C-PACE in Hampton Roads

February 28, 2019

Hampton Roads Chamber of Commerce
Mid-Atlantic PACE Alliance
Sustainable Real Estate Solutions
Virginia Energy Efficiency Council
Virginia PACE Authority
Viridiant
C-PACE in Hampton Roads

Speakers

Rob McRaney, Viridiant
Andria McClellan, Norfolk City Council
Jessica Greene, Virginia Energy Efficiency Council
Scott Dicke, Sustainable Real Estate Solutions
Abby Johnson, Abacus Property Solutions/ Virginia PACE Authority
VALUE PROPOSITION FOR HAMPTON ROADS

Andria McClellan
Norfolk City Council
Commercial Property Assessed Clean Energy (C-PACE) is a new financing option for commercial property owners and new construction developers to fund energy efficiency, renewable energy, water conservation projects in commercial and industrial properties.

- **Up to 100% financing.** Funds hard and soft costs.
- **Improves building stock + decreases operating costs.**
- **Market-based.** Uses private financing.
- **Spurs economic development + creates local jobs.**
Benefits for Hampton Roads Jurisdictions

- **Economic development for constituents**
  - Lower property owner energy and water bills, increase cash flow
  - Lower WACC* for new construction developments
  - Provide new funding opportunities for local & regional finance institutions
  - Create jobs for contractors

- **Environmental impact**: Reduce carbon emissions

- **Preparedness/Resiliency**: In HR, e.g., pertaining to sea-level rise/storm impacts

- **Preservation**: Retrofit/rehabilitate historic buildings

---

* WACC: Weighted average cost of capital
Benefits for Building Owners and Developers

- 100% financing of hard + soft costs
- Fixed rate financing
- Long Terms (20 - 25+ Years)
- Off-balance sheet financing potential
- Immediate Savings: Cash-flow typically Year 1
- Gap Financing, freeing up equity for other projects
- Pass-through PACE assessment to tenants
- Non recourse fixed rate: Limits personal liability
C-PACE HISTORY IN THE COMMONWEALTH

Jessica Greene
Virginia Energy Efficiency Council
C-PACE AROUND THE COUNTRY

Source: PACENation
HISTORY OF C-PACE IN VIRGINIA

• Law originally enacted in 2009 and amended in 2015 to make C-PACE attractive to investors (lien priority); two bills introduced during the 2019 General Assembly session

• Loan secured by voluntary special assessment lien, equal in priority to real estate taxes and senior to pre-existing mortgages

• Requires lender consent of all lien holders

• C-PACE includes all commercial, industrial, and nonprofit buildings, as well as multifamily residential over 4 units (no condos)

• C-PACE allowed for both existing and new construction projects

• Mid-Atlantic PACE Alliance kicked off in January 2017
STATUS OF C-PACE IN VIRGINIA

- **Arlington County:** ordinance enacted in November 2017, program launched in January 2018
- Virginia-ready *suite of documents* made available for lenders, owners, and governments in early 2018
- The Attorney General issued an *Advisory Opinion* on the Commonwealth’s C-PACE law on February 1, 2019
- **Loudoun County:** ordinance approved in February 2019; currently in procurement process for a program administrator
- **Fairfax County:** ordinance scheduled to be considered in March 2019
- **City of Fredericksburg:** adopted a C-PACE ordinance in November 2018; a project is already in line to utilize C-PACE once a program is launched
MID-ATLANTIC PACE ALLIANCE (MAPA)

We are a regional partnership between stakeholders in Virginia, Maryland, and the District of Columbia, created to accelerate Commercial PACE programs and projects closing in the region.
RESOURCES FOR JURISDICTIONS

• Staff may refer to these resources to reduce time spent developing and implementing a program

• Example Legal/Procurement Resources for VA:
  • **Ordinances**: Arlington, Loudoun, Fairfax, Fredericksburg, VAECC Model Ordinance
  • **Cooperative Procurement**: Arlington County, VAECC Model RFP

• Example Program Material Resources for VA:
  • Includes *program guidelines, financial and legal documents, and infrastructure* (e.g., website)
  • Arlington C-PACE [website](#) and [resources](#) document set
  • MAPA Regional Toolkit
MODEL ORDINANCE

- Defines roles of key parties
  - Jurisdiction - limited role and duties
  - Program administrator
  - Property owner
  - PACE lender
- Qualifying improvements and associated costs
- C-PACE “loan terms”
- Defines how C-PACE special assessment qualifies as lien, recordation, payment, billing/collection, enforcement
- Cooperative Procurement Rider
- Reviewing ability to incorporate some aspects of Arlington ordinance
MAPA REGIONAL TOOLKIT

- Developed to share **best practices**, foster **growth**, and increase **program harmonization** in Virginia, Maryland, and D.C.

