Solar Industry®

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A Guide To Preparing A Successful Solar Energy Project Finance Package

The finance team underwriting your renewable energy dream project is more than just a source of cash; they are your partners.

■ Chris Diaz

Why do some renewable energy projects get financed while others that appear to be similar never make it past the initial evaluation process? Looking back at the numerous renewable energy transactions I have evaluated over the years, the projects that were successful in obtaining financing had certain similar qualities. The projects were not always similar in size or economics, but the developers' approach to finding financing met some key requirements that I will outline step-by-step.

Chris Diaz

A professional package

A project finance package is the first detailed information on your proposed solar project that your lender/equity provider or finance team will see, so make a good impression. A professional project finance package is organized, detailed and well-thought-out; it should be a reflection of your project.

This package will provide the financiers with all the information they need to do an initial evaluation of your project. It will allow them to quickly respond to your request and let you know if your project is a good fit for their finance program.

A professional project finance package should include the following items:

■ Detailed source and use/pro-forma: Breakdown of the project costs, sources of capital and annual expenses;

■ Detailed transaction summary: Outline of the project structure and participants;

■ Executive summary: Written summary of the project and its key components;

■ Ownership structure flowchart: Includes all entity names;

■ Experience/background of participants: Includes development team and engineering, procurement and construction team;

■ Guarantor financials: Developer net worth and liquidity; and

■ List of technology utilized: Panels, inverters and balance-of-system components.

If your project finance package includes the seven items listed above, you will be surprised at how quickly the finance team processes your request. A package that is incomplete or unorganized will probably be overlooked or, at the very least, will take the lender twice as long to evaluate the information. Your package should tell a complete story about the project; it is an important part of the process in achieving successful project finance.

Be a resource for your finance team

As the finance team evaluates your transaction, they will probably have a few questions - no matter how much information you include in your professional project finance package. Respond quickly, and provide the finance team with as much information as possible. This is a great opportunity for you to develop a relationship with them. They will know you are highly motivated to get your project financed, and they will move the process along as quickly as possible.

For a financial services provider, it is important to know the borrower by meeting him or her face-to-face. This gives a better understanding of the borrower's needs by forming a more personal relationship.

Be open-minded to suggestions from your finance team. If they are asking you to adjust your project in some way, it is not to make your life more difficult. It is more than likely that an experienced finance person is giving you suggestions to help strengthen your project. Most - if not all - financial institutions must present your transaction to a committee for approval. Their requests or suggestions will adjust your project so it has the components necessary to obtain committee approval.

Most construction lenders will lend between 80%-90% of the total costs. This developer equity will be the first sum of money into the transaction. Identify this number as soon as possible so you are prepared to have this capital available at construction loan closing.

A good time to engage your finance team is when your contracts are ne-

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gotiated and the project's sources and uses are relatively complete. Engage them too early in the process, and you are wasting everyone's time, as well as increasing the transaction costs by having to revisit open items. Engage them too late, and the project may not close in the desired time if deadlines approach.

Working together with your finance team benefits everyone in that it helps grow the relationship and prevents any surprises.

Financeable contracts

When I attend renewable energy conferences across the country, I usually hear the phrase "financeable contracts" or "financeable PPA," which is followed by a question: What does this mean? What makes a contract or a power purchase agreement (PPA) financeable? Simply put, it is any contract that a lender/equity provider is willing to provide financing for (i.e., one that has all the necessary components and rights that are needed).

As you structure your PPA, site lease, equipment purchase contract, interconnection agreement, and operations and maintenance contract, it is very important to incorporate the various rights and assignments your finance team will need for the contracts to be financeable. Negotiating these terms up front will save time and money; adding these requirements to the contract after everything has been agreed upon can be difficult and costly. Your finance team's requirements will apply to any type of renewable energy development, large or small.

Financeable contracts should allow for the following:

■ Assignability allowing for a first security interest;

■ Proper entitlements;

■ A ground lease estoppel;

■ A subordination/non-disturbance agreement from the underlying lender and landlord;

■ A coterminous PPA and site lease;

■ A site lease with provisions for easement rights allowing uninterrupted access to the site; and

■ All manufacturers' warranties assignable to the lender.

