

Municipal Advisor Presentation on proposed Evolutions Energy Project



Tulare Local
Healthcare District

July 27, 2022

Presented by



WULFF, HANSEN & Co.

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Agenda

Section A: Review of Changes to Engie Proposal

- i. Changes to ECM Program
- ii. Changes in Program Benefits
- iii. Proposed Changes to Services Contract with Engie
- iv. Changes to Engie's Financial Analysis

Section B: Municipal Advisor Review of Lease Payments and Cash Flows

- i. Financing Feasibility with Total (Non-guaranteed) Savings
- ii. Financing Feasibility with Guaranteed Savings
- iii. Options for Moving Forward

Section A

Disclaimer:

All analysis contained in Section A of this presentation, financial or otherwise, have been taken directly from Engie materials, including the May 25, 2022 presentation, the July 18, 2022 Presentation, and from first-hand dialogue that took place at the in-person meeting and the District's offices on June 29, 2022.

Wulff, Hansen & Co. has not independently verified and in no way endorses the analysis or materials provided by Engie that have been included in Section A of this presentation. Section A of this presentation is being provided as a road map to demonstrate to the District the progress that has made in the negotiation of terms with Engie.

Municipal Advisor provides its independent analysis on the feasibility of financing this project in Sections B and C of this presentation.

Changes to ECM Program Improvements since May 25th Presentation by Engie

May 25th Program

Energy Conservation Measures (ECM)*

- LED Interior Lighting Upgrade
- LED Exterior Lighting Upgrade
- HVAC Units Replacement
- Energy Management System
- Onsite Hypochlorite Generation for Swimming Pool
- Parking Lot Reconstruction
- Solar Photovoltaics – Carport Shade Structure
- Battery Energy Storage System

Total Project Cost: \$6,807,576***

***Includes District Contribution of \$1,136,039 and Tenant Contribution of \$205,740



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Current Program

Energy Conservation Measures (ECM)**

- LED Interior Lighting Upgrade
- LED Exterior Lighting Upgrade
- ~~HVAC Units Replacement~~
- ~~Energy Management System~~
- Onsite Hypochlorite Generation for Swimming Pool
- ~~Parking Lot Reconstruction~~
- Solar Photovoltaics – Carport Shade Structure
- ~~Battery Energy Storage System~~

Total Project Cost: \$3,287,607

*Source: Engie Presentation Dated May 25, 2022

**Source: Engie Presentation Dated July 18, 2022



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Changes to Program Benefits since May 25th Presentation by Engie

May 25th Program

Program Benefits*

- \$2.9 million in net savings (after paying for all costs over the life of the program)
- Hedge against rising electricity costs – 83% savings on electricity bill
- Eliminate chemical hazard and reduce maintenance cost for pool treatment
- Improved lighting quality
- Incentive of \$134,100 for battery storage system
- Savings monetized for HVAC upgrades
- Provide new parking lot
- Provide more reliable and cost-effective air conditioning
- Carbon emissions reduction equivalent to removing 171 cars from the road annually

Total Project Cost: \$6,807,576*

**Source: Engie Presentation Dated May 25, 2022*



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Current Program

Program Benefits**

- \$3.0 million in net savings (after paying for all costs over the life of the program)
- Hedge against rising electricity costs – 63% savings on electricity bill
- Eliminate chemical hazard and reduce maintenance cost for pool treatment
- Improved lighting quality
- ~~Incentive of \$134,100 for battery storage system~~
- ~~Savings monetized for HVAC upgrades~~
- ~~Provide new parking lot~~
- ~~Provide more reliable and cost-effective air conditioning~~
- Carbon emissions reduction equivalent to removing 130 cars from the road annually

Total Project Cost: \$3,287,607

***Source: Engie Presentation Dated July 18, 2022*



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Changes to Services Contract since May 25th Presentation by Engie

May 25th Proposed Contract

Services Contract*

- **5-year** savings guarantee
 - **Total guaranteed gross savings of \$1,006,328** (5-years)
 - **Opt-out** of guarantee on the part of **Engie** only
- **District responsible** for managing warranty on key equipment such as inverters
- **District responsible** for a portion of Solar O&M
- **District responsible** for filings and permits
- **High profit margin** for Engie

