTC was mentioned. It was extremely difficult in the late 80s to get investors who were unfamiliar with the program. I think the renewable energy tax credit is not dissimilar. There are three benefit streams, not just one [explain], but it is nowhere near as complex as NMTC."

Phil Coupe, Co-Founder, ReVision Energy: "Who said it's going to be easy transitioning from fossil fuels to renewable energy? We need to make some difficult lifestyle changes. We live in a culture of convenience. You blow your leaves around, drive big cars, and think car pooling is a pain. We have $30 million in solar projects waiting on financing, but with only a 30 percent tax credit like we have in Maine you need patient, low-cost capital to make this happen. Our project at Thomas College, though it's a heavy lift, involves the whole community in the transition."

The Energy Data Repository (cont'd)

- Provide a standard interface between various participants systems and the Energy Data Repository.
- Provide ability to track all data back to the contributing participant.
- Ensure that business rules pertaining to the data are enforced.
- Make the ECOS Energy Audit tool available to all participants.
- Provide a model for national collaboration and shared management of data resources.

(see Dale McCormick's comments, page 3)

The largest solar array in Maine today is installed atop Alfond Arena at Thomas College in Waterville. According to Chris Rhoda, Vice President of Information Services and CIO, Adjunct Associate Professor at Thomas, the project has been a tremendous success for the college by reducing energy costs, reducing greenhouse gas emissions and providing a powerful new sustainability marketing platform to attract students and parents. "Despite Maine's pristine environmental reputation, the reality is that we have the highest per capita greenhouse gas emissions in New England," noted Phil Coupe, co-founder of ReVision Energy, the local solar company that designed, financed and installed the solar array at zero upfront cost to Thomas College. "We have a backlog of $28 million in similar non-profit based solar energy

Ellen Golden, Managing Director, CEI Investment Notes: "CEI Investment Notes are very a simple, straightforward fixed-income product. It has only a certain set of uses, and can't solve all the issues outlined by the panel. The difficulty lies in attracting investors, in part due to security regulations, and communicating the benefits of the investment vehicle to the investor."

Charlie Spies, CEO, CEI Capital Management LLC: "There is not a one-size fits all solution. There are different investors, and different types of projects. There are examples in this room of NMTC investors—both large-scale and community banks. NMTC could be improved and simplified. It's still not a permanent project. Once it's made permanent, you can do more with standardized documentation."

Art Casavant, People's United Bank: "I'd like to make a clarification. Complex deals are OK. But if you want to raise a lot of money, you need to reduce it to a common set of documentation with a single revenue stream, or maybe two. It has to potentially be liquefiable. And something someone can fit in a box. All of this is IF you want big money. For example, just by needed accredited investors, you've cut out a lot of potential investors. If you want to get money out of investors you need to think like an investor."

6. Capitalization

Christa Velasques: "Each investor is different. Some investors, foundations for example, love to get their hands into a deal, don't mind if it takes a year, and will pay transaction costs. High net worth individuals don't want that. They just want to invest their $500,000 without high transaction costs or complication. Do you try to minimize transaction cost, or put together a blended pool of capital and have someone else subsidize the transaction cost?"

John Moore, Senior Vice President, Bangor Savings Bank, and CEI Board Member: "Let's celebrate what we're already doing! Maine is a laboratory of success stories, such as the Penobscot Watershed Project.[7] If we get the word out, and celebrate success, the capital will come. We have the stories to attract the capital. We have the flexibility in institutions and the sense of community to make it happen. How do you, those of you on the panel, tell your story?"

Mark Berry: "DLLT's story is one of a community that "went for it". The answer they initially received from outside was that it wouldn't work: they didn't have the connections, capital, etc. But it worked because it was big. It was a partnership to conserve

[7] http://www.penobscotriver.org/

370,000 acres, and was big enough to attract outside interest and help. Conversely, most communities don't take that leap. We need to celebrate stories of success, help communities that are taking a big leap, and make more money available to help communities succeed. For us, tying the story to climate change hasn't been central. It's been more about a community and its way of life and its economy."

Catherine Lee, Founder and Manager of Lee International asked, "As more farmers start to feel the adverse affects of climate change, do you think it will become more important for your stories to highlight steps that farmers have taken and can take to address these impacts?"

John Piotti: "Maine Farmland Trust tells stories through films, a gallery, and books. There are some fundamental issues in the agriculture sector. Here are some basics as they relate to capital needs. If we look at the last 20 years of farming in Maine, we have smaller-scale commodity farmers selling to processors, and farms selling direct to consumers. Neither of these alone are the future. We need "agriculture" in the middle as we move forward. This means keeping what's important about small farms, but scaling up so that farms are important players in the local food system. This is hard work, because the margins are so small. Neither model: commodity or local agriculture is sustainable. Both are based on a fossil fuel economy.

"Agriculture" in the middle isn't then just about business techniques, but is also about making farming more environmentally sustainable. There's no money in this arena. Finally, in Maine we face a demographic crisis where up to one third of our farmland will change ownership in this decade, and this land is being eyed for development opportunities. This represents $400 or $500 million dollars in land. We need completely new systems and structures to apply forms of investment capital to create a sustainable agriculture industry.

These problems aren't insurmountable. Great strides have been taken. But we have a long ways to go, and we need to tell more compelling larger stories."

John Egan:"People like a story, but it takes a while for a next generation to understand a new normal. Unusual partnerships and connections surprise people, and they like those stories. CEI has partnerships and connections that make it work."

