

Albemarle County, Virginia

Energy Performance Contract Financing

Results of the Bank RFP Process



August 9, 2017

Overview



- The Albemarle County School Board (the “School Board”) will enter into an Energy Performance Contract (the “Contract”) project with Ameresco.
- The goal of the Contract is to implement equipment and capital improvements at various County Schools in order to save on energy costs over time.
- The cost of the Projects will be approximately \$7.5 million not including costs of issuance.
- Ameresco has assumed the projects will be financed with a capital lease / loan obligation (the “Financing”) and procured by the County/School Board.
- Davenport & Company LLC (“Davenport”), acting in capacity as Financial Advisor to the Albemarle County and the School Board, was asked to assist in obtaining Financing for the projects via a competitive process.
- Today, the results of the RFP process are being presented to the Board of Supervisors and on August 10th, the results will be shared with the School Board.

Financing Options



- In order to finance the projects, there are two types of financing structures:
 - 1) A Fixed Rate Tax-Exempt Loan provided by a banking institution; and,
 - 2) A Fixed Rate Qualified Energy Conservation Bond (“QECCB”) provided by a banking institution issued through a state sponsored program called Virginia SAVES Green Community Program (“VA Saves”).
- A tax-exempt loan option is similar to the type of financing the County has successfully utilized numerous times in the past to finance Governmental/School projects.
- The QECCB financing through VA Saves is a special loan program that utilizes QECCB allocation authorized by the Federal Government and administered by Clean Source Capital and issued through the State’s Virginia Resources Authority (“VRA”) or the Virginia Small Business Financing Authority (“VSBFA”) in limited amounts to allow a qualifying entity like the County/School Board to borrow at a taxable rate and receive a subsidy from the Federal Government as a partial offset to the interest payments.
- The QECCB program is only available for qualifying energy saving capital projects.
 - VA Saves has already determined the projects are eligible for the federal subsidy.
 - The QECCB / VA Saves program requires a number of additional federal requirements / costs that are in addition to those of a Tax Exempt loan. Estimates for these costs/requirements have been included in the cost of the project for this option.



Financing Options (Continued)

- Bids were requested for two potential Financing structures with two options under each structure:

Tax-Exempt Equipment Lease Financing

- **Option 1A:** Equipment Lease Purchase Agreement with the County Board & School Board only as the Lessee;
- **Option 1B:** Equipment Lease Purchase Agreement with the School Board only as the Lessee;

Taxable Qualified Energy Conservation Bond (“QECCB”) via the Virginia Saves Green Community Program (“VA Saves”)

- **Option 2A:** A QECCB issued via the Virginia Resources Authority (“VRA”) with the County and School Board as the Lessee.
 - **Option 2B:** A QECCB issued via the Virginia Small Business Financing Authority (“VSBFA”) with the School Board only as the Lessee.
- Under Options 1B and 2B, because the County would not be included in the financing documents, the debt incurred for the schools would not be considered as County debt but rather an operating lease entered into by the schools. Consequently, the energy financing would not affect the County’s debt capacity and key debt ratios.
 - Additionally, due to a variety of factors, Options 1A and 2A were contemplated in order to ensure the County/School Board were receiving the lowest possible interest rate(s).
 - Working with County Staff and Bond Counsel, Davenport solicited bids from banking institutions for each option.

Summary of Proposals



- On Tuesday July 18, 2017, Davenport & Company on behalf of Albemarle County, Virginia and the Albemarle County School Board, distributed a Request for Proposal (“RFP”) to over 25 local, regional and national lending institutions for the purpose of obtaining a commercial loan under two different options – VA Saves Taxable QECB and traditional tax-exempt borrowing.
- On Tuesday, August 1, 2017 Davenport received proposals from the following lending institutions:
 - Bank of America (“BAML”)
 - Capital One
 - Hannon Armstrong
 - KeyBank
 - Pinnacle Public Finance
 - TD Bank
 - Union Bank
 - U.S. Bank
 - Zions Bank
- A detailed summary of each proposal has been included in the Appendix.

