

# Commercial Property Assessed Clean Energy Program

Finance and Governance Committee Presentation

*September 13<sup>th</sup>, 2016*



# What is C-PACE?

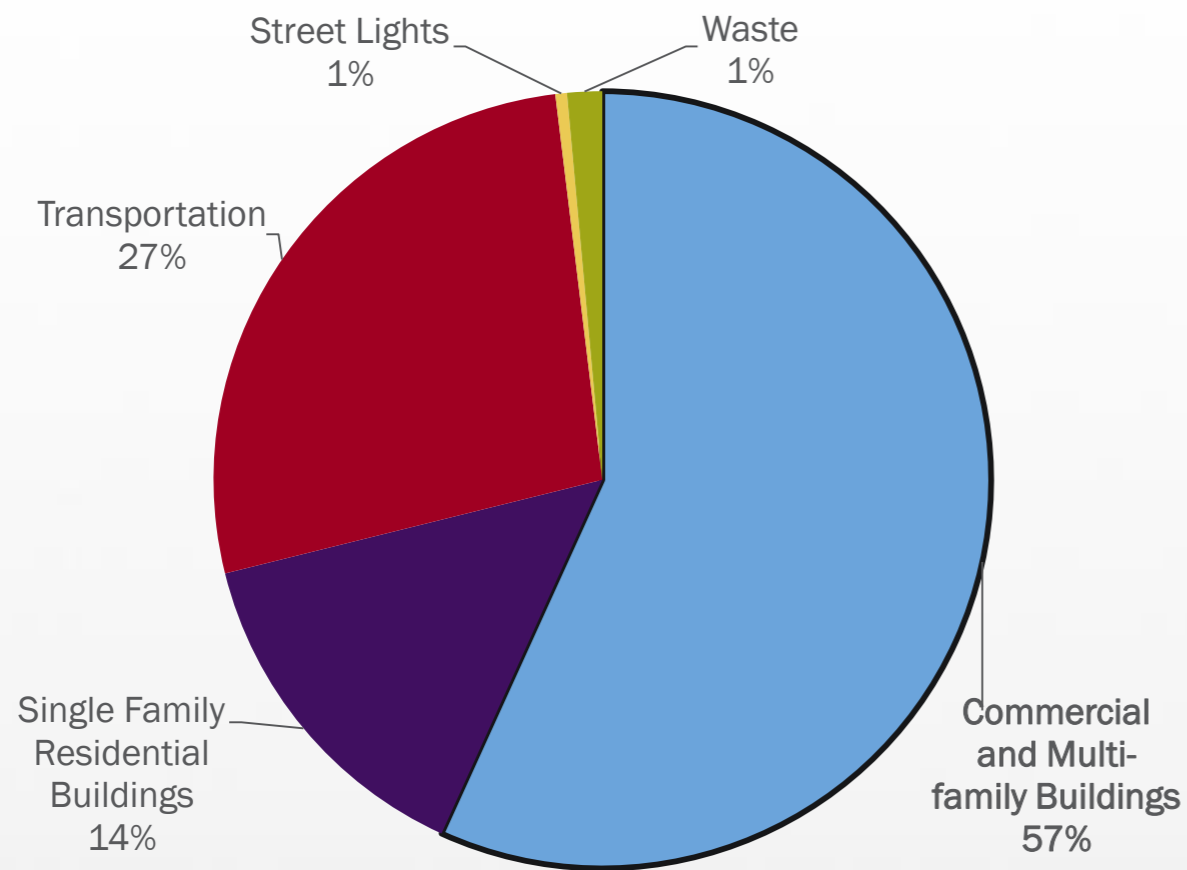
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- C-PACE is an acronym for Commercial Property Assessed Clean Energy.
- Financing tool for energy efficiency, renewable energy, and water conservation upgrades to commercial buildings.
- Third-party financing tool where loan is repaid through a voluntary assessment on a property.
- The City bills, collects, and transfers the assessment to third-party financier.
  - City collects 1% of assessment for this effort.

# PACE and Existing Buildings

- Buildings are responsible for 57% of Denver's Greenhouse Gas Emissions

## Denver Greenhouse Gas Emissions Sources:



- Investing \$340 million to improve efficiency of buildings across Denver could result in \$1.3 billion in energy savings
- Most energy efficiency (including renewable energy) and water efficiency upgrades to existing buildings eligible for 100% PACE financing.



