

Alternative Funding / Financing Solutions

Matt Wegworth | 3/11/10

"Bridging the Gap Between Needs and Funds"

Discussion Overview...

- Performance Based Solutions
- Utilizing Energy and Operational Savings to Fund Needed Infrastructure Improvements
- Innovative Funding & Financing Vehicles
- Questions

High Performance Facilities...

Economic / Environmental / Regulatory



Energy
Savings
30%

Carbon
Savings
35%

Water Use
Savings
30-50%

Waste Cost
Savings
50-90%

Utilizing a Performance Based Approach

- Integrated Turnkey Design-Build Solution for Needed Facility Infrastructure Improvements
 - Leveraging Energy & Operational Savings.
- Identifies and Secures Available Funding Sources and Financing Solutions
 - Investment Grade Assessment
 - Maximize & Secure all Available Grants/Rebates/Incentives
 - Identify Capital-Cost-Recovery & Expense-Sharing Opportunities
 - Uncover Alternative Financing Opportunities

Energy Services Process

- **Integrated Strategy / Integrated Delivery**
 - Holistic, collaborative and outcome based
 - Identify facility and operational improvement measures
 - Immediate Infrastructure Needs
 - Long Term Efficiency & Sustainability Goals
 - Prioritize via an investment grade assessments
 - Quantify outcomes, funding, and financing options
 - Guaranteed Costs / Savings / Returns
 - Ongoing Measurement & Verification
 - Utility Savings Progress against Guarantees

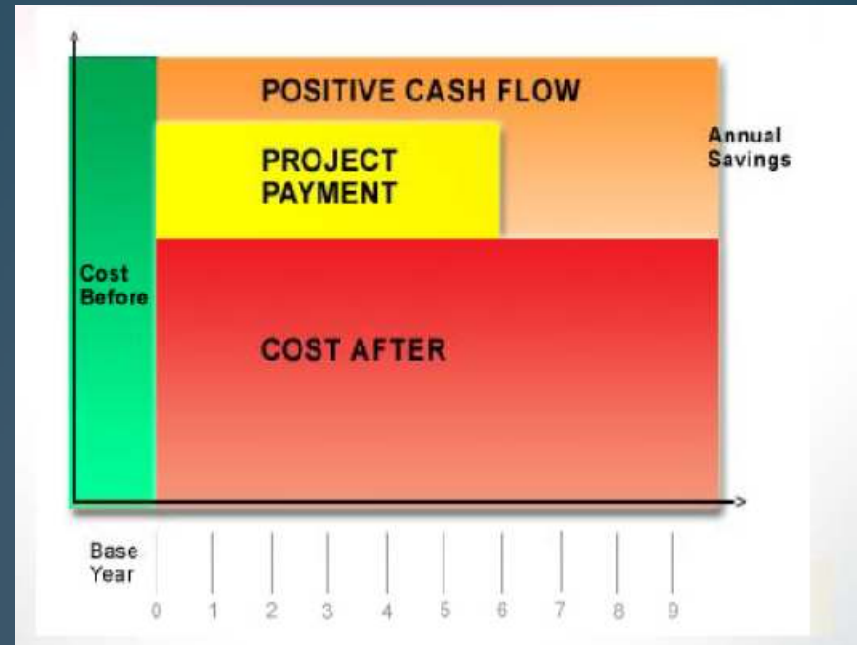


Energy Services Process..

This process implements capital projects through existing operational funds, leveraging incentive programs, rebates and grants.

◆ Typical ECM Measures:

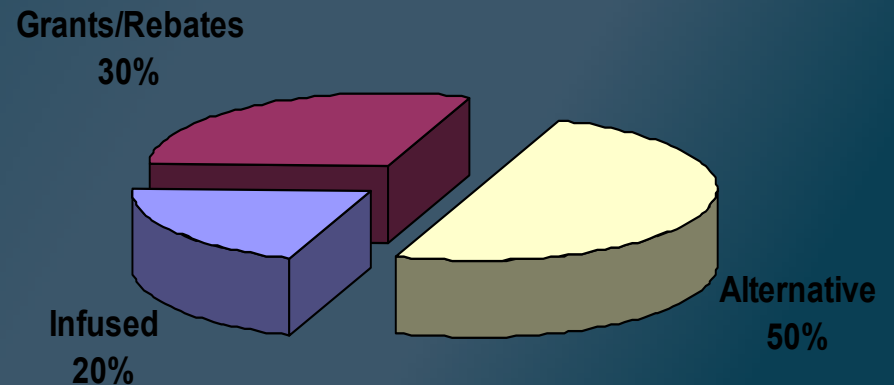
- Lighting Systems
- HVAC Systems
- Bldg Envelope Improvements
- Domestic Water System
- Traffic/Street lighting Upgrades
- CX / RCX Services
- Education – RCM Services
- Pwr Generation systems (CHP)
- Peak Demand limiting
- Renewable Energy Solutions