Financeable PPA should include the following:

■ Appropriate pricing for the given area and

■ A strong, credit-worthy off-taker.

Long-term lenders place a great deal of emphasis on the PPA off-taker. They want the security of knowing that if the renewable energy system produces as expected, the PPA off-taker will have the capital to make the monthly payments for the power. Remember that the contracted cash flows generated by the system are how the developer repays the loan.

Not all PPAs are signed with BBB- or better-rated credit off-takers. It is important that the off-taker has good credit and can easily be underwritten by the lender. A well-established business with a good credit history or a public utility may not have BBB or better credit but can be considered a good credit risk by the finance team.

The partnership structure and policies of each source of capital can impact the loan, so be proactive. Have an experienced attorney and an experienced certified public accountant involved in the process as early as possible.

Having a first-lien position on all equipment associated with the renewable energy development and improvements to the site, as well as a leasehold mortgage/deed of trust, secures the construction lender's interest in the project. The construction lender will need specific rights to protect its loan in the unlikely event that an issue arises during construction. These rights are as follows:

■ Complete the project if the developer cannot;

■ Have access to anticipated repayment sources;

■ Operate the project and derive income from operations;

■ Cure defaults; and

■ Sell the project if necessary.

Members of your finance team want to ensure that they are in the proper lien position prior to funding. The construction lender will require a first-lien position until the loan is repaid. The permanent lender will require a clear first-lien position prior to funding the loan. Coordinating the timing of payments and payoffs is important to securing these lien positions. The Investment Tax Credit syndication/grant payment, any state grant/loan program payments and the permanent loan funding should occur at the same time. Those funds will pay off the construction lender and allow the permanent lender to secure a first-lien position.

Properly structured contracts will help streamline the evaluation of your project, keeping the underwriting process on track.

Bankable equipment and tech

Your finance team will want to see proven equipment and technology with an established track record. They need to have a high level of comfort that the equipment and technology will perform as promised and that, if there is an issue, the manufacturer will honor its warranty. If the chosen equipment and technology do not have an extensive track record, one way to mitigate this is to reinsure the manufacturer's warranty with a reputable reinsurance company. This will give your finance team some additional comfort.

How can you get your finance team comfortable with the equipment/technology? Do the following:

■ Provide the financiers with data to support your case;

■ Prepare a list of installed and active projects that feature the equipment/technology;

■ Submit the data sheet provided by the manufacturer(s); and

■ Submit warranty information provided by the manufacturer(s).

Understand what is needed

"How fast can you get my deal closed?" The answer: as fast as you

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want, provided that all necessary due diligence is available.

Just because you might view some due diligence as unnecessary, that may not be the case for your finance team. Some lenders and equity providers may require a certain document while others do not. Why? Most of the time, your finance team has investors and/or regulators they must answer to, and the due diligence that is collected may be to satisfy a requirement.

The key is to understand what due diligence is required and work diligently to get your finance team what they need. By engaging your finance team early in the process and continuing to work with the same team, you will dramatically reduce the time it takes to close your transactions.

There are a few due diligence items that your finance team typically needs and could take a few weeks to satisfy. Some of those are as follows:

■ Independent engineers report: Permanent lender requirement to confirm system output;

■ Project valuation report: Construction lender and permanent lender requirement to close loan;

■ Permits: Construction lender requirement to close loan;

■ American Land Title Association surveys: Needed for title insurance;

■ Title insurance: Construction lender requirement to close loan;

■ Commitment letter from permanent lender: Construction lender and tax equity requirement to close loan; and

■ Tax equity documents: Construction lender requirement to close loan.

Get started on these items as soon as possible, and work with your finance team to determine which vendors are acceptable for the third-party reports. Once the third-party reports are received, the underwriter will need a little time to evaluate them.

If a project has all the necessary due diligence available in an organized format, underwriting should be a three- to four-week process.

The goal of every renewable energy developer is to take a project from the concept stage to completion. Following the key areas pointed out in this guide will help make your dream a reality.

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