



REINVESTMENT FUND
SUSTAINABLE
DEVELOPMENT FUND

The 2015 Annual Report of the Sustainable Development Fund

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The 2015 Annual Report of the Sustainable Development Fund

I. INTRODUCTION

This 2015 Annual Report was prepared by Reinvestment Fund, the manager of the Sustainable Development Fund (“SDF”), to summarize for the Pennsylvania Public Utility Commission the initiatives and accomplishments of SDF in calendar year 2015.

II. HIGHLIGHTS AND ACCOMPLISHMENTS

SDF in 2015 experienced a major increase in its energy lending, with \$2.98 million in closed energy loans and \$6.89 million in approved loans that are awaiting closing. The reason for this increase is that the other funding sources that Reinvestment Fund had available to support its energy lending were becoming fully deployed so it was turning to SDF for new loans.¹

The other highlight of 2015 was that SDF fully-deployed the special initiative funding it received in the settlement of the PECO-Unicom merger proceeding, which gave SDF \$12 million to support new wind development in Pennsylvania, \$4 million to support solar photovoltaic (“PV”) and \$2.5 million for public education about renewable energy.

¹ As noted in prior annual reports, TRF has received other capital for energy lending from the Commonwealth of Pennsylvania (the Pennsylvania Green Energy Loan Fund or GELF), the City of Philadelphia (EnergyWorks), the Bank of America (the Bank of America Energy Efficiency Finance Program), the Kresge Foundation and the City of Baltimore (the Baltimore Energy Initiative Loan Program).

III. SDF's FINANCIAL APPROVALS IN 2015

A. SDF's Energy Loans and Investments

In calendar 2015, Reinvestment Fund closed four energy loans supported by a total of \$2,981,916 of SDF funding.² These closed loans are listed in the table on the next page.

| SDF Energy Loans Closed in 2015 | | |
|--|------------------------------|---|
| Borrower | Amount of SDF Funding | Comments |
| Alcorn Education & Wellness Center | \$1,687,172 | This is for energy measures in a gut rehab project in the Grays Ferry neighborhood of Philadelphia involving the renovation of an abandoned school into office space for nonprofit organizations. |
| Chandler Hall | \$444,452 | This is for energy measures in an energy retrofit of an existing, occupied assisted living facility in Newtown PA. |
| One Pitcairn Place | \$121,907 | This is for energy measures in an energy retrofit of an existing, occupied office building in Jenkintown, PA. |
| Lehigh Valley Charter High School for the Arts | \$728,430 | This is for energy measures in a new construction project of a charter high school in Bethlehem, PA. |
| TOTALS: | \$2,981,961 | |

In calendar 2015, Reinvestment Fund approved the following energy loans using SDF dollars which we will be closing in 2016:

| SDF Energy Loans Approved but Not Closed in 2015 | | |
|---|------------------------------|--|
| Borrower | Amount of SDF Funding | Comments |
| Maplewood Office Building | \$421,140 | This is for energy measures in an energy retrofit of an existing, occupied office building in Dresher, PA. |
| Racquet Club of Philadelphia | \$268,841 | This is for energy measures in an energy retrofit of an existing, occupied building in Philadelphia, PA. |
| Keystone Academy Charter School | \$1,700,000 | This is for energy measures in a charter school project in northeast Philadelphia that has a new construction component and a gut rehab component. |
| Navy Yard Community Solar Project | \$1,500,000 | This is for a 750 kW solar PV system at the Philadelphia Navy Yard. Power generated by this project will be made available to tenants of the Navy Yard under virtual net metering. |
| Aloft Philadelphia Downtown | \$3,000,000 | This is for energy measures in a gut rehab project that will take an abandoned office building and convert it into a hotel next to the convention center in Philadelphia, PA. |
| TOTALS: | \$6,889,981 | |

² In addition to the energy loans closed with SDF capital, Reinvestment Fund closed an additional \$6.36 million of energy loans in 2015 using its other energy capital sources.

SDF is no longer making equity investments in projects or companies, so no new equity transactions were closed or approved in 2015.

