

Financing and Funding Solutions Applied Solutions Conference 2009

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Financing Strategies

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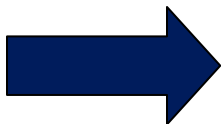
There are two basic financing strategies for financing energy-related projects

Utility Strategy



- Service agreement, not a financing
 - Power purchase agreement
- Energy assets owned by a third-party
- Host customer purchases output at a fixed price
- Cost effective?

Ownership Strategy



- Cash purchase
- ARRA grants/low interest rate loan programs
- Tax-exempt financing options
 - General obligation bonds
 - Lease revenue bonds/certificates of participation
 - Municipal lease/purchase
- Tax credit bonds
 - Clean Renewable Energy Bonds (“CREBs”)
 - Qualified Energy Conservation Bonds (“QECBs”)

Ownership Strategy

Tax-exempt Lease/Purchase Financing – Butte-Glenn Community College District



Overview:

- Butte-Glenn Community College District is a national leader in sustainability in community colleges, with a goal to be carbon neutral by 2015.
- The district has completed four solar projects and the fifth project will be completed in the next few months.

Issuer Benefit:

- The total project cost is approximately \$7.7 million.
- Over the next five years, the district will qualify for an estimated \$1.7 million in utility incentives.
- After the lease/purchase is paid off, the district will save an additional estimated \$7.5 million over the life of the system.

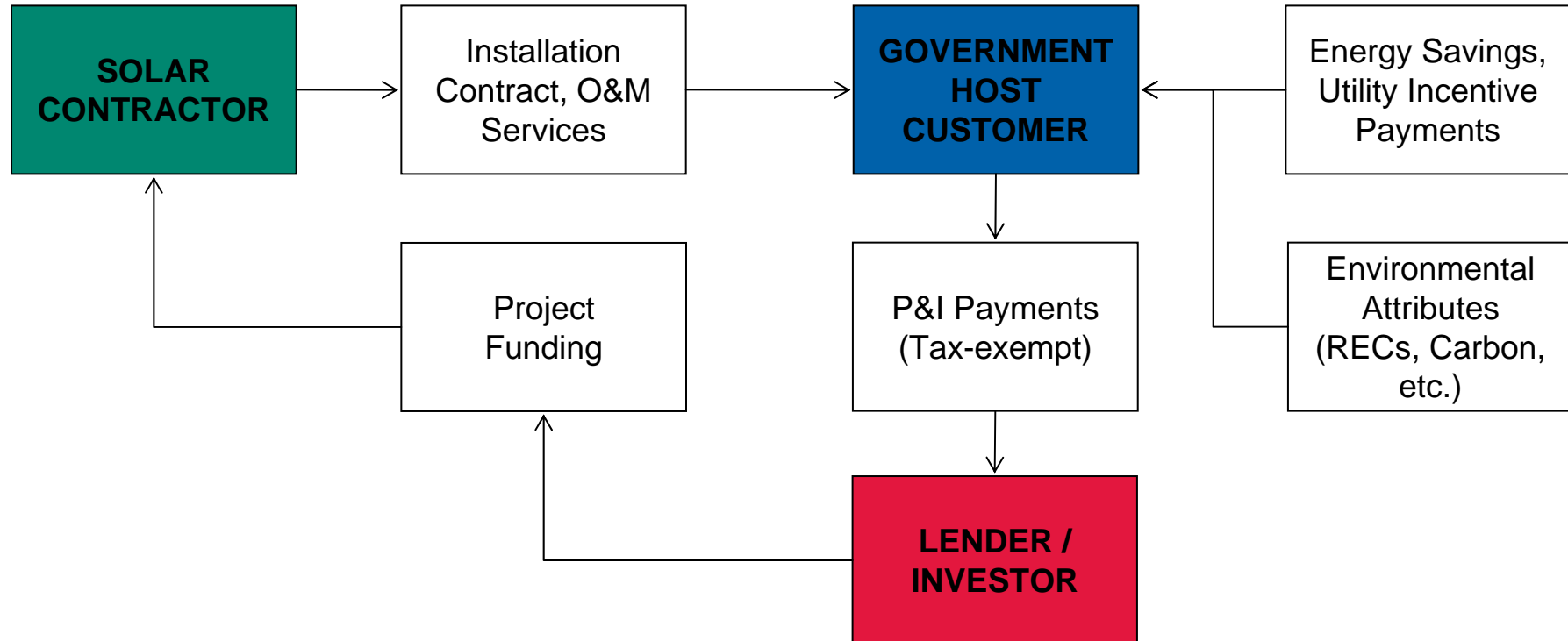
Structure:

- Bank of America provided tax-exempt funding in November 2008 under a 20-year lease/purchase agreement.



Tax-Exempt Financing Structure

Traditional tax-exempt funding mechanism for energy related projects.



Ownership Strategy

Clean Renewable Energy Bonds – City of Palo Alto

City of Palo Alto

\$1,500,000

CREBs

Three Solar Projects

Overview:

- Palo Alto is a full-service municipality that owns and operates its gas, electric, water, sewer, refuse and storm drainage services at very competitive rates for its customers.
- Palo Alto applied to the IRS for an allocation of Clean Renewable Energy Bonds (CREBs) to provide funding for solar photovoltaic projects at three city-owned facilities.

Issuer Benefit:

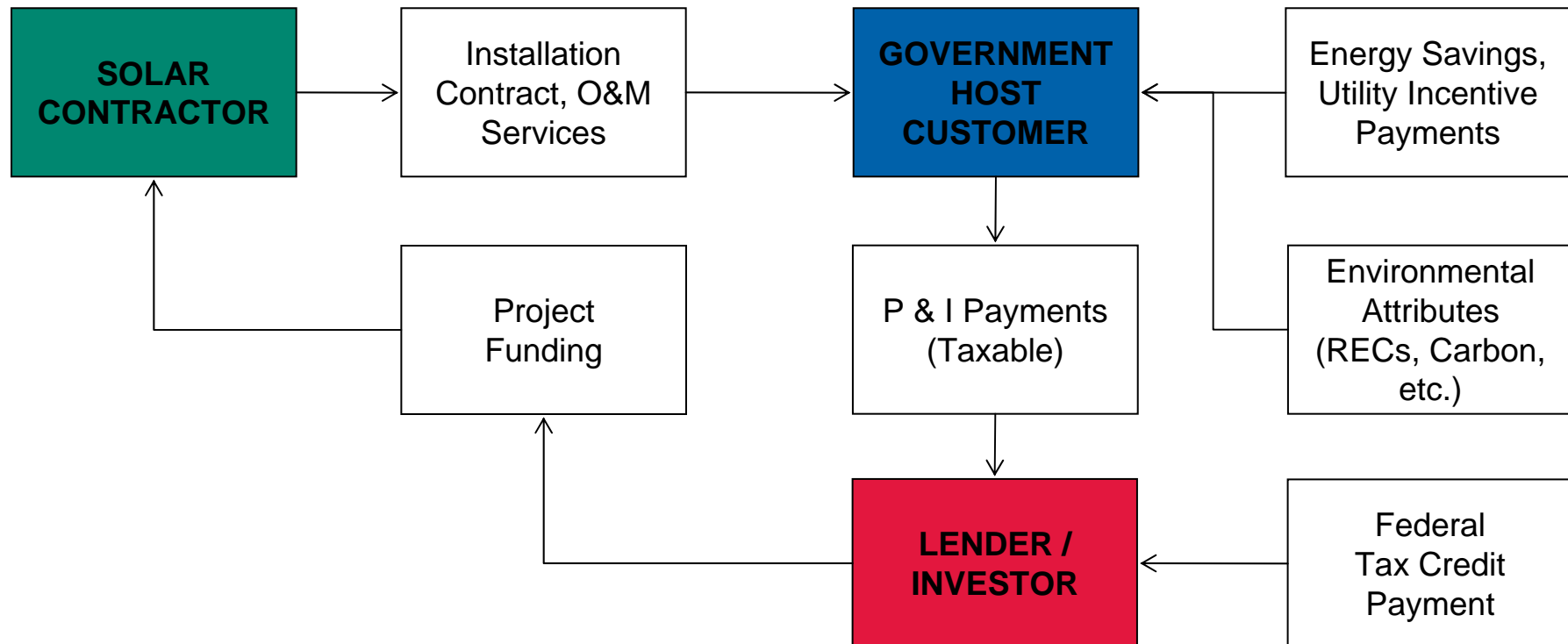
- Investors in CREBs receive a federal tax credit, which allows these transactions to be offered at below market interest rates.
- This transaction was structured at a zero percent interest to the city, net effective yield is 0.77 percent.
- Proceeds from the CREBs will be used to pay for the installation of three solar photovoltaic panels at three city locations.

