



Financing 101

What makes a bankable project?

ALASKA'S DEVELOPMENT FINANCE AUTHORITY

Energy Efficiency NOW – Jeffrey San Juan
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Overview



- Development Finance Authority created as a public corporation of the State of Alaska in 1967
- Semi-independent entity, overseen by a seven member Board
- AIDEA is self funded and self-funding; receiving no General Fund assistance
- Provides an annual dividend back to the State of Alaska
 - Total declared since 1997 - \$380 million
- Revolving Fund \approx \$1.3 billion in assets
- Revolving Fund: AA+ credit rating (S&P)

What Does AIDEA Do?



Debt

- Loan Participations
- Energy Loans
- Development Project Finance
- Tax-Exempt Bonds
- Taxable Bonds



Equity

- 100% Ownership
- Partner in LLC or Subsidiary Corporation
- Secured/collateralized
- Equity Equivalent Investments



Enhancements

- Loan Guarantees
- Bond Guarantees

What would you do?

Yes or No.....

Would you purchase the energy efficiency improvements in your own home under the following assumptions?



Cost of Energy efficiency Improvement: \$1,000
Estimated Savings per year: \$300
Estimated Payback time: 3 years and 4 months
Useful life of the Improvement 7 Years

What would you do?

Yes or No.....

Would you purchase a home under the following assumptions?



Current annual rent: \$31,200
Cost of Purchasing a house: \$350,000
Estimated Loan payment per year: \$26,100
Estimated Savings per year: \$5,100
Useful life of the home: 30+ Years

Investing in Energy Efficiency



What makes a **good** efficiency investment?

Investing in Energy Efficiency



What makes a **good** efficiency investment?

- Positive cash flow



What makes a **good** efficiency investment?

- Positive cash flow
- Quick payback



What makes a **good** efficiency investment?

- Positive cash flow
- Quick payback
- Acceptable risk

The Five C's of Credit

- Credit history
- Capacity
- Capital
- Collateral
- Conditions

APPROVED



“Do you have any other collateral... besides this e-mail from a Nigerian prince?”

The Five C's of Credit - Capacity



- Does the Borrower's history demonstrate the capacity to manage the business?
- What is the Borrower's debt history and track record of repayment. How much debt can the Borrower handle? Will it be able to honor the obligation and repay the debt?

The Five C's of Credit - Collateral



- Collateral represents assets that the company pledges as an alternate repayment source for the loan.
- Assets:
 - Real Estate
 - Equipment

The Five C's of Credit - Conditions



- What are the current economic conditions and how does the Borrower fit in?
- If the borrower is sensitive to economic downturns, the lender wants to know that the borrower are good at managing expenses.
- Are there external factors impacting the borrower in ways that cannot be controlled but to which it must respond. These can be threats or opportunities such as technology, competition, regulation, and economic or social changes.

The Five C's of Credit- Capital



- How well capitalized is the company?
- Lenders want to see that owners have a financial commitment; that you have put yourself at risk in the company; that you have “Skin in the game”.

The Five C's of Credit - Character



- Does the borrower have a corporate credit history that demonstrates his or her willingness to meet the company's financial obligations?
- Lenders want to put their money with borrowers who have the best credentials and references.
- The way you treat your employees and customers, the way you take responsibility, your timeliness in fulfilling obligations, etc.

Loan Participation Program



Provides long-term commercial financing to Alaska businesses

- Participation may total up to 90% of a loan originated by an eligible lending institution, with total participation not to exceed \$25 million.
- Terms:
 - Up to 15 years for personal property
 - Up to 25 years for real property
- 75% loan-to-value;
- Fixed or variable interest rates
- The program has created approximately 5,000 construction jobs and 6,000 permanent jobs



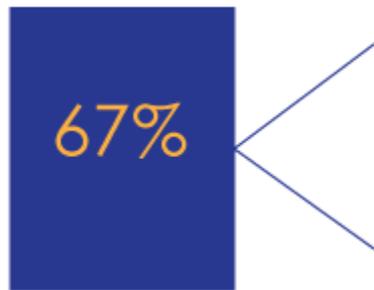
Long-term financing of energy-related improvements - Anchorage

- Northrim - \$250,000 (10%)
- AIDEA - \$2,250,000 (90%)
- Energy renovations and upgrades to six buildings on APU core campus
- Estimated annual savings of \$340,000



SETS Financing

Possible SETS Financing Structure



- Equity
- Tax Credit
- Debt
- Grants



- Maximum Amount: Loan up to \$20 million
- Maximum Term: 30 Years (depends on useful life of collateral)
- Rate: Corresponding U.S. Treasury of term on note + spread up to 450 basis points

100% = Project Cost



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