- Toolkit includes:
  - **Program Development & Technical Guides** for Local Governments, including a section specifically for Virginia
  - **C-PACE Program Guides**
  - **Regional Marketing Guide**
MAPS OF C-PACE ELIGIBLE PROPERTIES

• The VAEEC created maps of C-PACE eligible properties in localities across the Commonwealth.
  • Show the jurisdictions’ commercial building supply and their potential demand for C-PACE

• Properties are sorted based the following criteria:
  • Property Type: Commercial, Industrial, Agricultural, Multifamily (5+ dwellings), and Nonprofit
  • Built or last renovated by specified date
  • Excludes all publicly owned/government buildings
National C-PACE Market Data (Source: PACENation.org)

Commercial PACE

**Cumulative C-PACE Financing**

<table>
<thead>
<tr>
<th>Year</th>
<th>Financing (Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>100</td>
</tr>
<tr>
<td>2011</td>
<td>200</td>
</tr>
<tr>
<td>2012</td>
<td>300</td>
</tr>
<tr>
<td>2013</td>
<td>400</td>
</tr>
<tr>
<td>2014</td>
<td>500</td>
</tr>
<tr>
<td>2015</td>
<td>600</td>
</tr>
<tr>
<td>2016</td>
<td>700</td>
</tr>
</tbody>
</table>

**C-PACE dollars funded by building type**

- Office: $100M
- Hotel: $150M
- Industrial: $200M
- Hospitality: $250M
- Mixed Use: $300M
- Healthcare: $350M
- Multi-Family: $400M
- Other: $450M
- Retail: $500M
- Agriculture: $550M
- Services: $600M
- Recreation: $650M
- Education: $700M

**Funding by improvement type**

- Energy Efficiency: 45%
- Renewable Energy: 25%
- Mixed: 17%
- Resiliency: 7%

**Funding by project size**

- Small: $500,000
- Medium: $500,000 to $5,000,000
- Large: $5,000,000+
C-PACE for Existing Buildings

- Obtain up to 100% financing (hard + soft costs) by private capital provider
- Long-term financing (20yr+) reduces annual payment
- Lowers energy use
-Combines with utility, tax, and economic development incentives
- Immediate payback if savings exceed repayment
- Payment obligation may transfer to upon sale (akin to sewer assessment)
- No personal guarantees required
Developers can tap C-PACE financing to:

- Construct more efficient buildings, i.e. lower operating costs
- Increase tenant comfort; accelerate occupancy
- Include improvements often “value engineered” out of a project

Potential benefits to developer:

- Finance portion (e.g., 10%+) of total project cost
- Reduce owner equity contribution or high-cost mezzanine loan amounts
- No personal guarantees required
- No impact on working capital or developer’s credit
C-PACE in New Construction Capital Stack

C-PACE New Construction in the Capital Stack

C-PACE

Traditional Debt

Other Debt / Credit

Other Equity

Equity

Reduce Weighted Average Cost of Capital %

Traditional Debt

Other Debt / Credit

Other Equity

Equity

New Construction Capital Stack before C-PACE

Traditional Debt

Other Debt / Credit

Other Equity

Equity

Increase Total Available Capital $
Typical C-PACE Process

- Owner/Developer works with service provider to develop the project
- Owner/Developer submits application to program
- Owner/Developer obtains mortgage holder consent (with PA support)
- Owner/Developer selects capital provider to fund project
- Program Administrator verifies project eligibility
- Eligible upgrades installed
- Owner/Developer repays the financing
Role of Local Jurisdiction

- Determine local stakeholder needs, conduct due diligence

- Enact an ordinance establishing the jurisdiction’s C-PACE district
  - Example ordinances are available (e.g., Arlington, Loudoun, Fairfax, Fredericksburg)
  - County maintains no liability in case of property owner’s non-payment

- Determine program structure and administration approach
  - Staff to research successful program structures
  - Determine program administration approach. For 3rd party program administration, issue RFP for services or pursue cooperative procurement through Arlington County.
  - Determine party for special assessment recording, assignment, and servicing.

