



ENERGY AS A SERVICE & MUNICIPAL BONDS: What You Should Know

With You Today

Your Session Speakers



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What is Energy as a Service?

A long-term contractual agreement that:

- 🗨 Obligates the University to make payments over a number of years
- 🗨 Obligates a service provider to deliver and operate or guarantee the performance of energy-related improvements
- 🗨 Requires financing for some or all of the cost of the improvements

The University's Perspective

What was the Abilene Christian University Project?

BIGGER PICTURE ISSUES

- What were the goals of the transaction?
- What sold the Board?

SMALLER PICTURE ISSUES

- How did the transaction execution process differ from a normal municipal financing?
- How long did the transaction take to close?
- How involved was your facilities team?

What are EaaS Transactions?

How is this different from typical ESCO projects? ESCOs typically design and construct facility improvement measures for a guaranteed maximum price and provide an energy savings guarantee for a limited period of time (often one year), but then hand the asset back to the owner to operate and maintain. With an EaaS the private developer is retaining long-term operations and maintenance risk.

Why do it?


- **Risk Transfer** – Transfer long-term operational and maintenance risk of non-core functions to an expert that is singularly focused on ways to improve energy efficiency and resiliency from an owner that is primarily focused on its core mission of healthcare, education, government services, corporate interests, etc.
- **Partnership** – Gain a facilities management expert long-term partner that can evaluate campus-wide utility needs on a scheduled and programmatic basis.
- **Lock in Long-term Utility Facilities Costs** – While the underlying commodity risk is typically retained by the project's owner, guarantees around utility availability, efficiency and reduction and facility performance are retained by the developer.
- **Performance Based Compensation** – Compensation is directly linked to the successful performance of the utility assets in a manner that satisfies the key performance indicators in the contract.

C-Suite Feedback | Why an EaaS Partnership?


Representative Stakeholder Perspectives on Benefits of EaaS

Key Stakeholders


Chief Financial Officer & Treasurer




Real Estate & Facilities Leadership
















Chief Strategy & Chief Operating Officer



Sustainability & Advocacy Leadership



	Relevance
1. Facility owner transfers performance risk to the Operator, facilitating refocus on core mission	
2. Alternative source of up-front capital which does not deplete investment portfolio or parent level debt capacity	
3. Extract value from illiquid assets without selling or losing control of essential PP&E	 
4. Expense savings may be guaranteed by Operator and structured to produce net positive cash flow impact	
5. Funding source for capex with low return profile that may otherwise not be prioritized during budgeting cycle	
6. Ongoing ability to cost-effectively leverage expert 3 rd party resources to supplement Facility Owner's staff	
7. Flexibility with respect to existing employees	 
8. Facilitates greenlighting of meaningful projects which assist in meeting System's sustainability targets	
9. A partial hedge against future increases in utility costs or energy capital requests	
10. Facilitates access to direct pay investment tax credits via the Inflation Reduction Act	 

Types of EaaS Projects

Public University Campus Central Utility Plant DBFM P3 Project (30 years)

- **Replacement of Central Plant** – Will provide heating and cooling to a number of buildings on campus
- **New Underground Utility Distribution System** – Connecting buildings to central plant
- **Energy Conservation Measures** – HVAC equipment and controls, lighting, and heat pumps to improve energy efficiency and improve climate control
- **Renewable Energy** – New solar PV canopies over parking lots – will produce 20% of energy consumed on campus
- **Education** – Several internships offered during construction O&M. Scholarships will also be awarded to eligible students
- **DBFM Availability Payment Structure** – \$200 - \$250 million / **No upfront payment**
- **Campus Retains Staffing for Operations**

Private Hospital System DBFOM EaaS (15 years)