“United States Building Energy Efficiency Retrofits: Market Sizing and Financing Models.” Rockefeller Foundation and Deutsche Bank Group. March 2012. Numbers scaled to City and County of Denver.



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# PACE and New Construction

New building code including IECC 2015 went into effect 9/12/16

- Should save ~27% energy for new construction
- 15% of construction costs eligible for PACE financing when built to IECC 2015
- 20% of construction costs eligible for PACE financing when built 5% more efficient than IECC 2015
- Colorado unique in allowing PACE for new construction



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# PACE and Barriers to Investments in Efficiency

Barrier	Solution
<b>Split incentive:</b> Owners pay for improvements, tenants see the savings on their energy bills.	Assessments are typically passed on to tenant in triple net lease. Structure of PACE loan is typically greater than 1:1 savings to loan value.
<b>Value Engineering:</b> Premium cost for efficiency is typically cut during upfront budgeting.	The energy efficiency features bring their own financing.
<b>Payback Period:</b> Many property owners don't hold the property long enough to capture their capital investment.	The assessment passes on to the next building owner at the time of sale.
<b>Borrowing Capacity:</b> Financing energy upgrades impact the borrowing capacity of the building owner.	By linking the payback to the assessment, the PACE loan is not shown against the borrowing capacity of the owner.
<b>Financing Terms:</b> The interest rate or the term of the loan could overwhelm the cost savings from efficiency, resulting in up front costs.	Due to the senior lien rights, PACE loans can have lower interest rates and a term of 20 years, lowering the payments to less than the savings meaning the owner can be saving money in the first month.



# C-PACE Program Overview

## C-PACE Process

**Participating county government “opts-in” to New Energy Improvement District (NEID)**

- Resolution of the Board of County Commissioners

**Commercial property owner identifies Energy Efficient project & applies to the NEID for financing**

- NEID Reviews Application for approval

**Pending NEID approval, NEID ending partner(s) provides financing for approved project**

- Project Constructed

**NEID notices County Assessors of Special Assessment for participating property**

- County records special assessment with county records and lien is placed on property for project cost

**County Government begins assessment collection from the participating property**

- County remits collected assessment to NEID for debt payment

**NEID receives payments from the County Government**

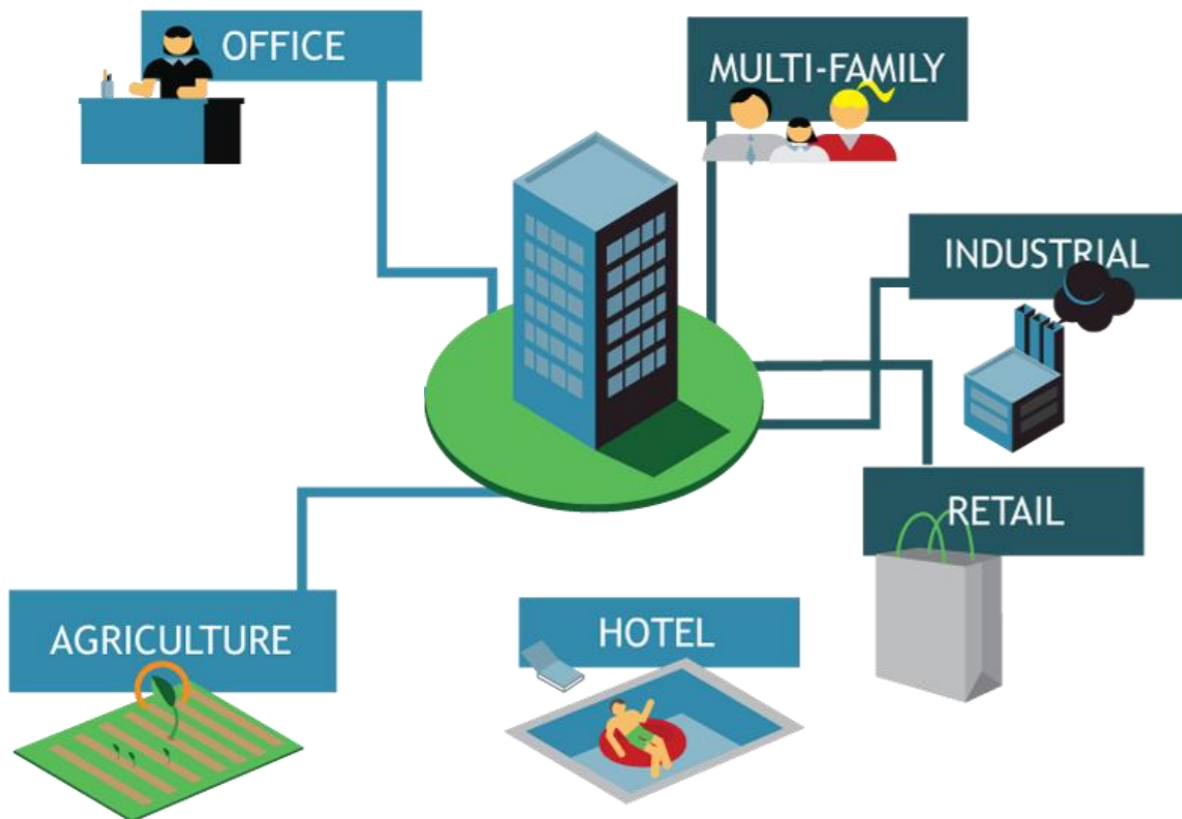
- NEID remits funds to lending partner for debt payment