- Launch & oversee the program
Program Administrator Support to Stakeholders

- Nationwide, C-PACE program administration support level varies based on state/local government preferences
  - Example program administrator support services to state/local jurisdiction may include design, marketing, outreach, training, registration, reporting, QA
  - Governments define support via RFP for PA services

- Example participant support services
  - Contractors/Project Developer: Training, analytical tools
  - Owner/Developer: Analytical tools, Q/A technical review, mortgage holder consent facilitation, finance term sheet sourcing
  - Capital Provider: Underwriting & closing support
CASE STUDIES & SUCCESS STORIES

Abby Johnson
Abacus Property Solutions
Virginia PACE Authority
PACE Team

- Capital Provider
- Existing Lender
- Property Owner
- Project Developer
- Local gov't Program Admin
Examples of Project Types

- **Class B/C asset**: Eliminate Deferred Maintenance
- **Class A/B building**: Reduce costs, enhance green “cred”, replace equipment
- **New Construction/Gut rehab**: Carve out measures, reduce equity
- **Vacant property**: Redevelopment opportunity
Commercial Office Rehab: Madison Equities

$10.2M PACE financing

- 40% reduction in energy & operating costs
- $1.38M Annual Savings with $526,000 in positive cash flow
- $27.6M Savings over life of loan

- Commercial Offices, St. Paul MN
  - First National Bank Building, 375 Jackson, and US Bank Center
  - From 45 to over 100 years old and approximately 1.3 million SF
- Upgrades: HVAC (VFDs, chillers, boilers, Air handling units), lighting and controls
Class B Rehab: Ivy Knolls

• Term: 20 years
• Cost Savings: 37%/year
• Electric Savings: $12K/year

• Senior Housing in Kentucky
• $800,000 project cost
• LEDs, solar, HVAC upgrades, elevator modernization
• Greater Cincinnati Energy Alliance – program administrator
• Inland Green Capital – capital provider
New Construction: Weston Hotel

- Energy Savings: $1.39/SF
- 44% over code
- 10% of total costs

- New Hotel in Milwaukee, WI
- $6.8M PACE contribution
- HVAC, hot water heating, windows, building controls
- N/C allowed in multiple states: Wisconsin, Arkansas, Colorado, Virginia, and California
- PACE Equity – project developer/funder
PACE vs. TRADITIONAL FINANCING

Bank Financing
Project: Solar PV and Lighting
Project Cost: $750,000
Loan: $562,500
Annual Savings: $75,000
Interest Rate: 5.00%
Term: 5 years, fully amortizing
Hold Period: 5 years
Monthly Payment: $10,615.07
Annual Payment: $127,380.83
NPV: $-421,927.69

PACE Financing
Project: Solar PV and Lighting
Project Cost: $750,000
Loan: $750,000
Annual Savings: $75,000
Interest Rate: 6.25%
Term: 20 years, fully amortizing
Hold Period: 5 years
Monthly Payment: $5,622.64
Annual Payment: $67,471.70
NPV: $24,089.05
OPPORTUNITIES TO ADVANCE C-PACE

Encourage local officials
  ● Urge adoption of C-PACE ordinance
  ● Share in-state resources

Spread the word
  ● Educate stakeholders
  ● 3/5 MAPA webinar: New Construction

Submit a PACE Letter of Support
  ● Create a letter of support or use one of our template and send it to locality staff / city councilmembers

Contact Jessica Greene for more details
  ● jessica@vaeec.org
QUESTIONS?

Rob McRaney, Viridiant
Andria McClellan, Norfolk City Council
Jessica Greene, Virginia Energy Efficiency Council
Scott Dicke, Sustainable Real Estate Solutions
Abby Johnson, Abacus Property Solutions/ Virginia PACE Authority