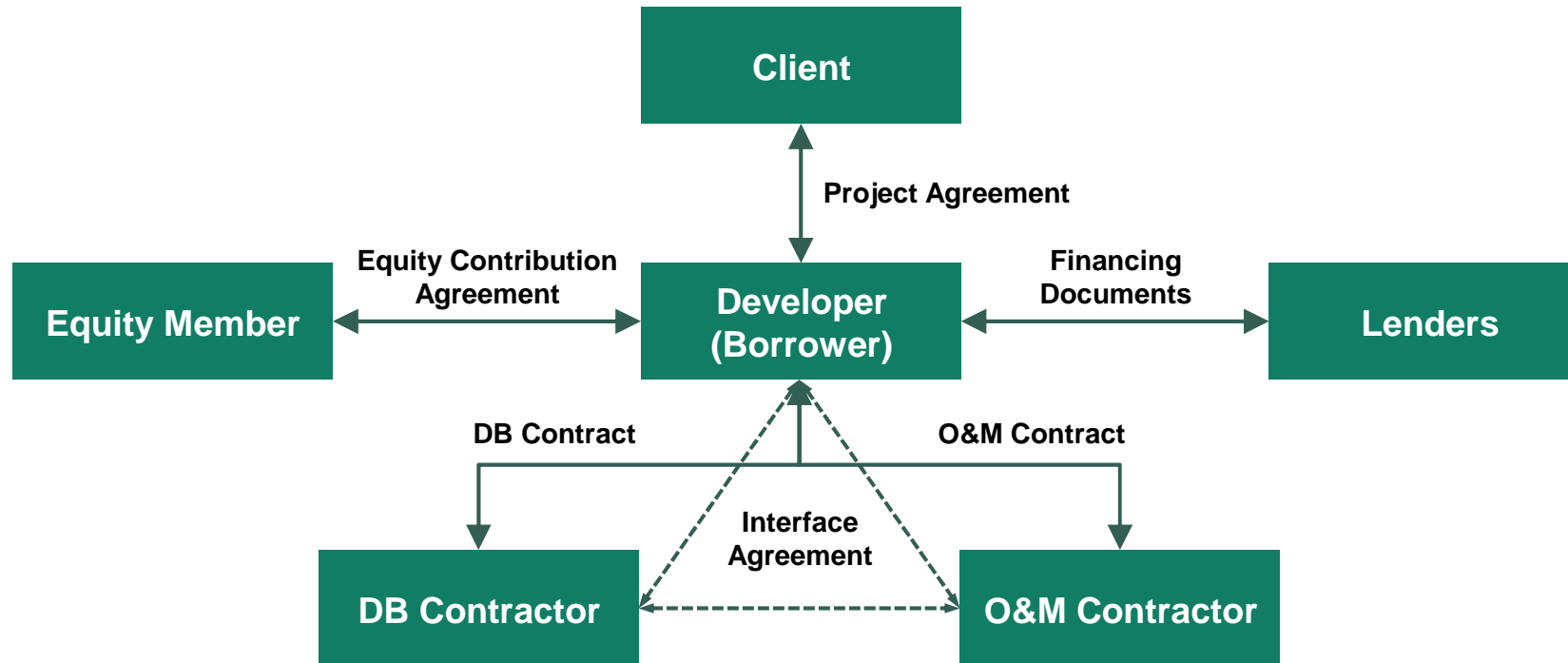
- **~\$100+ million upfront payment** for 15-year concession across nearly 10 different hospital campuses
- **Upgrades to Chilled Water, Tower Water, Heating Water and Steam Systems**
- **O&M of Chilled Water System**
- **Air Handling Unit Upgrades and building automation systems**
- **Improving procedure rooms and installing LED lighting**
- **~\$10 million in annual guaranteed cost savings** across ~20% reduction in electricity consumption and ~35% natural gas consumption

Private University FOM Central Utility EaaS (40 years)

- **~\$100+ million upfront payment** for 40-year campus-wide concession through sale and purchase agreement structure
- **Transfer of Existing System Assets** – Steam, water, compressed air and electricity assets. Developer must provide all water / steam requirements for the campus up to a max and a certain minimum for electricity
- **Resiliency** – Back-up capacity afforded from developer's existing off-site plant
- **Employee Transfer** – Several university employees transitioned to private developer
- **Off-Balance Sheet** – Risk of loss generally retained by developer
- **Long-term CAPEX plan** – Parties to meet and propose upgrades every few years

