



3rd Party Financing: What, Why, When & How

April 29, 2015

AABC Commissioning Group
AIA Provider Number: 50111116



Identifying, Evaluating and Integrating Financing into Efficiency Proposals

Course Number: CXENERGY1518

Michael Park, VP Project Finance, Noesis Energy

Josh Duncan, VP Product Management, Noesis Energy

April 29, 2015



Credit(s) earned on completion of this course will be reported to **AIA CES** for AIA members. Certificates of Completion for both AIA members and non-AIA members are available upon request.

for continuing professional education. As such, it does not include content that may be deemed or construed to be an approval or endorsement by the AIA of any material of construction or any method or manner of handling, using, distributing, or dealing in any material or product.

Questions related to specific materials, methods, and services will be addressed at the conclusion of this presentation.

This course is registered with **AIA CES**



Course Description

4

Only 12% of efficiency professionals always include 3rd party financing on their project proposals, but 68% of projects get rejected because of lack of funding. Why do so few proposals include options for 3rd party financing when it helps overcome the biggest obstacle to the project getting approved? The problem is that many efficiency professionals lack the expertise necessary to know what finance products to propose, why they should include it, when do provide it and how to sell it. In this session, two Project Finance Experts will walk through the process of identifying, evaluating and integrating financing into efficiency proposals and – most importantly – selling the financing to the CFO.

Learning Objectives

At the end of the this course, participants will be able to:

1. Understand why more than two-thirds of energy efficiency project proposals for buildings are rejected due to a lack of third-party financing.
2. Learn how to identify and evaluate third-party financing opportunities available for building energy efficiency projects.
3. Understand how to best integrate third-party finance products into energy efficiency proposals.
4. Learn how to educate building owners and chief financial officers about the benefits of third-party financing programs and how to convince them to take advantage of such opportunities.

Agenda

- “ Discussion of Financing
 - What is it?
 - Why should I include?
 - When should it be introduced?
 - How do I access and include it?
- “ Pitching Efficiency Projects
- “ Q&A

Josh Duncan
VP, Product
Noesis



Michael Park
VP, Project Finance
Noesis



What Is 3rd Party Financing?



What is 3rd Party Efficiency Financing?

Provides a cost-effective alternative to internal funds (i.e. budget) for the purchase or installation of energy efficiency improvements.

- “ State / local programs
- “ Bank loans / credit facility
- “ Leases (operating, capital, municipal)
- “ Performance contracts (ESPC, ESA, MESA, etc.)
- “ PACE, On-Bill Financing (OBF)



What does it look like?

EXAMPLE NOESIS FINANCING CASH FLOW (Assumes a good credit rating and final payments may vary.)

Term Length
4 years

Financed Lifecycle Savings
\$890,290

[Edit Finance Terms](#)

Amount Financed \$200,800	Gross Project Cost \$221,200	Monthly Payment \$4,096
Annual Savings \$62,851	Avg. Monthly Savings \$5,397 (during term)	Monthly Cash Flow \$1,301 (during term)

Down Payment: \$0 | Buyout: \$1 | Money Factor: 0.02000 | Utility Escalation Rate: 2.00%



A few more thoughts

Rebates & incentives help bring down the amount financed, but are not financing.

Having cash is not the same thing as having cash for efficiency projects.

