Alaska Department of Transportation & Public Facilities

Financing Energy Efficiency Improvements

Energy Efficiency NOW:
Elevating Energy Performance in Commercial & Residential Buildings

Statewide Public Facilities
January 12, 2016

Financing Energy Efficiency Improvements

Presenter:

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State of Alaska
Department of Transportation &
Public Facilities
Energy Office Program Manager

OVERVIEW

- DOT&PF Energy Office
- Financed Project Budgeting
- State’s Financing Approval Process
- What it ***really*** takes to make it all work

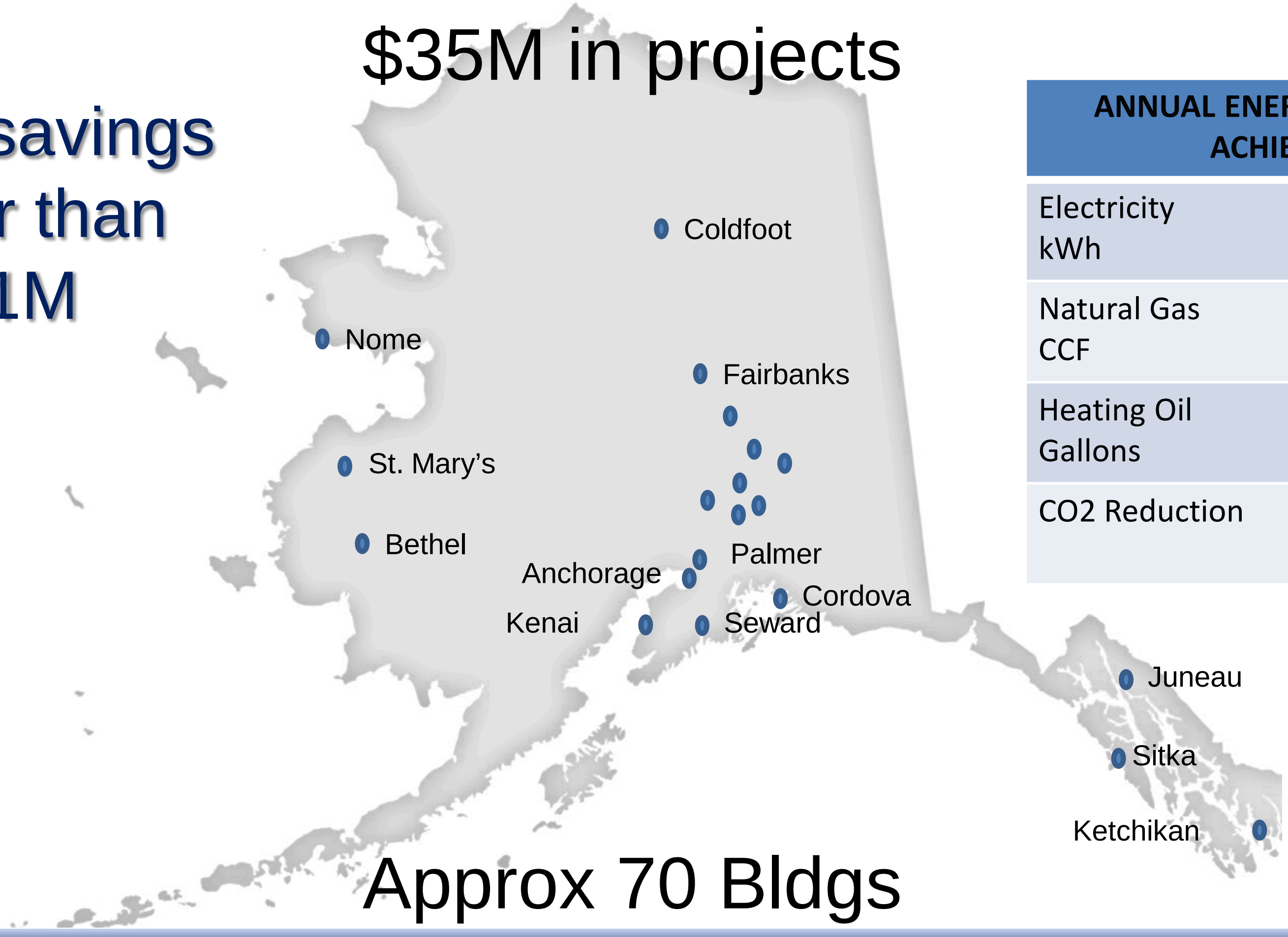
DOT&PF Energy Office

- Provide comprehensive energy efficiency project development, management and implementation services for State and public agencies.
- Manage and execute *Energy Savings Performance Projects* to serve our State Agencies.
- Collaborate with AHFC and other state energy partners to improve statewide energy efficiency.