Minimizing Risk & Leveraging All Funding Mechanisms

- Minimizing Risk for Owner
 - Develop, budget neutral, high performance projects
 - With Guaranteed Project Costs
 - Guaranteed Utility Savings & loan repayment obligations
- Funding Opportunities
 - Optimize & secure all grant funds and utility rebates
 - Navigate alternative, creative, best funding options

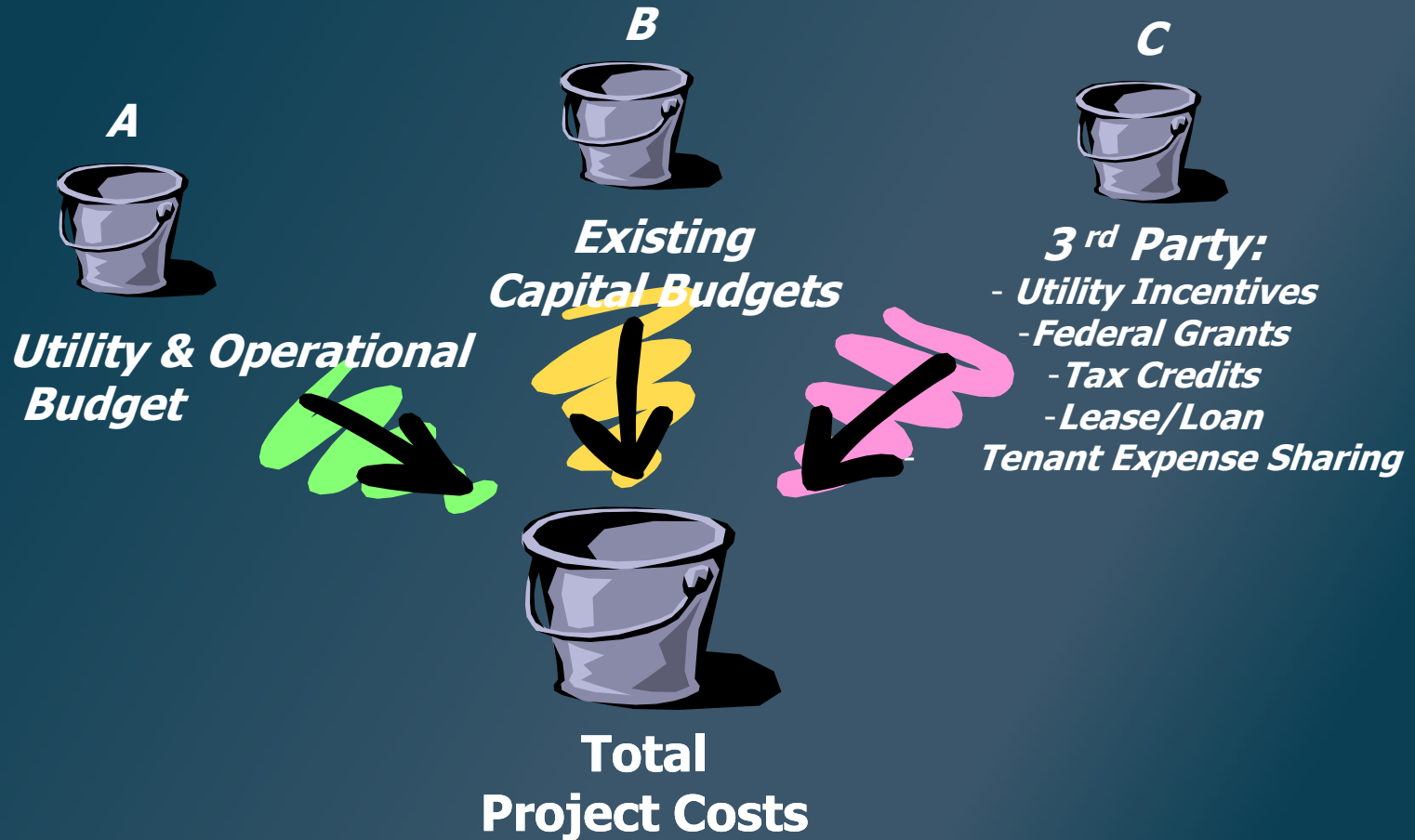
Typical Leveraged Funding Model



Guaranteed Loan Re-Payment

- Energy Services firm can guarantee the loan repayment
 - ...takes risk to develop project & secure financing
 - ...takes risk to guarantee loan re-payment
 - ...takes risk to guarantee energy savings

Identifying Available Funding Streams...