B. SDF’s Energy Grants

In 2015, SDF executed two new grant agreements and shown on the table on the following page:

| SDF Energy Grants Awarded in 2015 | | |
|--|------------------------------|---|
| Grantee | Amount of SDF Funding | Comments |
| Alternative Energy Development Group | \$328,500 | This grant is for the solar PV project at the Philadelphia Navy Yard. The SDF board approved a \$550,000 grant in 2014. This partial award was to allow the developer to order the equipment for this project prior to loan closing. The grant is a recoverable grant that must be returned in the event the loan for the project fails to close. At loan closing, the grant will be amended to increase to the full \$550,000 approved by the board. |
| Junior Solar Sprint | \$3,000 | This small grant was funded out of the proceeds of SDF’s solar Alternative Energy Certificate income and extended a SDF tradition of supporting this important middle school solar education program. |
| TOTALS: | \$331,500 | |

IV. 2015 FINANCIAL DISBURSEMENTS

A. SDF’s Energy Loans and Investments

In 2015, SDF made the following disbursements on its energy lending:

| SDF Energy Loans Disbursed in 2015 | | | |
|---|-------------------------|--------------------------|---|
| Borrower | Amount Disbursed | Loan Closing Date | Comments |
| Alcorn Education & Wellness Center | \$1,687,172 | 08/25/15 | This is for energy measures in a gut rehab project in the Grays Ferry neighborhood of Philadelphia involving the renovation of an abandoned school into office space for nonprofit organizations. |
| Chandler Hall | \$359,365 | 10/02/15 | This is for energy measures in an energy retrofit of an existing, occupied assisted living facility in Newtown PA. |
| One Pitcairn Place | \$121,907 | 10/02/15 | This is for energy measures in an energy retrofit of an existing, occupied office building in Jenkintown, PA. |

| | | | |
|--|--------------------|----------|--|
| Lehigh Valley Charter High School for the Arts | \$728,430 | 12/23/15 | This is for energy measures in a new construction project of a charter high school in Bethlehem, PA. |
| TOTAL: | \$2,896,874 | | |

B. SDF's Energy Grants

In 2015, SDF made the following disbursements on its energy grants:

| SDF Energy Grants Disbursed in 2015 | | | |
|--|-------------------------|-----------------------------|--|
| Grantee | Amount Disbursed | Grant Execution Date | Comments |
| Saint Francis University Renewable Energy Center | \$116,309 | 12/21/12 | This grant was for technical assistance for small wind and community wind projects and these payments closed out the grant, fully deploying the \$12 million of wind funding SDF received under the PECO-Unicom merger settlement. |
| Citizens for Pennsylvania's Future | \$8,615 | 10/31/13 | This grant was for public education about net metering. These payments fully deployed the \$2.5 million of public education funding SDF received under the PECO-Unicom merger settlement. |
| Junior Solar Sprint | \$3,000 | 05/01/15 | This small grant was funded out of the proceeds of SDF's solar Alternative Energy Certificate income and extended a SDF tradition of supporting this important middle school solar education program. |
| Alternative Energy Development Group | \$328,500 | 11/23/15 | This grant was to allow the developer of the community solar project at the Navy Yard to pay deposits on the system hardware prior to loan closing. These payments fully deployed the \$4 million of solar funding SDF received under the PECO-Unicom merger settlement. |
| TOTAL: | \$424,266 | | |

V. THE PECO-UNICOM MERGER PROGRAMS

A. The Pennsylvania Wind Development Program

In the 2000 settlement of the PECO-Unicom merger proceeding, SDF received \$12 million to support new wind development in Pennsylvania.³ With the final payments to the Renewable Energy Center at Saint Francis University noted in Part IV.B above, SDF completed the deployment of all of the wind funding.

³ Please see SDF's annual reports in earlier years for a full discussion of the Pennsylvania wind program and projects.

B. The Solar Photovoltaic Grant Program

In the 2000 settlement of the PECO-Unicom merger proceeding, SDF received \$4 million to support solar photovoltaic development in Pennsylvania.⁴ With the final payments to the Alternative Energy Development Group noted in Part IV.B above, SDF completed the deployment of all of the solar funding.

C. The Renewable Energy Public Education Program

In the 2000 settlement of the PECO-Unicom merger proceeding, SDF received \$2.5 million for public education about renewable energy.⁵ With the final payments to Citizens for Pennsylvania's Future and the Junior Solar Sprint noted in Part IV.B above, SDF completed the deployment of all of the public education funding.

VI. FINANCIAL REPORT

SDF has received a total of \$31,815,216 from PECO Energy. This figure consisted of eight quarterly payments in 1999 and 2000 from distribution charges that total \$3,335,216 and the lump sum accelerated payment of PECO quarterly payments through December 31, 2006 totaling \$9,980,000. SDF had also received, pursuant to the terms of the PECO Energy/Unicom merger agreement, three installments of \$4,000,000 for the Pennsylvania Wind Development Program (total of \$12,000,000); five annual installments of \$500,000 for public education about renewable energy (total of \$2,500,000); and four annual installments of \$1,000,000 for SDF's solar photovoltaic program (total of \$4,000,000). PECO's financial support of SDF ended with the last payment received on December 31, 2006.

