

# 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

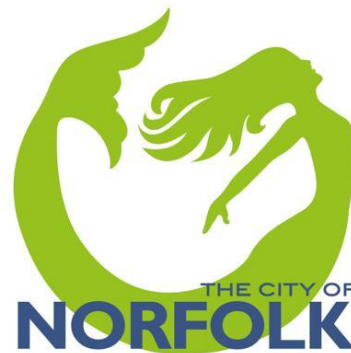
Abby Johnson, Abacus Property Solutions/ Virginia PACE Authority



# VALUE PROPOSITION FOR HAMPTON ROADS

**Andria McClellan**

Norfolk City Council



# What is Commercial PACE?

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



## VALUE PROPOSITION

- 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

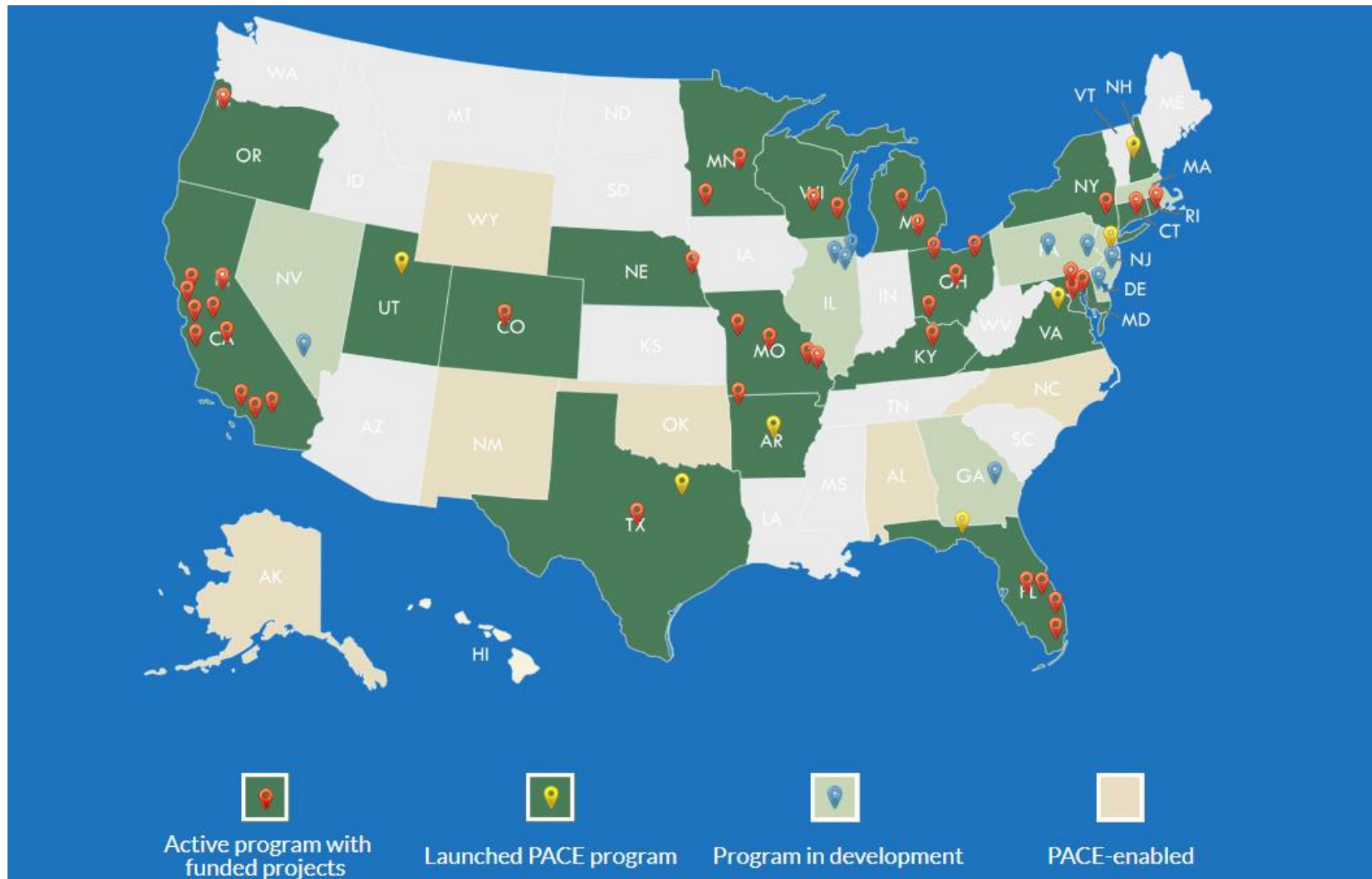
# C-PACE HISTORY IN THE COMMONWEALTH

**Jessica Greene**

Virginia Energy Efficiency Council



# C-PACE AROUND THE COUNTRY



Source: PACENation



# HISTORY OF C-PACE IN VIRGINIA

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- 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

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- **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)

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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.



