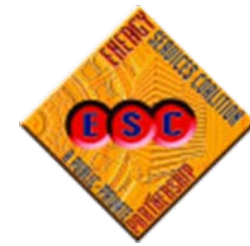




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PA Energy Services Coalition Second Annual Workshop

2012/13 EPC Financing Options and Current Market

November 14, 2012

Industry Trends - Rates

Interest Rates

- ❖ Interest rates in the municipal market can be volatile but are near record lows

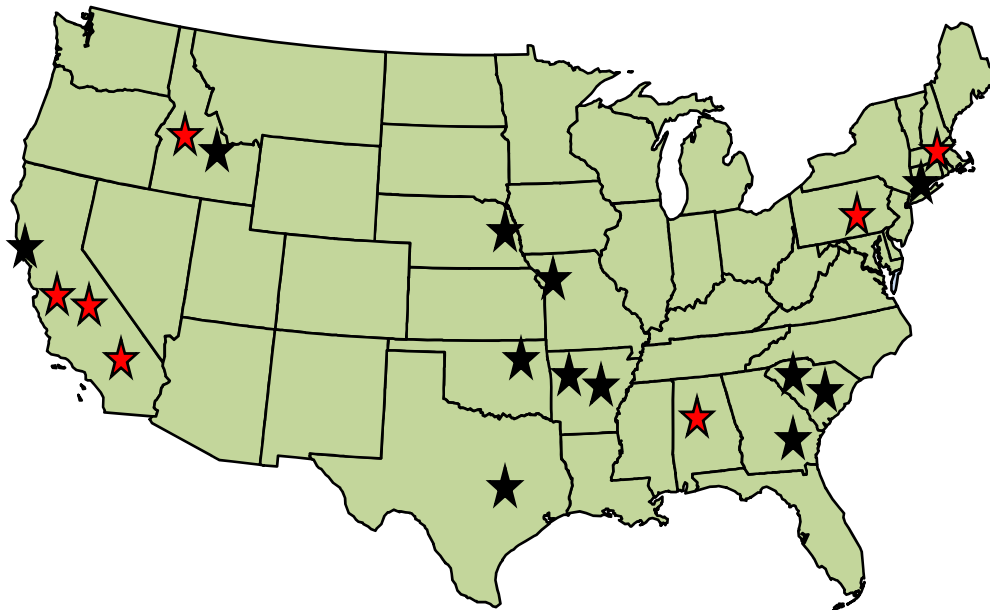


Source: Federal Reserve

Web Address: <http://www.federalreserve.gov/releases/h15/data.htm>



Industry Trends - Credit



★ Municipality

★ "Special" District

District or Municipality	Date Filed
Mendocino Coast Recreation & Park District, CA	12/29/2011
Stockton, CA	6/28/2012
Mammoth Lakes, CA	7/3/2012
San Bernardino, CA	8/1/2012
Boise County, ID*	9/8/2011
Lost Rivers District Hospital, ID	3/10/2010
Sanitary and Improvement District #512, NE	11/1/2011
Lake Lotawana Community Improvement District, MO	8/27/2010
Rural Water District No. 1, OK	1/23/2012
Centerton Muni Property's Owner Imp. Dist. No. 3, AR	10/12/2011
Sylamore Valley Water Association, AR	4/19/2012
Grimes County MUD #1, TX	3/4/2010
Jefferson County, AL	11/9/2011
Hospital Authority of Charlton County, GA	4/30/2012
Barnwell County Hospital, SC	10/5/2011
The Southern Connector	6/24/2010
Harrisburg, PA*	3/10/2012
Suffolk Regional Off-Track Betting Corp., NY*	5/11/2012
Central Falls, RI	8/1/2011
*Bankruptcy Filing Rejected	

Source: Governing

Article Found at: <http://www.governing.com/gov-data/municipal-cities-counties-bankruptcies-and-defaults.html>

Industry Trends - Credit

Headline risk has again become a concern...

Increased credit scrutiny and due diligence:

- ❖ 5 year assessed value history/enrollment histories
- ❖ Top 10 taxpayers
- ❖ Current financials
- ❖ Existing debt structure/debt covenants
- ❖ Pension fund liabilities

Investor pool for financing Energy Projects is adequate but becoming more selective:

- ❖ Minimum deal size/size of issuer
- ❖ Potential for cross-sell
- ❖ Term limitations for regional sources
- ❖ Revenue pledge for longer terms/Larger projects for smaller issuers



Industry Trends – Access to Capital

The financing markets have become bifurcated between riskless credits and those displaying perceived risk...