Uncover All Available Rebates, Grants, & Credits...

- Utilities offering Millions in rebates & incentives
 - Conservation is the lowest cost fuel
- State & Federal Tax Credits / Deductions
 - Energy Policy Act of 2005 (Commercial Bldg Tax Deduction)
 - ARRA Funding Opportunities
- Ask your Energy Services partner to share in the risk of the grant funding!

PNW Utility Rebate Scene...



Seattle City Light:

- Significant Funding; up to 70% of project cost
- \$.20 per annual kWh saved up to 70%

Energy Study Funding Available

Seattle Public Utility: (Water Rebates)

- Provides rebates to most local city water utilities
- Significant Funding; up to 50% of project cost
- Resource Conservation Mgmt Funding Available

Puget Sound Energy:

- Gas and Electric Rebates; up to 70% of project cost – \$.20 - \$.30 per annual kWh saved
- Funding for RCM programs

Both Projects and Services Qualify...

- Facility Assessment Audits
- New Construction & Major Remodels
- Building Commissioning & Retro-Commissioning
- Enhanced Operations and Maintenance Services
- Demonstration Technology Bonus Incentives
 - Heat Reclaim / OA Economizer for Data Centers
 - Co-Generation (CHP)
- Renewable Energy Projects
 - Solar / Bio-Mass / Geothermal / Wind

Federal Funding Sources May Apply...

- Clean Renewable Energy Bonds (CREBs)
 - Secure, very low interest bonds
- QZAB (Qualified Zone Academic Bond)
 - 0% Interest Free Bond Program
 - Meant for Schools & Districts that Qualify
 - Up to 16 year Financing Terms
- IRS Tax Credits / Deductions
 - Build America Tax Credit Bonds
 - Recovery Zone Facility Bonds
 - Qualified Energy Conservation Bonds
- Energy Policy Act - EPACK
 - Allows property owner, tenant, designer, or installer to claim a tax deduction up to \$1.80psf of improved space for installing energy efficiency improvements