# MID-ATLANTIC PACE ALLIANCE TEAM & PARTNERS

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# RESOURCES FOR JURISDICTIONS

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- 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, VAEEC Model Ordinance
  - **Cooperative Procurement:** Arlington County, VAEEC 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

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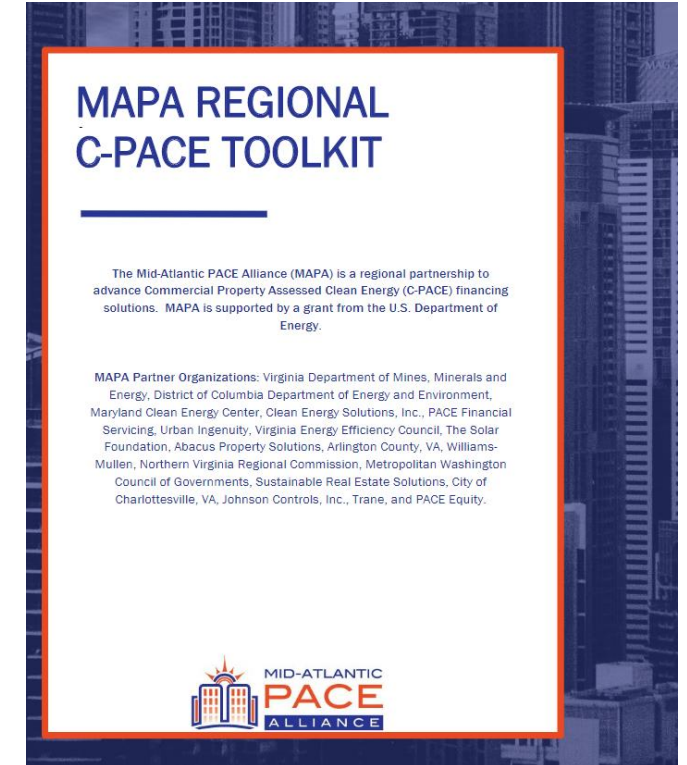
- Defines **roles of key parties**
  - Jurisdiction - limited role and duties
  - Program administrator
  - Property owner
  - PACE lender
- **Qualifying improvements** and associated costs
- C-PACE “loan terms”
- **Defines how C-PACE special assessment** qualifies as lien, recordation, payment, billing/collection,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



# MAPA REGIONAL TOOLKIT

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- 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**

