Air Force Real Property Agency

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GovEnergy: Financial Overview of Enhanced Use Leases

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Agenda

- Defining Enhanced Use Lease
- Energy EULs
- Criteria for Project Selection
- Financial Basics
  - Cash
  - In-kind Consideration
- Scoring

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EUL Defined

An EUL is…

- An asset management tool designed to unlock value of non-excess real property for the AF
- Driven by market demand to ensure maximum value
- A lease by the Government (U.S. Code, Title 10, Section 2667) in exchange for fair market value
  - Not anticipated to be needed for the duration of the lease, but which the Air Force may need at some future date or needs to retain ownership for a mission-related reason

EULs are opportunities for public-private partnerships

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Energy EULs

- AFRPA continues to identify opportunities for the AF to partner with private industry for energy development
- Energy EULs identify where energy is the highest and best use of the asset
  - Can be a variety of energy types, including: solar, wind, biomass generation, landfill gas generation, geothermal, fossil fuel generation, and alternative fuel production facilities
- Increasing interest in projects as states pass more stringent renewable portfolio standards
  - Example: California's RPS mandates 33% of the power generation by 2020 must come from renewable sources

AFRPA offers energy market expertise, valuation, technical, and development insight to help MAJCOMs and installations better understand potential energy projects

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Why are Energy EULs Important?

- Diversify AF portfolio and help unlock new sources of value for AF
- An additional tool for the Air Force to bring full value for assets beyond traditional energy cost reduction
- Help the AF fund Federal mandates and meet renewable energy goals
- Supplement installation energy needs and promote energy security/surety
- While traditional commercial development may be waning during the current economy, energy market (and corresponding incentives) is still strong

Project Selection Criteria: Energy EUL Viability

In addition to the basics of EUL viability, including non-excess property status and mission compatibility…

- Certain parameters must be considered to determine viability of an Energy EUL:
  - Available Resources – Good solar, wind, or biomass resources, and proximity to existing transmission lines
  - Financial Incentives – Strong state and local incentives
  - Available Acreage – Utility-scale energy developments often require large parcels of land
  - Market –Markets where value of energy development exceeds the value of a commercial real estate use

EUL Financial Basics

- EULs are financed by third party developers selected by the AF through a competitive bidding process
- Expected returns are market-driven and may vary from investor to investor, deal to deal, and economic cycle to economic cycle
  - AF is required to receive at least Fair Market Value
- Payment from energy developers for EULs can be in the form of a lease payment and/or as a revenue-sharing agreement

Estimating Value Using the Income Approach

- The AF's Financial Value Calculator estimates potential value of energy developments
  - Modeled after developer financial pro forma
  - Factors in key inputs
    - Capital costs
    - Capacity factor
    - Debt rate
    - Accelerated depreciation
    - Tax incentives, and more
  - Determines highest value for AF negotiations

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Financial Return to the AF

- Cash payment:
  - Proceeds must be deposited in a special Treasury account established for the AF
- In-kind Consideration:
  - Maintenance, protection, alteration, repair, improvement, or restoration of AF property or facilities
  - Construction of new facilities or provision of facilities
  - Free energy or renewable energy credits
  - Provision or payment of utility services
  - Provision of such other services relating to activities that will occur on the leased property

Strategic Uses of In-Kind Consideration

- Strategic application of in-kind consideration can help meet AF energy goals and can include:
  - Energy infrastructure designed for on-base use
  - Free energy from developer's EUL project
  - Funding for projects such as construction or renovation of LEED-certified AF facilities/energy projects
  - Energy grid modernization projects
  - Power for the installation in event of grid outages

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Does OMB Scoring Apply to EULs?

- Generally, Section 2667 outleases do not trigger budgetary scoring if there is no continued federal occupancy on the site
- In order to ensure a project is not scored, the project:
  - Cannot link ground lease to federal leaseback of space (no discounted leaseback)
  - Cannot provide federal guarantee of financing of developer (no power purchase agreement)

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Summary

- An energy EUL is a lease on non-excess property for energy generation
- Project viability is determined through analyzing several key factors including, mission, market compatibility, financial viability, etc.
- Financial viability for energy projects is measured through the Financial Value Calculator
  - Utilizes series of inputs to reverse engineer developer's pro forma and estimate potential income streams for AF
- The AF receives rent in the form of cash or in-kind consideration for EULs