	BAML	Capital One	Hannon	KeyBank	Pinnacle	TD Bank	Union Bank	U.S. Bank	Zions Bank
Tax-Exempt (County)	2.250%	2.790%	N/A	2.620%	2.630%	2.790%	N/A	2.425%	2.530%
Tax-Exempt (School Board)	2.250%	2.890%	N/A	2.620%	2.630%	2.890%	N/A	N/A	N/A
Taxable QECB (County)	3.510%	4.280%	3.860%	3.780%	N/A	N/A	3.725%	3.730%	3.870%
Taxable QECB (School Board)	3.510%	4.380%	N/A	3.780%	N/A	N/A	N/A	N/A	N/A

Key Assumptions



Financing Options

	Tax-Exempt - Option 1A (County as Lessee)	Tax-Exempt - Option 1B (School Board as Lessee)	Virginia Saves - Option 2A (County as Lessee)	Virginia Saves - Option 2B (School Board as Lessee)
Issuer	County	School Board	Virginia Resources Authority ("VRA")	Virginia Small Business Financing Authority ("VSBFA")
Security	Lease Purchase agreement between the County, School Board and the selected financial institution , a leasehold interest in the equipment, and the Moral Obligation pledge of the County.	Lease Purchase agreement between the School Board and the selected financial institution , a leasehold interest in the equipment	Security Interest in the equipment and VRA State Aid Intercept. Based on the County's Moral Obligation pledge and VRA's ability to intercept State Funds for County	Security Interest in the Equipment and a lease financing arrangement among the VSBFA, VA SAVES, and the School Board whereas the School Board will make payments sufficient in amounts to cover debt service.
Estimated Cost of the Project		\$7,523,062		\$7,523,062
Interest Rate	Tax-Exempt Interest Rate		Taxable Interest Rate Less Federal QECB Subsidy = Net Interest Rate	
Costs of Issuance	Local Costs of Issuance		Local Costs of Issuance VA Saves Program Upfront Fee = 2% of Par VRA Upfront Fee = 0.125% of Par VRA Bond Counsel = \$40,000 VA Saves Ongoing Fee = 0.25% of Par Value	

Key Assumptions, cont.



	Financing Options	
	Tax-Exempt	VA Saves
Lowest Gross Interest Rate	2.250% (Bank of America)	3.510% (Bank of America)
Net Interest Rate after the Federal Subsidy ⁽¹⁾	-	1.03%
Bank Closing Costs	None	None
Prepayment Provisions	In Whole Only anytime at 102%	In Whole Only anytime at 102%

(1) Based on the tax credit rate as of 8/1/2017 and the Bank of America Bid. Tax credit rate is subject to market movement until rate is locked in prior to closing. In addition, the net interest rate takes into account the current tax credit subsidy rate based on the federal sequestration rate in effect from 10/1/2016 to 9/30/2017. The ultimate level of tax credit subsidy is subject to change by the Federal Government over the life of the loan. Note: Includes ongoing 25 basis point administrative fee but does not include costs of issuance.

Summary of Net Cash Flow Savings



Summary of Cash Flow Savings			
Virginia Saves Option			
FY	Net Debt Service	Projected Energy Savings	Net Cash Flow Savings
2019	\$351,373	\$391,361	\$39,988
2020	639,298	679,286	39,988
2021	652,551	692,539	39,988
2022	683,974	723,962	39,988
2023	716,193	756,181	39,988
2024	731,317	771,305	39,988
2025	746,743	786,731	39,988
2026	762,477	802,465	39,988
2027	778,527	818,515	39,988
2028	794,897	834,885	39,988
2029	779,580	819,568	39,988
2030	763,956	803,944	39,988
2031	0	405,952	405,952
Total	\$8,400,885	\$9,286,691	\$885,806

Davenport has converted Ameresco's savings from a completion year basis into a fiscal year basis. Additionally, it is assumed that savings will be realized during the construction period.

Both the Tax-Exempt and Virginia Saves scenarios both show positive savings.

Congress, through Sequestration, has reduced the subsidy for the QECB type of bonds by 6.9% since 2008.

There is always the possibility that Congress further cuts the subsidy. In order for the Tax-Exempt financing to break-even with the QECB financing the federal subsidy would have to be reduced by approximately 4x its current level if this change occurred in year 1 (from the current 6.9% reduction up to 34%). The risk is reduced as each year goes by.

Note: Net of all fees, costs and taking into account savings provided by Ameresco. Assumes Debt Service payments occur at the beginning of fiscal year and savings are realized over the balance of the fiscal year. Lump sum savings amount due differences in timing of the County's fiscal year and Ameresco's calculated savings.