**Draft Energy Services Contract v01/19/2022*

Current Proposed Contract

Services Contract**

- **20-year** savings guarantee
 - **Total guaranteed gross savings of \$4,766,345** (20-years)
 - **Opt-out** of guarantee on the part of the **District** only
- **Engie responsible** for managing warranty on key equipment such as inverters
- **Engie responsible** for Solar O&M for 25-years
- **Engie responsible** for filings and permits
- **Reduction in Engie's profit margin**

***Source: In-person meeting at the District on June 29, 2022*

Updated Financial Analysis by Engie

Note:

Lease payment stream shown and calculated by Engie is not structurally sound.

The first-year interest payment on a \$3.3 million dollar transaction at 5% interest would be approximately \$165,000 (before amortizing principal).

New lease payment structures need to be explored.

Evolutions Fitness & Wellness Center Comprehensive Energy Services Program												
Preliminary Cash Flow Analysis - LED Lighting, Pool Upgrade, Solar, and Battery Storage Project												
Project Cost												\$3,287,607
Financing Cost												\$98,628
Amount to be Financed												\$3,386,235
Finance Term												25
Annual Interest Rate												5.00%
Annual Escalation of Electricity Cost												6.00%
Annual Escalation of Natural Gas Cost												3.00%
Annual Escalation of Pool Chemical Cost												3.00%
Annual Escalation of O&M Cost												3.00%
Annual Degradation of Solar Panels												0.50%
Year	Solar Energy Savings	Energy Efficiency Electricity Savings	Natural Gas Savings	Pool Chemical Savings	Projected O&M Savings	Total Gross Program Savings	Guaranteed Savings	Lease Payment*	Solar Operations & Maintenance Cost	Measurement & Verification Cost	Total Program Costs	Net Savings
Year 1	\$119,530	\$30,030	\$1,543	\$22,386	\$2,084	\$175,572	\$135,833	\$133,512	\$10,952	\$3,407	\$147,871	\$27,702
Year 2	\$126,068	\$31,832	\$1,589	\$23,057	\$2,094	\$184,641	\$143,381	\$142,149	\$11,280	\$3,509	\$156,939	\$27,702
Year 3	\$132,964	\$33,742	\$1,637	\$23,749	\$2,105	\$194,196	\$151,349	\$151,262	\$11,619	\$3,614	\$166,495	\$27,702
Year 4	\$140,237	\$35,766	\$1,686	\$24,461	\$2,115	\$204,266	\$159,761	\$160,874	\$11,967	\$3,723	\$176,564	\$27,702
Year 5	\$147,908	\$37,912	\$1,737	\$25,195	\$2,126	\$214,878	\$168,640	\$171,016	\$12,326	\$3,835	\$187,176	\$27,702
Year 6	\$155,999	\$40,187	\$1,789	\$25,951	\$2,136	\$226,062	\$178,014	\$181,715	\$12,696	\$3,950	\$198,360	\$27,702
Year 7	\$164,532	\$42,598	\$1,842	\$26,730	\$2,147	\$237,849	\$187,909	\$193,002	\$13,077	\$4,068	\$210,147	\$27,702