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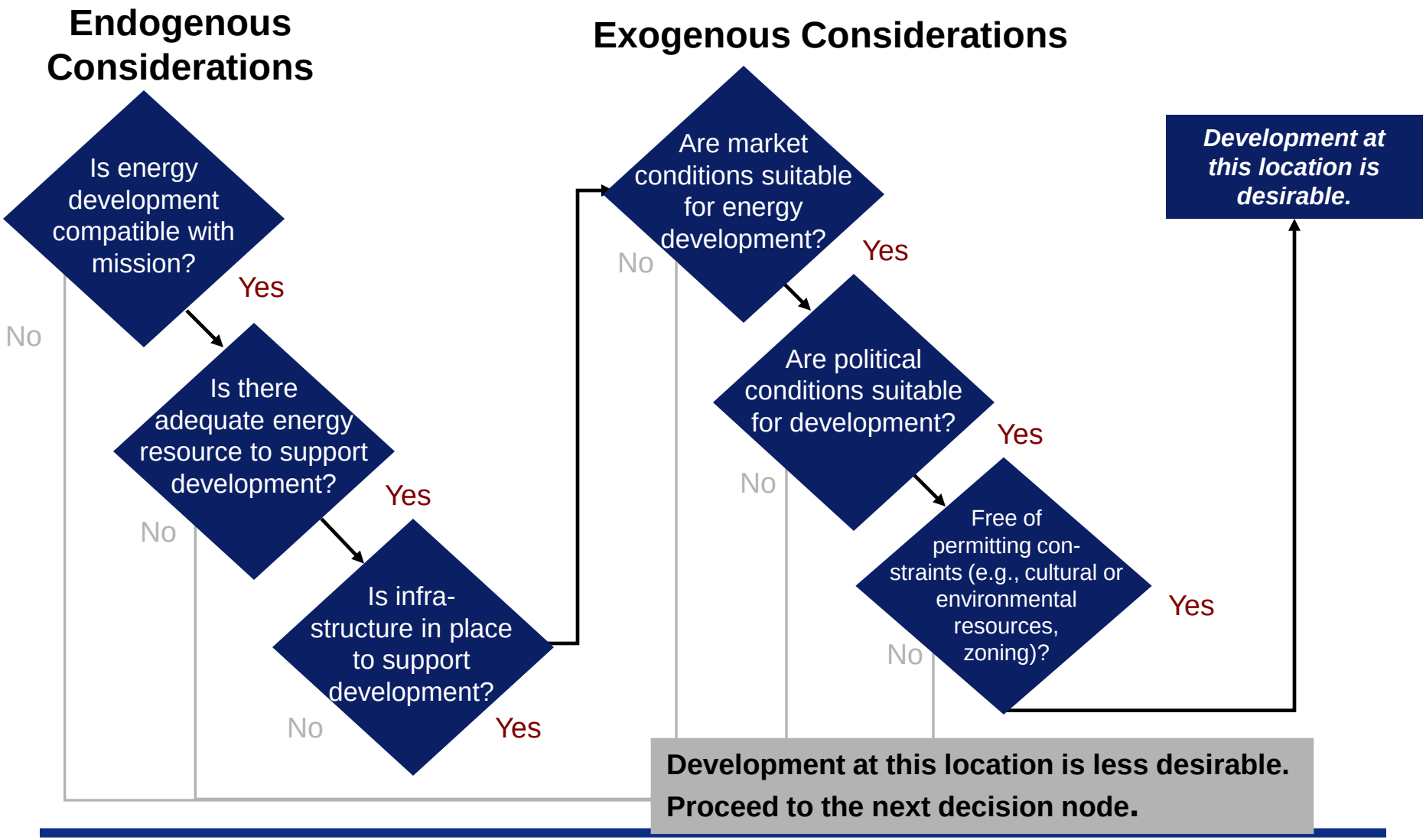
Backup

Project Selection Criteria: Energy EUL Initial Screening



Site-Specific Characteristics Help Determine Value

- The AF's Land Valuation Model estimates potential values based on key energy attributes
  - Resource
  - Transmission access
  - Renewable Portfolio Standard (RPS)
- Attributes are rated and weighted for their impact and importance for development
- Composite score from above criteria is applied to industry standard revenue-share range of 2-6%
  - Attractive sites > High score > High percentage (~6%)
  - Average sites > Medium score > Average percentage (~4%)
  - Poor sites > Low score > Low percentage (~2%)

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Valuing Energy Projects

- Challenge: Land comparables difficult to use for estimating value of land used for energy production
  - Lack of accessible data
  - Income streams from energy projects not tied to traditional real estate developments or surrounding land values
- Solution: Value land based on a percentage of revenue generated by the proposed use (income approach)
  - Allows landholder to participate in success of project
  - Reduces risk to developers
  - Industry standard revenue-shares are 2-6%

EUL Financial Basics: In-Kind Consideration Account

- An in-kind consideration account (ICA) is a federally-insured deposit account holding two sources of funds:
  - The cash value of in-kind lease payments owed to the Government
  - Interest/investment earnings on the funds in the account
- Account must be owned and maintained by the Lessee, but funds are designated for use only by the Government
- Account must be senior in priority to debt service (i.e. deposits into the ICA must be made before loan or bond payments)

The ICA holds funds from EUL projects that will be used to obtain future in-kind consideration