CO C-PACE Workshop
Fall 2020

By:
Tracy Phillips, CEM, CMVP, CDSM
Director
Today’s Presenter

Tracy Phillips: CEM, CDSM, CMVP, LEED AP

- CO C-PACE Director
- 24 years of experience
- IPMVP Committee Chair
- Former Investor Confidence Project Technical Director
- Energy audits, RCx, Cx, M&V, market transformation, energy modeling, third-party review, financing
Today’s Agenda

- Section I  C-PACE Background & Structure
- Section II  Role of Key Stakeholders
- Section III  C-PACE Process
- Section IV  Program Update and Case Studies
- Section V  Conclusions & Next Steps
- Section VI  Resources
Section I

C-PACE Background & Structure
C-PACE Background

- **Program:** Finance energy efficiency, renewable energy, and water conservation projects and efficient new construction projects

- **Structure:**
  - Statewide “District” enabled by CO legislation
  - Counties voluntarily opt-in to the District
  - Projects financed through private capital
  - Designed to be self-sustaining program

- **Program Sponsor:**
  - New Energy Improvement District (NEID)
  - Seven NEID board members, incl. CO Energy Office
What is C-PACE?

- New Way financing that provides C&I building owners a smarter way to modernize their buildings:
  - 100% financing - no out-of-pocket expense, i.e. includes soft & hard costs
  - Long term - up to 25 years, not to exceed the weighted effective useful life (EUL) of eligible improvements
  - Lower energy costs
  - Combine with utility, tax, and economic development incentives
  - Non-recourse, no personal guarantees
  - Special purpose assessment (akin to sewer assessment)
How C-PACE Works

C-PACE is a voluntary tax assessment-based, private financing program

- Building owners choose to install eligible EE, water efficiency and RE improvements
- Costs are spread over periods of up to 25 years
- Repayment via a “special assessment” recorded on the property
- Goal: Energy savings $$ > the PACE payments, creating cash flow positive projects
- Repayment obligation can transfer to new owner upon sale
What’s Eligible?

- **Eligible Property Types (C&I)**
  - Office
  - Retail
  - Hotel
  - Industrial
  - Agricultural
  - Healthcare
  - Non-profit
  - Multifamily (5+ units)

- **Eligible Improvements (examples)**
  - Automated building controls
  - Boilers, chillers & furnaces
  - Building envelope (insulation, windows)
  - Combined heat & power (CHP)
  - High efficiency lighting
  - Hot water heating systems
  - HVAC upgrades & controls
  - Solar PV systems (roof upgrade)
  - Pumps, motors, drives
  - Green roofs / cool roofs
  - Elevator modernization
  - EV charging stations
  - Beneficial electrification
What Else is Eligible?

- **Costs related to eligible improvements** (Examples)
  - Engineering studies
  - Energy audits
  - Renewable energy feasibility studies
  - Equipment extended warranties (e.g. PV system inverter extended warranty)
  - Roof upgrades (e.g. associated with rooftop solar PV systems)
  - Building structural reinforcement (support rooftop installations)
  - Environmental clean-up (e.g. asbestos removal for new boiler installation)
  - Commissioning, M&V and maintenance contracts (up to five years)
  - Finance closing costs
  - Program administration fee imposed by District (2.25% of project costs, capped at $50,000)
C-PACE for New Construction

- Building’s baseline energy consumption based on 2015 IECC
- Energy savings credit is delta between code and proposed EE design
- C-PACE financing for 15% to 20% of total eligible new construction costs
- Enables building design to “push the envelope”
- Engage construction lender early in the process
C-PACE for New Construction

Where lower cost C-PACE financing can be used in lieu of mezzanine debt or equity, the developer can often lower their weighted average cost of capital.
C-PACE for New Construction

- C-PACE eligible finance amount determination process:
  1. Determine Total Eligible Construction Cost* (TECC)
  2. Demonstrate IECC 2015 code compliance – 15% financing
  3. Demonstrate building energy performance >5% 2015 IECC code compliant building
    - Model building energy performance at “Code Compliance”
      - IECC 2015 / ASHRAE 90.1-2013 baseline
    - Model building energy performance “As Designed”

* Total Eligible Construction Costs include core building costs, excluding land acquisition, and items not permanently affixed
C-PACE Background

- 2,400 buildings nationwide
- $1.5 billion in C-PACE financing

* Courtesy of PACENation
Colorado C-PACE Statewide Program

- Counties must opt-in to participate in the C-PACE statewide “District”

- **County Collection Fee:** to cover collections & remittance services
  - 1% of PACE annual assessment amount, included on owner’s property tax bill
C-PACE Benefits to the County