Year 8	\$173,532	\$45,154	\$1,898	\$27,531	\$2,158	\$250,273	\$198,356	\$204,912	\$13,469	\$4,190	\$222,571	\$27,702
Year 9	\$183,024	\$47,864	\$1,954	\$28,357	\$2,169	\$263,368	\$209,383	\$217,477	\$13,873	\$4,316	\$235,666	\$27,702
Year 10	\$193,035	\$50,735	\$2,013	\$29,208	\$2,179	\$277,171	\$221,025	\$230,735	\$14,289	\$4,445	\$249,470	\$27,702
Year 11	\$203,594	\$53,780	\$2,074	\$30,084	\$2,190	\$291,722	\$233,314	\$244,724	\$14,718	\$4,579	\$264,020	\$27,702
Year 12	\$214,731	\$57,006	\$2,136	\$30,987	\$2,201	\$307,061	\$246,288	\$259,484	\$15,160	\$4,716	\$279,359	\$27,702
Year 13	\$226,477	\$60,427	\$2,200	\$31,917	\$2,212	\$323,232	\$259,984	\$275,058	\$15,614	\$4,858	\$295,530	\$27,702
Year 14	\$238,865	\$64,052	\$2,266	\$32,874	\$2,223	\$340,280	\$274,443	\$291,493	\$16,083	\$5,003	\$312,579	\$27,702
Year 15	\$251,931	\$67,895	\$2,334	\$33,860	\$2,234	\$358,255	\$289,707	\$308,834	\$16,565	\$5,153	\$330,553	\$27,702
Year 16	\$265,712	\$71,969	\$2,404	\$34,876	\$2,246	\$377,206	\$305,821	\$327,134	\$17,062	\$5,308	\$349,504	\$27,702
Year 17	\$280,246	\$76,287	\$2,476	\$35,922	\$2,257	\$397,188	\$322,832	\$346,445	\$17,574	\$5,467	\$369,487	\$27,702
Year 18	\$295,575	\$80,865	\$2,550	\$37,000	\$2,268	\$418,258	\$340,791	\$366,824	\$18,101	\$5,631	\$390,557	\$27,702
Year 19	\$311,743	\$85,716	\$2,627	\$38,110	\$2,279	\$440,476	\$359,750	\$388,330	\$18,645	\$5,800	\$412,774	\$27,702
Year 20	\$328,796	\$90,859	\$2,705	\$39,253	\$2,291	\$463,905	\$379,765	\$411,025	\$19,204	\$5,974	\$436,203	\$27,702
Year 21	\$346,781	\$0	\$0	\$0	\$0	\$346,781	\$0	\$299,299	\$19,780	\$0	\$319,079	\$27,702
Year 22	\$365,750	\$0	\$0	\$0	\$0	\$365,750	\$0	\$317,675	\$20,373	\$0	\$338,048	\$27,702
Year 23	\$385,756	\$0	\$0	\$0	\$0	\$385,756	\$0	\$337,070	\$20,985	\$0	\$358,055	\$27,702
Year 24	\$406,857	\$0	\$0	\$0	\$0	\$406,857	\$0	\$357,541	\$21,614	\$0	\$379,155	\$27,702
Year 25	\$429,112	\$0	\$0	\$0	\$0	\$429,112	\$0	\$379,148	\$22,263	\$0	\$401,411	\$27,702
Year 26	\$452,585	\$0	\$0	\$0	\$0	\$452,585	\$0	\$0	\$22,930	\$0	\$22,930	\$429,654
Year 27	\$477,341	\$0	\$0	\$0	\$0	\$477,341	\$0	\$0	\$23,618	\$0	\$23,618	\$453,723
Year 28	\$503,452	\$0	\$0	\$0	\$0	\$503,452	\$0	\$0	\$24,327	\$0	\$24,327	\$479,125
Year 29	\$530,990	\$0	\$0	\$0	\$0	\$530,990	\$0	\$0	\$25,057	\$0	\$25,057	\$505,934
Year 30	\$560,036	\$0	\$0	\$0	\$0	\$560,036	\$0	\$0	\$25,808	\$0	\$25,808	\$534,227
Totals	\$8,613,159	\$1,104,679	\$41,458	\$601,510	\$43,715	\$10,404,521	\$4,766,345	\$6,696,737	\$521,031	\$91,547	\$7,309,315	\$3,095,206