SDF's audited financial statements for the twelve-month period ending December 31, 2015 show total financial income of \$193,134 and net financial income of \$58,086. Operating expenses for 2015 totaled \$1,502.

As of December 31, 2015, SDF's net assets totaled \$9,181,358, a reduction of \$367,180 from the prior year due mostly to the disbursement of \$424,266 in grant funds.

On December 31, 2015, SDF held \$7,860,219 of funds in SDF's cash and investment accounts available for lending. As noted in Part III.A above, SDF expects this figure to be reduced by \$6,889,981 when the loans currently approved are closed in 2016.

As of December 31, 2015, SDF had disbursed all of the funding received from the PECO-Unicom merger for wind (\$12,000,000), solar (\$4,000,000) and public education (\$2,500,000). These three "Temporarily Restricted" accounts are now closed and all SDF funds now appear as "Unrestricted but Contractually Limited as to Use."

⁴ Please see SDF's annual reports in earlier years for a full discussion of the solar photovoltaic program and projects.

⁵ Please see SDF's annual reports in earlier years for a full discussion of the public education program and projects.

Outstanding receivables (loans, energy performance contract leases) as of December 31, 2015 totaled \$1,633,904. SDF's liabilities at December 31, 2015 totaled \$383,869 and were comprised of general accounts payable and accrued expenses of \$328,500, a payable to TRF of \$369 and the return of an earlier grant of \$55,000.

Audited financial statements for the year ending December 31, 2015 are available upon request by contacting Roger Clark, Fund Manager, Sustainable Development Fund, Reinvestment Fund, 1700 Market Street, 19th Floor, Philadelphia, PA 19103. He can be reached by email at roger.clark@reinvestment.com or by telephone at 215.574.5814.

VII. SDF BOARD ORGANIZATIONAL ISSUES

In 2015, SDF's board of directors had the following members.

- Kurt Bresser, Temple University
- James Harven, Constellation Energy
- Frank Jiruska, PECO
- Albert Koenig, ARB Geowell

SDF acknowledges that it needs to address the issue of board membership and board responsibilities in 2016. We intend to propose amendments to our bylaws to reflect the current realities of our operations. When SDF first began, our bylaws made the clear delineation that the lending role of the SDF board was limited to the “[r]eview of loans and investments for adherence to mission.” This was because Reinvestment Fund's loan committee reviewed and approved all SDF lending. In the early days, SDF received requests for project types we had not seen before, so this review for mission fit responsibility was meaningful, but now we are no longer seeing new and unique project types so this function is not used.

SDF also used its board for the “[r]eview and approval of grant requests” but the SDF board decided to end our grant-making work and instead allocate all of our capital to lending in order to make SDF financially sustainable. With the end of grant-making, this function also fell into dis-use.

That said, the bylaws currently require two board meetings a year and assign the board other responsibilities, so amendments to the bylaws are needed.



The 2015 Annual Report of the Sustainable Development Fund Addendum

1. Administrator's Expenses for SDF in 2015

| SDF's Administrative Expenses for 2015 | |
|--|----------------|
| Staff salary/benefits | \$0 |
| Occupancy | \$3,216 |
| Professional Services | \$(2,432) |
| General & Administrative | \$359 |
| Allocated Support | \$0 |
| TOTAL: | \$1,143 |

2. Loans, Equity Investments and Grants Approved by SDF in 2015

| SDF Approvals in 2015 | | |
|-----------------------|-----------|--------------------|
| Type | Number | Dollar Value |
| Loans | 9 | \$9,871,942 |
| Equity investments | 0 | \$0 |
| Grants | 1 | \$3,000 |
| TOTALS: | 10 | \$9,874,942 |

3. Loans, Equity Investments and Grants Closed/Executed by SDF in 2015

| SDF Loan Closings and Grants Executed in 2015 | | |
|---|----------|--------------------|
| Type | Number | Dollar Value |
| Loans | 4 | \$2,981,961 |
| Equity investments | 0 | \$0 |
| Grants | 2 | \$331,500 |
| TOTALS: | 6 | \$3,313,461 |

4. Loans, Equity Investments and Grants Disbursed by SDF in 2015

| SDF Dollars Disbursed in 2015 | | |
|-------------------------------|----------|--------------------|
| Type | Number | Dollar Value |
| Loans | 4 | \$2,896,874 |
| Equity investments | 0 | \$0 |
| Grants | 4 | \$424,266 |
| TOTALS: | 8 | \$3,321,140 |

5. The Year-End Fund Balance (Net Assets)

| |
|--------------------|
| \$9,181,358 |
|--------------------|