DOT&PF Energy Office

$35M in projects

Annual savings greater than $3.1M

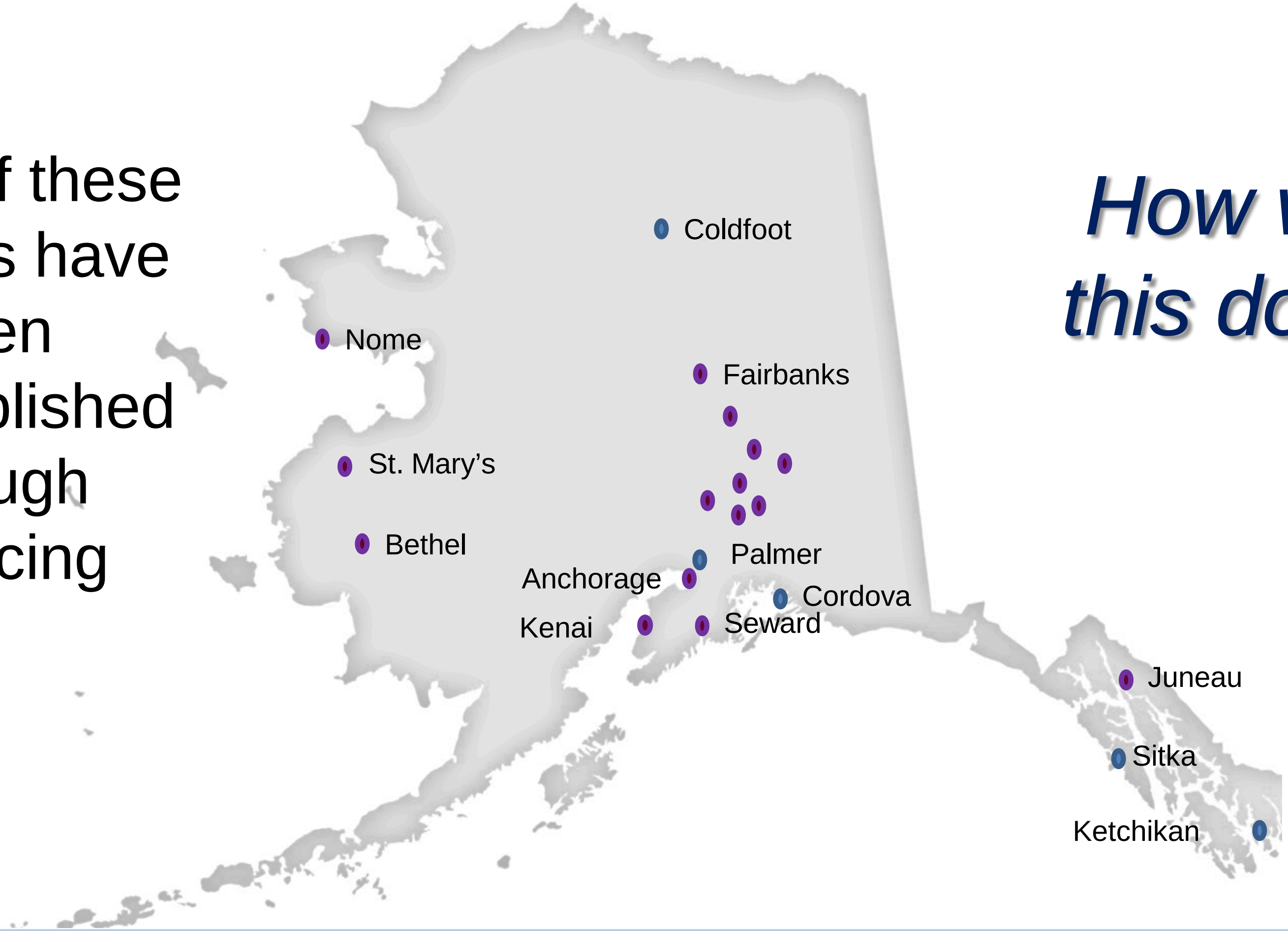


ANNUAL ENERGY SAVINGS ACHIEVED	
Electricity kWh	> 8,115,000
Natural Gas CCF	> 162,000
Heating Oil Gallons	> 261,000
CO2 Reduction	>10,000 Tons

