

Financing EE Building Retrofits

Washington Council of
Governments

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SustainableEnergyFundingProgram
FOR HEALTH & EDUCATION FACILITIES



SEFP Overview

- SEFP is a 501(c)(3) not-for-profit entity focused on projects in four (4) key energy services segments: energy efficiency, distributed generation, central utility plants and sustainable energy design of buildings.
- SEFP owns and finances 100% of its projects with low-cost tax-exempt bonds that help NonProfit Users control energy costs, improve energy efficiency, and reduce their carbon footprints.
- SEFP partners with leading energy services companies (ESCOs) and project financing providers to structure and enable energy projects which utilize the optimal financial solutions for each NonProfit User's needs and objectives.
- SEFP contracts with Users using an Energy Services Agreement (ESA) structure.
- NonProfit Users implement efficiency upgrades without using their own capital and make payments based solely on realized savings or commodity produced.
- All financial incentives offered by state/local governments or utilities are used to Users' benefit.
- Any excess cash generated by Users' projects are rebated back to the User.

FINANCE PRODUCT OVERVIEW

Conventional Financing

- The Commercial Group
 - Commercial Loan
 - Finance Lease aka Capital Lease
 - Operating Lease (due to go away)
- The Municipal Group
 - Tax Exempt Lease
- The NonProfit Group
 - All of the above

The Commercial Group

- All “for profit” businesses
 - From “Mom & Pops” to Fortune 100
- Driving Factors
 - Accounting Treatment – the Balance Sheet
 - Capital vs Operating Dollars
 - Tax Treatment – the Income Statement
 - Simple Payback vs After Tax Savings
 - Depreciation provides little incentive

Economic Decision Making

- Improving the Bottom Line
 - Decrease costs, limit tax liability, & maintain cash flows
- Energy Savings Dilemma
 - Less energy = less expenses
 - Less expenses = more net income
 - More net income = more income tax
 - More tax = lower cash flow
 - Lower cash flow is bad for business

Capital vs Operating Dollars

- Mostly a Balance Sheet effect
 - Capital Dollars
 - Used for core business activities
 - Generates highest return for business
 - Tightly budgeted
 - Requires senior management approval
 - Operating Dollars
 - Used for day to day operations
 - Not as valuable as capital dollars

The Finance Lease

- Also called a Capital Lease
- Treated same as a Commercial Loan
- Lessee owns equipment at lease end
 - Fully amortizing or balloon
- Lessee depreciates cost of system
- Interest is 100% tax deductible
- Standard way to finance HVAC

The Operating Lease

- Similar to a Rental Agreement
 - Shorter term than a Finance Lease
- Referred to as “Off Balance Sheet”
 - Not considered debt on paper
 - Preferred by Institutions & Industrials
- End of lease options
 - Purchase, Renew or Return equipment
- Will be eliminated in 2015 by FASB

The Municipal Group

- Interest income exempt from federal taxes
 - Results in lower interest rate to Lessee
- Eligible Borrowers
 - State & Local Government Entities
 - Special Tax Districts & Authorities
 - 501(c)(3) NonProfits (with a Sponsor)
- Longer terms offered than for Commercial Group

The NonProfit Group

- Borrower has to be a 501(c)(3)
- Typically Hospitals, Colleges, & certain Charitable Organizations
- Deal size determines finance structure
 - Under \$1.5MM – Finance Lease/Loan
 - Over \$1.5MM – Tax Exempt Lease
 - Requires a Sponsor (Conduit Issuer)
 - Count on 60 to 90 day process

NonProfit Dilemma

- Same balance sheet concerns as For Profit Group
- Capital dollars used to drive patients/students through front door
- Energy savings rarely justify use of capital dollars
- Elimination of Off Balance Sheet Leases will decrease EE projects

Innovative Finance Structures

- Contracts tied to a specific service or commodity delivered.
 - Energy Savings
 - Solar PV or Cogeneration
 - Chilled Water or Steam
- Outsourced Contracts → Private Sector
- Public Private Partnerships → Public Sector

Typical Contract Structures

- Service & Usage Agreement
- Energy Services Agreement
- Energy Efficiency Services Agreement
- Power Purchase Agreement
- Shared Energy Savings Agreement
- Development Agreement