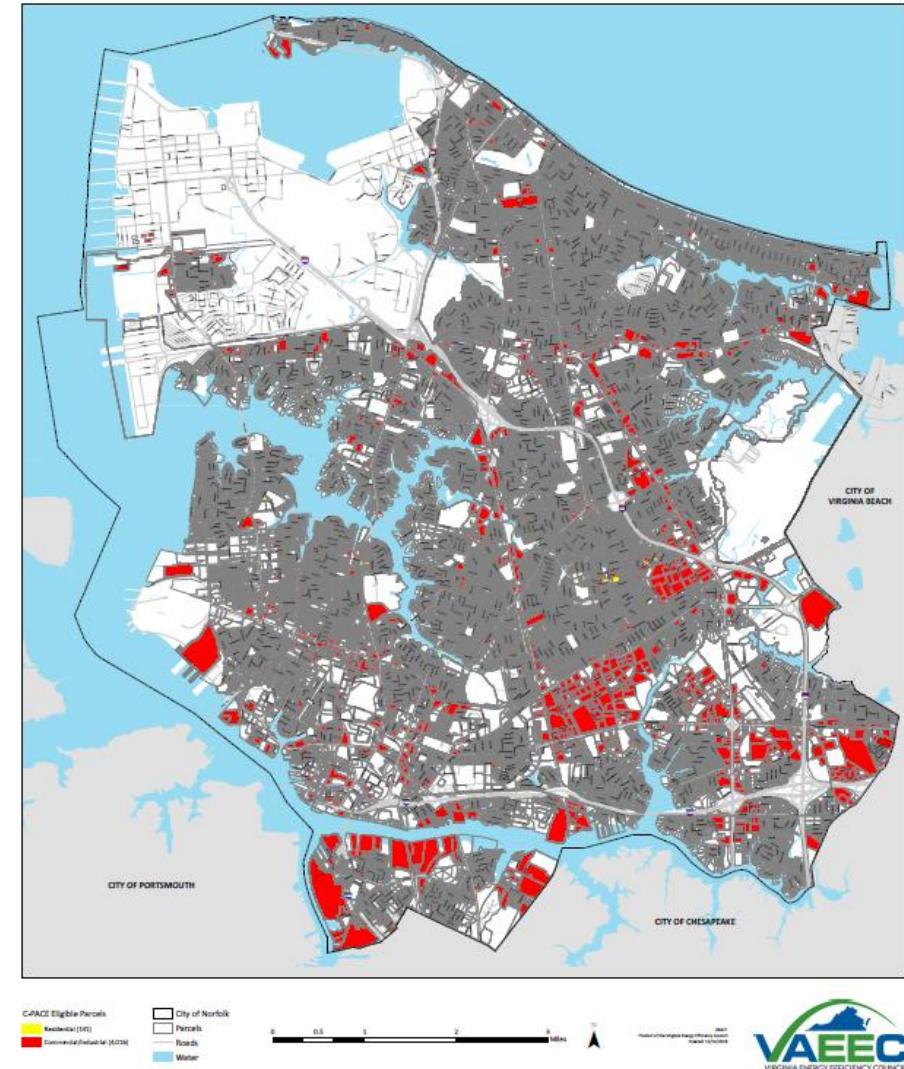




# MAPS OF C-PACE ELIGIBLE PROPERTIES

- 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

Parcels Containing One or More Buildings Built Before 2000  
Eligible for C-PACE Financing in the City of Norfolk, Virginia