- Minimal impact to County government resources
- Program financed through qualified capital providers
- Improved C&I building infrastructure
- Attractive to developers / county property owners
- Business/building owner/tenant retention
- Voluntary – provides another financing option for existing building owners and new construction projects
SMB Market and Rural Communities

Challenges

- Lien to value (LiTV)
  - Lenders typically willing to finance 20-30% LiTV
- Underwriting
- Costs associated with energy audit/analytics
- Outreach
- Lack of contractors
Project Potential

RMI report released in February 2020 – Class B/C buildings

- 15%+ savings with bundled low- and no-cost improvements
- 35%+ savings with capital improvements
- NOI increases between 2.4 to 5.6%
- Property value increase between $5 and $11 per SF
  - $343,000 to $800,000 for a 75,000 square foot building

With C-PACE, there is no reason for Class B/C buildings to remain inefficient and more costly to operate
C-PACE Program Structure

- C-PACE is designed as an “open source funding model”
  - Prequalified private Capital Providers fund eligible projects
  - No public funds are used to finance projects

- Owner may choose a preferred capital provider upfront, OR

- Program Administrator can review pre-approved projects with qualified capital providers to determine their funding interest
  - Capital providers submit financing term sheets for owner decision
Qualified Capital Providers

- 38 capital providers pre-qualified, representing multiple sectors:
  - Community banks, credit unions, and PACE-specialty investors
  - Serving small to large property/project sizes in both existing building & new construction
C-PACE Program Structure

- **C-PACE assessment requires written consent from existing mortgage holder(s)**
  - C-PACE assessment lien has priority status akin to sewer assessment
  - Liens for assessments imposed by other governmental entities have coequal priority with the District special assessment lien

- **Case to provide mortgage lender consent**
  - Increase owner’s ability to repay mortgage (better NOI)
  - Increase building’s value
  - C-PACE assessment is non-accelerating; i.e. in a default scenario only payments in arrears come due
## Consenting Mortgage Holders

- 31 unique mortgage holders have consented to a C-PACE project
- 12 mortgage holders have consented MULTIPLE times
- **10 mortgage holders** have provided C-PACE project financing

<table>
<thead>
<tr>
<th>Bank/Mortgage Holder</th>
<th>Projects</th>
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<tbody>
<tr>
<td>Access Point Financial</td>
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<td>Adams Bank &amp; Trust (1)</td>
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<td>ANB Bank (6)</td>
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<td>Bank of Colorado (2)</td>
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<td>Bank of the Ozarks</td>
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<tr>
<td>Belco Credit Union (4)</td>
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<td>Berkley Bank (5)</td>
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<td>Centennial Lending</td>
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<tr>
<td>Citywide Banks (4)</td>
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<tr>
<td>Collins Community Credit Union</td>
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<tr>
<td>Colorado Business Bank</td>
<td>1 project</td>
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<td>Colorado Structures Inc</td>
<td>2 projects</td>
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<td>First Bank (7)</td>
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<tr>
<td>First Citizens Bank</td>
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<td>First National Bank</td>
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<tr>
<td>Independent Bank</td>
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<td>LoanCore Capital</td>
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<td>UMB Bank</td>
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<tr>
<td>Vectra Bank</td>
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<tr>
<td><strong>Waypoint Bank</strong></td>
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<tr>
<td>Wells Fargo</td>
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Section II

Role of Key Stakeholders
Role of Property Owner

- Submit project application to program administrator
- Select preferred contractor and/or PACE project developer for project development
- Execute project development agreement with contractor
- Select preferred capital provider
- Execute financing agreement with capital provider
Role of Mortgage Holder

- Provide consent to C-PACE assessment
  - C-PACE assessment is priority lien akin to sewer assessment

- Mortgage holders typically assess the project’s impact on:
  1. Borrower’s ability to repay (impact to mortgage default risk)
  2. Collateral value
  3. Assessment is non-accelerating (in default only past due amounts come due)

- 200+ lenders have consented to PACE projects nationwide

- Mortgage holder can finance the project through C-PACE
Role of Capital Provider

- Conduct underwriting to assess building’s financial health:
  - **Loan-to-Value percentage** (< 80% typically qualifies)
    - Outstanding mortgage value / estimated property value
  - **PACE-to-Value percentage** (< 20% typically qualifies)
    - Estimated project value / estimated property value
  - **Current on mortgage and property tax payments**
  - **No involuntary liens or bankruptcy**
  - Review building financials & project cash flow projections
  - Execute financing agreement with property owner
Role of Contractor/Developer

- Integrate C-PACE financing in proposal & project development

- Paradigm shift:
  - FROM: “Old Way” - owner self-funded, short-term payback focused
  - TO: “New Way” - 3rd party long-term financed, cash flow focused
Provide property owners guidance and experience to manage comprehensive existing building retrofit and new construction projects:

- Manage all aspects of the C-PACE process
- Develop a scope of work best suited to project or portfolio goals
- Engage multiple technical and financial resources to fully-evaluate options
- Obtain mortgage holder consent
- Support legal and finance agreement matters
- Negotiate and close best financial terms
- Assist in project management and implementation
Role of Program Administrator

- **Contractor support services**
  - Project economic analysis tools to optimize for C-PACE financing

- **Building owner support services**
  - Project eligibility and quality assurance review
  - Mortgage holder consent and capital provider sourcing (where needed)

- **Capital provider support services**
  - Project underwriting & closing support

- **Program Administrator provides stakeholder tools & support services to facilitate successful transactions** (no application or upfront fees required)
  - Administration of the C-PACE District is designed to be self-sustaining
  - PA fee of 2.25% of amount financed (not too exceed $50k per project) is applied to successfully financed transactions
Role of County

- Counties can opt-in to C-PACE via written agreement with NEID

- County’s role is threefold:
  1. Place assessment on participating property
  2. Collect assessment with property taxes
  3. Remit assessment funds to NEID (county retains 1% of annual assessment payment)
Section III

C-PACE Process
C-PACE Process

1. SEND us your Pre-qualification Submission Form

2. PARTICIPATE in a brief project kickoff discussion

3. Ask your contractor to SUBMIT the project analysis for a quality assurance review

4. APPROVE the project

5. OBTAIN mortgage holder consent with C-PACE program assistance, where applicable.

6. SELECT a prequalified capital provider

7. SIGN the finance agreement
C-PACE Projects: Savings to Investment Ratio

- **Savings-to-Investment Ratio (“SIR”)**
  - “S” = projected energy cost savings over ECMs effective useful life
  - “I” = cost of equipment, installation and financing costs

\[
\frac{\text{Savings}}{\text{Investment}} > 1
\]
SIR Calculation Example

**Savings:**
- Energy savings over the EUL: $720,000
- Recurring incentives (e.g. RECs): $0
- Cash value of Investment Tax Credit: $0
- Cash value of MACRS depreciation: $0

**Investment:**
- Installed cost net of one-time utility incentives: $350,000
- Loan interest (20 year term, 6.0%): $251,802
- Total: $720,000

<table>
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<th>Investment</th>
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<tr>
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<tr>
<td>$0</td>
<td>$251,802</td>
</tr>
</tbody>
</table>

Total: $720,000 $601,802

**Savings-to-Investment Ratio (SIR):**

\[
\frac{\text{Savings}}{\text{Investment}} = \frac{\$720,000}{\$601,802} = 1.2
\]
PACEworx™ Solar Project Estimator

Web-based application to instantly model CO C-PACE solar PV projects

1. Enter property location (access via copace.com; contractor tools)
2. Optimize system size and cost (change assumptions on the fly)
3. Create compelling project proposals (including C-PACE financing assumptions)
EPIC™ Energy Performance Improvement Calculator

- Powerful cloud-based app for HVAC, EMS and lighting equipment replacement projects that empowers you, in real time, to:
  - Estimate energy savings
  - Calculate financial impacts
  - Win more projects!

- Powered by SRS proprietary data, predictive analytics and proven technology from thousands of energy improvement projects conducted nationwide over the last 10 years

- Subscription-based product (not PACE-centric); demo available upon request
Making the Business Case

- Owner has the information to make a fully-informed, expedited investment decision

- Transform an unwelcome capital expense to a compelling investment opportunity (“business case”)

- Compare energy code minimum versus high efficiency options
Section IV

Program Update and Case Studies
Colorado C-PACE Projects

- C-PACE serving broad range of C&I projects: $562K median project size
- Building size: median 43,789 SF; smallest 1,000 SF
Colorado C-PACE Program Update

- 73 projects financed; ~$71.9M in project financing
- Smallest CO project: $60K; Largest CO project: $7.1M
- Average project: $984K; Median: $562K
- Fifteen new construction projects financed
- 32 counties opted into the program (>75% commercial bldg stock)
- 243 registered contractors; 38 registered capital providers
Solar PV & LED Case Study

- Building: Multi-tenant office & warehouse
- Project: 100 kW Solar PV & lighting retrofit
- Amount financed: $330,928; SIR 1.63, 20-year term
- Roof Replacement considered
- Excluded grower tenant from project
Solar PV Case Study

- Building: 3,938 SF dry cleaners
- Project: 46 kW Solar PV
- Ground and roof mount
- Amount financed: $125,940; SIR 2.18, 12-year term
- ITC, MACRS, SolarRewards, EnergySmart
EE & Solar PV Case Study

