

# Capital Provider Perspectives on C-PACE Program Design

Part of the Technical Webinar Series for U.S. DOE's Commercial PACE Working Group

July 24, 2018



# Purpose

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- **C-PACE Technical Webinar Series**: To provide in-depth technical content about C-PACE program elements to state and local governments with support from market experts.
- **Today's Webinar**: To present capital provider insights about C-PACE program design as a means to inform state and local governments, and support the outcome of private capital investment in C-PACE financed projects.

# Housekeeping

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- The recorded webinar, transcript and slides will be available online at: <https://energy.gov/eere/slsc/state-and-local-solution-center>.
- Duration: 90 minutes.
- Attendees are in listen-only mode.
- Attendees are encouraged to type questions and feedback in the webinar interface tool throughout the webinar. We will have time at the end to answer questions.

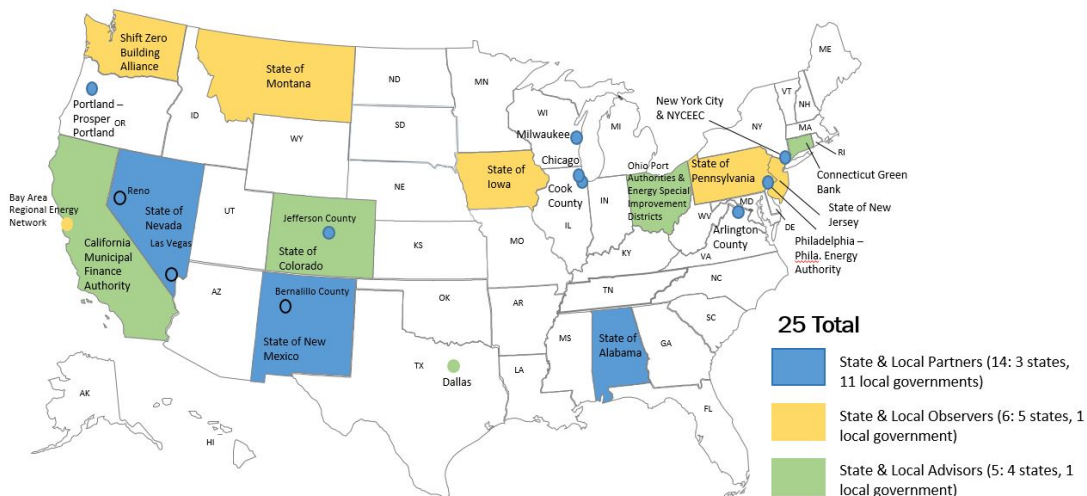
# Agenda

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- **Background from DOE**
- **Featured Speakers**
  - Genevieve Sherman (Greenworks Lending)
  - Clifford Kellogg (C-PACE Alliance)
  - Greg Saunders (CleanFund Commercial PACE Capital)
  - Jim Stanislaus (PACE Petros Finance)
  - Mark Colby (Ygrene Energy Fund)
- **Q&A**

# Background: Resources from DOE

- *Lessons in Commercial PACE Leadership: The Path from Legislation to Launch*
- *Commercial PACE Working Group*
  - *Welcoming new participants!*



Learn more at DOE's State and Local Solution Center: <https://www.energy.gov/eere/slsc/state-and-local-solution-center>

# Background: Why Today's Topic?

- **Capital Providers**

- *Who are they?* Investors who furnish capital for C-PACE projects either directly or by buying bonds issued to fund projects.
- *Why are they important to the process?* Capital providers make C-PACE projects possible and programs sustainable.
- *Why should they be engaged during the program design stage?* By engaging capital providers early to verify a program is tenable (e.g., the underlying mechanism provides strong security), decision-makers can ensure their participation.

Source: Leventis et al., 2018. Lessons in C-PACE Leadership: The Path from Legislation to Launch.





# GREENWORKS

## LENDING

# INTRODUCING GREENWORKS LENDING

Greenworks Lending is a Commercial PACE finance company that invests in commercial real estate with the goal of improving energy and cost performance for owners.