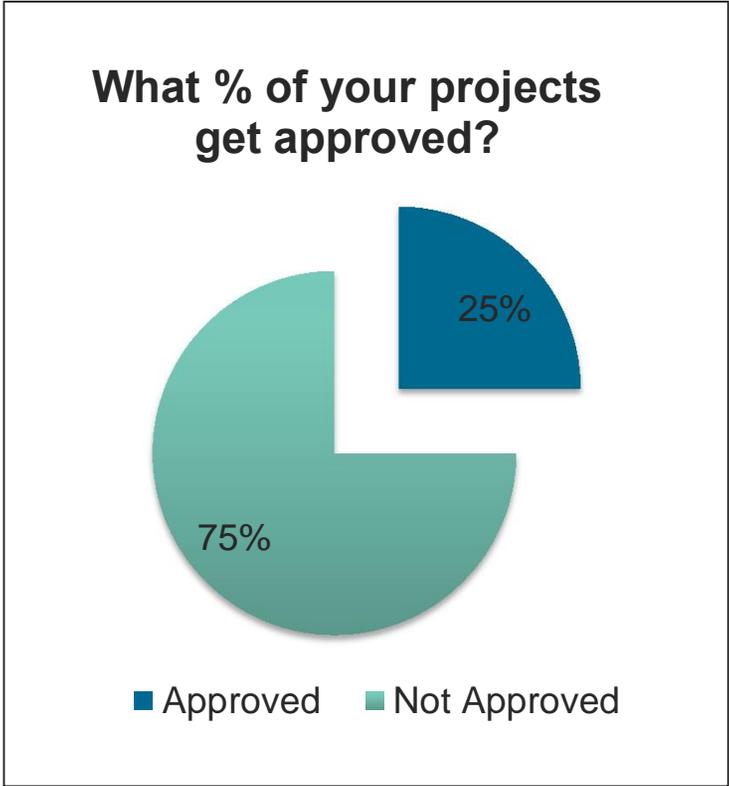
Financing is not a sign of desperation, but a indication of smart capital allocation.



Why Include 3rd Party Financing?



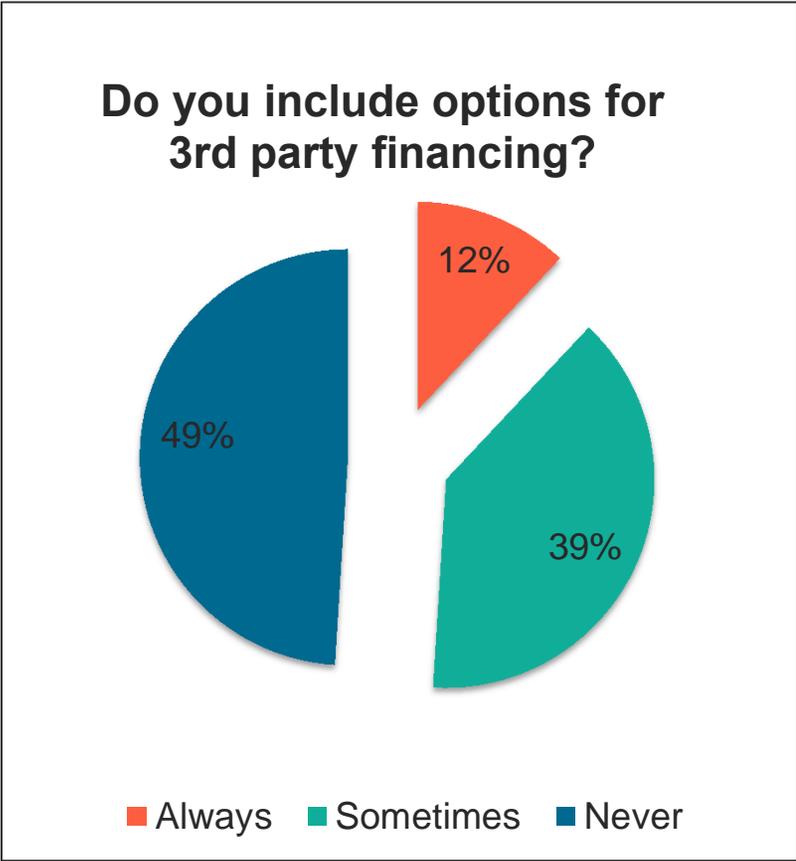
Why include 3rd party financing?