Source: Engie Presentation Dated July 18, 2022

Changes to Engie's Financial Analysis since May 25th Presentation

	May 25 th Financial Analysis*	July 18 th Financial Analysis**	Difference
Total Project Cost:	\$6,807,576	\$3,287,607	- \$3,519,969
Total Gross Program Savings:	\$13,013,021	\$10,404,521	- \$2,608,500
Total Lease Payments:	\$8,110,366	\$6,696,737	- \$1,413,629
Total Program Costs:	\$8,773,237	\$7,309,315	- \$1,463,922
Total Net Savings	\$4,239,784	\$3,095,206	- \$1,144,578
Net Savings (years 1-10):	\$3,940	\$270,020	+ \$266,080
Net Savings (years 11-20):	\$3,940	\$270,020	+ \$266,080
Net Savings (years 21-30):	\$4,231,904	\$2,541,166	- \$1,690,738
Total Guaranteed Gross Savings	\$1,006,328	\$4,766,345	+ \$3,760,017

*Source: Engie Presentation Dated May 25, 2022

**Source: Engie Presentation Dated July 18, 2022



Section B

- Section B of this presentation illustrates what the Total (Non-Guaranteed) Savings and the Guaranteed Savings can support in lease payments and total project costs to be financed.
- Section B contains Wulff Hansen's independent analysis of the feasibility of financing this project based on the savings projected by Engie.
- Wulff Hansen has not independently verified the savings or cost estimates provided by Engie. To the extent that Engie's estimates are unrealistic or incorrect, our analysis will be invalidated and will not be useful in understanding likely outcomes. We have been able to identify certain specific errors in Engie's estimates and have attempted to correct for them in our analysis. We are not in a position to identify all such instances and adjust our analysis properly to reflect them. Therefore, we again wish to emphasize that our analysis is only as useful as the Engie data it is based upon

Section
B

Municipal Advisor Financial Analysis— Review of (Non- Guaranteed) Savings

Year	Guaranteed Savings	Total Gross Program Savings	Lease Payment*	Solar O&M Cost	M&V Cost	Total Program Costs	Net Savings (Non-Guaranteed)	Cummulative Total of Net Savings	Balance of Project Cost Shortfall
Year 1	135,833	175,572	160,875	10,952	3,407	175,234	339	339	462,607
Year 2	143,381	184,641	160,875	11,280	3,509	175,664	8,976	9,315	462,268
Year 3	151,349	194,196	160,875	11,619	3,614	176,108	18,088	27,403	453,292
Year 4	159,761	204,266	160,875	11,967	3,723	176,565	27,701	55,104	435,204
Year 5	168,640	214,878	160,875	12,326	3,835	177,036	37,842	92,946	407,503
Year 6	178,014	226,062	167,875	12,696	3,950	184,521	41,541	134,488	369,661
Year 7	187,909	237,849	176,490	13,077	4,068	193,635	44,214	178,702	328,119
Year 8	198,356	250,273	185,610	13,469	4,190	203,269	47,004	225,705	283,905
Year 9	209,383	263,368	196,180	13,873	4,316	214,369	48,999	274,704	236,902
Year 10	221,025	277,171	207,090	14,289	4,445	225,825	51,347	326,051	187,903
Year 11	233,314	291,722	218,285	14,718	4,579	237,582	54,140	380,191	136,556
Year 12	246,288	307,061	229,710	15,160	4,716	249,586	57,475	437,666	82,416
Year 13	259,984	323,232	242,310	15,614	4,858	262,782	60,450	498,116	24,941
Year 14	274,443	340,280	254,975	16,083	5,003	276,061	64,219	562,336	-
Year 15	289,707	358,255	268,650	16,565	5,153	290,369	67,886	630,222	
Year 16	305,821	377,206	284,225	17,062	5,308	306,595	70,611	700,832	
Year 17	322,832	397,188	299,535	17,574	5,467	322,576	74,612	775,444	
Year 18	340,791	418,258	315,525	18,101	5,631	339,258	79,001	854,445	
Year 19	359,750	440,476	333,085	18,645	5,800	357,530	82,946	937,391	
Year 20	379,765	463,905	351,050	19,204	5,974	376,228	87,677	1,025,068	
Year 21	-	346,781	261,310	19,780	-	281,090	65,691	1,090,759	
Year 22	-	365,750	276,695	20,373	-	297,068	68,681	1,159,440	
Year 23	-	385,756	291,650	20,985	-	312,635	73,122	1,232,562	
Year 24	-	406,857	308,120	21,614	-	329,734	77,123	1,309,685	
Year 25	-	429,112	324,940	22,263	-	347,203	81,910	1,391,595	
Year 26	-	452,585	-	22,930	-	22,930	429,654	1,821,249	
Year 27	-	477,341	-	23,618	-	23,618	453,723	2,274,972	
Year 28	-	503,452	-	24,327	-	24,327	479,125	2,754,097	
Year 29	-	530,990	-	25,057	-	25,057	505,934	3,260,031	
Year 30	-	560,036	-	25,808	-	25,808	534,227	3,794,258	
Totals	\$4,766,345	\$10,404,521	\$5,997,685	\$521,031	\$91,547	\$6,610,263	\$3,794,258		