Greenworks is the most experienced Commercial PACE lender in the country. Our founders developed the first successful Commercial PACE program, securitized the first rated portfolio of solely C-PACE loans, and we currently operate in 10 states and the District of Columbia.



## PROGRAM MODELS – ROLE OF STATE AND LOCAL GOVT

### STATE AUTHORIZATION

- ✓ A state agency is statutorily authorized to administer C-PACE on behalf of local governments
- ✓ Local governments may opt in or opt out
- ✓ Local governments must pass local laws to establish C-PACE
- ✓ **Examples: CT, MA, RI**

### LOCAL GOVERNMENT AUTHORIZATION

- ✓ Only local governments are authorized to enable C-PACE
- ✓ Local governments must pass local laws
- ✓ Local governments may voluntarily choose to opt into statewide administrative program
- ✓ **Examples: MD, MI, TX**

### REGIONAL GOVERNMENT AUTHORIZATION

- ✓ Local governments may establish a regional district with a separate entity that receives certain statutory rights and authorities of the local government
- ✓ Often called a Joint Powers Authority (JPA), District, or Commission
- ✓ Local governments require local ordinance and/or resolution to become a member
- ✓ **Examples: CA, CO, FL, OH, NY, WI**

## WHAT IS A SPONSOR versus an ADMINISTRATOR?

### C-PACE Program Sponsors

- ✓ Sponsors may or may not be named in law
- ✓ Sponsor is can be state agency, existing, or new non-profit
- ✓ Sponsor is a convener and trusted spokesperson for diverse C-PACE stakeholders
- ✓ Sponsor may assist Program Administrator
- ✓ Sponsor seeks input to Program Guidelines and other documents
- ✓ **Examples: Maryland Clean Energy Center, Virginia Energy Efficiency Council, Texas PACE in a Box**

### C-PACE Program Administrators

- ✓ Program Administrators directly represent or support local government in execution of their obligations
- ✓ Program Administrators receive, review and approve C-PACE applications to confirm eligibility
- ✓ Program Administrators liaise with local governments to ensure C-PACE assessments are 'secured' (e.g. documents are signed, recorded, assessments placed on tax rolls)
- ✓ Program Administrators may support loan servicing
- ✓ **Examples: Lean & Green Michigan, Texas PACE Authority, PACE Financial Servicing**

## PROGRAM MODELS – ADMINISTRATORS

### SINGLE ADMINISTRATOR

- ✓ One entity **statutorily** or **voluntarily** administers C-PACE in the state
- ✓ Benefits: standardization, ease of use, admin recovers cost faster
- ✓ Risks: if high cost, no other option
- ✓ **Examples: CO, CT, MD, TX, RI**

### OPEN MARKET

- ✓ Property owners have choice of C-PACE lender
- ✓ C-PACE lenders have 'equal access' to customers
- ✓ Some Open Markets organize bidding procedures for C-PACE lenders\*
- ✓ **Examples: MD, TX, WI**

\* Some administrators in open markets “originate” and bid C-PACE project opportunities to lenders. This practice has mixed results and depends heavily on administrator marketing resources

\*\* Closed Markets were an early business model to justify development of a new C-PACE market, they are rare today.

### MULTI-ADMINISTRATOR

- ✓ Multiple entities operating C-PACE programs, often in overlapping areas
- ✓ Benefits: Choice
- ✓ Risks: Market confusion, difficult for local govt, policy implementation uneven
- ✓ **Examples: CA, MO, FL**

### CLOSED MARKET

- ✓ A single C-PACE Lender is the designated lender for property owners
- ✓ **Examples: \*\* Individual CPACE Districts in FL, MO**

## PROGRAMS – NATIONAL GROWTH

State	\$ funded (millions)	Year C-PACE Programs Launch*
California	208	2008
Connecticut	101	2013
Minnesota	42	2010
District of Columbia	34	2010
Texas	34	2014
Missouri	28	2012
Ohio	25	2010
Florida	20	2010
Colorado	19	2015
Wisconsin	15	2016
Maryland	12	2015

\* Data Source: PACE Nation. Note – program launch dates approximate and relate to regional or statewide (not municipal) programs



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**QUESTIONS?**





## **ELEMENTS OF A WELL-DESIGNED C-PACE STATUTE AND PROGRAM**

Cliff Kellogg, C-PACE Alliance

Greg Saunders, CEO, CleanFund Commercial PACE Capital, Inc.