- Reasons for Not Getting Approved?**
1. Not budgeted (59%)
 2. No time / not a priority (41%)
 3. Doesn't meet internal hurdle rates (38%)



Why include 3rd party financing?



78% said they “didn’t know enough about it” or “didn’t have the time” to include it.



Even if you don't believe in stats



The big players include financing on every deal.

If you're not including it, you're at a disadvantage from the outset.

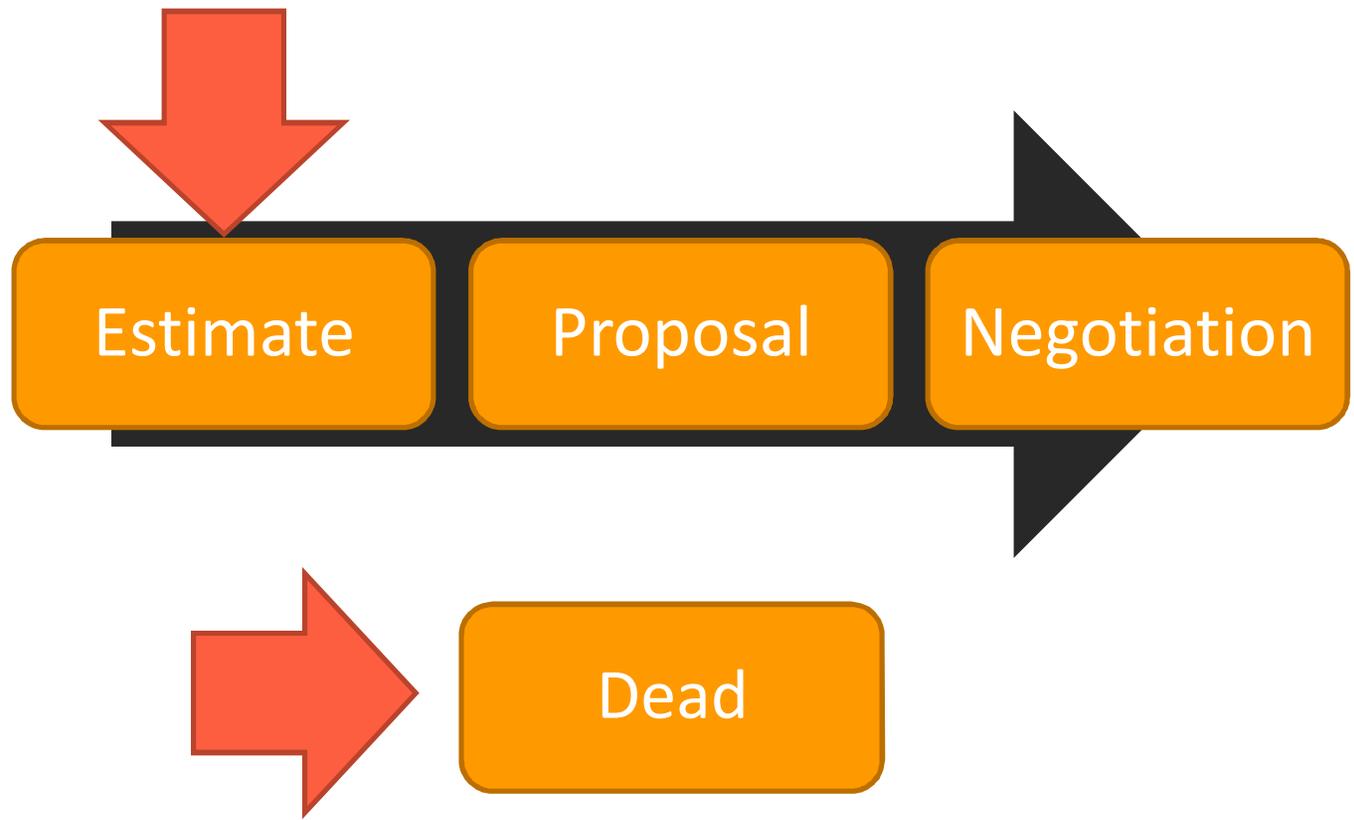
When to Introduce 3rd Party Financing?



