



Starting a Green Bank

In 2022, Congress passed the Inflation Reduction Act (IRA), the most significant federal investment to help fight the climate crisis in U.S. history. The IRA includes approximately \$27 billion for the new Greenhouse Gas Reduction Fund within the U.S. Environmental Protection Agency, which will support existing green banks and incentivize the creation of new green financing entities, with a special focus on underserved communities. This once-in-a-generation federal investment has created a unique window of opportunity for private funders to build local green capital infrastructure, with the expectation that public support will become available to facilitate the long-term viability of the newly created entity.

Public Sector Consultants (PSC) has extensive experience starting and advising green banks throughout the United States. Michigan Saves, an independent 501(c)(3), contracts with PSC to provide staffing and management services. PSC, a nonpartisan public policy research and consulting firm, is the force behind the creation of Michigan Saves. The nation's first nonprofit green bank sprang from a 2009 grant through the Michigan Public Service Commission to create an innovative energy efficiency and renewable energy financing system. The next year, Michigan Saves was incorporated as a 501(c)(3) nonprofit, led by a diverse board of directors. Once established, the board engaged PSC to staff the organization, leveraging the firm's expertise and history with Michigan Saves to provide steadfast management services to support this flourishing green bank. Since its founding, Michigan Saves has delivered over \$450 million in loan originations.

After the successful establishment of Michigan Saves, PSC has played a foundational role with other green banks, such as by providing advisory services to the DC Green Bank and the Indiana Energy Independence Fund. This memo describes the scope of services we can offer to any locally engaged team seeking to start a green bank in their city, county, or state (referred to going forward as a leadership team). Through our work establishing green banks, we have found that the following components are vital aspects of conceptualizing, structuring, and launching a green bank. Not all entities will require support in each area, but each component is an important part of the process. We can provide you with a detailed proposal, including the scope of services, timeline, and budget, after you review the potential scope of services that PSC can provide.

Scope of Services

In our work establishing green banks, we have identified five phases of a green bank's life cycle: feasibility, build, launch, operate, and assess. We have experience working through the component parts of each phase and are ready to meet you where you are at.

Phase One: Feasibility

During the feasibility phase, we conduct due diligence to examine whether the appropriate conditions exist for the establishment of a green bank. This will involve conducting a contextual analysis and a market assessment, the results of which will allow the local leadership team to understand the opportunities and barriers that exist for establishing such a program. Engaging with key stakeholders in the community and beyond is an integral part of this process.

Project Kickoff

PSC will conduct a kickoff meeting with the leadership team to ensure that all parties have the equivalent context and level of understanding. Topics could focus on the following:

- Local clean energy financing discussions and activities to date
- The goals, scope of work, and timeline for this project
- Key stakeholders to be interviewed for the contextual analysis
- Scheduling of next steps, regular meetings, and communications coordination

PSC will update the scope of work and timeline based on the results of this meeting, if needed.

Market Assessment

A market assessment is vital to understanding what kind of loans and incentives would be successful. Such a study would use publicly available housing data from the U.S. Census Bureau, energy efficiency program data, and credit score data purchased from Experian. With this data, PSC will create an overall estimation of the potential market for energy efficiency loans in the green bank's target market and assess different scenarios using variables including credit score, housing stock, likelihood of participation, and energy efficiency program costs. PSC will analyze the data on a county-by-county basis statewide, and by zip code in urban areas, depending on the intended service area of the bank.

Contextual Analysis

PSC will conduct a contextual analysis of the clean energy sector in the local market, which will involve conducting focus groups with key stakeholders such as clean energy program designers and advocates, municipal leaders, lenders, business advocates, contractors, utilities, and philanthropic organizations. Stakeholders will be asked to respond to questions such as:

- What opportunities exist that a clean energy finance program could leverage (e.g., utility energy efficiency programs)?
- What obstacles stand in the way of successfully implementing a clean energy finance program?
- What are the pros and cons of existing clean energy financing options in the marketplace?
- Who are the key partners that should be involved in evaluating the feasibility of creating a clean energy finance program?
- What relevant work has taken place and was it successful? Why or why not?
- What excites you about the potential for a clean energy finance program? What concerns you?
- How can we ensure we are reaching vulnerable populations through our program?