Recommendation & Rationale



- Davenport recommends the School Board to accept the Taxable QECP proposal from Bank of America and issuing through the Virginia Small Business Financing Authority to finance the 2017 Energy Performance Contract. This recommendation is based upon the following:
 - The proposal from Bank of America has the lowest taxable 12-year fixed rate at 3.51%, which in turn is the lowest net interest rate of 1.03%;
 - Note: The interest rate is not impacted by the County’s participation in the financing.
 - The School Board could undertake the financing without impacting the County’s Debt Capacity and Key Debt Ratios;
 - The interest rate is fixed for 12 years until final maturity, eliminating any future interest rate risk; and,
 - The proposal allows for prepayment flexibility at anytime although at a 2% penalty.
- Although there is a possibility for the Federal Government to reduce or eliminate the subsidy, Davenport believes the breakeven margin (34%) is large enough to outweigh the tax-exempt option.

Approach and Proposed Next Steps



<u>Date</u>	<u>Action</u>
Wednesday, August 9/10 (Today)	<u>Meeting of the Board of Supervisors / School Board</u> Presentation of the results of the RFP process and analysis showing estimates of potential Tax-Exempt Financing versus estimates of a potential QECB Financing(s). The School Board Authorizes Davenport and County Staff to move forward with the financing process.
Balance of August	Obtain final VA Saves approval and complete Virginia Small Business Financing Authority application.
Balance of August (cont.)	Davenport, County Attorney, Ameresco, and Bond Counsel work with County Staff to prepare financing documents for School Board formal approval.
Tuesday, September 12	Virginia Small Business Financing Authority formally approves application.
Thursday, September 14	<u>School Board Meeting</u> School Board considers adopting an Authorizing Resolution & Financing Documents to formally approve a potential Tax-Exempt or potential QECB Financing.
No later than September 30	Close on Financing.



Appendix A – Detailed Cash Flows

Debt Service – QECB Financing BAML @ 3.51%



QECB Financing - Bank of America

FY	Principal	Interest	VA Saves Fee	QECB Subsidy	Total Net Debt Service	Net Operational & Energy Savings ⁽¹⁾	Cash Flow Savings (Loss)
2019	\$237,703	\$385,158	\$27,433	(\$298,921)	\$351,373	\$391,361	\$39,988
2020	563,572	256,587	18,275	(199,137)	639,298	679,286	39,988
2021	582,763	236,469	16,843	(183,523)	652,551	692,539	39,988
2022	620,417	215,353	15,339	(167,135)	683,974	723,962	39,988
2023	659,265	192,894	13,739	(149,705)	716,193	756,181	39,988
2024	681,332	169,367	12,063	(131,445)	731,317	771,305	39,988
2025	703,933	145,056	10,332	(112,577)	746,743	786,731	39,988
2026	727,079	119,941	8,543	(93,086)	762,477	802,465	39,988
2027	750,783	94,005	6,696	(72,957)	778,527	818,515	39,988
2028	775,057	67,226	4,788	(52,174)	794,897	834,885	39,988
2029	767,730	40,150	2,860	(31,161)	779,580	819,568	39,988
2030	760,020	13,338	950	(10,352)	763,956	803,944	39,988
2031	0	0	0	0	0	405,952	405,952
Total	\$7,829,655	\$1,935,544	\$137,859	(\$1,502,173)	\$8,400,885	\$9,286,691	\$885,806

(1) Projected energy savings net of Ameresco service costs. Davenport has converted pro-forma savings to a fiscal year basis and assumes approximately \$55,000 of savings during the construction period.

Note: Debt Service estimates are based on Request for Proposals response as of August 1, 2017. Costs of Issuance are estimated. Preliminary and subject to change. Actual results may vary from these estimates. Energy Savings estimates are based upon information provided by Ameresco.

Debt Service – Tax Exempt Financing BAML @ 2.25%



Tax-Exempt Financing - Bank of America

FY	Principal	Interest	Total Net Debt Service	Net Operational & Energy Savings ⁽¹⁾	Cash Flow Savings (Loss)
2019	\$148,328	\$241,157	\$389,485	\$391,361	\$1,876
2020	515,135	162,274	677,409	679,286	1,876
2021	540,262	150,401	690,663	692,539	1,876
2022	584,336	137,749	722,085	723,962	1,876
2023	630,220	124,085	754,305	756,181	1,876
2024	659,856	109,572	769,428	771,305	1,876
2025	690,474	94,380	784,854	786,731	1,876
2026	722,100	78,489	800,589	802,465	1,876
2027	754,764	61,874	816,638	818,515	1,876
2028	788,496	44,513	833,009	834,885	1,876
2029	790,947	26,744	817,691	819,568	1,876
2030	793,145	8,923	802,068	803,944	1,876
2031	0	0	0	405,952	405,952
Total	\$7,618,062	\$1,240,160	\$8,858,222	\$9,286,691	\$428,469

(1) Projected energy savings net of Ameresco service costs. Davenport has converted pro-forma savings to a fiscal year basis and assumes approximately \$55,000 of savings during the construction period.

