



Expert Insights: NY Green Bank

A Lexis Practice Advisor® Practice Note by
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This expert insight discusses state-sponsored investment fund NY Green Bank and its role in investing in clean energy projects and sustainable infrastructure. In this Q&A, NY Green Bank explains its mission and investment strategy, and discusses several of its innovative financing solutions for investments in its portfolio.

1. IS NY GREEN BANK A BANK? WHAT DOES IT DO?

NY Green Bank is a \$1 billion state-sponsored investment fund that invests in clean energy and sustainable infrastructure within New York State, having been announced by Governor Andrew M. Cuomo in the State of the State Address in 2013. NY Green Bank commenced operations in 2014 and is a division of the New York State Energy Research & Development Authority (NYSERDA). NYSEDA is primarily funded by New York State ratepayers through the System Benefits Charge (SBC) on participating utility bills and proceeds from auctions through the Regional Greenhouse Gas Initiative. These funds are allocated to the Clean Energy Fund and Renewable Portfolio Standard for energy-efficiency programs, research and development initiatives, and other clean energy activities.

NY Green Bank's mission is "to accelerate clean energy deployment in New York State by working in collaboration with the private sector to transform financing markets." It is not a bank in the commonly understood way of taking deposits from customers—we work with the private sector to increase investments into New York's clean energy markets, creating a more efficient, reliable, and sustainable energy system.

NY Green Bank exists as a part of the state's comprehensive energy strategy and policy. It was recognized that government entities need to fully engage with the private sector to mobilize material amounts of private sector investment into energy infrastructure on commercial terms, to be attractive to private sector participants. As an example of the size of the issue, a few years ago in a regulatory proceeding before the NYS Public Service Commission, it was identified that the cost of maintaining the current energy infrastructure in the state over the preceding decade was \$17 billion, with a forecast of those same maintenance costs over the next 10 years at \$30 billion. And this cost does not take into account what will be needed to upgrade the state's energy infrastructure, including to accommodate newer distributed energy projects and technologies and a move to "Grid 2.0." This concept—the future of the grid—refers to an advanced format for our energy generation, transmission, distribution, and consumption, wherein smarter technologies are utilized for significant improvements in efficiency. Under the Grid 2.0 model, renewables and other cleaner forms of generation play a more significant role.

NY Green Bank makes financing available to project developers, building owners, property managers, energy service companies, and other sustainable infrastructure market participants for economically and technically



viable projects and businesses, especially where financing from traditional capital providers is not readily available. While we most frequently provide credit products to our clients, NY Green Bank is flexible as to the role it can play in the capital structure of proposed projects and can provide equity.

It is worth underscoring that NY Green Bank is not a venture funding entity but focuses on projects and businesses with proven technologies that are otherwise constrained in accessing the capital needed for advancing projects (e.g., due to less familiar financing models and/or counterparties and shorter track records of asset and counterparty performance). NY Green Bank operates on the “near frontier” of the markets to help catalyze the creation of new clean energy and sustainable infrastructure asset classes and liquidity, developing scalable, replicable financing solutions along the way.

2. HAS NY GREEN BANK BEEN SUCCESSFUL?

When first tasked with establishing NY Green Bank, there was limited certainty that this new initiative would be widely accepted in the market and that the fund would receive strong uptake from market participants. It became clear the state’s strategy around advancing NY Green Bank was sound once the market fully understood the role it was set up to play, and ever since then business has been brisk.

NY Green Bank formally opened for business during the summer of 2014 with the filing of its first annual Business Plan and rapidly moved from startup mode to the fully functioning investment and asset managing platform it is today. After nearly five years in operation, NY Green Bank has executed dozens of clean energy transactions, working with some of the most prominent global financial institutions and regional banks, as well as developers, in New York to advance the state’s clean energy agenda. As of September 30, 2018, NY Green Bank has committed \$581.9 million in overall investments to date. This investment is driving total clean energy investments across New York State of up to \$1.68 billion, along with expected greenhouse gas (GHG) emission reductions of between 7.2 and 9.2 million metric tons, equivalent to removing as many as 88,300 cars from the road for 24 years.

An important requirement of NY Green Bank is that it be self-sustaining—in other words, underwrite commercial deals prudently to maximize return of capital and generate revenues to cover operating expenses and any portfolio losses. NY Green Bank achieved its target of self-sufficiency (i.e., the generation of annual net income) a full year ahead of schedule—by March 31, 2017. And last fall, NY Green Bank achieved cumulative breakeven.