Once complete, we will combine the insights gained from the focus group engagements, our green financing expertise, and the market assessment to make specific recommendations for a place-based green bank that meets the needs of relevant stakeholders and will be customized to the current local market gaps.

Business Plan

To effectively seek funding for a new green bank, PSC can support the leadership team by drafting a business plan that summarizes the governance and staffing required, identified loan products, a budget,

fundraising, and recommended timing needed to meet the leadership team’s goals. These business plan components are outlined below:

- **Governance and staffing:** Incorporating a new nonprofit entity, recruiting a board of directors, and engaging with clean energy finance vendors to provide staff
- **Identified loan products:** Initial product offerings using existing national products to quickly deploy clean energy financing locally, which may include the Smart-E Loan for residential projects provided by Inclusive Prosperity Capital and commercial lending services provided by the National Energy Improvement Fund
- **Budget:** A forecasted budget developed by PSC and organized by vendor, with estimates based on quotes from established vendors in the clean energy marketplace and benchmarking of known green bank operational costs
- **Fundraising:** Capitalizing on the \$27 billion in green capital funding through the IRA that will be implemented in the coming year to provide national support to existing and newly created green banks; PSC can help access these and other relevant funding sources
- **Recommended timing:** A breakdown of key project management milestones for the development of a new green bank

Phase Two: Build

During this phase, we will operationalize the recommendations that emerge from the contextual analysis and feasibility evaluation. The business plan described above will lay out the steps for establishing the most effective organization for your specific location and context. However, there are many considerations regarding the process, timing, and engagement that need to happen in the build phase.

Governance Model Kickoff

Based on phase one, PSC would make a recommendation on a governance model. In our experience, the creation of a new 501(c)(3) entity will result in a lean and flexible business model and avoid relying on public funding or political support. However, based on the local context, other models may be more appropriate. However, the independent nonprofit model offers the leadership team key strategic advantages, including:

- **Separation from an individual public entity:** A nonprofit green bank can receive both public and private funding, including eligibility for the federal Greenhouse Gas Reduction Fund in the IRA.
- **Scalability:** A nonprofit green bank is not bound to serving customers within specific political boundaries.
- **Sole mission focus and exclusive financial management:** A new nonprofit green bank will have a clean slate and clear accountability structure for managing program-specific finances.
- **Strategic board selection to drive public and private support networks:** The nonprofit green bank board can be strategically selected to include individuals with unique skills, including fundraising, financial management, clean energy knowledge, public administration expertise, and advocacy.

Staffing Plan

To avoid consuming critical philanthropic support in the development of new human resource infrastructure, the leadership team should contract with entities that provide staff with expertise in their

individual lending products and general green bank administration. To maintain a lean approach to staffing a new entity, the leadership team may choose to contract with a single organization to provide administrative management and subcontract with identified residential and commercial product vendors or may choose to initiate separate contracts for each service.

Executive Director (Local and Managed by PSC)

A well-respected local leader with demonstrated leadership in clean energy, lending, and fundraising could administer the new local green bank, serving as the executive director, as an employee of PSC. Michigan Saves/PSC staff could provide mentorship and training to ensure a rapid and effective onboarding. Along with the development and incorporation of the green bank, the executive director will support the board of directors and provide customer support and education in response to public inquiries while coordinating communication between residential and commercial product staff, including the following:

- Manage drafting and submitting all necessary state and federal nonprofit incorporation documents
- Develop strategic relationships with policymakers, regulators, program leaders, and philanthropic organizations to increase the green bank's visibility
- Implement a fundraising strategy to support the green bank's mission
- Serve as liaison to the board for other contracted entities, lenders, and the public
- Oversee the green bank's financial integrity, including the development of an annual budget and strategic plan

Project Manager (Managed by PSC)

A project manager would play a hands-on role in the day-to-day management of the local green bank. They would have their finger on the pulse of the residential and commercial contractors, customer satisfaction, and lender relationships. In the case of low volume of work, this project manager could be shared among multiple banks. The location of this position would need to be determined to best meet the needs of clients. The following tasks would fall to the project manager:

- Maintain visibility on the activities of the residential and commercial program managers to ensure customer and contractor satisfaction with how the program is being run
- Develop and track internal controls and associated metrics to ensure that the program implementation is proceeding as intended
- Develop grant applications for relevant program expansion, especially to better serve low-income and Black, Indigenous, and People of Color (BIPOC) communities
- Track financial metrics on a weekly and monthly basis to ensure that goals are being met and, where not, activities are adjusted

Communications, and Branding Strategy

To ensure that the new bank has a unique, attractive identity, PSC's adept communications team would develop and implement a powerful branding and communications strategy to build support for the bank among multiple constituents, including funders, local leaders, customers, contractors, and lenders. Tasks would include the following:

- **Brand identity:** A package of brand assets, including a logo, color palette, and fonts

- **Pitch deck:** A polished presentation that uses the brand identity and communicates salient information to potential funders
- **Primer:** A short, informative document that can serve as a leave-behind after a pitch meeting
- **Landing page:** A one-page website with basic information about this initiative and a function to collect contact information from prospective partners for future communications
- **Communications brief:** A basic plan that details potential audiences, messaging, and tactics to generate awareness around the initiative

Integrating Energy Equity, Justice, and Affordability

The green bank model is based in seeking equity, whether it is helping to reduce energy costs through low-interest financing for renewables or simply allowing families to make energy efficiency upgrades to their homes. Historically, BIPOC have experienced unequal access to lending due to embedded inequalities in how systems have operated. Therefore, green banks must take a proactive approach to address these legacy issues. In addition, federal funding requires that at least 40 percent of the benefit accrue to historically disadvantaged communities (Justice40). Building on this basic goal, some green banks and associated green capital investors have taken an even more proactive approach to integrating diversity, equity, and inclusion into their business models. PSC can help new green banks intentionally integrate processes and metrics to ensure that equity and justice are being advanced through the operations of the bank.

Phase Three: Launch

Once all the required decisions are made on business structure, governance, and product offerings, the next step is to manifest all these decisions into a physical entity that can accelerate fundraising and begin operating. We have assisted numerous entities with the following steps toward incorporation.

Nonprofit Formation Steps

To pursue the creation of a new nonprofit green bank, the leadership team must secure initial funding to support the onboarding of an executive director to serve as facilitator for nonprofit board recruitment and incorporation that will include, at minimum:

- Securing a fiscal sponsor such as Michigan Saves, an existing local entity, or the new nonprofit itself
- Electing a name and ensuring its legal availability
- Developing a mission statement and bylaws
- Preparing and submitting the articles of incorporation
- Meeting with key stakeholders identified during the contextual analysis to educate them about the green bank formation and recruit them to serve on the organization's board of directors
- Conducting an initial board meeting to adopt organizational documents and appoint officers (at minimum: president, secretary, and treasurer)
- Applying for a federal employer identification number
- Applying for federal tax-exempt status (requires proof of state-level approval of the articles of incorporation)

Launch Support

New green banks can benefit from the help of experienced organizations such as PSC and Michigan Saves. We can provide backend administrative support for green banks in areas such as:

- **Fundraising:** Prior to the hiring of an executive director, we can establish relationships with local foundations to develop a funding on-ramp for start-up or future funding of the bank.
- **Staffing and human resources:** The executive director and other staff can be PSC employees to ease the burden of human resources services on the new bank structure.
- **Administration:** PSC's administrative support for the new entity can take many forms, such as creating staff and board policies and procedures, establishing and documenting processes and procedures for consistency, and assisting with board communications.
- **Stakeholder engagement:** PSC's communications team can assist with educating stakeholders using the aforementioned branding and marketing strategy on the value of a local green bank through social media, print materials, web design, or event planning.
- **Board management:** We can provide the executive director with the necessary tools to effectively manage board relationships, including recommended policies and procedures, administrative tools, and knowledge of existing relationship dynamics.
- **Legal:** With our experience, PSC can ensure that the new organization has the appropriate legal documents to shield liability in the case of contractor wrongdoing or other potential legal pitfalls. In addition, our marketing will conform to truth-in-lending requirements.
- **Insurance:** PSC can help each organization in the partnership obtain the appropriate level of insurance such that they are appropriately protected based on their level of risk.
- **Agreements with service providers:** We can vet and select potential residential and commercial service providers. These partners will be a key aspect of the program's success by bringing and building relationships with lenders and contractors to deliver the benefits of the program to residents and businesses.

