



SMALL-SCALE LOCAL ENERGY LOAN PROGRAM

Biennial Program Report

Submitted to the

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SMALL-SCALE ENERGY LOAN REPORT – 2023

EXECUTIVE SUMMARY

In 1979, the Oregon State Legislature established the Small-Scale Local Energy Loan Program (SELP) under ORS Chapter 470 to provide long-term fixed rate loans for Oregon energy projects. Over the program's history, the Oregon Department of Energy (ODOE) has issued more than 900 loans, with an associated \$612 million in financing, to recipients located across all 36 Oregon counties. SELP is currently inactive and new loans have not been originated since 2015. While SELP doesn't generate new loans, the program will continue to service the existing loan portfolio and make related bond debt payments until 2034.

THROUGH SELP, ODOE HAS ISSUED MORE THAN 900 LOANS, WITH AN ASSOCIATED \$612 MILLION IN FINANCING, TO RECIPIENTS LOCATED ACROSS ALL 36 OREGON COUNTIES.

SELP has helped support State of Oregon energy policy by providing public, private, and tribal stakeholders access to energy project capital for qualified Oregon energy projects that invest in energy conservation, renewable energy, and alternative fuels, or that create products from recycled materials. SELP operates under authority established by ORS Chapter 470. The program primarily relies on fees and loan interest to sustain operations. Historically, capital for loans was raised through the issuance of Article XI-J general obligation bonds.

When the program was active, it was supported by the Small-Scale Local Energy Project Advisory Committee (SELPAC), a nine-member director-appointed committee representing the interests of Oregon citizens. SELPAC provided broad subject matter expertise in the areas of energy technology, natural resource development, environmental protection, finance, agriculture, local and regional governance, and utility operations. SELPAC assisted SELP by making recommendations on loan applications and standards for small-scale local energy projects.

ODOE did not have bonding authority for the 2021-2023 biennium covered by this report. Consequently, there are no new SELP loan originations to report. While the lending aspect of the program has been on hiatus since 2015, ODOE has continued to work diligently to improve the program's financial condition. For example, ODOE has reduced the budget deficit by more than \$8 million through a combination of bond refinancing, restructuring of debt, and collection activity.

The following SELP balance sheet and income statement summary is drawn from the program's audited financial statements and reflects an increase in the program's net position. The increase in net position represents an improvement in the financial condition of the program primarily through a reduction in program liabilities. While the program had positive net income (change in net position) in both fiscal years ending 2021 and 2022, the overall cashflow during this period was negative because the amount of assets that generate cash (loans) was significantly smaller than the amount of program liabilities that use cash (bond debt). SELP cash flow was negative in FY 2021 and slightly positive in FY 2022 after a \$2.5 million General Fund transfer. Without the General Fund transfer, SELP would not have had enough cash on hand to make required bond payments in April 2022. This mismatch in the program's balance sheet,

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and the need for a General Fund transfer, is the result of the default of high-risk loans that occurred between 2007 and 2012, as well as the lack of new loan origination since 2015.

SELP Balance Sheet and Income Statement

	Period Ending June 30, 2021	Period Ending June 30, 2022
Program Assets	\$ 108,854,998	\$ 98,704,838
Program Liabilities	\$ 116,710,101	\$ 102,404,473
Net Position	\$ (6,080,118))	\$ (2,338,328)
Program Revenue	\$ 6,007,478	\$ 6,920,585*
Program Expense	\$ 3,776,605	\$ 3,178,795
Change in Net Position	\$ 2,230,873	\$ 3,741,790

*Includes \$2,500,000 General Fund Transfer in FY 2022.

The depletion of program cash reserves due to negative cash flow is not sustainable and has impaired the financial solvency of SELP. The program required an additional \$1 million in General Fund support to meet bond debt service payments in 2023 and will need \$1.5M in 2024. The Legislature in SB 5016 (2023) appropriated \$1.5 million General Fund to ODOE to pay SELP bond debt service through the 2023-25 biennium.

The Oregon Department of Energy is currently focused on prudently managing the existing SELP loan portfolio to limit the effect of the program’s deficit on the General Fund.