Jim Stanislaus, CFO, Petros PACE Finance

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[www.c-pacealliance.com](http://www.c-pacealliance.com)

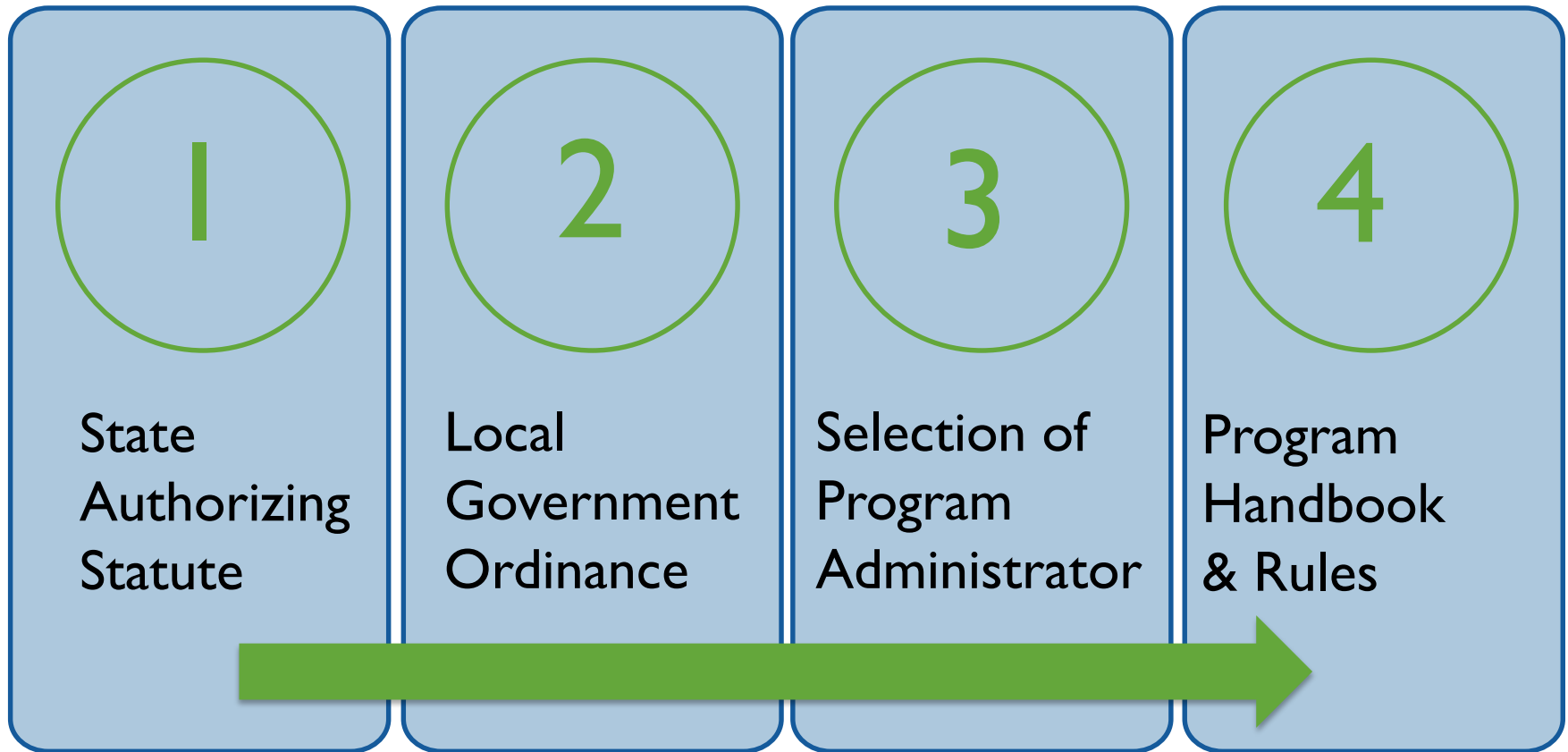
**A coalition of capital providers and transaction experts committed to achieving the public benefits of C-PACE by increasing the throughput of quality C-PACE financings.**