# PROGRAM ADMINISTRATION BASICS

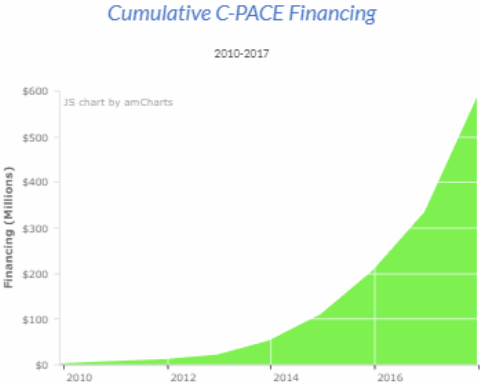
**Scott Dicke**

Sustainable Real Estate Solutions

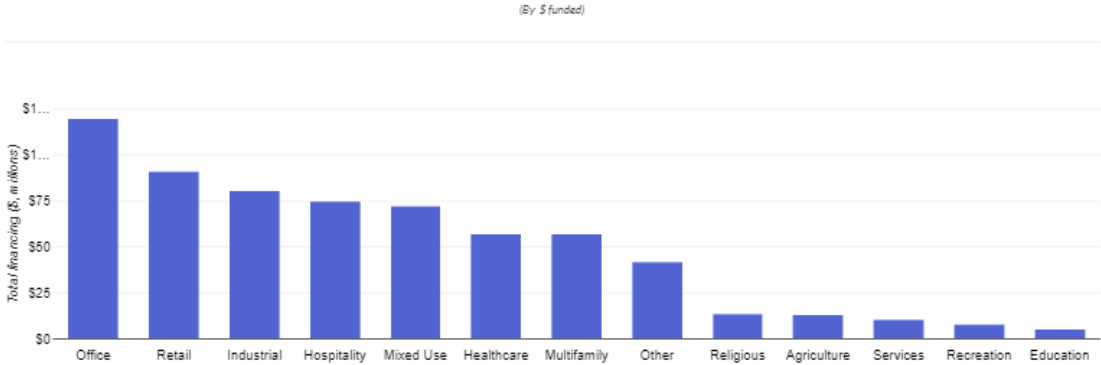


# National C-PACE Market Data (Source: PACENation.org)

## Commercial PACE

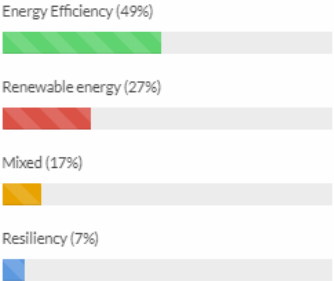


## C-PACE dollars funded by building type



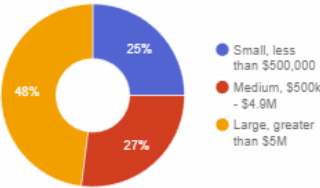
## C-PACE improvement type breakdown

(By \$ funded)



## C-PACE projects by amount financed

(By \$ funded)



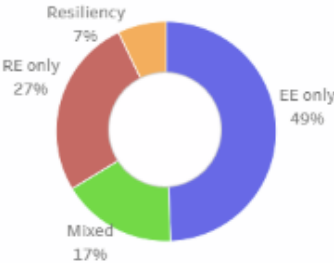
## C-PACE dollars funded in each state (states > \$10MM)

(By \$ funded)

State	Total PACE amount (\$, Millions)
CA	275
CT	130
MO	56
MN	54
OH	49
TX	36
DC	34
NE	28
CO	26
MI	25
WI	21
FL	16
MD	11

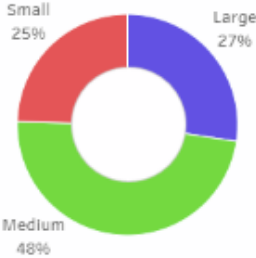
## Funding by improvement type

(Region: All)



## Funding by project size

(Region: All)



