Qualified Energy Conservation Bonds (QECB’s) Presentation

A discussion of QECBs, and the GEO’s process to distribute and allocate QECB’s

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Colorado’s 2009 Allocation of QECB’s:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total State Allocation:</td>
<td>$51,244,000</td>
</tr>
<tr>
<td>Re-Allocation to Large Local Municipalities*:</td>
<td>$42,297,088</td>
</tr>
<tr>
<td>State Volume Cap (for GEO allocation):</td>
<td>$8,946,912</td>
</tr>
</tbody>
</table>

* Of the $51 million allocation, the State was required to allocate $42 million proportionately to larger counties and towns with a population of greater than 100,000.
HB09-1346: Enabling GEO to redistribute QECBs

• Bill discusses all ARRA-related bonds

• States that after November 10, 2009, unused Larger Local Allocations would revert to GEO

• Authorizes GEO to reallocate unused QECBs to State and other qualified projects

• This allowed for the GEO to effectively reallocate these funds for shovel-ready projects.
GEO’s Allocation and Redistribution:

Not all local municipalities used their automatic allocation. As the GEO prepared to distribute its statewide allocation through an application process, it estimated the total amount of QECB’s for redistribution:

- Large municipalities to use original QECB allocation*: $18,455,333
- Large municipalities NOT using their allocation: $23,841,755
- Original state volume cap: $8,946,912

Total amount for GEO Allocation and Redistribution: $32,788,667

* Municipalities who *are* using their allocation: Adams, Boulder, Jefferson, Larimer, and Mesa Counties, and Fort Collins.
GEO’s Application for QECB Allocation:

After a successful campaign to promote QECB’s, the GEO was surprised to receive over $120 million of QECB requests:

State Agencies $ 46,054,135
Higher Education $ 18,556,646
Local Applicants $ 45,808,193
K-12 $ 5,689,049
Other $ 5,952,387
Total Requested $122,060,410
GEO’s Evaluation Process:

Projects will be evaluated by three major components:

- **Project Development:** Is the project concept well developed? Since it requires financing, is it shovel ready? Is the technology proven?

- **Economy and Environment:** Is there a strong impact in job creation? Are partners and other leveraged funds ready to be deployed? Are other funding sources realistic?

- **Geographical Diversity:** Providing a diverse array of locations throughout the state.

- **Financial Viability:** QECB’s are a municipal bond transaction. This means that the project must be well developed, and the borrower must have strong enough credit strength to actually sell these bonds.

Evaluation Schedule:

- **Initial Scoring and Spreadsheets:** Due **January 7**

- **Preliminary discussion about scores and project prioritization:** **January 8**

- **Final QECB allocation awards to be distributed by:** **January 15**
### QECB Pricing Successes:

*So far, nine transactions have been priced in Colorado:*

<table>
<thead>
<tr>
<th>Applicant</th>
<th>QECB Amount</th>
<th>Closing Date</th>
<th>Net Int Cost</th>
<th>Project Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boulder County</td>
<td>$5,838,052</td>
<td>2/2/2010</td>
<td>3.450%*</td>
<td>Municipal Facilities Capital Improvements</td>
</tr>
<tr>
<td>Fort Collins</td>
<td>$6,411,395</td>
<td>7/15/2010</td>
<td>1.020%</td>
<td>Smart Grid Financing</td>
</tr>
<tr>
<td>City of Boulder</td>
<td>$1,500,000</td>
<td>9/27/2010</td>
<td>1.460%</td>
<td>Municipal Facilities Capital Improvements</td>
</tr>
<tr>
<td>Foothills Parks &amp; Recreation</td>
<td>$1,000,000</td>
<td>8/13/2010</td>
<td>2.173%</td>
<td>Recreational Facilities Capital Improvements</td>
</tr>
<tr>
<td>Western State College</td>
<td>$1,635,388</td>
<td>8/19/2010</td>
<td>2.190%</td>
<td>Higher Ed Capital Improvements</td>
</tr>
<tr>
<td>Boulder Housing</td>
<td>$1,500,000</td>
<td>8/25/2010</td>
<td>2.790%</td>
<td>Multi-Family Capital Improvements</td>
</tr>
<tr>
<td>City of Englewood</td>
<td>$1,286,439</td>
<td>9/15/2010</td>
<td>2.036%</td>
<td>Municipal Facilities Capital Improvements</td>
</tr>
<tr>
<td>Mesa County School Dt #51</td>
<td>$2,000,000</td>
<td>10/29/2010</td>
<td>1.630%</td>
<td>School District Facilities Capital Improvements</td>
</tr>
<tr>
<td>Boulder County PACE Series A (5 year)</td>
<td>$115,000</td>
<td>11/5/2010</td>
<td>1.090%</td>
<td>Commercial PACE Loans - 5 Year Term</td>
</tr>
<tr>
<td>Boulder County PACE Series B (10 year)</td>
<td>$1,400,000</td>
<td>11/5/2010</td>
<td>2.900%</td>
<td>Commercial PACE Loans - 10 Year Term</td>
</tr>
</tbody>
</table>