When to include 3rd party financing?



When to include 3rd party financing?



When to include 3rd party financing?



On every deal.



How to Include 3rd Party Financing



How to include 3rd party financing?

1. Use your internal finance team.



2. Find & negotiate with lenders.



3. Use 3rd party for financial services.



Pitching Efficiency Projects



Types of Efficiency Financing

PPA, SSA, PACE,
 on-bill financing,
 bank loans, leases,
 ESA, MESA
 Performance
 contracting, etc.



Project Financing Cheat Sheet

What is financing?

"Financing" (sometimes referred to as "3rd party financing") is a way to fund your energy projects, if there is not budget or available cash to self-fund the project. The good news is that there are more financing options than ever before; the bad news is that finding 3rd party financing can be difficult and time-consuming. And, explaining financing options to project decision makers (such as CFOs) can be challenging for energy and facility professionals.

What projects can be financed?

Most types of energy projects can be financed, from \$10,000 lighting projects to multi-million dollar deep retrofits. Both efficiency and generation (e.g. wind, solar) projects are eligible for financing. Projects can be single measures or bundled together by measures and/or facilities.

What are the main ways to finance?

 Commercial loan	Sometimes called "traditional debt" commercial loans are non-energy-specific lines of credit extended to the business.
 Capital/ Equipment lease	More like a loan than a lease, capital leases have fixed terms and monthly payments with \$0 down. While there is a buyout at the end, it's usually a nominal amount, like \$1. Many lease providers let soft costs (engineering, etc.) be funded through the lease.
 Operating lease	More of a traditional lease structure with fixed payments, minimal/no upfront costs and end-of-lease purchase, return or re-lease options. Preferred by some because payments can be made from operating budget which can remain off-balance sheet (vs. capital budget).
 PACE (Property Assessed Clean Energy)	Relatively new financing vehicle where the funds are secured through a property tax lien on the building. Payments are made through property taxes. Lien stays with the building when/if building ownership changes- that is, building is guarantor, not the building owner. Ideal for deep retrofits on buildings where building owners may not have access to commercial loans or other financing. Only available in regions with active PACE programs.
 ESA/MESA (Energy Service Agreements / Managed Energy Service Agreements)	Financing solutions where energy efficiency is "outsourced" to 3rd party where 3rd party owns and maintains efficiency equipment (like a chiller). Building owner agrees to pay 3rd party based on realized energy savings. ESAs are used by ESCOs, an option popular in the public sector.
 PPA (Power Purchase Agreement)	Similar to an ESA, a PPA provider owns and maintains generation equipment (such as solar panels) and the building owner agrees to purchase energy from the PPA provider at an agreed rate (typically below market rates.)
 SSA (Shared Savings Agreement)	Similar to performance contracts used by the large ESCOs, but limit the performance risk assumed by the project developer to 10%. Payments over the term of the SSA are variable depending on the actual savings delivered by the equipment, making the project developer assume some of the performance risk of the project.

How does it work?

Similar to securing financing for big purchases like homes, you have to prepare your application and find the right lender and financing vehicle. (Most lenders specialize in one of the listed options above.) What types of information do they need?
Examples include:

- 12 months of utility data to establish baseline
- Project data (detailed scope, costs)
- Project benchmarks
- Company financial information
- Cash flow model & other financial analysis

Need help?