Approx 70 Bldgs

DOT&PF ENERGY OFFICE

<u>$20M </u> of these projects have been accomplished through financing



How was this done?

FINANCED PROJECT BUDGETING

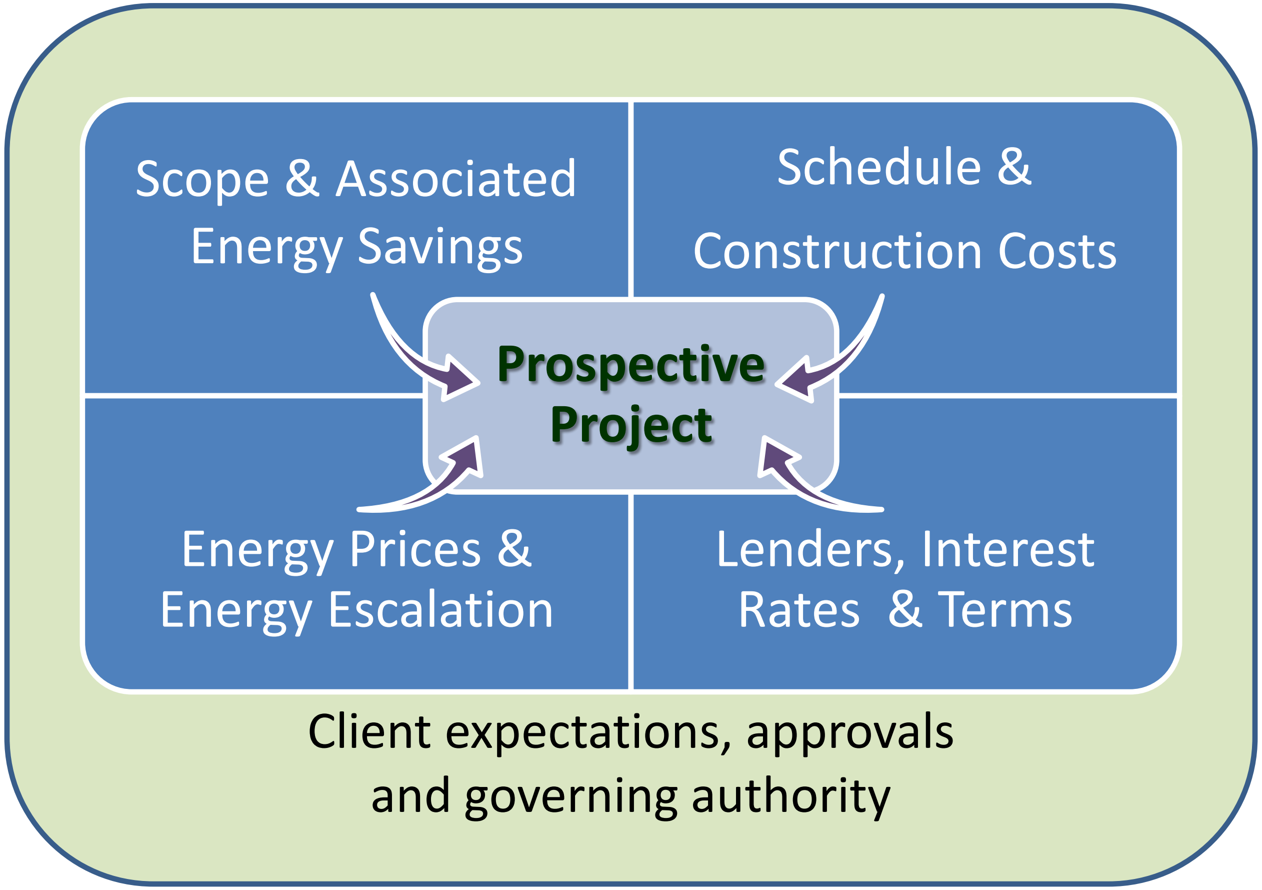
Example: DOT&PF Northern Region Energy Upgrades