Potential Elements of a Riskless Transaction:

- ❖ Highly rated host customer (i.e. Moody's Aa1)
- ❖ Deal sizes in excess of \$2MM to \$5MM
- ❖ Larger entities in terms of population, student census, tax base, etc.
- ❖ Strength of financial statements
- ❖ 15 year terms or less
- ❖ Project features larger ESCO





Industry Trends – Access to Capital



The financing markets have become bifurcated between riskless credits and those displaying perceived risk...

“Perceived” Risks May Include:

- ❖ Unrated host customer
- ❖ Deal sizes less than \$2MM
- ❖ Smaller entities in terms of population, student census, tax base, etc.
- ❖ Strength of financial statements
- ❖ 16 year terms or more
- ❖ Projects featuring smaller ESCOs
- ❖ No relationship between host and lender



EPC Financing Alternatives



Tax-Exempt Lease Purchases

- ❖ Appropriation Language
- ❖ Privately Placed
 - ❖ Certificates of Participation (COPs)
 - ❖ Serialized Payment Structure

General Obligation Bonds/Tax Notes/Revenue Bonds

- ❖ Creates Long-Term Debt
- ❖ May require Debt Covenants
- ❖ Can be sold as a Private Placement
- ❖ May Require Voter Approval

Both Can Be Issued as Qualified Tax-Credit Bonds

- ❖ QSCBs/QECBs/QZABs



Capital Solutions

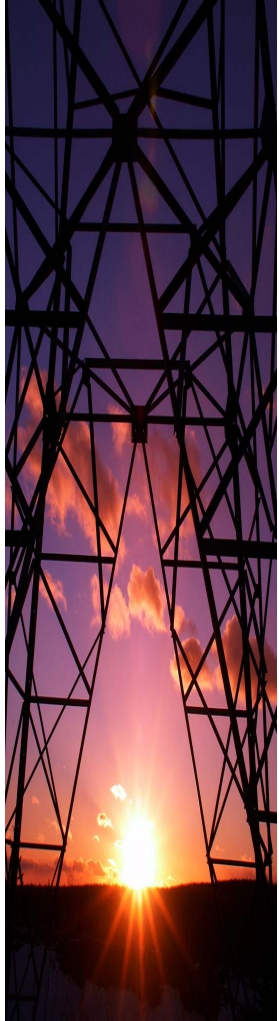
Private Placement Vs Public Security

Private Placement

- ❖ Little or no origination costs
- ❖ Shorter implementation time frames
- ❖ Greater flexibility for credit and size
- ❖ “Interest Rate Lock” period
- ❖ No additional disclosure requirements

Public Security

- ❖ Origination and underwriting Costs
- ❖ “Best Efforts” pricing
- ❖ Ongoing disclosure requirements
- ❖ Longer turnaround times
- ❖ Aggressive pricing for larger deal size/longer tenors





Tax-Exempt Lease Purchase Highlights



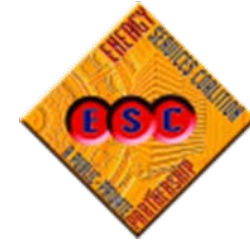
- ❖ Very popular & established financing vehicle
- ❖ Tax exempt rates (unless direct subsidy QTCB)
- ❖ 30-60 day rate locks (private placement)
- ❖ Subject to annual appropriations
- ❖ Up to 20 year terms
- ❖ Public entity holds title to equipment/Lender takes collateral
- ❖ Does not require voter approval
- ❖ May not count against bond (debt) capacity



Certificates of Participation - Highlights



- ❖ **Still a Tax-Exempt Lease Purchase**
- ❖ Best efforts pricing – Rates are not locked until 5-10 days prior to funding
- ❖ Subject to annual appropriations/no voter approval/does not count as debt
- ❖ Up to 20 year terms
- ❖ Costs of Issuance are rolled up into financing
- ❖ Construction period interest capitalized
- ❖ Public credit ratings/Official statements/Ongoing disclosures