Structure:

- Private placement revenue bond secured by the city's electric enterprise.
- Term of 15-years, annual principal-only payments.

Tax Credit Bonds - Amortizing Structure

Tax credit bond funding mechanism for energy related projects.



**Municipal Bond and Tax Credit Bond Provisions
of the
American Recovery and Reinvestment Act of 2009**

American Recovery and Reinvestment Act of 2009

Municipal Bond Provisions

Bank qualification

- Increase small issuer limit to \$30 million in calendar years 2009 and 2010
- Increased from pre-act limit of \$10 million
- Greater bank demand for traditional tax-exempt financings, including
 - General obligation bonds
 - Revenue-backed bonds
 - Municipal lease/purchase agreements

American Recovery and Reinvestment Act of 2009

Tax Credit Bonds

Build America Bonds

- New taxable bond option for issuers of state and local governmental bonds issued after February 17, 2009
- State or local government issuers can choose to issue one of two types of Build America Bonds
 - Direct Payment – where a state or local government issuer receives payments from the Treasury Department equal to 35 percent of the interest payments on such bonds (note: the proceeds of such bonds can only be used for capital expenditures, debt service reserve funds and costs of issuance)
 - Tax Credit – where the bond holders receive a tax credit equal to 35 percent of the interest on such bonds (note: the proceeds of such bonds can be used for the same purposes as regular tax-exempt governmental bonds, including to finance working capital)
- These bonds must be issued before January 1, 2011

American Recovery and Reinvestment Act of 2009 Tax Credit Bonds

New Clean Renewable Energy Bonds (CREBs)

- \$2.4 billion in new CREBs to be split equally between
 - Governmental bodies
 - Public power providers
 - Cooperative electric companies
- Provide funding for renewable energy projects that create electricity
 - Solar PV (not thermal)
 - Wind
 - Biomass/Landfill Gas
 - Small Hydro
- Lender/Bondholder receives a Federal tax credit, which reduces the rate to the borrower/issuer
- Applications due to the IRS on August 4, 2009
- Separate application for each project location
- Allocation are awarded from smallest-to-largest locations
- CREBs must be issued within 3 years of allocation notice from IRS

American Recovery and Reinvestment Act of 2009 Tax Credit Bonds

Qualified Energy Conservation Bonds (QECBs)

- \$3.2 Billion allocated among the states in proportion to population
- Similar to CREBs, lender/bondholder receives a Federal tax credit during the term
- Automatic Allocation to large local governments (counties/cities with population >100,000)
- Projects related to reducing energy consumption in publically-owned buildings
- Implementing green community programs
- Renewable energy projects (solar, wind, biomass, landfill gas, etc.)
- Research facility expenditures and research grants
- Public education campaigns to provide energy efficiency