1. Technical assistance to programs
2. Thought leadership (best practices, white papers)
3. Develop/support Program Administration models



# Steps in Implementing a C-PACE Program

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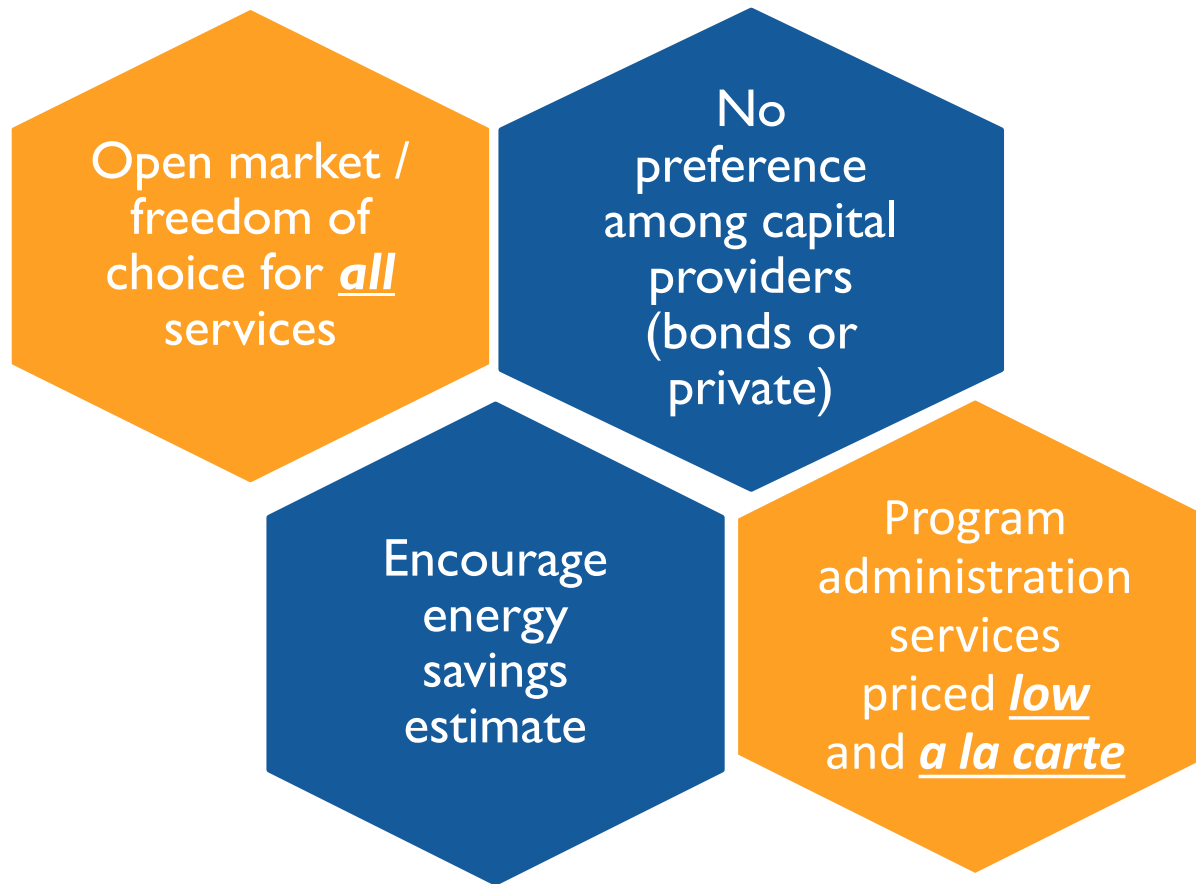


See white paper at [www.c-pacealliance.com](http://www.c-pacealliance.com)

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# Elements in the Statute or Local Ordinance

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# Elements in the Statute or Local Ordinance

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## Statewide Consistency

Ideally, encourages consistency via a statewide program that local government may opt into. Possibilities:

- Formal joint powers agreement w/ single PA.
- Informal critical mass of local governments w/ model ordinances and documents.
- Multiple PAs admitted as a group.