Kate Starr, Vice President, Capital Deployment, F.B. Heron Foundation: "Where are the right economies of scale? Putting more money into the current overscaled system perpetuates it. We need to overhaul our system and structures or we'll stay with the current inequities and inefficiencies. This morning CEI opened its annual meeting with a report of its financial position, which was striking because it underlined the importance of financial resilience in the work of CEI. As a national foundation, how do you get to an enterprise-driven, not an investor driven paradigm?"

systems that have been designed for Maine schools and municipalities but we are struggling to attract the tax equity investors (TEI's) we need as partners to help monetize the projects' 30% federal tax credit and accelerated depreciation, which is critical to making the projects financially viable," said Coupe. Solar energy is an ideal match for non-profits and investors because it lowers operating costs, reduces energy price volatility and delivers a guaranteed, predictable return on investment by converting free fuel from the sun into highly valuable and fungible kilowatt hours.
www.revisionenergy.com

The Maine Climate Table

Concerned with the current lack of a policy platform and coordinated actions to prepare Maine for the effects of climate change, a group of concerned citizens in Maine formed the Maine Climate Table. The group is comprised of statewide fisheries, farming, economic development and environmental organizations, progressive business leaders, state and local officials, educators and others. After a year of careful study, The Climate Table is poised to undertake a values-based messaging campaign to support one or more policy initiatives around climate change. It is the group's intention to develop specific messaging that connects a selected policy with values that particularly resonate with Maine people. To date, place-specific, value driven climate change messaging, using in-depth social science research methods, has never been developed for or applied in an actual campaign in Maine and only in a very limited fashion elsewhere across the US. The Climate Table proposes to demonstrate that this approach can engage voters and bring about policy change where so many other approaches have failed. The group believes this approach, can be effective not only in Maine but across the country.

Virginia Manuel, State Director, USDA Rural Development in Maine: "Building on John Moore's observation on success in Maine, we have the (USDA's) Rural Energy for America Program (REAP) which is financing small renewable energy projects and energy efficiency improvements in Maine businesses. Additionally, there are at least two district heating[1] projects in Maine. For example, in Fort Kent there is a block in which district heating has been installed by converting to a biomass boiler heating and water system through installation of a system serving nine buildings at the regional SAD and at University of Maine at Fort Kent. The town of Berlin, New Hampshire, did a district heating system with biomass boilers for 40 households. There are more examples. This is conventional lending, combined with USDA money to purchase the wood pellet boilers which can be utilized in our housing stock, as long as there is enough pellet supply, and technicians trained to service the boilers.

USDA Rural Development has funded the four pellet manufacturers in Maine. The Advanced Biofuels Payment Program under which they are funded has to show that their investments reduce carbon emissions. This is a straight forward payment for production program that is making a difference across the state, all without the investment of venture capital. A number of communities across the state are investing in reducing carbon emissions and reducing the use of Number 2 heating oil. Pellet manufacturers have been challenged to keep up with the demand right now. That is a huge change from three years ago when there wasn't enough demand. A number of Maine institutions also are converting to biomass boiler systems."

Jeff Thaler, Visiting Professor, Energy Policy, Law & Ethics, University of Maine: "UMaine has been trying to do several projects in renewable energy, but raising capital for demonstration technologies is difficult. If you're truly talking about aggregating capital for social change, we are losing the battle to fossil fuels. We only look at cents per kilowatt hour but don't look at other environmental and social costs. Is there a way to factor in the negative cost of fossil fuel investment and add in positive return for alternative energy without waiting for congress to impose carbon tax?"

John Newlin, Co-Leader of the Midcoast Maine chapter of the Citizens' Climate Lobby contributed that he was aware of a REMI report[8] commissioned by Massachusetts that shows that a state-based revenue-neutral carbon tax could impact many of the factors we are discussing.

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[1]District heating (less commonly called teleheating) is a system for distributing heat generated in a centralized location for residential and commercial heating requirements such as space heating and water heating. The heat is often obtained from a cogeneration plant burning fossil fuels but increasingly biomass, although heat-only boiler stations, geothermal heating, heat pumps and central solar heating are also used, as well as nuclear power. District heating plants can provide higher efficiencies and better pollution control than localized boilers. http://en.wikipedia.org/wiki/District_heating

[8]http://www.remi.com/carbon-tax-study

7. Individual and Community Engagement

Christa Velasquez's final question to the panelists was, "How can we engage individuals and communities?"

Mark Berry responded by saying that perhaps inspiring communities can be an effective way of engaging them.

John Egan: "We need more stories to tell, and more demonstrations. The issue has to be merged into the educational sector so that the next generation understands it as real science. We must play by the rules. This has to have front and center political and business and community leadership, it can't just be a ground-up movement."

John Piotti: "Intervening at the community level is critical. It's challenging work, and it takes a long time to really affect any type of change. We often turn to the State in the absence of federal policy. In Maine we've also seen the value of advancing local policy (that can help make communities more farmer-friendly). But there is absolutely no money for community organizing and rallying, as everyone thinks this should be funded by tax dollars."

About CEI: CEI, one of the nation's premier CDCs and CDFIs, specializes in rural business development and financing. Founded in 1977 in Wiscasset, Maine, we create economically and environmentally healthy communities in which all people, especially those with low incomes, can reach their full potential.

CEI provides financing and technical assistance to small and medium-sized businesses, natural resource-based industries including the farm, fish and forest sectors, community facilities, renewable energy, commercial real estate and affordable housing. CEI serves communities throughout rural Maine, New England and New York, and is active nationally in partnership with other financing partners. CEI's development philosophy and theory of change combines the market interventions of finance, development services, and policy for social and environmental benefit, the "triple bottom line" – economy, equity and ecology – of return on investment.
CEI is CARS™ rated. www.ceimaine.org

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