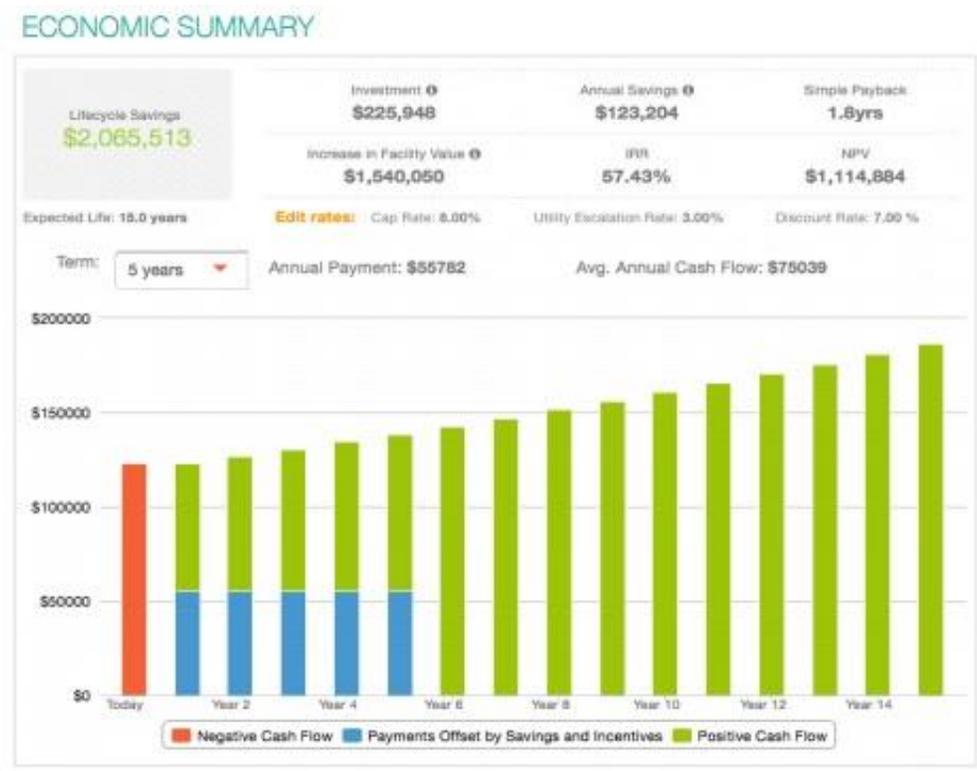
Don't have time or background in finance to apply for financing? Noesis can help. Noesis finance specialists can be your project "back office" and work with you to get the financing that's right for you.

Email finance@noesis.com



A few case studies

Climatec Fixes Tenant Discomfort & Finds \$2 Million in Savings



A few case studies

\$93K lighting project gets approved and financed in days

ECONOMIC SUMMARY



Selling with Scenarios

FINANCE Office Retrofit with Performance Rebate

Customer: ABC Property Management *Updated a few seconds ago* *Compared with Standard Chiller Replacement*