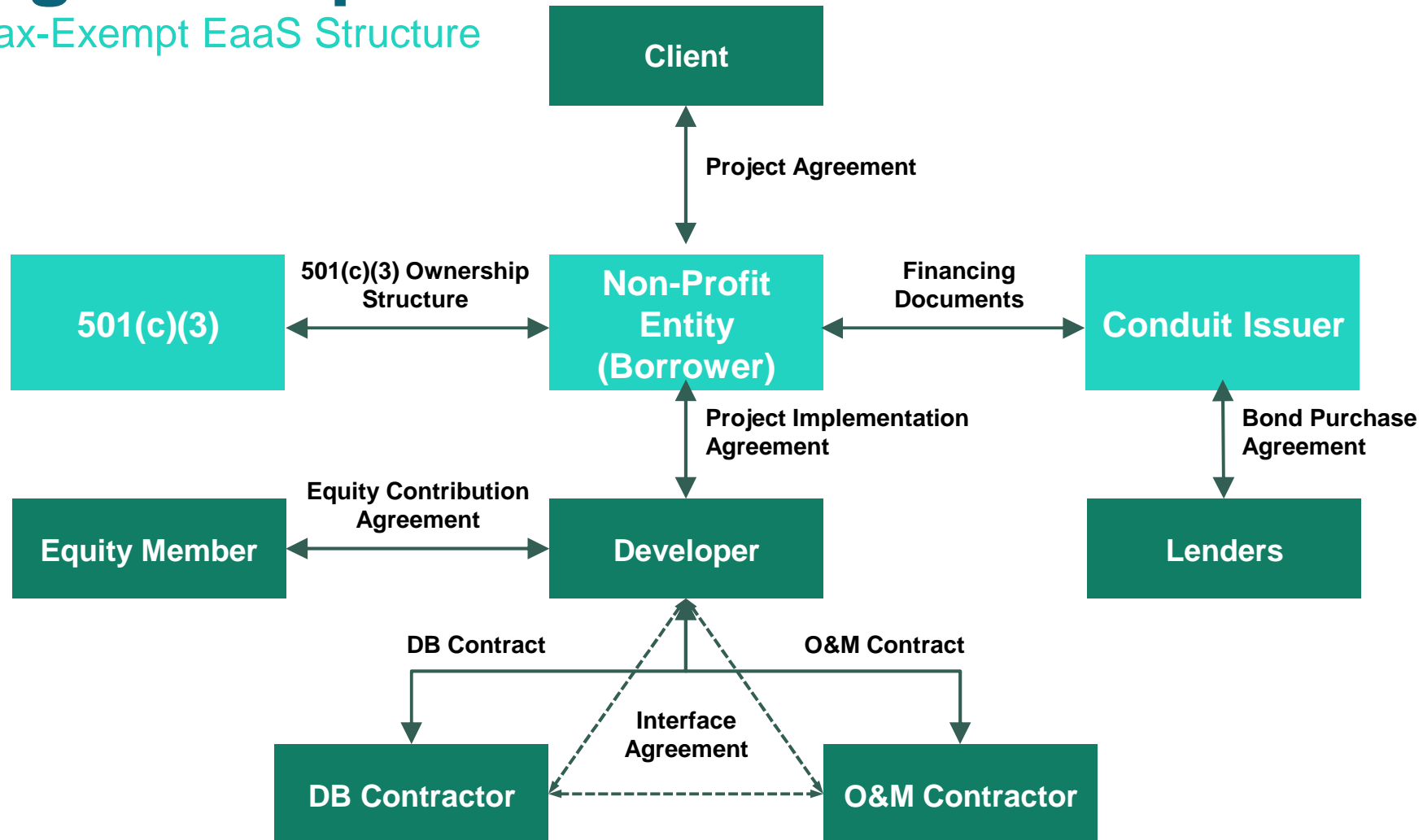
The Legal Perspective

Taxable v. Tax-Exempt EaaS Structure



The Legal Perspective

Taxable v. Tax-Exempt EaaS Structure



The Legal Perspective



Components of the business deal between the University and the service provider

Obligation of
University to pay is
like availability
payments

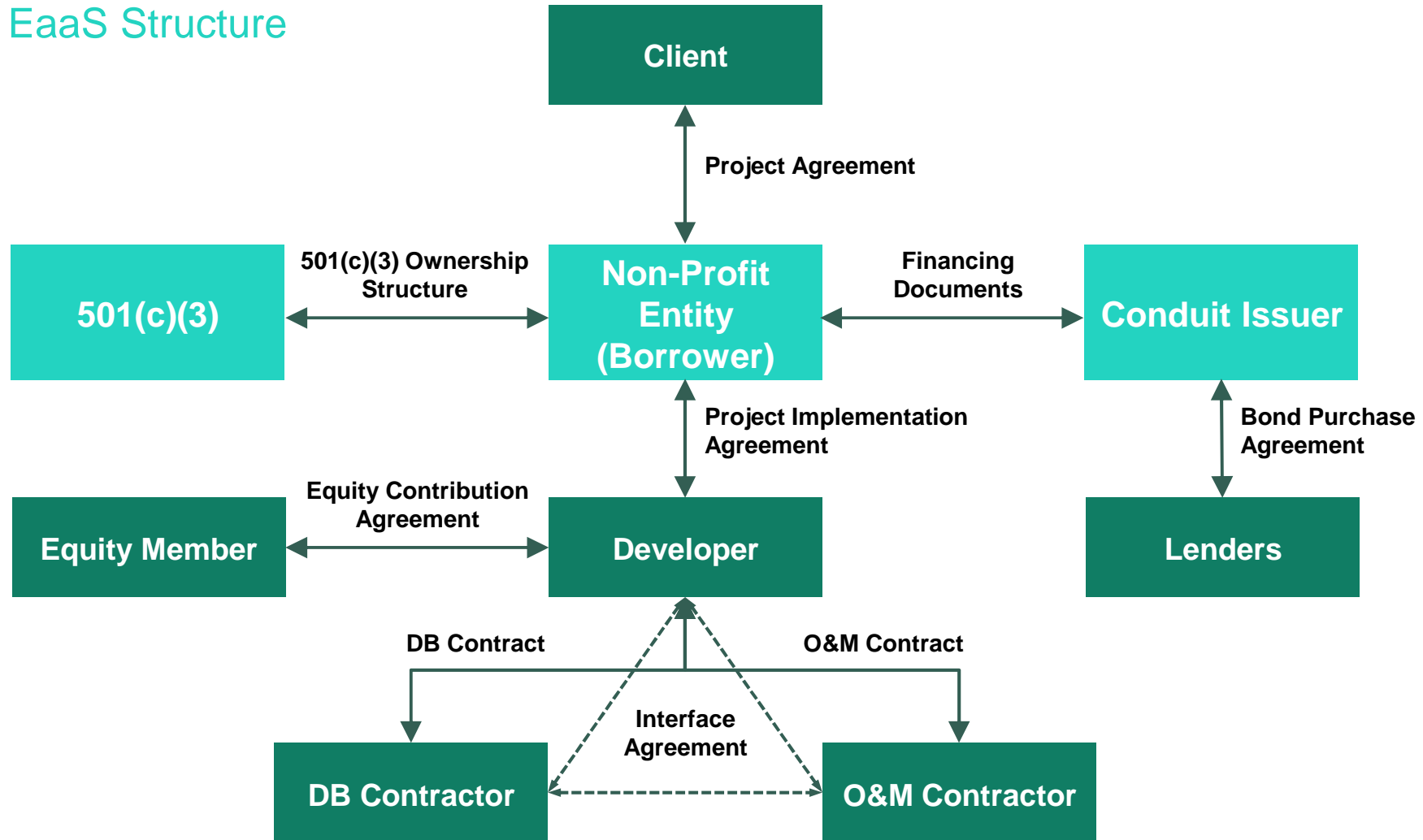
Performance
incentives for or
guarantee by
service provider

Determining the
scope of work

Whose employees
perform the work?

The Tax Perspective

Tax-Exempt EaaS Structure



The Tax Perspective

Substantive changes to allow tax-exempt financing

*Risk of Loss
with
University*

*Service
Contract term
limited by
useful life*

*Refinancing
savings go to
University*

*Tax-exempt
financing tax
covenants*

The Tax Perspective

Tax Compliance Issues

Tax Diligence

Tracking private business use

Bond Document Considerations

Common Bond Document Covenants

- Prohibitions on system or asset sales, transfers or modifications
 - Related state law issues
- Operating Covenants
 - Limitations on liens and encumbrances; permitted liens
 - Obligations to operate, maintain and repair system or facilities
 - Insurance
- Trust Estate and Definitions: Revenues, Operation and Maintenance Expenses, Debt
 - Payments to provider
 - Debt and additional debt limitations
 - Rate covenants
- Credit support and intercreditor issues

EaaS – The Tax Lawyer's View

Transaction Structures Viewed Through Different Tax Lenses

- Private Business Use and Risk Allocation
- Existing Assets vs. New Assets
- Types of Assets
- Upfront Payments
- Comparing Tax Benefits



QUESTIONS?