Note: Debt Service estimates are based on Request for Proposals response as of August 1, 2017. Costs of Issuance are estimated. Preliminary and subject to change. Actual results may vary from these estimates. Energy Savings estimates are based upon information provided by Ameresco.



Appendix B – Summary of Proposals

Summary of Proposals – QECCB



Series 2017 Bond - Taxable QECCB Summary of Bids Received										
	Bank of America		Capital One		Hannon Armstrong	Key Bank		Union Bank	U.S. Bank	Zions Bank
										ZIONS BANK.
	Option 2A	Option 2B	Option 2A	Option 2B	Option 2A	Option 2A	Option 2B	Option 2A	Option 2A	Option 2A
Amount	\$7,900,000		\$7,900,000		\$7,900,000	\$7,900,000		\$7,900,000	\$7,900,000	\$7,900,000
Term	12 Years		12 Years		12 Years	12 Years		12 Years	12 Years	12 Years
Interest Rate	3.510%		4.280%	4.380%	3.860%	3.780%		3.725%	3.730%	3.870%
Rate Fixed	12 Years		12 Years		12 Years	12 Years		12 Years	12 Years	12 Years
Rate Reset/Put	None		None		None	None		None	None	None
Call Date	In Whole Only anytime w/30 days notice		8/15/2023 in whole at par on any interest payment date		8/15/2018	Anytime in whole or in part		Anytime in whole or in part	13 Months	Anytime with 30-day notice
Prepayment Penalty	102%		None		101%	2.00% for months 1-36, 1.00% for months 37-60, and 0.00% month 61 to maturity		None	Make-Whole or 103%, whichever is lower	None
Bank / Legal Fees	None		None		None	\$17,500		Yes, not specified	\$5,000	None
Accept By	8/15/2017		8/8/2017		8/15/2017	8/21/2017		Not Specified	Not Specified	Not Specified
Close By	9/30/2017		9/1/2017		9/30/2017	9/29/2017		9/30/2017	10/26/2017	10/1/2017
Subject to Credit Approval?	Yes		Yes		Yes	Yes		Yes	Yes	Yes

Summary of Proposals – Tax-Exempt



Series 2017 Bond - Tax-Exempt Lease Summary of Bids Received												
	Bank of America		Capital One		Key-Bank		Pinnacle		TD Bank		U.S. Bank	Zions Bank
												ZIONS BANK
	Option 1A	Option 1B	Option 1A	Option 1B	Option 1A	Option 1B	Option 1A	Option 1B	Option 1A	Option 1B*	Option 1A	Option 1A
Amount	\$7,900,000		\$7,900,000		\$7,900,000		\$7,900,000		\$7,900,000		\$7,900,000	\$7,900,000
Term	12 Years		12 Years		12 Years		12 Years		12 Years		12 Years	12 Years
Interest Rate	2.250%		2.790%	2.890%	2.620%		2.630%		2.790%	2.890%	2.425%	2.530%
Rate Fixed	12 Years		12 Years		12 Years		12 Years		12 Years		12 Years	12 Years
Rate Reset/Put	None		None		None		None		None		None	None
Call Date	In Whole Only anytime w/30 days notice		8/15/2023 in whole at par on any interest payment date		Anytime in whole or in part		8/15/2022		8/15/2018		13 Months	Anytime with 30-day notice
Prepayment Penalty	102%		None		2.00% for months 1-36, 1.00% for months 37-60, and 0.00% month 61 to maturity		None		Greater of 102% or Yield Maintenance		Make-Whole or 103%, whichever is lower	None
Bank / Legal Fees	None		None		\$17,500		\$5,000		\$1,500		None	None
Accept By	8/15/2016		8/8/2017		8/21/2017		9/30/2017		8/10/2017		Not Specified	Not Specified
Close By	9/30/2017		9/1/2017		9/29/2017		9/30/2017		9/30/2017		10/26/2017	10/1/2017
Subject to Credit Approval?	Yes		Yes		Yes		Yes		Yes		Yes	Yes

*Note: Does not have corporate tax language.



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