Summary Details Financing **Scenarios** Performance Options Documents

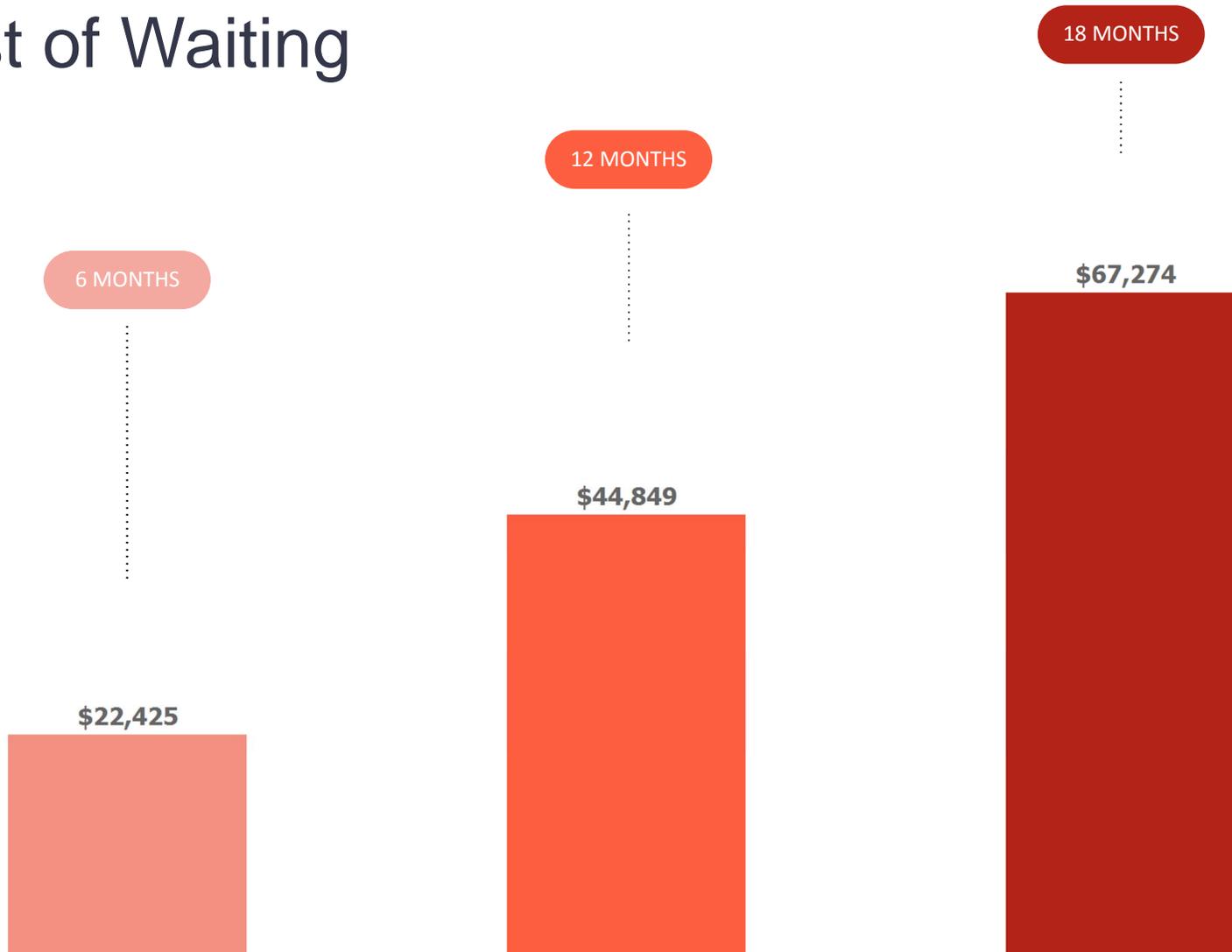
Scenario 1 ▼ Scenario 2 - Current **Difference**

	Scenario 1	Scenario 2 - Current	Difference
Net Project Cost	\$360,325	\$575,911	(\$215,586)
Annual Savings	\$0	\$145,682	\$145,682
Life Cycle Savings	(\$360,325)	\$3,338,619	\$3,698,944
Internal Rate of Return	—	27.97%	27.97%
Facility Value Increase	\$0	\$1,821,025	\$1,821,025
Monthly Payments	\$7,296	\$11,660	(\$4,365)
Monthly Cash Flow Impact	(\$7,296)	\$1,230	\$8,526

SCENARIO 1
Standard Chiller Replacement:

SCENARIO 2
Office Retrofit with Performance Rebate: This office retrofit includes a complete LED retrofit and a chiller replacement.

Cost of Waiting



Increase in Facility Value



Added Net Operating Income	\$44,849
÷ Capitalization Rate	8.00 %

Increase in Facility Value	



The End.

Josh Duncan
VP, Product
josh@noesis.com



Michael Park
VP, Project Finance
mpark@noesis.com



Learn more:
Google **Noesis Resource Library** for more educational webinars and eBooks



This concludes The American Institute of Architects
Continuing Education Systems Course