The complete 2023 Report to the Legislature is available on ODOE’s website:

<https://www.oregon.gov/energy/Data-and-Reports/Pages/Reports-to-the-Legislature.aspx>

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INTRODUCTION

For more than 40 years, the Small-Scale Local Energy Loan Program has helped individuals, businesses, tribes, nonprofits, and public sector agencies pursue energy efficiency and renewable energy goals. Through SELP, ODOE has issued more than 900 loans, with an associated \$612 million in financing, to recipients located across all 36 Oregon counties.

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As this report outlines, SELP is not currently writing or developing new loans. SELP staff are focused on working closely with existing borrowers to help ensure current loan repayments are managed carefully.

Program Background

The Small-Scale Local Energy Loan Program was established by the Oregon State Legislature in 1979 under ORS Chapter 470. A legislatively referred constitutional amendment to authorize the issuance of state Article XI-J bonds for small-scale local energy projects passed in 1980. SELP supported State of Oregon energy policy by providing public, private, and tribal stakeholders access to energy project capital. The program issued Article XI-J general obligation bonds to originate fixed-rate long-term loans for qualified Oregon energy projects that invested in energy conservation, renewable energy, and alternative fuels, or that created products from recycled materials.

Historically, a lack of access to project capital had been a barrier to energy project development. SELP played an important role in ensuring project capital was available to support the implementation of energy projects that advanced Oregon’s energy related goals.

Program Operations

The loan program operates as an enterprise fund and primarily relies on program fees and loan interest to sustain operations. SELP made its first loan in 1981 and the program was intended to operate without General Fund support. The default of high-risk loans made between 2007 and 2012 resulted in a deficit that will require \$5 million in General Fund transfers between 2022 and 2024. The program manages two major funds to carry out program activities:

Small-Scale Local Energy Project Loan Fund

This fund and its sub-accounts, created by Article XI-J of the Constitution and appropriated to the Department under ORS 470.130 to hold the proceeds from article XI-J bond sales, is the funding source for program loans.

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Small-Scale Local Energy Project Administration and Bond Sinking Fund

This fund, created under ORS 470.300, is the source for payment of all loan program expenses. The sinking fund and its sub-accounts consist of all program fees and interest earned, program loan receivables, monies transferred from the Small-Scale Local Energy Project Loan Fund, and any gifts, grants, or legislative appropriations.

When SELP was active, there was a nine-member director-appointed committee, the Small-Scale Local Energy Project Advisory Committee (SELPAC), that represented the interests of Oregon citizens and supported SELP program activities by providing broad subject matter expertise in the areas of energy technology, natural resource development, environmental protection, finance, agriculture, local and regional governance, and utility operations. The Advisory Committee has been inactive for several years.

Program Challenges

SELP has a forecasted deficit in the Small-Scale Local Energy Project Administration and Bond Sinking Fund. As of July 31, 2023, the cumulative deficit through 2034 is projected to require additional cash funding of \$1.5 million, with the next bond sinking fund shortfall projected to occur April 2024. These projections also anticipate a surplus fund balance sufficient to repay \$5 million of General Fund appropriations once all future program loan revenue has been received in 2035. A projected deficit in the bond sinking fund was first recognized in December 2008 and has been reported since that time on SELP financial statements, official bond sale summaries, and in the program's biennial reports to the Legislature. SB 5545, passed in the 2019 legislative session, appropriated \$4,334,048 to ODOE to pay SELP bond debt service through the 2019-21 biennium. However, thanks to a refunding, a pre-payment on a large loan, and reductions in expenses, the General Fund appropriation was not needed and was reverted to the General Fund at the end of the 2019-21 biennium.

SELP's overall projected deficit was reduced but also pushed forward into the 2021-23 biennium. The 2021 Legislature in SB 5506 appropriated \$3.5 million General Fund to ODOE to pay SELP bond debt service through the 2021-23 biennium. The 2023 Legislature in HB 5016 appropriated an additional \$1.5 million in General Fund for SELP bond debt service in the 2023-25 biennium.

The sinking fund deficit is the result of \$34.9 million in loan losses sustained on loans the department originated between the years 2007 and 2012. Of the \$34.9 million in losses suffered, over \$28 million is attributable to losses from two loans: Cascade Grain Products, LLC (\$18.1M) and Peak Sun Materials Corporation (\$10.2M). These two losses represent 74 percent of program loan losses to date. Due to these loan losses, SELP has fewer cash generating earnings assets to meet the ongoing cash requirements of operating the program. The single largest program expense is debt service on the bonds issued to fund loans.