Our portfolio of closed transactions reflects commercial financing terms, a focus on credit underwriting, prudent risk management, and efficient operations. In NY Green Bank, the state has built an income-generating enterprise that supports an enduring organization adopting commercial approaches and best practices from both the public and private sectors.

3. IF CAPITAL IS PRICED AT MARKET RATES OF RETURN, WHAT’S THE ADVANTAGE FOR CLIENTS IN TRANSACTING WITH NY GREEN BANK?

NY Green Bank’s financings support financially and technically feasible projects where the developer or project sponsor has limited access to capital on appropriate terms (e.g., as to duration, amount of available debt, covenants, and pricing). This is generally because there is a limited track record for many of these business models (i.e., community solar, commercial energy efficiency, energy storage, etc.), which can make it harder for private sector capital providers to accurately assess performance.

An example of how NY Green Bank can help address such market barriers is through the deployment of commercial and industrial (C&I) solar in NYS. One common barrier many smaller-scale solar developers face is the challenge of securing adequate construction and long-term financing, particularly for smaller and mid-

sized projects, as these developers are restricted in their access to capital by their size and comparatively limited track record. NY Green Bank's financing solutions can drive growth in the small- to mid-size solar sector by encouraging the standardization of contractors, contracts, and equipment thereby increasing underwriting efficiency and reducing overall transaction costs. Developing standardized projects within a portfolio makes the overall financing opportunity more attractive to a larger potential investor group, ultimately providing more funding options and influencing financing costs.

Another example of a barrier faced in the C&I solar market relates to capital market participants. To date, there has been limited private capital market interest in supporting the construction of distributed energy projects in New York's clean energy marketplace, due to the limited history and track record of such financings. As such, institutional investors and other private sector capital providers have shown less interest in financing small- to mid-size solar project developers that may have more limited operating histories. NY Green Bank's participation in C&I transactions will help developers further consolidate their track records and achieve the scale needed to appeal more broadly to traditional capital providers. In turn, this can be expected to enable more refinancing options, which will provide the market with greater levels of familiarity with this asset class—a prerequisite to increasing liquidity.

NY Green Bank's role as a specialty clean energy lender enables those emerging business models and projects with less well-understood credits to access financing while providing other capital providers with greater confidence, making it a key component in drawing in private sector capital. This liquidity in the market drives down soft costs, resulting in improved value for customers and development of more clean energy projects.

4. WHAT ARE SOME EXAMPLES OF NY GREEN BANK INVESTMENTS?

Each investment in the portfolio demonstrates NY Green Bank's ability to develop innovative and creative financing solutions that can be scaled and replicated, and each has played a role in driving material benefits to New York State clean energy marketplace.

One transaction that demonstrates NY Green Bank's ability to drive market transformation was a transaction with Mosaic, Inc. (Mosaic), a national financial technology company that provides loans to homeowners to finance the installation of solar systems on their homes. At the request of Guggenheim Partners (Guggenheim), a global investment and advisory financial services firm, and in partnership with Germany's DZ Bank, NY Green Bank participated in a \$110 million senior secured credit facility in April 2016. NY Green Bank's entire \$50 million contribution to the credit facility was expected to finance up to 9,000 new residential solar systems in New York State, contributing up to an additional 60 megawatts of clean, local power in New York. With the capital provided by the larger credit facility, Mosaic was able to provide homeowners with loans that were expected to result in over 40,000 residential solar installations nationwide, allowing the company to build up an extensive portfolio of projects and resulting in considerable emissions reductions.

Meanwhile, when NY Green Bank was first approached by Guggenheim, the number of bank lenders participating in credit facilities funding loans to homeowners for residential solar projects was growing but limited. NY Green Bank's participation increased the credit facility size to a level that permitted greater Mosaic deployment. In addition, NY Green Bank's participation as a specialty clean energy investor encouraged new potential bank lender entrants in the clean energy market. As the market has become larger and portfolios of residential solar loans have greater performance history, additional bank lenders began to enter the market. Further, as the track record of bank lenders being refinanced by institutional securitization lenders upon aggregation of sizable portfolios grows, additional banks will gain greater confidence in being refinanced as is intended.

