Delaware C-PACE Financing for Existing Buildings

Using C-PACE financing to create new sales opportunities and help your current clients

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Agenda

- What is C-PACE?
- Why does it matter that we're getting it?
- Which of my customers might this help?
- Project Example
- If have a client in mind, what's next?

Why is the loan repaid via the tax bill?

- When a building goes into bankruptcy, any subsequent buyer even from an auction process must clear out any tax liens to take possession of the property
- C-PACE gets attached to the tax bill, so the underlying municipal credit is supporting the repayments, not the credit of the private owner
- Only the outstanding/overdue amounts must be paid, not the entire future balance
- This is why C-PACE lenders are willing to lend 25 years at 5-6% interest which they would never do for private owner otherwise

Lending, Collateral, and Risk

- Lenders need to know they are making low-risk loans and they have security to protect their interests
- When you get a mortgage on your home or even on a commercial building, the building itself is the collateral/security interest
  - i.e. you don't pay, they take back the building so the value of the building protects the lenders interests
- You can only pledge the building once, to one lender
- Most (nearly all) commercial buildings ALREADY HAVE an existing mortgage and lender, so that is why it's hard for them to get additional loans for HVAC upgrades or other projects

Why does PACE matter?

- Pre-PACE, the longest loan term you could get for a private customer was 8 years, MAYBE 10-12 years at the most
- The SEU has been willing to do longer term DIRECT loans for private business but they had a $2MM per project cap, they have limited funding, and their program requires prevailing wage and other requirements that drive up cost
- Without C-PACE, it's hard to finance a project with heavy equipment (chillers, boilers, air handlers, etc.)
  - These are the kinds of upgrades many commercial privately-owned buildings truly NEED

Which of my customers is this for?

- Private commercial buildings and non-profits, primarily
- Most new chillers, rooftop units, air handlers, boilers have energy savings when compared to the equipment they are replacing
- When you show energy savings, show a premium/systems approach to putting a scope together, and help the owner find money to fund the project, success rate goes up
- Are you facing a turnkey project where you might be up against traditional contractor using a standard approach, or have a customer who needs to replace a chiller/boiler/AHU/RTU but keeps putting it off? C-PACE could be a solution

Talking to your customer about C-PACE

- Rather than being shackled by the annual budget cycle, or budget amounts that aren't sufficient, C-PACE financing let's you do the "right" project at the time its needed
- Customer won't pay up-front, instead the repayments will be added to their annual tax bill
- Run energy-savings calculations, look at maintenance cost savings or other avoided costs and show how these savings compare to the annual debt service if financed via C-PACE
- Since we can stretch the repayments over 20-25 years, you can make the math work for chillers and most HVAC equipment/systems

Comprehensive Solutions

- Once your customer gets on board with using PACE to replace that chiller/boiler/RTU/AHU/etc., it's easy to discuss with him/her other needed upgrades and other proactive ideas
  - Add in solar array, LED lighting, water conservation, BAS, etc.
  - C-PACE can be used for comprehensive multi-measure projects
  - More energy savings generated across multiple measures and utilities = more capital upgrades that can be included in the solution
  - More impactful solutions for your clients
  - More dramatic improvement to building NOI & value
  - Lower risk facilities

Example

- Newly-acquired large, older office building
- Funding secured as part of the financing for the total renovation of the building wasn’t enough to do the chiller or boiler plant (all went to visible improvements, aesthetics, tenant fit out space)
- Chillers are 60 years old, (3) 1000-ton chillers
- $4MM turnkey retrofit project w/ energy guarantee
- $450k DNREC grant based on all the energy savings
- (3) new high-efficiency chillers, variable Primary flow pumping, cooling tower refurbishment, new chiller plant BAS, steam system improvements

Example, cont’d

- Energy and maintenance savings = approx $400k/year
- Financing is just under $300k/year debt service
- This is a huge strategic win for the building (they were worried about the old chillers and their reliability not to mention high operating costs)
- Actually increases the value of the building
- Project wasn’t feasible with shorter-term higher-interest financing
- C-PACE was the key