CDFA Intro Energy Finance Course: Using Bond Financing Mechanisms for Your Energy Project

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Key points in Determining Financing Structure

- *Ownership entity*
- *Use of the product or service*
- *Technology or process may dictate structure*
- *Practical considerations when issuing bonds*
- *Cost/Benefits of tax-exempt vs. taxable*
- *Combining bonds with tax credits/grants*
- *Always consult Bond Counsel*

Ownership Entity

- *Governmental Ownership*
- *Private Ownership including Non-Profit Ownership*
- *Special Purpose Entity (SPE) or Special Purpose Vehicle (SPV), usually an LLC*
- *Stand-alone Project Finance vs. Corporate Debt (on Balance Sheet)*

Governmental Ownership

- *State or Local Government*
- *"Agency or instrumentality thereof"*
- *Industrial Development Authority or Economic Development Authority*
- *The credit is the government entity*
- *Example:*

  A solar rooftop array that provides energy to a county administration building, owned by the county government OR the IDA leased to the county government

Governmental Ownership

- ***Governmental Ownership allows bond financing on a tax-exempt basis***
- ***Tax-Exempt Bonds are usually lowest cost of funds since investors do not pay tax on interest***
- ***Governmental entity can issue:***
  - ***General Obligation Bonds***
  - ***Lease Revenue or Annual Appropriation Bonds***
  - ***Qualified Energy Conservation Bonds (QECBs)***
  - ***New Clean Renewable Energy Bonds (CREBs)***

Governmental Ownership

- *Use of the property, facility, good or service may disallow use of tax-exempts*
- *If the facility is used exclusively by a private entity, this may violate rules*
- *Example: Local IDA owns an industrial facility that is leased to a private commercial entity, which would not qualify for tax-exempts*
- *Governmental tax-exempt structures cannot be combined with federal energy tax credits or grants*

Private Ownership

- *Facility is owned by a private entity*
- *This may also include 501c3 non-profit entities*
- *The ownership entity is usually an LLC that is created for the sole purpose of the project but owned by one or more private parties*
- *Credit is the stand-alone entity; project finance*
- *Depending on technology and desired structure, these projects may be able to be issued as tax-exempt or taxable bonds*

Private Activity Tax-Exempt Bond Categories

- *Solid Waste Bonds*
- *Industrial Revenue Bonds*
- *501c3 Bonds*
- *Private Activity QECBs*
- *Gulf Opportunity Zone Bonds*
- *Midwestern Disaster Area and Hurricane Ike Bonds*

Solid Waste Bonds

- *Facility must use a waste stream but rules have been relaxed to broaden the definition of waste*
- *Only certain portions of the project can be financed with tax-exempts, so consult bond counsel*
- *No limit in par value except constrained by state allocation*
- *Example: Food waste used to produce fertilizer and other products*

Industrial Revenue Bonds

- ***Facility must take some material and manufacture it into something else***
- ***Electricity generation is not applicable***
- ***Cap on amount of bonds is $10MM***
- ***Cap on capital expenditures of company in same jurisdiction cannot exceed $20MM in any 3 year period***
- ***Subject to state allocation limits***

501c3 Bonds

- *Issued by qualified 501c3 entities, such as non-profit colleges and universities, hospitals, foundations and other non-profits*
- *No limit on par value*
- *Example: University installs woody biomass boiler in place of coal-fired boiler to produce electricity for campus buildings*

Gulf Opportunity Zone Bonds, Midwestern Disaster and Hurricane Ike Bonds

- *Disaster Area bonds have more flexible rules to allow for new investment in stricken areas*
- *Subject to federal/state allocations*
- *Not a permanent category of bonds*
- *No cap on par value except by state rules*

Issuing Taxable Bonds

- *Private Placements – Reg.D to Qualified Institutional Buyers (QIBs) or Accredited Investors and Rule 144 in secondary market*
- *SEC Registered Bonds – Reg. A, which is costly and time consuming but is being improved*
- *Direct Bank Placement as a Loan*
- *Federal energy tax credits can be used with taxable bond structures*
- *The incentives may outweigh tax-exempt advantages and lead to modified structures*

Cost/Benefit of Issuing Tax-Exempt vs. Taxable Bonds

- *Comparison of expected interest rates, terms, maturity, guaranties*
- *Market acceptance*
- *Cost of issuing bonds and compliance, versus direct loan product*
- *Either method can be variable or fixed rate*
- *Modality can have other implications, i.e, derivatives exposure, market exposure, refinance risk*

Questions????

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