## Replicability

The PA and policymakers should develop turn-key program (with documents available on its website) that other counties and municipalities can adopt.



# Elements in the Statute or Local Ordinance

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## Strong Credit Security

First and prior  
lien on the real  
property



Effective *as of  
the funding of a  
project*, prior to  
any construction  
period.



May be enforced  
by the local  
government in  
the same manner  
as a tax lien  
against real  
property



# Elements in the Statute or Local Ordinance

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## Mandatory Approval by Mortgage Holder

Consent or acknowledgement, with:

- a description of the financing
- a certification that it does not create an event of default under the mortgage.

Simply giving notice of the financing to senior mortgage holders is not advisable.

## Why?

- Protects owner from mortgage default.
- Validates creditworthiness.
- Respects banks and avoids industry-level opposition.
- Lower cost of funds ultimately.

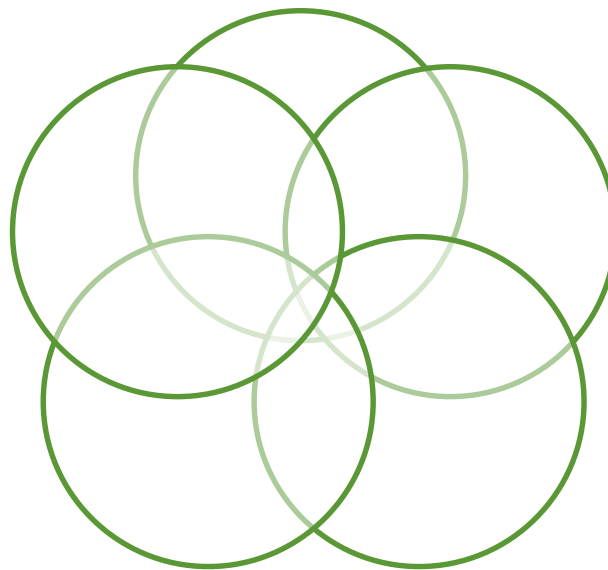
# Elements in the Statute or Local Ordinance

## Minimum Savings-to-Investment (SIR) Test

Overlooks benefits of resiliency, code compliance, healthier work environments, strategic benefits and tenant retention.

When energy prices are low, an SIR test becomes more difficult.

Adds complexity, time and cost.



For new construction, the energy savings over a hypothetical baseline may not cover the cost of improvements.

If required, “savings” should be a comprehensive and inclusive.

# Elements in the Statute or Local Ordinance

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## Flexibility in Financing Terms

- Term should match the life of the equipment, up to 30 years.
- Include the cost of materials and labor, fees, interest reserves, and all other costs pursuant to the financing and the project.
- Refrain from specifying *financial underwriting* parameters.
- Include renewable energy power purchase agreements or leases as eligible.

# Best Practices in *Program Administration*

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## Clarity of Roles

Program Administrator	Capital Providers
Coordinate the design of program rules	Cultivate financing opportunities and provide capital at competitive rates
Certify projects predictably and efficiently	Underwrite projects consistently and efficiently
Manage and promote the program	Coordinate with PAs in the approval, closing and collection process



# Best Practices in *Program Administration*

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**Billing:** Identifies the government official and tax assessor who collects assessments without personal liability. Alternatively, allows the Capital Provider to bill and collect from the Owner directly.

**Partial payment of property taxes:** Not permitted unless it is a voluntary prepayment.

**Clear rules on handling of funds:** Ensure that funds will not be lost, stolen or displaced. If not direct-billed by CP, payments should be made into a controlled lock-box, with a third-party firm ensuring proper flow-through of payments.