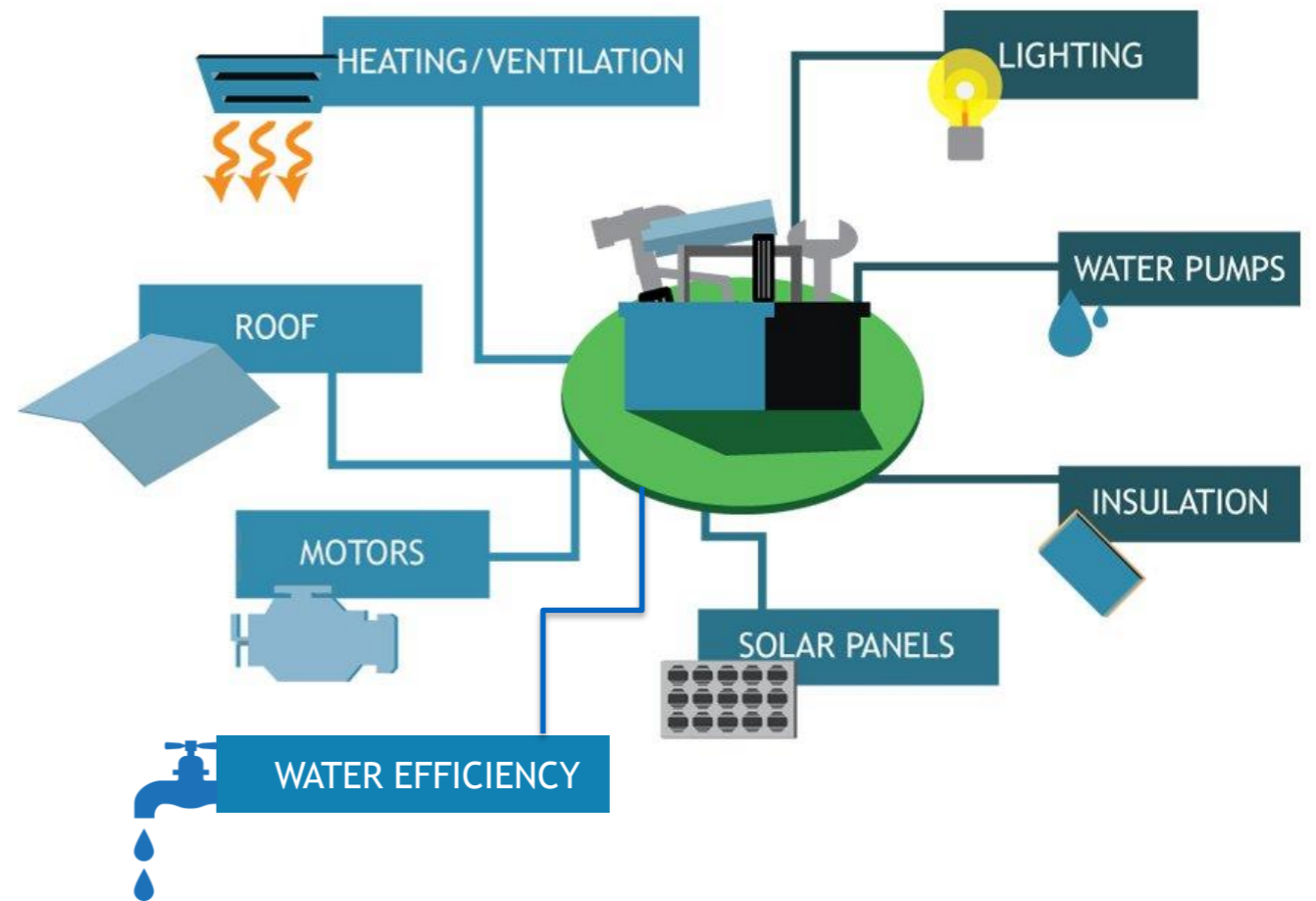
# Potential PACE Eligible Projects in Denver