Source: Engie Presentation
Dated July 18, 2022



Total Project Cost - Financeable Project Cost = Project Cost Shortfall
\$3,287,607 - \$2,825,000 = \$462,607

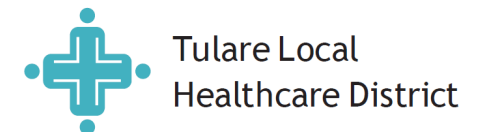
*Only able to finance costs of a project in the amount of \$2,825,000 (rather than the total project cost of \$3,287,607).

This leaves a Project Cost shortfall of \$462,607.

Lease payments are structured as to produce uniform coverage when compared to Total Program Savings less O&M and M&V charges.

Lease amortization is structured with 5 years of no principal payments which may or may be saleable under current market conditions.

Lease payment are projected as of July 20, 2022 and are preliminary, estimated and subject to change with market conditions



Section
B

Municipal Advisor Financial Analysis— Review of Total Guaranteed Savings

Year	Guaranteed Savings	Total Gross Program Savings	Lease Payment*	Solar O&M Cost	M&V Cost	Total Program Costs	Net Guaranteed Savings	Cummulative Total of Net Guaranteed Savings	Balance of Project Cost Shortfall
Year 1	135,833	175,572	121,000	10,952	3,407	135,359	474	474	1,187,607
Year 2	143,381	184,641	121,000	11,280	3,509	135,789	7,592	8,066	1,187,133
Year 3	151,349	194,196	121,000	11,619	3,614	136,233	15,116	23,182	1,179,541
Year 4	159,761	204,266	121,000	11,967	3,723	136,690	23,071	46,253	1,164,425
Year 5	168,640	214,878	121,000	12,326	3,835	137,161	31,479	77,732	1,141,354
Year 6	178,014	226,062	121,000	12,696	3,950	137,646	40,368	118,101	1,109,875
Year 7	187,909	237,849	124,000	13,077	4,068	141,145	46,764	164,865	1,069,506
Year 8	198,356	250,273	131,835	13,469	4,190	149,494	48,861	213,726	1,022,742
Year 9	209,383	263,368	139,230	13,873	4,316	157,419	51,964	265,690	973,881
Year 10	221,025	277,171	147,185	14,289	4,445	165,920	55,105	320,795	921,917
Year 11	233,314	291,722	155,645	14,718	4,579	174,942	58,372	379,167	866,812
Year 12	246,288	307,061	164,555	15,160	4,716	184,431	61,857	441,024	808,440
Year 13	259,984	323,232	174,860	15,614	4,858	195,332	64,652	505,676	746,583
Year 14	274,443	340,280	184,450	16,083	5,003	205,536	68,907	574,583	681,931
Year 15	289,707	358,255	195,325	16,565	5,153	217,044	72,663	647,246	613,024
Year 16	305,821	377,206	206,375	17,062	5,308	228,745	77,075	724,321	540,361
Year 17	322,832	397,188	218,545	17,574	5,467	241,586	81,245	805,566	463,286
Year 18	340,791	418,258	230,725	18,101	5,631	254,458	86,333	891,900	382,041
Year 19	359,750	440,476	243,860	18,645	5,800	268,305	91,445	983,345	295,707
Year 20	379,765	463,905	258,840	19,204	5,974	284,018	95,747	1,079,092	204,262
Year 21	346,781	346,781	260,500	19,780	-	280,280	66,501	1,145,593	108,515
Year 22	365,750	365,750	259,500	20,373	-	279,873	85,876	1,231,470	42,014
Year 23	385,756	385,756	257,950	20,985	-	278,935	106,822	1,338,291	-
Year 24	406,857	406,857	255,850	21,614	-	277,464	129,393	1,467,685	-
Year 25	429,112	429,112	253,200	22,263	-	275,463	153,650	1,621,334	-
Year 26	452,585	452,585	-	22,930	-	22,930	429,654	2,050,989	-
Year 27	477,341	477,341	-	23,618	-	23,618	453,723	2,504,712	-
Year 28	503,452	503,452	-	24,327	-	24,327	479,125	2,983,836	-
Year 29	530,990	530,990	-	25,057	-	25,057	505,934	3,489,770	-
Year 30	560,036	560,036	-	25,808	-	25,808	534,227	4,023,998	-
Totals	\$9,225,006	\$10,404,521	\$4,588,430	\$521,031	\$91,547	\$5,201,008	\$4,023,998		