Available ARRA Bonds

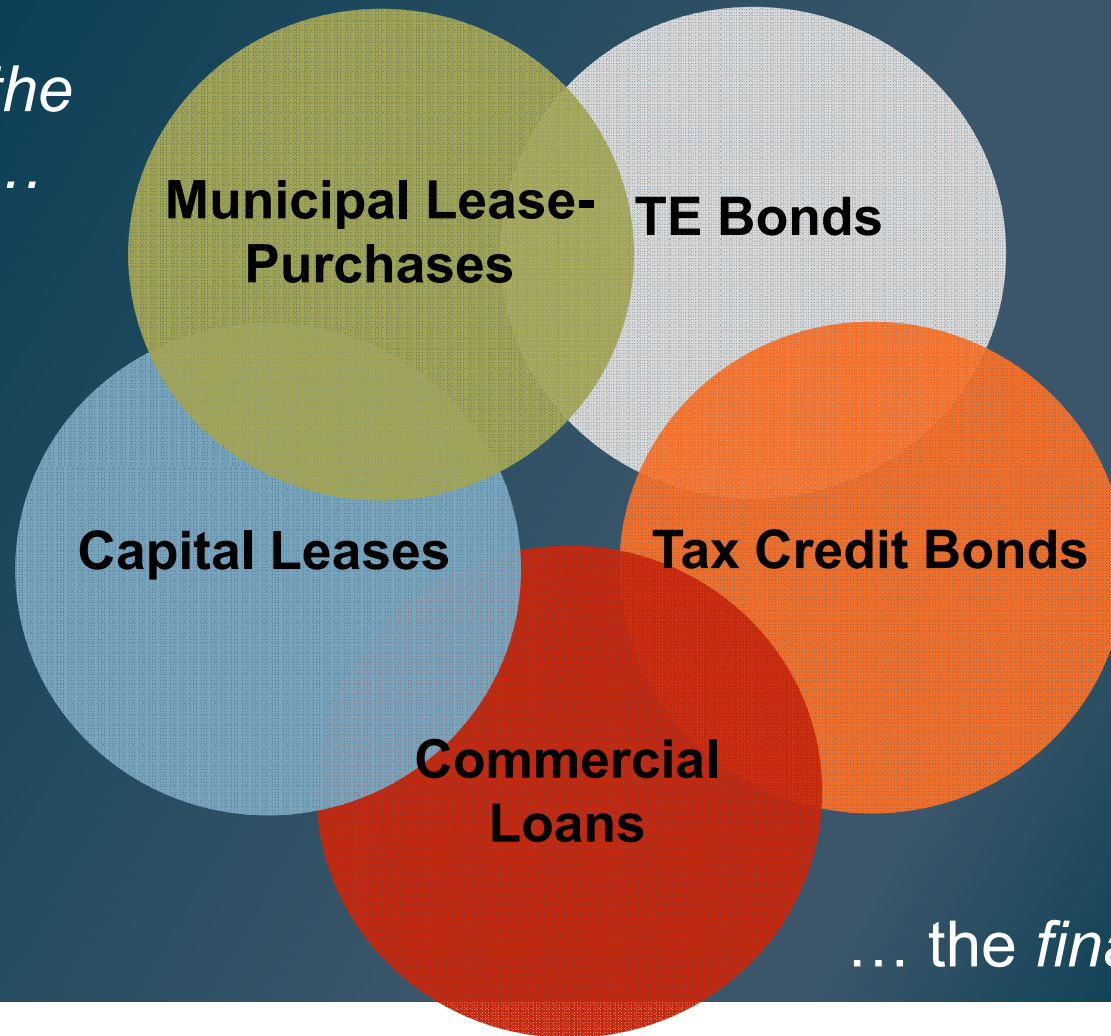
Bond Program	Affected Issuers/Parties				Subsidy		[1]					
	Govt	School	Utility	Private	Type	Amount	Total Program Limit	Est. Effective Rate of borrowing	Expected Maturity	Application Due	Allocation Process	Description
Fund America Taxable Bonds (FATB)					Govt	Direct subsidy to issuer equivalent to 35% of coupon payment	None	~3%-5%	No defined limit; market driven; anticipate ~15-30 years	Program ends 12/31/10	Administered by Dept of Treasury; available until program termination	Issuable debt for governmental projects paired with a direct subsidy to issuers (interest cost refund)
Fund America Tax Credit Bonds (FATCB)					Tax-Credit	35% of coupon to bondholder	None	~4-5% to 6%	No defined limit; market driven; anticipate 15-30 yrs	Program ends 12/31/10	Administered by Dept of Treasury; available until program termination	Tax credit bonds for governmental projects paired with a tax credit to the investor. Actual saving to issuer of 35%.
Recovery Zone Economic Development Bonds (RZ-EDB)					Govt	Direct subsidy to issuer equivalent to 45% of coupon payment	\$1.0B	~3%-5%	No defined limit; market driven; anticipate 15-30 yrs	Program ends 12/31/10	States / Municipalities to define allocation process	Qualified tax credit bond program for public infrastructure, job training and educational programs within designated "recovery zones"
Recovery Zone Facility Bonds (RZFB)					N/A	N/A	\$1.9B	~3%-6%	No defined limit; market driven; anticipate 15-30 yrs	Program ends 12/31/10	Depends on location; public entity issues for benefit of private enterprise	Tax-Exempt bonds for privately owned depreciable property in a "recovery zone". Property must be constructed or retrofitted after "recovery zone" is designated
Qualified School Construction Bonds (QSCB)					Tax-Credit	100% subsidy to bondholder	\$2.2B	~0%	Expected ~15 yrs	Program ends 12/31/10	First come, first served basis	Tax credit bond program for public K-12 construction.
Qualified Zone Academy Bonds (QZAB)					Tax-Credit	100% subsidy to bondholder	\$3.2B	~0%	15 yr max	Program ends 12/31/10	First come, first served basis	Tax credit bond program for public K-12 renovation, equipment, teacher training and course materials for schools. Eligibility is limited to schools in empowerment zones or schools who provides a subsidized lunch to 35% or more of the student body.
Clean Renewable Energy Bonds (CREB)				Yes; only utility co-ops	Tax-Credit	70% Subsidy to bondholder	\$2.4B	~2%-3%	Expect ~15 yrs	3/4/09 for 2009 allocations	Aug 4, 2009; application period closed	Qualified tax credit bond program for renewable energy projects.
Qualified Energy Conservation Bonds (QECB)				Potentially; local dept who issues defines rules	Tax-Credit	70% Subsidy to bondholder	\$3.2B	~2%-3%	Expect ~15 yrs	Program ends 12/31/10	State Dept of Education defines process	Tax credit bond program for energy efficiency/conservation projects (including transit), green education program, and renewable energy systems. Must show 20% EE improvement for CAPEX uses. No more than 20% may be issued as private activity bonds. Private activity must be used for CAPEX costs.