- Building: Office for digital marketing & social media firm
- Project: 16 kW Solar PV; RTU replacement; RTU controls; exterior lighting
- Amount financed: $333,798; SIR < 1 15-year term
- Roof replacement
- EV charging stations
EE and Solar PV Case Study

- Protective poles added around EV charging stations
- T-stats relocated
- System rebalanced by TAB contractor (overly warm/cold conference room)
- New diffusers installed to improve airflow
Small Solar PV Case Study

- Building: Ninety-nine acre organic fruit farm
- Project: 26 kW Solar PV
- Amount financed: $60,420; SIR 1.54, 10-year term
- First “small” C-PACE project
- REAP grant
Large EE Case Study

- Project: Two Large Commercial Office Buildings
- Amount financed: $7,166,166; SIR 0.57, 20-year term
- Project: Energy management system; LED retrofit; RTU replacement; evap condensers; advanced metering (FDD); water efficiency
- Other measures included: LEED-EB
- 37% energy reduction
New Construction Case Study

- Mayfly Outdoors corporate headquarters and manufacturing facility
- 41,000 SF ground-up new construction
- Efficient VAV RTUs, split system AC, advanced controls, LED, Big Ass fans
- $1M in C-PACE financing, 20-year term
- Complied with IECC 2015 (ASHRAE 90.1-2013)
New Construction Case Study

- Evaporator fans on RTUs resized (smaller) by MEP from original design
- Air compressor waste heat used to heat manufacturing floor
New Construction Case Study

- Building: Multi-family, micro-apartment, 89,000 SF
- Project: PTHP, FCU, DOAS, condensing DHW boilers, LED, solar PV
- Ineligible: Energy Star appliances
- Amount financed: $2,853,643
- Paid off loan after construction
Building: Hospitality, 67,500 SF

Project: New construction; LED lighting, efficient envelope features; efficient HVAC

Amount financed: $1,137,360

One of four hospitality new construction project

New Construction Case Study
Repeat Owner Case Study

- Building: 97,395 SF office building
- Project: BAS upgrade; VFDs; LED lighting; roof replacement
- Amount financed: $626,466; SIR 0.76
- First of four projects developed for Ogilvie Properties by Integro
- First of five projects financed by ANB Bank
“Gut Rehab” Case Study

- Building: 56,586 SF
  Recreational / Fitness

- Amount financed: $1,695,315, 20-year term

- Project: windows and skylights; HVAC; destrat fans; LED retrofit

- Total gut-rehab (big box retail)
Non-Profit Case Study

- Building: 146,217 SF Museum
- Amount financed: $61,865; SIR 2.91
- Project: LED retrofit
- First non-profit to use C-PACE financing in CO
Section V

Conclusion & Next Steps
Conclusions

C-PACE financing structure can be very attractive to C&I owners

No out-of-pocket, often positive cash flow, non-recourse, long-term financing, transferable

Voluntary, additional financing option for owners and developers
Next Steps – Register as a Contractor

- Submit a Contractor Registration form
- Attend a C-PACE contractor workshop
- Listed as a registered contractor on the program website
- Can originate and work on C-PACE financed projects

Colorado C-PACE Contractor Registration Form

Companies seeking to obtain CO C-PACE Registered Contractor status are required to complete the C-PACE Contractor Registration Form. Please be sure to complete all fields marked with an asterisk*. Note that once your firm is “Registered”, it will be subject to the Registered Contractors Terms and Conditions as described on page 8.

There are 3 options for completing this Contractor Registration Form:

1. The version of Adobe we have provided for this Registration has ‘fillable fields’ which will permit the Registration to be completed electronically and filed online. If your version of Adobe has this feature enabled, this is the preferred approach.
   If option 1 does not work for you, please use option 2:

2. If you can use the ‘fillable fields’, but cannot file the form online to CO C-PACE, simply save the file on your computer and email to kgallagher@copace.com.
   If option 2 does not work for you, please use option 3:

3. Print the form, fill it out manually, scan and email to kgallagher@copace.com.

Please feel free to contact me with any questions.

Ken Gallagher
Manager, Technical Support Services
kgallagher@copace.com
P: 970.325.1880

Please visit www.copace.com for resources.
Project Start – Submit Prequalification Submission Form

- Prequalification Submission (PQS) form – program “application”
  - General building information
  - Current mortgage and assessed or appraised value
  - General project SOW
  - Mortgage holder
  - Contractor/Capital provider
- Letter of Eligibility
- Schedule kickoff call

![Prequalification Submission Form](Image)
Contact Information

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Section VI

Resources