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

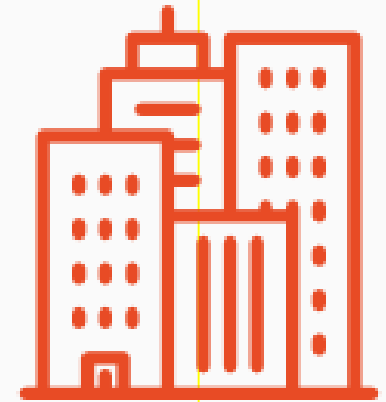
# C-PACE for New Construction

## **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

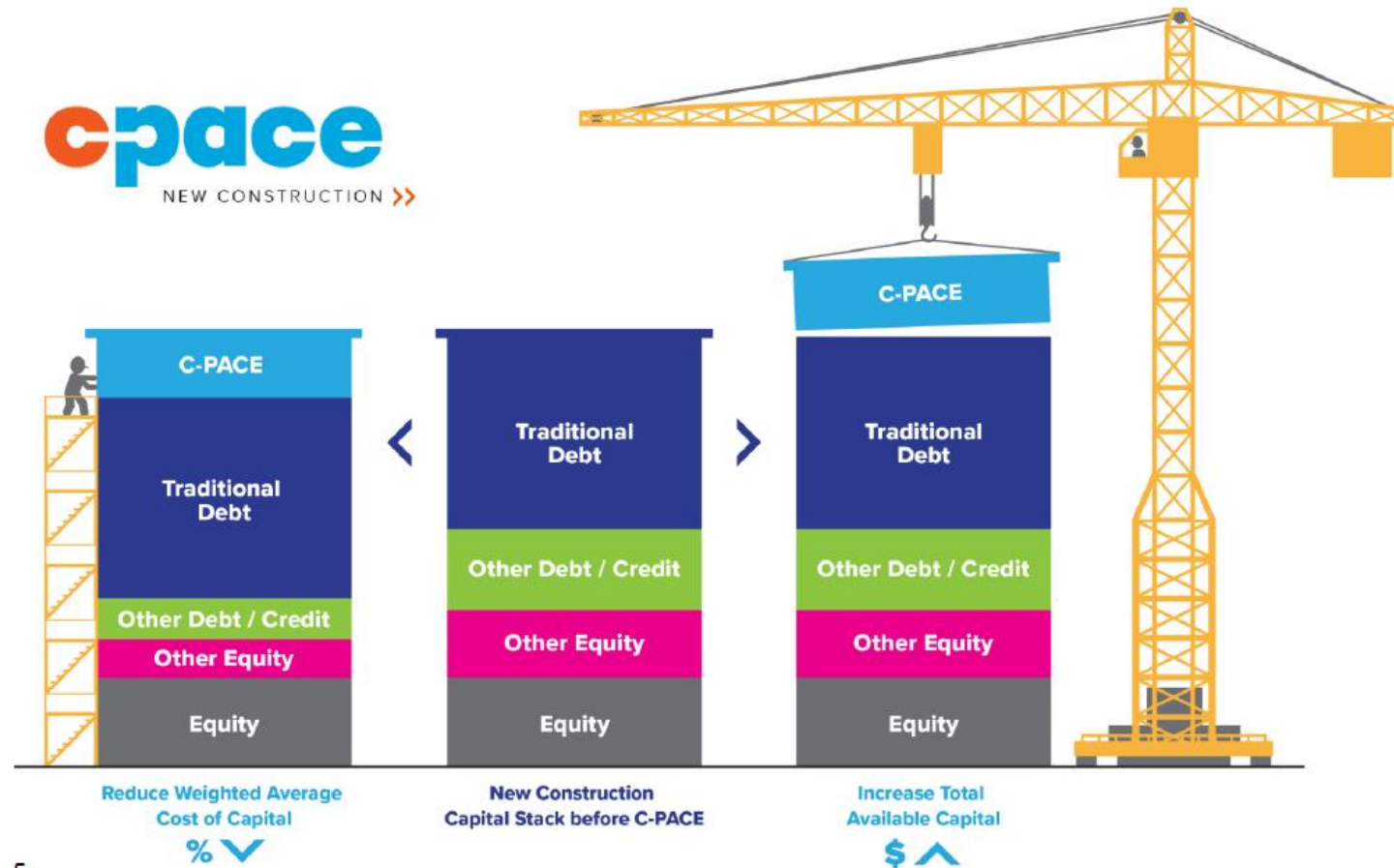
## **Potential benefits to developer:**

- 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



# 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 3<sup>rd</sup> 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



# 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



- 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

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## Encourage local officials

- Urge adoption of C-PACE ordinance
- Share in-state resources

## Spread the word

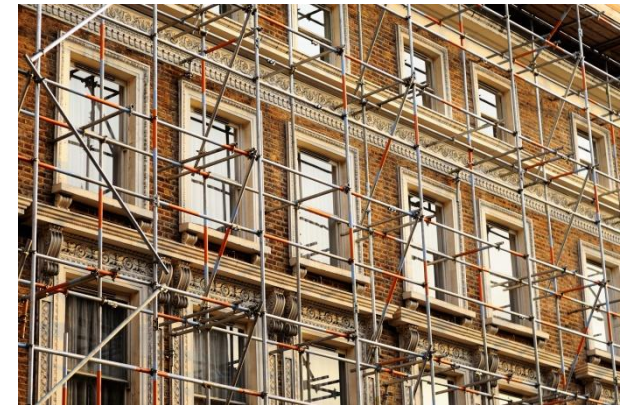
- Educate stakeholders
- 3/5 MAPA [webinar](#): New Construction

## 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](mailto:jessica@vaeec.org)





# QUESTIONS?

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