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ODOE was not granted bonding authority for SELP for the 2023-25 biennium. Consequently, the loan program is currently unable to originate new loans and thus unable to meaningfully contribute to reducing the bond sinking fund deficit through new loan revenue.

Though the agency cannot issue new loans, ODOE has been aggressive in reducing the deficit through expense reductions. In May 2020 the agency successfully closed a small bond refunding that generated \$4.6 million in cost savings. As required by statute, half of the generated cost savings were passed on to borrowers as a reduction in the interest rate on loans funded by bonds that were refunded.

THOUGH THE AGENCY CANNOT ISSUE NEW LOANS, ODOE HAS BEEN AGGRESSIVE IN REDUCING THE DEFICIT THROUGH EXPENSE REDUCTIONS.

SELP FINANCIAL OVERVIEW

The following SELP balance sheet and income statement summary is drawn from the program’s audited fiscal year-end financial statements and reflects an increase in the program’s net position compared to the prior year due to continued reductions in program expense.

SELP Balance Sheet and Income Statement

	Period Ending June 30, 2021	Period Ending June 30, 202 Should be 2022
Program Assets	\$ 108,854,998	\$ 98,704,838
Program Liabilities	\$ 116,710,101	\$ 102,404,473
Net Position	\$ (6,080,118)	\$ (2,338,328)
Program Revenue	\$ 6,007,478	\$ 6,920,585*
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Change in Net Position	\$ 2,230,873	\$ 3,741,790

*Includes \$2,500,000 General Fund Transfer in FY 2022.

With continued positive net income in fiscal year 2022, the net position of SELP increased compared to the prior year. This increase in net position is thanks to agency efforts to shrink program liabilities and expense through cost-control and bond refunding.

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Despite continued improvements to the financial condition of the program, the scope of the cash flow deficit described under the Program Challenges portion of this report is large enough that program cash reserves were not sufficient to pay program bond debt in 2022 and 2023, requiring a General Fund transfer of \$3.5 million. Program cash reserves continue to be depleted in order to pay program bond debt and will require additional \$1.5 million General Fund transfers in 2024. Due to program expenses trending lower and loan pre-payments, the agency projections for the program do not indicate a need for General Fund transfers after 2024.

The SELP forecasted cash flow deficit will persist through the life of the existing bond debt, which runs through 2034, with a cumulative cashflow shortfall currently estimated at \$4.17 million. The program forecasts loan portfolio revenue through 2035, so an ending fund balance surplus of \$5.3 million is projected in the final year of the program. The scope of the cash flow deficit is dynamic and is a function of anticipated loan repayment and program expenses; consequently, the deficit forecast will change over time. If funds in the SELP bond sinking fund are sufficient, ORS 470.300 requires ODOE to reimburse the General Fund for any appropriations made to the department for SELP bond payments.

The following summaries of SELP cash balances at fiscal year-end 2021 and 2023.

SELP Cash Balances as of June 30, 2021

Small-Scale Local Energy Loan Fund	\$ -
Small-Scale Local Energy Admin & Bond Sinking Fund	
Principal & Interest Received	\$ 638,276
Extraordinary Expense	\$ -
Borrower Revenue Loss Reserve	\$ 2,194,677
Bond Debt Service	\$ 43,612,865
Program Administration	\$ 51,456
Total	\$ 6,497,265

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SELP Cash Balances as of June 30, 2023

Small-Scale Local Energy Loan Fund	\$ -
Small-Scale Local Energy Admin & Bond Sinking Fund	
Principal & Interest Received	\$ 1,971,304
Extraordinary Expense	\$
Borrower Revenue Loss Reserve	\$ 2,273,052
Bond Debt Service	\$ 3,089,921
Program Administration	\$ 13,842
Total	\$ 7,348,119

ENERGY LOAN ACTIVITY - JANUARY 1, 2022 TO CURRENT

ODOE was not granted bonding authority for the period covered by this report. Therefore, no new SELP loans were made.

CURRENT SELP PROGRAM ACTIVITY

SELP staff continue to work closely with existing borrowers to help ensure current loan repayments are managed appropriately.

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FOR MORE INFORMATION

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