A wide variety of commercial properties in Denver will be eligible for PACE Financing for energy and water efficiency projects, including renewable energy.

## Property Type



## Project Type





# C-PACE Value Proposition for City and County of Denver

## PRIVATELY FUNDED PROGRAM

Utilizes existing infrastructure of the CCD without need for additional public funding

## SUPPORTS MAYORS SUSTAINABILITY EFFORT

Support Mayor's goal of making Denver a leader in energy efficiency

## FULLY VOLUNTARY PROGRAM

Property owners have option to participate in program

- Provides a financing tool to Denver developer and building owners to invest to increase energy and water efficiency and potentially achieve a stronger ROI,
- Spurs additional rehab and new development (such as in TOD areas),
- Encourages economic activity within Denver's green/energy efficient sector increasing innovation and market opportunities,
- Reduces financial risk to lender; lowering borrowing cost to businesses and potential to fill financing gaps for important development projects in Denver
  - Transit Oriented Development (TOD)
  - Multi-Family Affordable Housing
  - Industrial Manufacturing
- Currently six other Colorado counties participating in C-PACE program
  - Adams, Arapahoe, Boulder, Broomfield, Eagle, & Jefferson counties



# Project Pro Forma Example

Use of Funds	\$ (in \$1,000s)
Land	\$ 5,200
Design, Arch & Eng	\$ 1,800
Finance and Legal	\$ 1,300
Core Construction	\$19,000
Sustainable Const	\$ 3,000
Space Buildout	\$ 4,200
Common & Conf Ctr	\$ 1,000
Systems/Equip	\$ 3,500
Sustainable Systems	\$ 2,000
Reserves	\$ 2,200
<b>Total Proj Costs</b>	<b>\$38,200</b>
<u>Sustainable Portion</u>	<b>\$ 5,000</b> 13.2%

Source of Funds	Std Financing	Financing w/ C-PACE
Owner Equity	\$ 4,000	\$ 4,000
Limited Partners (13%) Co-PACE (5%)	\$ 5,450 N/A	\$ 2,450 \$ 5,000
Bank Loan (8%) (70% LTV)	\$26,750	\$26,750
Subordinate Loan (4%) (Gap, Near Equity)	\$ 2,000	\$ 0
Avg Interest, not including OE	8.6%	7.9%

# City Council Request Action

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## Approve Intergovernmental Agreement between CCD and Colorado New Energy Improvement District.