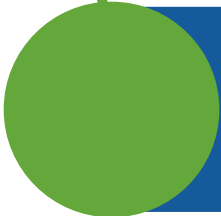
# Best Practices in *Program Administration*

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## Billing & Collecting



County performs the billing/collecting along with ordinary property taxes. Enforcement by county pursuant to clear rules.



Remittance period: The time from receipt of tax payments to payment of CP should be minimized (<30 days) and reliable.



Billing/servicing not performed by CP or county should involve strong institution with full disclosure of contracts including clear rules of default and remedies.

# Best Practices in *Program Administration*

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## Procedures for Delinquencies and Foreclosures

**Capital providers expect clarity on:**

- curing delinquencies;
- the foreclosure (or tax certificate sale) process to enforce the assessment with minimal delay.

**Allows the right to pursue remedies to be assigned to the Capital Provider.**

**Publish a program handbook describing the collection and foreclosure processes and timelines**

# Best Practices in *Program Administration*

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## Program Administration Fees

- Should be reasonable considering the size and maturity of the market.
- High fees discourage property owners.
- Successful programs operate with low administration fees, capped per-transaction (One percent or less, with per-transaction caps of <\$75,000).
- Annual service charges should be discouraged or absolutely minimal.
- PAs typically need financial support to cover staff costs until the transaction volume is sufficient to offset these expenses.

# Marketing, Education & Training

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C-PACE Alliance recommends a modest marketing budget in order to keep fees as low as possible.

**Message:** C-PACE is an *financing tool* that promotes the adoption of renewable energy and efficiency projects



MARKETING:  
General  
Awareness of  
C-PACE

EDUCATION:  
Seminars, panels  
and public  
speaking

TRAINING:  
energy savings  
analysts or  
project  
developers who  
attended a  
session





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# Capital Provider Perspectives on C-PACE Program Design

## Attributes and characteristics of favorable C-PACE legislation:

### ■ Musts:

- Senior lien status
- Levy and placement of assessment, pari passu with other assessments
- Encourage district formation – with multi-jurisdiction opt-in process
- Allow for use of private capital
- Enable multiple administrators/capital providers to operate
  - › Open market – don't pick winners, encourage competition
- Allow third party administrators

### ■ Preferences:

- Do not require lender consent
- Define eligible improvements broadly:
  - › Any improvement that saves energy or creates energy renewably (more efficiently), anything that saves water, and regional resiliency
- C-PACE is different than R-PACE so consider the useful protections only
- Underwriting criteria not too restrictive
  - › CA and FL good examples

### ■ Key Considerations:

- Avoid overly-burdensome financed amount "caps" based on LTV
  - › Consider project financial benefit
- Ensure inclusive combined LTV ratios (typically 95%-100%)
  - › Can be addressed in program guidelines as opposed to legislation
- Broaden specific legislative language
  - › Provides more flexibility for local program implementation
- Do not mandate (through legislation) costly burdens on small commercial
  - › Allow the market (program administrators, boards, JPAs, lenders) establish thresholds and requirements
  - › Define small commercial (consider < \$5MM with off-the-shelf technology)
  - › Small projects cannot afford excessive admin, legal, site audits, etc. typically associated and appropriate for large commercial projects.
    - Allow benchmarking to establish ROI (some programs call BCR, SIR, EEBE, etc.) for PO
    - Program administrators to publish commercial program handbooks to establish fee schedules and rates
    - Program administrators work with boards or JPAs to establish program standards that do not require separate legal, accounting, engineering review of each project.