Capital Solutions



Characteristics	Products			
	Tax-Exempt Municipal Lease	Certificate of Participation	Taxable Lease Purchase*	Tax-Exempt Bond
Interest Rate	Tax-Exempt	Tax-Exempt	Taxable	Tax-Exempt
Creates Long Term Debt?	No	No	No	Yes
Speed of Implementation	Days to Weeks	Weeks to Months	Days to Weeks	Months
Issuance Costs	Typically None	Approximately 2% of Amount Borrowed	Depends on Type of Issue	Approximately 2% of Amount Borrowed
Subject to Annual Appropriations	Yes	Yes	Yes	No
Disclosure Required	None	Yes	Yes if Issued as Public Security	Yes
Privately Placed or Public Security	Privately Placed	Public Security	Privately Placed or Public Security	Public Security

* typically used when issuing a qualified tax-credit bond structure



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Qualified Energy Conservation Bonds

- ❖ Authorized under Emergency Economic Stabilization Act of 2008, with an initial national allocation of \$800 million
- ❖ Expanded by American Recovery and Reinvestment Act of 2009, with the national allocation increased to \$3.2 billion
- ❖ Modified by Hiring Incentives to Restore Employment Act of 2010, to enable a direct-pay interest subsidy by the U.S. Treasury to the issuer





QECCB Allocations

- ❖ National QECCB allocations are sub-allocated to each State based on population
- ❖ States then reallocate to “large local governments” (any municipality or county that has a population of 100,000 or more)
- ❖ A City’s population is subtracted from the County’s to determine its allocation
- ❖ Large local government can reallocate its portion back to the State or to an eligible issuer
- ❖ No more than 30% of any allocation to a State or large local government can be used for private activity bonds





General Characteristics



- ❖ Proceeds must be used for capital expenditures that reduce energy consumption in publicly-owned buildings by at least 20%
 - ❖ 100% of proceeds must be used for project
 - ❖ 3 year expenditure requirement
 - ❖ 2% allowed for issuance costs

- ❖ All state and local governments qualify as permitted issuers under the QECB program

- ❖ QECBs are taxable, but post-subsidy net yields are more favorable than tax-exempt



General Characteristics



- ❖ QECBs can be structured as lease-purchases (subject to annual appropriations) and issued as private placements

- ❖ Bondholders receive a tax credit, or Issuers receive a direct-pay interest subsidy

- ❖ Issuer submits interest subsidy request (IRS form 8038-CP) 45 days prior to interest payment due date
 - ❖ can be handled by escrow agent
 - ❖ usually quarterly or semi-annual

- ❖ The fixed QTC rate is set on the first day on which there is a binding and written contract for the sale of the bonds



Current QECB Economics



- ❖ Interest subsidy is lesser of (a) actual interest costs, or (b) 70% of the interest costs up to the QECB rate
- ❖ See <https://www.treasurydirect.gov/GA-SL/SLGS/selectQTCDate.htm> for daily updates of the tax credit rate and maximum maturity
- ❖ As of November 9, 2012
 - ❖ QTCB rate 4.16%
 - ❖ Maximum term is currently 23 years (all-in)
- ❖ Economic Example: If City/County issues a QECB at a 4.50% taxable rate, they will receive an interest subsidy from the U.S. Treasury equal to $4.16\% \times 70\%$ or 2.91%; so the District's net interest rate = **1.59%**



QECCBs Pros & Cons



- ❖ Projects under a QECCB are subject to the Federal Davis-Bacon Act prevailing wage laws
- ❖ Strong market for private placement of taxable lease purchases
- ❖ Lower rates should assist tight cash flow projects/increase scope
- ❖ Maximum term changes but currently 23 years including construction
- ❖ Smaller local governments can apply but requires allocation approval
- ❖ Be careful when modeling! Not just plugging in net rate. We're glad to help!



Qualified Tax-Credit Bonds



	Build America Bonds (BABs)	Qualified School Construction Bonds (QSCBs)	Qualified Energy Conservation Bonds (QECBs)	Clean Renewable Energy Bonds (CREBs)
Tax Benefit	35% of Interest Paid	100% of QTCB rate	70% of QTCB rate	70% of QTCB rate
Allocation Method	Not Allowed	Allocations made on State Level	Allocations made on State Level	Not Allowed
Subject to Davis-Bacon Act	Not Allowed	Yes	Yes	Not Allowed
Key Points	Rates typically less than tax-exempt	40% Allocated to large districts	Reduce energy consumption by 20%	Available to electric coops

Trends Driving P3 Structures

Current Trends in the Marketplace Driving Public Private Partnerships:

- ❖ Tax Revenues Trending Downward
- ❖ Reluctance to Raise Revenue Via New Taxes
- ❖ Reluctance to Raise Revenue Via Increasing Taxes
- ❖ Reluctance to Use Cash Reserves
- ❖ Reluctance to Incur Additional Debt
- ❖ Host Customer MUST have a need
- ❖ Focus on Off-Balance Sheet / Off-Credit Solutions



Energy Related P3 Structures

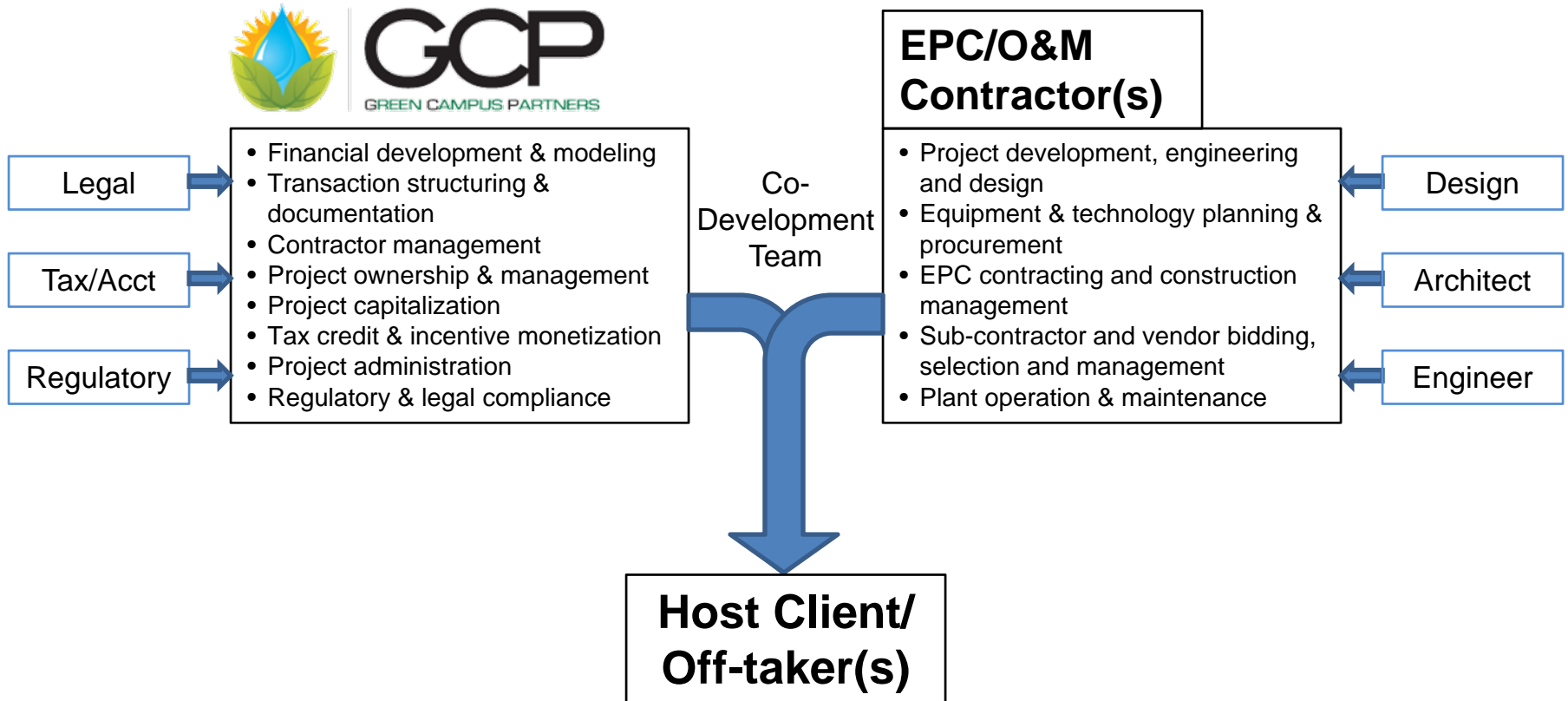
Energy Related Public-Private Partnerships:

- ❖ Energy Savings Agreements
 - ❖ Used for Performance Contracts

- ❖ Utility Services Agreements
 - ❖ Used for Utility Producing Projects



Typical Co-Development P3 Model





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