Resources on Energy Efficiency and Renewable Energy for Rural Communities

Colorado C-PACE

By:
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Director
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?
(Commercial Property Assessed Clean Energy)

- 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
- 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
  - Alternative transportation
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.
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
  - For a 50,000 SF building: $250,000 to $550,000

With C-PACE, there is no reason for Class B/C buildings to remain inefficient and more costly to operate
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
Role of the Mortgage Holder

- **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

- 32 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

- Academy Bank 1 project
- Access Point Financial 1 project
- Adams Bank & Trust (1) 1 project
- Alpine Bank (3) 4 projects
- ANB Bank (6) 3 projects
- Bank of Colorado (2) 2 projects
- Bank of the Ozarks 1 project
- Bellco Credit Union (4) 4 projects
- Berkley Bank (5) 2 projects
- Centennial Lending 1 project
- Citywide Banks (4) 3 projects
- Collins Community Credit Union 1 project
- Colorado Business Bank 1 project
- Colorado Structures Inc (1) 2 projects
- First Bank (7) 3 projects
- First Citizens Bank 1 project
- First National Bank 1 project
- Great Western Bank 1 project
- Guaranty Bank and Trust 1 project
- iBorrow 1 project
- Independent Bank 5 projects
- JR&B 1 project
- LoanCore Capital 1 project
- Midfirst Bank 4 projects
- Midland States Bank 1 project
- Mutual of Omaha 2 projects
- Security Services FCU 1 project
- TBK Bank 1 project
- UMB Bank 1 project
- Vectra Bank 1 project
- Waypoint Bank (1) 1 project
- Wells Fargo 4 projects
## Consenting Senior Lenders – New Construction

- **20 unique senior lenders have consented to a new construction C-PACE project**
- **Two senior lenders have provided C-PACE project financing**

<table>
<thead>
<tr>
<th>Bank/Entity</th>
<th>Projects</th>
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<tbody>
<tr>
<td>Access Point Financial</td>
<td>1 project</td>
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<tr>
<td>Adams Bank and Trust</td>
<td>1 project</td>
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<tr>
<td>Alpine Bank (1)</td>
<td>2 projects</td>
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<tr>
<td>Bank of the Ozarks</td>
<td>1 project</td>
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<tr>
<td>Broadmark Realty</td>
<td>2 projects</td>
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<tr>
<td>Centennial Bank</td>
<td>1 project</td>
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<tr>
<td>Collins Community Credit Union</td>
<td>2 projects</td>
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<tr>
<td>Cornhusker Bank</td>
<td>1 project</td>
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<tr>
<td>Cost Fund 1</td>
<td>1 project</td>
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<tr>
<td>Exchange Bank</td>
<td>1 project</td>
</tr>
<tr>
<td>First Bank (2)</td>
<td>3 projects</td>
</tr>
<tr>
<td>First Western Trust</td>
<td>1 project</td>
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<tr>
<td>Glacier Bank</td>
<td>1 project</td>
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<tr>
<td>Greater Nevada Credit Union</td>
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<tr>
<td>Guaranty Bank and Trust</td>
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<tr>
<td>iBorrow</td>
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<tr>
<td>Independent Bank</td>
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<td>Pacific Coast Banker’s Bank</td>
<td>1 project</td>
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<td>Park View Financial Fund</td>
<td>1 project</td>
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<tr>
<td>Trust of Illinois</td>
<td>1 project</td>
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Role of the Capital Provider

- 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
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
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
Colorado C-PACE Program Update

- 81 projects financed; ~$93.6M in project financing
  - 967 job-years created
  - 378,314 tons of lifetime GHG emissions reduction
  - 100,153 MBtu lifetime energy savings; $52.1M lifetime cost savings
- Smallest CO project: $60K; Largest CO project: $7.1M
- Average project: $1.2M; Median: $626K
- 20 new construction projects financed
- 32 counties opted into the program (>75% commercial bldg stock)
- 248 registered contractors; 38 registered capital providers
Solar PV & LED Case Study

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

- Building: 3,938 SF dry cleaners
- Project: 46 kW Solar PV system
  - 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; roof replacement
- Amount financed: $296,251; SIR < 1, 15-year term
- Other measures included: EV charging stations
Small Solar PV Case Study

- Building: Ninety-nine acre organic fruit farm
- Project: 26 kW Solar PV system
- Amount financed: $60,420; SIR 1.54, 10-year term
- REAP grant, ITC, MACRS
Large EE Case Study

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

- Building: Mayfly Outdoors corporate headquarters and manufacturing facility, 41,000 SF
- Project: Efficient VAV RTUs, split system AC, advanced controls, LED lighting
- Amount financed: $1,000,000, 20-year term
New Construction Case Study

- Building: 26,000 SF hospitality
- Amount financed: $2,800,000; 25-year term
- 19.2% of total construction costs financed
- One of nine hospitality new construction projects
“Gut Rehab” Case Study

- Building: 56,586 SF Recreational / Fitness
- Project: windows and skylights; HVAC; destratification fans; LED retrofit
- Amount financed: $1,695,315, 20-year term
- Total gut-rehab (big box retail)
Non-Profit Case Study

- Building: 146,217 SF Museum
- Project: LED retrofit
- Amount financed: $61,865; SIR 2.91, 10-year term
- First non-profit to use C-PACE financing in CO
Non-Profit Case Study

- Building: 120,378 SF Senior Center
- Project: Chiller plant, HVAC, exhaust fans, and LED lighting
- Amount financed: $1,924,121; SIR 1.09, 20-year term
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

www.copace.com/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

www.copace.com/resources
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