- Energy efficiency retrofits at seventeen buildings across Alaska
  - Accomplished through an Energy Savings Performance Contract with Siemens
- Performed an Investment Grade Energy Audit & Proposal
  - Determined annual energy spend: ***$916,000***
  - Determined potential annual savings from energy retrofits: ***$220,000 - $290,000***
- Established our maximum Payback (15 years) or minimum return on investment
  - Creating a framework maximum project budget: ***$3M - $4M***

Financed Project Budgeting

<u>Many variables to input:</u>

- *Energy retrofit scope, savings & technology*
- *Energy Prices, history and fluctuation*
- *Construction costs, logistics and schedules*
- *Lending options, interest rates & terms.*
- *Client expectations & governing authority*



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<u>Prospective Project</u>

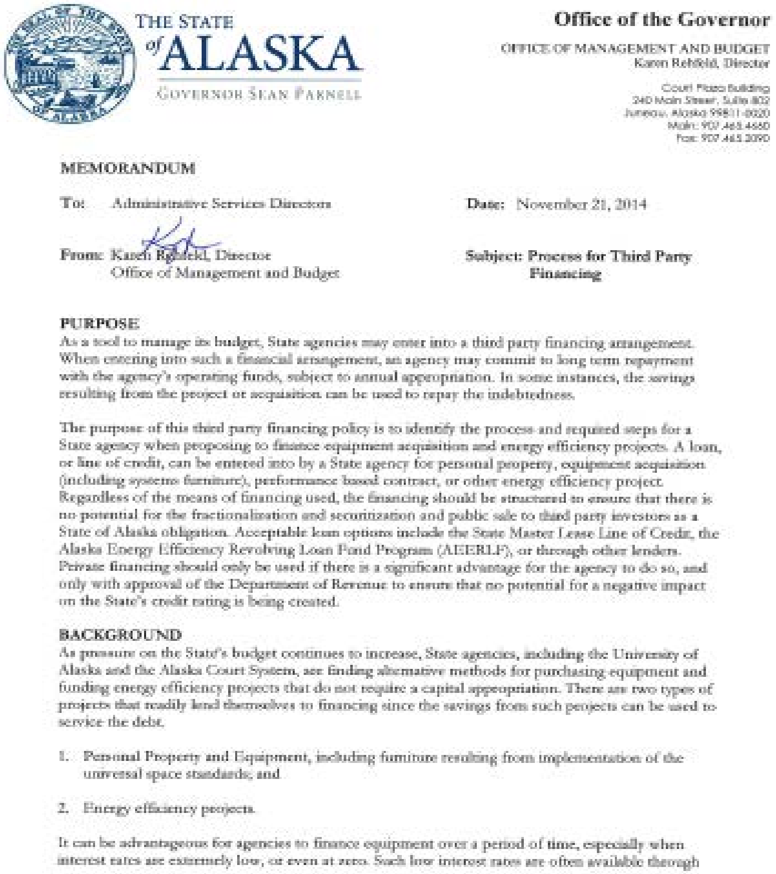
$3.5M with comprehensive energy retrofits