### Ygrene funded C-PACE projects:

- Nationwide:
  - All C-PACE funded \$672MM on 1612 projects (average \$416.9k/project)<sup>1</sup>
  - Ygrene has funded \$81.8MM on 723 projects (average \$113.1k/project)
    - › 12% of dollars, but 44.9% of project volume
- Why Ygrene works for small commercial
  - Lender consent not required by Ygrene, CA or FL
  - Ability to execute (fund and securitize)
  - Defined and easy to understand UW procedures
  - Fast approvals
  - Definitive eligible improvements list
  - Standardized BCR/SIR/EEBE calculations (to determine PO return on investment)
  - Willingness to fund commercial projects down to \$5,000
  - Low fixed fees that keep small commercial affordable
  - Low rates and long terms
  - Commercial sales professionals in the field working with POs and Contractors

## 1350 & 1550 Harbor Boulevard

- PACE showed nearly \$1MM eligibility
- Ygrene to the rescue...
  - Mortgage lender would not finance due to vacancy rate (40%), but can't make required improvements to increase occupancy or justify higher rents
  - Debt likely only available option with other buildings (inherited Quiznos) as collateral
  - Unsecured options were 8-12% and due monthly upon project completion
- Project results
  - Lowered operating expenses and increased NOI, which increased property value
  - Cash flow positive from Day 1
  - Secured new tenant - Reduced vacancy



## Pacific Southwest Association of Realtors

- 65kW (98% offset) solar PV carports
- Ygrene financing
  - PO considered 7yr solar lease, which had a buy-out balloon at end of term, which eliminated positive cash flow gains so not chosen
  - Ygrene offered terms up to 25yrs, but 15yr fixed term chosen for positive cash flow starting year-1 with lowest cost of capital
  - 13 months before first payment
- Project results
  - Immediate cash flow savings (\$3k/yr minimum) with positive cash flow every year
  - \$91,000 year-1 free cash flow (no electric bill and no PACE payment for first 13 months)
  - 25yr net savings \$526,000



**\$220,000**  
PROJECT VALUE

## 1601 Exposition

- LED lighting, HVAC
- Situation
  - PO concerned they would lose State of California as tenant if they didn't make key lighting and climate control improvements
  - Mortgage REFI did not offer favorable terms (PP penalties, etc.) and repayment term was too short, making payments less affordable
- Project results
  - Because of PACE, PO was incentivized to spec higher efficiency products with longer useful life
  - Opted for 20yr term with favorable rates through Ygrene
  - Achieved 13% overall energy savings
  - Kept State of California as tenant
  - Achieved LEED certified



**\$700,000**  
PROJECT VALUE



# Comments & Questions



# Questions?

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**Please type all questions into the webinar dialogue box.**

