THE STATE *of* ALASKA

GOVERNOR SEAN PARNELL

Office of the Governor

OFFICE OF MANAGEMENT AND BUDGET
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MEMORANDUM

To: Administrative Services Directors

Date: November 21, 2014

From: Karen Rehfeld, Director
Office of Management and Budget

Subject: Process for Third Party Financing

PURPOSE

As a tool to manage its budget, State agencies may enter into a third party financing arrangement. When entering into such a financial arrangement, an agency may commit to long term repayment with the agency's operating funds, subject to annual appropriation. In some instances, the savings resulting from the project or acquisition can be used to repay the indebtedness.

The purpose of this third party financing policy is to identify the process and required steps for a State agency when proposing to finance equipment acquisition and energy efficiency projects. A loan, or line of credit, can be entered into by a State agency for personal property, equipment acquisition (including systems furniture), performance based contract, or other energy efficiency project. Regardless of the means of financing used, the financing should be structured to ensure that there is no potential for the fractionalization and securitization and public sale to third party investors as a State of Alaska obligation. Acceptable loan options include the State Master Lease Line of Credit, the Alaska Energy Efficiency Revolving Loan Fund Program (AEERLF), or through other lenders. Private financing should only be used if there is a significant advantage for the agency to do so, and only with approval of the Department of Revenue to ensure that no potential for a negative impact on the State's credit rating is being created.

BACKGROUND

As pressure on the State's budget continues to increase, State agencies, including the University of Alaska and the Alaska Court System, are finding alternative methods for purchasing equipment and funding energy efficiency projects that do not require a capital appropriation. There are two types of projects that readily lend themselves to financing since the savings from such projects can be used to service the debt.

1. Personal Property and Equipment, including furniture resulting from implementation of the universal space standards; and

2. Energy efficiency projects.

It can be advantageous for agencies to finance equipment over a period of time, especially when interest rates are extremely low, or even at zero. Such low interest rates are often available through certain office and copier supply vendors. This financing method allows agencies to spread the cost over the life of the equipment/project and not have to commit to a large, one-time cost, within a single budget year.

The state has implemented universal space standards across agencies when there is a move within state owned space, or a move from private lease into state owned space. The new space standards reduce the amount of lease space, and thus cost, by having staff work in smaller, closely associated working groups, and the elimination of private offices. The savings that is realized can be directed to paying down the cost of purchasing the new systems furniture. Loan payments can be structured so that the payment is comparable to the annual savings.

Similarly, Energy Efficiency (EE) projects can result in significant savings from reduced utility usage. To complete EE projects, agencies must first complete an investment grade audit using an Energy Service Company (ESCO). Based on the anticipated savings, agencies would then secure a loan to complete the construction project. The construction loan can be serviced by using the utility savings from the project.

AUTHORITY

AS 36.30.086 Lease-Purchase of Personal Property

> (a) To perform its duties and statutory functions, an agency, the Board of Regents of the University of Alaska, the legislative council, the Legislative Budget and Audit Committee, the office of victims' rights, the office of the ombudsman, or the supreme court may enter into lease-purchase agreements for the acquisition of equipment or other personal property. The government entity is the lessee under the agreement.
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> (b) If a government entity enters into a lease-purchase agreement under (a) of this section that exceeds $100,000 in payments by the state, the government entity shall provide notice to the presiding officers and finance committee chairs of the house and senate. The notice must describe the property that is the subject of the agreement and must set out the terms of the lease-purchase.

In accordance with AS 36.30.086(b), OMB will provide notice through the annual report that OMB prepares for the legislature. This report includes a summary of all lease purchase agreements that were entered into during the preceding fiscal year, which are reported to OMB by the agencies.

PROCEDURE

Equipment and Personal Property with Total Payments of $100,000 or Less

For equipment and personal property acquisition that will result in less than $100,000 in payments, state agencies may utilize the Master Lease Line of Credit through the Department of Revenue without advance approval from OMB.

Equipment/Personal Property with Total Payments that Exceed $100,000

For equipment/personal property acquisition that will result in total payments of $100,000 or more, OMB approval is required. Agencies must follow the existing process established through the Department of Revenue's State Debt Manager for using the Master Lease Line of Credit, or obtain approval from the State Debt Manager for any alternative financing mechanism. Approval will be granted through the *OMB Approval for Third Party Financing* form (Attached). If the Debt Manager approves, the Debt Manager will forward to OMB for review.

Energy Efficiency Projects
All third party financing arrangements for energy efficiency improvements must be approved by the State Debt Manager and OMB.

1. Complete, sign and submit the *OMB Approval for Third Party Financing* request form to the Department of Revenue, Debt Manager, along with other information that the Debt Manager will need in order to properly analyze the loan and to assure the state's credit rating is protected.

2. The Debt Manager will either approve or not approve. If approved, the request form will be forwarded to OMB for review. If not approved, it will be returned to the agency along with the analysis as to why it is not approved, with a copy to OMB.

3. If approved by the Debt Manager, then OMB will review and either approve or not approve, and return the request form to the requesting agency.

Legislative Authorization
As part of the budget submission, agencies must include in their operating budget detail the funds that will be used to service debt, and the reason. By doing so, agencies will show the authorization needed to service debt with operating funds.

Any questions regarding this process or procedure should be directed to Arnold Liebelt, Senior Policy Analyst, Office of Management and Budget.

Attachment

cc: Deven Mitchell, Debt Manager, Tax Division, Department of Revenue
Marjorie Vandor, Chief Assistant Attorney General, Department of Law
Mary Ellen Beardsley, Assistant Attorney General, Department of Law
Scott Waterman, Energy Specialist, Alaska Housing Finance Corporation
Tom Mayer, Director, Division of General Services, Department of Administration
David Kemp, Statewide Facilities, Department of Transportation & Public Facilities
Arnold Liebelt, Senior Policy Analyst, Office of Management and Budget