$242,000 in annual energy savings
Could be paid back within15 years

Our next steps…

Financing Approval

- Governing Process established from Office of Management & Budget (OMB)
  - Statutory Authority to enter into ***lease-purchase agreements*** (AS 36.30.086)
  - *Allowing agencies to service leases from operating budget*
  - *Avoids affecting State credit for the project*



THE STATE of ALASKA
GOVERNOR SEAN PARNELL

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MEMORANDUM

To: Administrative Services Directors

Date: November 21, 2014

From: Karen Rehfeld, Director
Office of Management and Budget

Subject: Process for Third Party Financing

PURPOSE
As a tool to manage its budget, State agencies may enter into a third party financing arrangement. When entering into such a financial arrangement, an agency may commit to long term repayment with the agency's operating funds, subject to annual appropriation. In some instances, the savings resulting from the project or acquisition can be used to repay the indebtedness.

The purpose of this third party financing policy is to identify the process and required steps for a State agency when proposing to finance equipment acquisition and energy efficiency projects. A loan, or line of credit, can be entered into by a State agency for personal property, equipment acquisition (including systems furniture), performance based contract, or other energy efficiency project. Regardless of the means of financing used, the financing should be structured to ensure that there is no potential for the fractionalization and securitization and public sale to third party investors as a State of Alaska obligation. Acceptable loan options include the State Master Lease Line of Credit, the Alaska Energy Efficiency Revolving Loan Fund Program (AEERLF), or through other lenders. Private financing should only be used if there is a significant advantage for the agency to do so, and only with approval of the Department of Revenue to ensure that no potential for a negative impact on the State's credit rating is being created.

BACKGROUND
As pressure on the State's budget continues to increase, State agencies, including the University of Alaska and the Alaska Court System, are finding alternative methods for purchasing equipment and funding energy efficiency projects that do not require a capital appropriation. There are two types of projects that readily lend themselves to financing since the savings from such projects can be used to service the debt.

1. Personal Property and Equipment, including furniture resulting from implementation of the universal space standards; and

2. Energy efficiency projects.

It can be advantageous for agencies to finance equipment over a period of time, especially when interest rates are extremely low, or even at zero. Such low interest rates are often available through

Financing Approval

- We solicited financing offers from acceptable lenders:
  - *AHFC's AK Energy Efficiency Revolving Loan Program*
  - *State's Master Lease Agreement*
  - *Three other commercial lenders*
- Offers reviewed and negotiated by project team members, Agency Leadership and the Department of Law.
- Submitted project and financing details to OMB for *OMB & Department of Revenue* approval.

Financing Approval

- OMB approved DOT&PF *lease-purchase agreement* with lender and agreement executed:
  - ***$3.5M Project / 15 yr Repayment Term / 2.5% interest rate***
- Allowing us to fund contract with our energy service company and implement majority of construction in 2015
- Repayment from the operational budget with expected energy savings realized from the project.

Close Financing

Execute Construction

Repay lease-purchase agreement

FINANCING APPROVAL

And accomplish energy retrofits such as Ernestine lighting upgrades

At facilities across the State

Really Making Financing Work

Important to have:

- The right approval structures in place.
- Strong internal project support and sponsorship.
- The right technical expertise.
- Access to the robust energy efficiency and finance resources.
- Project agility, collaboration and patience.

Really Making Financing Work

***Essential* to have:**

- **Leadership, Will** and **Vision**
  - Understand the Financial, Operating and Environmental Benefits of energy efficiency projects.
  - Understand that *Doing Nothing*…. *Cannot* be an option.
  - Understand that delays will not only cost an organization more money but degrade its ability to serve its mission into the future.

Thank you for this Opportunity

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For Further Information