Source: Engie Presentation
Dated July 18, 2022



Total Project Cost - Financeable Project Cost = Project Cost Shortfall
\$3,287,607 - \$2,100,000 = \$1,187,607

*Only able to finance costs of a project in the amount of \$2,100,000 (rather than the total project cost of \$3,287,607).

This leaves a Project Cost shortfall of \$1,187,607.

Lease payments are structured as to produce uniform coverage when compared to Total Program Savings less O&M and M&V charges.

Lease amortization is structured with 6 years of no principal payments which may or may be saleable under current market conditions.

Lease payment are projected as of July 20, 2022 and are preliminary, estimated and subject to change with market conditions.

Red Savings figures are non-guaranteed as the guarantee expires after Year 20.



Tulare Local
Healthcare District

	Option #1	Option #2	Option #3	Option #4
Option	Move forward with Project and base Lease Payments on Guaranteed Savings	Move forward with Project and base Lease Payments on Total Gross Savings	Move forward with Project and base Lease Payments on Guaranteed Savings plus a percentage of annual Total Savings	Explore proposals from competing ESCOs
Financeable Project Costs	\$2.1 million – District would need to work with Engie to downsize the Project while retaining the Guaranteed Savings or fund the shortfall with District funds (\$462,607)	\$2.825 million - District would need to work with Engie to downsize the Project while retaining the Total Gross Savings or fund the shortfall with District funds (\$1,187, 607)	Between \$2.1 million and \$2.825 million - District would need to work with Engie to downsize the Project while retaining the Guaranteed Savings and a portion of the Total Gross Savings or fund the shortfall with District funds (between \$462,607 and \$1,187,607)	To be determine, if applicable
Key Benefits	<ul style="list-style-type: none"> ❖ If the Project outperforms Engie’s projections, the Districts is likely to achieve substantial net savings - the key driver for this outcome is future energy costs ❖ Environmental stewardship ❖ Infrastructure improvements ❖ Potential energy cost savings 			<ul style="list-style-type: none"> ❖ A competing proposal could produce a better result for the District ❖ By the time the District is ready to move forward with a competing proposal, interest rates may have declined
Key Risks*	<ul style="list-style-type: none"> ❖ If the District moves forward with Options #1, #2, or #3 and Engie is unable to downsize the Project, it will take the District between 13 and 22 years to recoup the shortfall in financeable project costs ❖ Although Engie will manage the equipment warranties for 20-years, there is no recourse for equipment failures after 20-years, and it also does not appear that there will be sufficient excess savings to fund a repair and replacement reserve fund (ex: inverter replacement) 			<ul style="list-style-type: none"> ❖ Other ESCOs may not be able to put forth a more economically feasible project

**The list of key risks is what we are recommending that the Board should focus on when making its decision. It is not an exhaustive list of all risks associated with energy projects of this type.*