# Thank You

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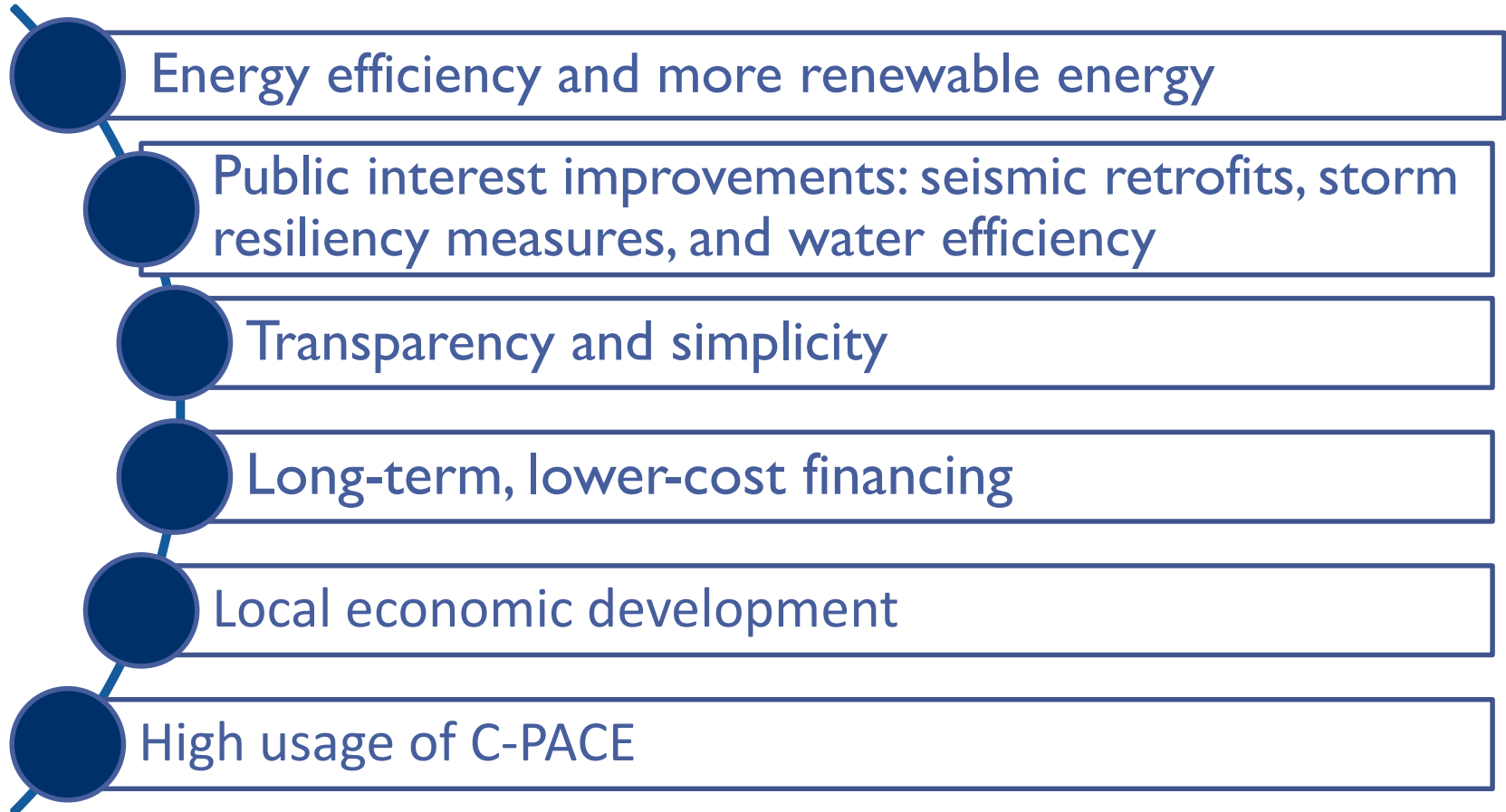
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**State and Local Solution Center**

<http://energy.gov/eere/slsc/state-and-local-solution-center>

# Appendix: What are our common goals?

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# Appendix: Goals → Core Principles

1. Engage stakeholders and consider best practices

2. Continuously collaborate on design

3. Encourage open markets and freedom of choice for all services

4. Policymakers should support and guide local governments: consistency matters!

5. Converge toward standards, especially for the creation of a secondary market



# Appendix: Best Practices in *Program Administration*

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## Drafting Documents



Create program documents in collaboration with capital providers.

Create a standard form assessment contract that defines method to collect assessments..

Allow capital providers to tailor their financing documents.

# Appendix

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## **Certification of Project Compliance:**

The PA or the local unit of government should provide a written statement on request that the C-PACE financing for a particular property meets the program requirements.

# Appendix

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## **Underwriting by Capital Providers:**

Allows Capital Providers to perform the financial underwriting to confirm the Property Owner's ability to repay the assessments. PAs should not do any financial underwriting, because it duplicates the Capital Providers' work with no marginal benefit.



# Appendix

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## Efficient Closing Process:

Predictable, transparent and efficient. The closing process must also be in a proper order for Capital Providers, for example, the tax assessment must be in place before (or contemporaneously with) the project's funding.

Most Capital Providers transfer the C-PACE financing to a secondary institutional investor after closing, so a smooth transfer process is also important.

## Appendix

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**Property Owner's Satisfaction with the Work of Third Parties:** A program should acknowledge that Property Owners are solely responsible for the selection of contractors and any other third parties involved in completing their projects.

**Continuous Improvement:** Periodically review the process to submit applications, determine program eligibility, and obtain approvals. Contracts with PAs should specify acceptable service levels.