Organizational Support

PSC can guide effective board activity and provide support to enact the business plan by addressing operational and staff gaps inherent in a start-up phase. Leveraging our experience will result in an expedited start-up year, sound decision making, and a set of governance and operational documents tailored to meet the new board and staff's needs.

- Board decision-making/information support
 - Providing research memos and short briefings (webinar and/or meeting) to help inform topics and decisions at hand, e.g., landscape of programs supporting electric vehicles and infrastructure, another city's building performance regulations and program, summary of newly released research or events by the American Council for an Energy-Efficient Economy, summary of opportunities around electrification in existing buildings. More in-depth analysis and reports may also be valuable.
 - Assisting with and advising updates to governance documents, such as bylaws, standard operating procedures, and personnel policy
- Operations support

- Supporting first-year reports, drafting language, compiling data, and evaluating what similar organizations include in their reports
- Researching and drafting scopes of work for solicitations and drafting documentation necessary for the selection process, e.g., response templates, evaluation sheets
- Assist with and advise updates to operational documents, such as a staffing plan and budget/budget narrative

Phase Four: Operate

Strategic Planning

Once the green bank has hired an executive director, it will need a more robust strategic direction and will benefit from incorporating stakeholder feedback. PSC can support the new bank with the following recommended next steps:

- Supporting a strategic planning process to determine performance targets and annual work plan
 - Support and/or develop a process to collect input and ideas from the board and staff members
 - Compile input for board consideration in developing the strategic plan
 - Develop and implement a process to incorporate stakeholder feedback into strategic planning, e.g., summary of prior stakeholder outcomes and recommendations, survey of advisory group
 - Draft updated/revise strategic plan and relevant performance targets and/or annual work plan
 - Gather feedback from board, staff, and stakeholders (as appropriate) to develop a revised/final version
- Advising on an annual report
 - Review and provide recommendations on the drafting of the annual report with stakeholder concerns in mind
 - Anticipate stakeholder concerns in the report and develop a proactive response when possible, e.g., update content on the website or newsletters, recommend meeting with certain stakeholders ahead of its release

Phase Five: Assess

Procedures need to be established from the beginning of the green bank's creation to ensure that adequate quality assurance and control is able to be maintained for all participants in the program, with a special focus on contractors and lenders. Both of these stakeholders are the "front door" of the program and, therefore, can contribute to a positive or negative impression for potential customers of the green bank. PSC recommends and can assist with the following tasks to ensure that customer experience and products are of the highest quality and dispatched with utmost integrity:

Metrics Development

Michigan Saves has over 12 years of accumulated experience developing metrics to measure the success of green bank lending and contracting activities. PSC can leverage their technical expertise to help new green banks develop an effective, replicable way to measure the success of their programs and also to gauge the success of the various partners in the programs, including lenders, contractors, and referral organizations.

Satisfaction Surveys

The success of a green bank is dependent on the performance of the multiple partners in this process: contractors, lenders, staff, and other intermediaries. We recommend surveying these partners, in addition to customers and potential customers, at least annually. These surveys can help inform potential program improvements, gauge implemented program changes, and generally help staff keep an eye on any pending issues with any of these vital stakeholder groups. We can assist with developing and administering these surveys.

Grant Reporting

Michigan Saves has eight years of reporting experience to the U.S. Department of Energy, in addition to many other stakeholders. Leveraging their extensive experience, PSC can assist with developing grant reporting templates and frameworks.

Project Timeline and Budget

We can provide you with a detailed timeline and budget once the scope of services is identified from the menu of options above.