Q & A

WITH FINANCE BANKER CHARLES ZITNIK

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Q. What are the top criteria that impact the lender assessment of an Issuer?

A. The bankability of the Issuer is driven by project specific technical, managerial, and financial ("TMF") considerations, the quantitative metrics of the Issuer, and the "goodness of fit" qualitative metrics of the Issuer. The following questions can assist ESPC providers through the process of vetting potential clients.

The Dodd–Frank Wall Street Reform and Consumer Protection Act, which became effective in 2010, made it imperative for Issuers, their consultants, and ESCOs to engage with the necessary external finance professionals as early as possible in the project funding lifecycle. This is to benefit the modeling of the project and finance structure so they are closely in concert with each other, and in the best interest of the Issuer to help avoid known conflicts of interest.

UNPACKING TMF ON THE SIDE OF THE ISSUER: THE QUANTITATIVE

Technical

- Is the project scope well thought out and well documented?
- Are the projected / guaranteed savings reasonable and conservative, relative to the Investment Grade Audit, business case, or the scoping document (collectively the "IGA")? Is the IGA a true "deep dive": a comprehensive and complete analysis of the needs and proposed solutions?
- Are the solutions provided the most beneficial solutions to the Issuer?
- Has the Issuer been actively engaged in the review of the IGA as well as the underlying/governing contract document, the performance-based contracting methodology, and the performance guarantee or is the Issuer a bystander?

Managerial

- What is the recent and long term history of financial disclosure and transparency of the Issuer?
- Has the Issuer been proactive in investing in/budgeting for the maintenance of its physical assets and equipment?
- Has the Issuer been mindful of and compliant with existing loan covenants, required operating ratios, required coverages, etc.?
- What is the combined general and enterprise debt load, term, and financial as well as operating covenants relative to the overall general fund and enterprise fund budgets?

Financial

- Irrespective of a performance guarantee, is the project cash-flow positive?
- Are a disproportionate amount of the projected savings developed through operational optimization, efficiency (labor and productivity), projected useful life, etc. or measurable energy savings and direct maintenance savings?
- Does the Issuer have the capacity and demonstrated willingness to fund a performance shortfall without the need to exercise the annual make-whole provision of the performance guarantee?

GOODNESS OF FIT: THE QUALITATIVE

- What are the broad brush issues and trends of the Issuer and its service area, region and state in regards to population, enrollment, employment, construction permitting, changes in assessed values, employment trends, taxpayer or employment concentrations, etc.?

More Issuer-centric matters of best practices, longevity, management continuity, visioning, strategic planning, labor relations, voter/customer engagement, etc. all weigh in the credit underwriting.

In a project funding lifecycle (as opposed to a project lifecycle), Lender concerns addressed early and remedied may result in a corresponding increase in a willingness to consider the Issuer, a willingness to go longer term, and a willingness to obligate at more competitive interest rates.

Based on market surveys and experience: Lenders are underwriting primarily to the credit of the Issuer, not the balance sheet of the ESCO or the performance guarantee. By the ESCO dialing in and engaging with the external finance professionals as early in the process as possible, optimally during the IGA phase, the credit story can be built and presented to Lenders in order that the ESCO can accurately represent the savings/funding costs to the Issuer.

Next issue: Lender assessment of the Energy Savings Contract Provider

If you have a question or issue related to the financing of energy savings performance contracting/essential purpose infrastructure financing please direct it to Julie Chesna, Editor, at julie.chesna@energyservicesmedia.com.

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A 35+ year veteran with a clear vision of the industry. Zitnik carries extensive experience in the structuring of multiple revenue stream tax advantaged project financing.

An advocate of early stage life cycle development finance and transition finance, Zitnik is a proven catalyst in the establishment of innovative patterns and directions in the energy savings finance field. D.A. Davidson & Co. is a 1,300 employee brokerage firm with offices coast to coast.

Zitnik holds an undergraduate degree from the University of Kansas and a Masters of Business Administration from Rockhurst University with additional coursework at Columbia University. Zitnik has been with Davidson and its predecessor firm for over 20 years.