1. Authorizing the District to conduct the C-PACE program within Denver
2. Specifies that commercial properties are able to voluntary “opt-in” to program and utilize C-PACE financing for energy improvement projects
3. Establishes administrative process for CCD to collect payments from those properties opting in to program and for remitting to district for debt payments

## C-PACE Agreement Key Dates & City Council Schedule

- *Mayor Council* – September 20<sup>th</sup>
- *City Council First Reading* – September 26<sup>th</sup>
- *City Council Second Reading* – October 3<sup>rd</sup>
- *Outreach/Marketing Effort* – October/November 2016
- *Anticipated first CPACE Funded Project in Denver* – Fourth Quarter 2016

# Questions/Comments



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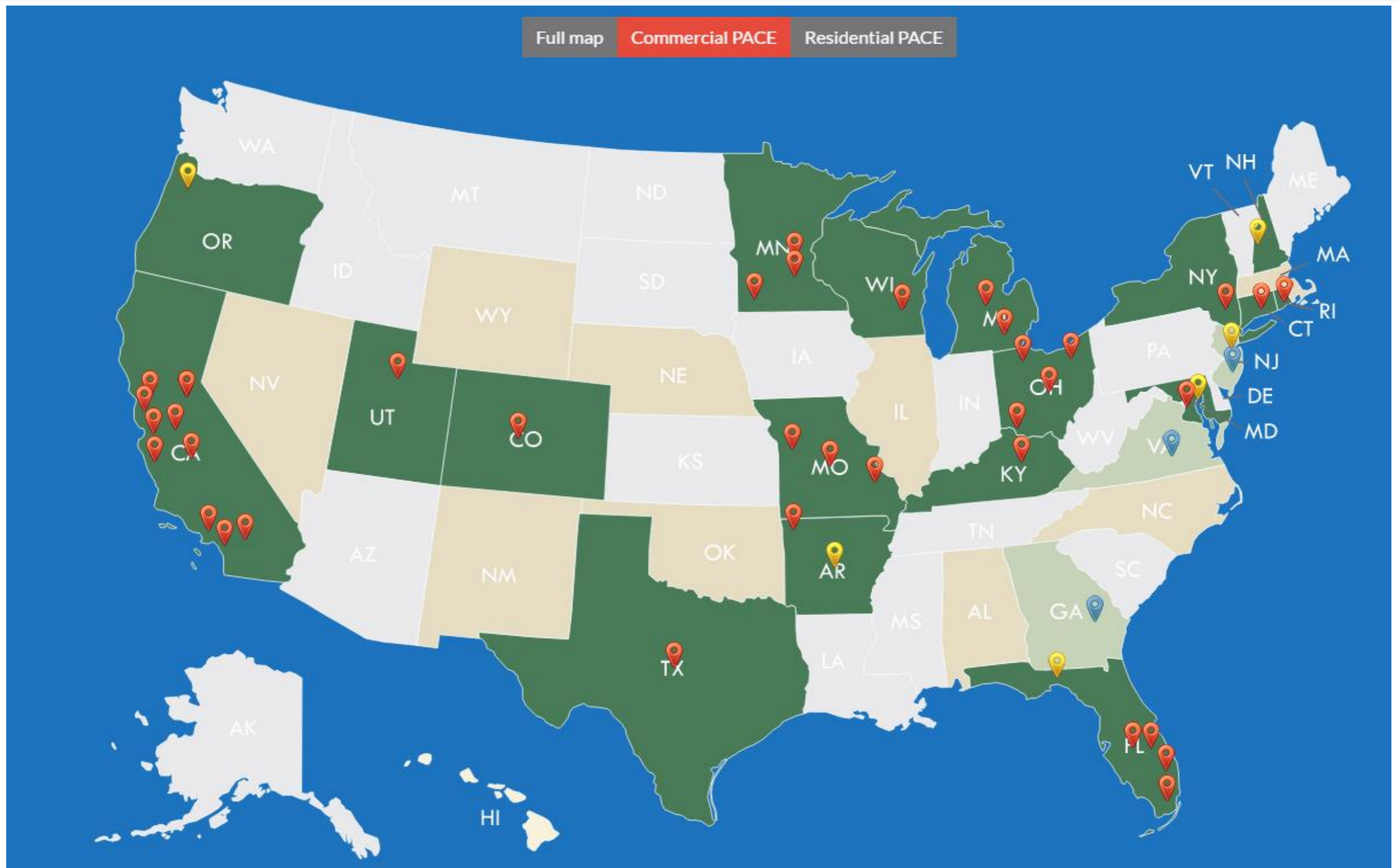
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# *APPENDIX*



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# Where else is C-PACE?



Active program with funded projects

Launched PACE program

Program in development

PACE-enabled