Today, Mosaic has adequate access to private sector capital as it has now built a strong track record and achieved scale and as a result has refinanced/repaid the NY Green Bank facilities. This is an example of NY Green Bank's mission in action, where it has effectively catalyzed greater private sector financing while avoiding crowding out private sector capital.

Another transaction is with NY-based hydrogen and fuel cell systems manufacturer Plug Power, Inc. (Plug). Historically, limited availability and high costs of capital have kept the fuel cell industry from a more rapid expansion. NY Green Bank's \$25.0 million term loan facility to Plug enables the deployment of up to 2,340 new systems for commercial customers, replacing current infrastructure with cleaner, more efficient alternatives, while growing its NYS labor force by up to 156 new employees. NY Green Bank's participation in the transaction aims to address high financing costs for Plug (and other similar companies in the sector) by making otherwise restricted capital available to support further scaling of businesses, including to the levels where capital costs are expected to be significantly reduced.

A final example is a transaction with Motivate International Inc. (Motivate), the parent company of NYC Bike Share LLC, which is the exclusive operator of the New York City bike share system Citi Bike. In 2017, NY Green Bank provided a \$43.3 million term loan and a \$5.0 million seasonal variable funding note to support the addition of 2,000 bikes primarily in low-to-moderate income neighborhoods in Harlem, Queens, and Brooklyn. This investment enabled NYC Bike Share to address the seasonal nature of its business when there is lower ridership in winter months.

In 2018, due to favorable transaction performance within this new asset class, NY Green Bank increased the term loan amount outstanding by \$6 million. These transactions have the potential to offset the equivalent of approximately 29,700 to 32,500 metric tons of GHG emissions by converting up to 200 million miles of public commuting from emissions-based transport to the bike-share system.

5. HOW DO YOU THINK NY GREEN BANK WILL EVOLVE?

NY Green Bank will continue to focus on its core activities of clean energy and sustainable infrastructure investing and portfolio management, all with the goal of contributing to the state's ambitious clean energy and climate goals and delivering benefits to New Yorkers. However, as publicly announced by Governor Cuomo last fall, NY Green Bank is looking to raise at least an additional \$1 billion in capital from the private sector and extend its activities beyond the state. So, the evolution will involve more investment leading to greater impact.

Although certain financial participants are, and will continue to be, participants in NY Green Bank's individual transactions, there is a meaningful set of institutional investors seeking to invest in clean energy deployment at scale—an opportunity provided at the portfolio level. Additional capital can drive greater scale, national diversity, and provide greater liquidity in the marketplace. This will also allow investment risk to be shared, reducing any potential risk exposure of ratepayer funds, while also validating NY Green Bank's model by third-party investors.

Finally, the additional \$1 billion in third-party capital will enable the immediate mobilization of private capital at the portfolio level and access to private sector capital will drive even greater NY Green Bank market responsiveness, enabling the organization, in a sense, to do even more with less, to the benefit of New York State.

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Caroline Angoorly is a senior energy and environmental industry executive with more than 20 years of domestic and international experience in business building, strategy, operations, project and asset management, investment, project finance, and mergers and acquisitions. She knows the energy, resources and environmental sectors, especially power and fuels markets and projects across generating technologies and clean tech, as well as environmental instruments, markets, regulation, and policy, with particular expertise in project development and finance. As COO, Ms. Angoorly is responsible for all aspects of strategy, finance and operations, and supports investment activities.

Before joining NY Green Bank, Ms. Angoorly led GreenTao LLC, a specialized business growth, project development, financing, strategy and execution firm. She was also previously head of environmental markets for North America at J.P. Morgan, held several senior executive roles at NRG Energy including SVP & Head of Development, Northeast, was vice president and general counsel at EnelGreenPower, and a partner in the Global Project Finance Group at Milbank, Tweed. Through all these roles, Ms. Angoorly has been involved in originating, structuring, negotiating, closing and managing billions of dollars of energy and infrastructure projects across the globe.

Ms. Angoorly holds geology and law honors degrees from Monash University and a Master of Business Administration degree from Melbourne Business School in Australia (partly undertaken at Columbia University in New York). She has lived and worked in the United States, Australia, Singapore, and Hong Kong. She has also done business in various countries in Central and South America, Asia, and Western Europe.

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