Database of State and Federal Incentives:
<http://www.dsireusa.org/>

Various Commercial Financing Alternatives...

Navigating the Landscape...

- Public
- Private
- Not-for-Profit



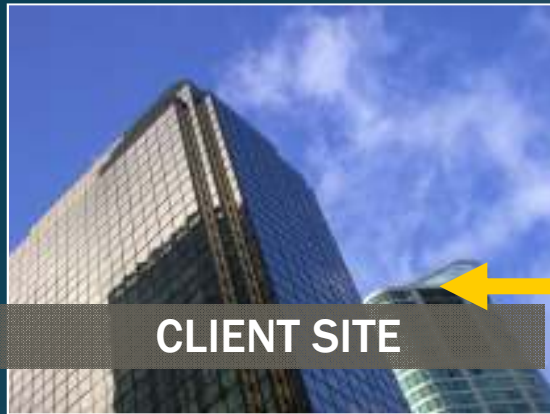
... the *financing* process

Financing Mechanisms & Options...

- Covers the Full Spectrum
 - Debt Financing / Direct loan from a lending institutions
 - Issuing Bonds
 - Capital Lease / Lease Purchase Agreements
 - Shared Services Agreements
 - Debt service is treated as an operational expense, not a capital obligation
 - Debt ratings are not impacted
 - Design, Build, Own, Operate Support Agreements (PPA)
 - Encompass project design, equipment procurement, construction, operation and maintenance specialties.
 - Treated as an operational expense, not a capital obligation
- The Formula is Different for Each Owner and Property
 - Some capital available to infuse / No capital available
 - Capital Costs may be recoverable via existing tenant lease agreements

Power Purchasing Agreements & Private Partnerships...

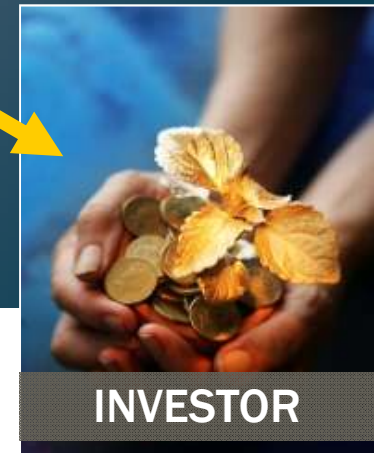
Private Partner Owns the Renewable or Central Utility Plant



No capital, reduced utility costs & carbon foot print



Design/Build
Operate/Maintain



Financing

In Summary...

- Many unique and innovative sources available to fund and finance Facility Improvement Projects and Renewable Energy Initiatives
- Projects are typically funded with a combination of sources (not mutually exclusive)
 - utility rebates / fed & state grants / tax credits & deductions
 - Some Capital infusion (if available)
 - Alternative Financing (Tax-exempt bonds & leases / Private partnerships)
 - Guaranteed Annual Utility Savings Funding Streams
- Other 3rd party financing approaches may be advantageous to consider - DBOOM

Rainier Tower

- **Building Profile**
 - 94% Occupied Class A Office Bldg
 - 526,000sf / 42 floors / Built in 1975
 - Ground Lease with Univ of WA
 - Developed, Built & Managed by Unico
- **Problem**
 - Inefficient and outdated systems
- **Solutions**
 - Upgraded Central Chilled Water Plant
 - Upgraded Building Automation Ctrlrs
 - Lighting Upgrades and Controls
 - Building Envelop - Window Film
- **Outcomes**
 - \$853,000 SCL Utility Rebate
 - \$128,000 per year in Annual Utility Savings
 - Annual GHG emissions reductions equal to 300 cars / 626 acres of trees



Thank you

- **Questions?**

Matt Wegworth
Business Development Manager
mattweg@mckinstry.com
(206) 832-8187