**Total and Average Interest Costs**

$22,686,275 1.900%

*Average cost does not include Boulder County, which was priced at a tax credit rate.*
Property Assessed Clean Energy (PACE) Finance:

• PACE finance is a mechanism in which a municipality can fund commercial and residential individual improvements, repaid through an annual property assessment instead of a traditional principal and interest loan structure. 25 states currently have some sort of PACE structure approved.

• PACE is viewed as an applicable application of QECBs, as it is considered a “green community program.”

• Federal challenges currently have barred residential improvements from being funded through PACE, but commercial remains a possibility.

• GEO designated $6 million of its statewide QECB allocation for PACE finance.

• Boulder County was awarded $3 million for commercial PACE finance. It is in the origination process for its first commercial PACE program, totaling about $1.5 million.
Secrets to Success:

**The biggest barrier to full QECB allocation is EDUCATION!**

- **Municipalities, Cities, States:** Many eligible borrowers are already planning on capital improvements that would qualify for QECBs. Reaching out to these communities and educating on the benefits of QECBs are half the battle.

- **Bankers:** Bankers, underwriters, and financial advisors may not be aware that QECBs are available for already planned financing transactions.

- **ESCOs:** One of the biggest successes of our QECB competitive solicitation was a strong network with ESCOS in the state. QECBs can benefit both the ESCO and the municipal borrower.
A Little More About ESCOs:

**The Governor’s Energy Office has worked toward promoting ESCOs throughout the state:**

- **Energy Service Companies are businesses perform energy saving capital improvement services, traditionally financed and paid through annual guaranteed energy savings.**

- **Pre-Approved Energy Service Companies:** GEO has created a network of pre-approved ESCOs to help promote energy saving capital improvements to public buildings.

- **Current ESCOs include** Ameresco, Burns & McDonnell, Chevron, Con Edison, EMC, Energy Systems Group, Ennovate, Honeywell, Johnson Controls, LONG, McKinstry, NORESCO, Siemens and Trane/Ingersoll.

- **This pool of ESCOs provided a powerful statewide network to promote QECBs.**

More information can be found at:
Other Considerations – After the QECB Awards:

Awarding QECBs are half of the battle. In order to ensure that they will be used, several deadlines were given to guide the process:

• **Internal Approval:** A municipality must think through all of the necessary planning for a QECB transaction, such as ordinances, and other procedural requirements. Deadlines which specify dates for ordinance approval and requiring continuous updates will help this process be successful.

• QECBs are not money, they require a finance mechanism that is allowed by City, County, and State laws! Make sure that local communities understand the finance component and specify a strong finance plan for the transaction.

• **Pricing Deadlines:** Along with the internal procedures, finance transactions take time. Make sure that deadlines help awardees plan accordingly.
Private QECB Application

What’s Next: Private QECB Application

• As Colorado continues to be a leader in QECB issuances, we are moving forward with a solicitation for privately used QECB applications.

• Up to 30% of each state’s QECB allocation may be allocated to private projects.

• There is also the ability to issue more than 30% if the private QECB transaction is considered a “green community program”

• Examples of possible private QECB applications:
  • A municipality entering into a solar PPA, privately financed with QECBs by the PPA provider
  • Special District financing for a sustainable development
  • Industrial Revenue Bond-applied use of QECBs
Thank You

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