

OK C-PACE 101:

Introduction to the Oklahoma

Commercial Property Assessed Clean Energy Program

The first in a series of three webinars to develop the OK C-PACE Program

Offered by  **INCOG**



For more information or to register for
the other webinars, please visit:
<http://www.incog.org/CPACE.html>

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INCOG is a voluntary association of local and tribal governments in the Tulsa metropolitan area in northeast Oklahoma. Established in 1967, INCOG is one of 11 Councils of Governments in the State of Oklahoma. INCOG provides planning and coordination services to assist in creating solutions to local and regional challenges in such areas as comprehensive planning, transportation, community and economic development, environmental quality and energy programs, public safety, and services for older adults.



Adriane Jaynes,
Energy Programs Coordinator
918-579-9494
ajaynes@incog.org

Nancy Graham,
Air Quality Programs Manager
918-579-9418
ngraham@incog.org

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Best in Class C-PACE Program Design, Implementation, & Administration:

Pace Financial Servicing provides unparalleled expertise and track record in C-PACE program design and administrative services that work for local governments, property owners, and capital providers

Our Mission

To support governments in the creation of open, standardized, low-cost C-PACE markets designed to drive private sector C-PACE investment and scale

Core Value

To structure each C-PACE program in a manner that scales energy efficiency and clean energy while fulfilling the unique needs of each jurisdiction



Genevieve Sherman,
Managing Director
917-968-0948
gsherman@paceservicing.com

Jessa Coleman,
Senior Manager of Programs
202-844-9504
jcoleman@paceservicing.com

Marcus Glomset,
Associate, Comm. & Research
508-736-8876
mglomset@paceservicing.com

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C-PACE is a **government policy** that says commercial clean energy (efficiency or generation) and resiliency projects are a **public benefit** – like a sewer, road extension, etc.

How does **it work**?

- ▶ State passes enabling legislation
- ▶ Local government creates energy district/passes enabling resolution
- ▶ Building owner selects projects
- ▶ C-PACE capital provider provides financing
- ▶ C-PACE assessment recorded in land records and secures financing

Like other public benefits, C-PACE projects are **secured by the building they benefit** with a **special assessment**



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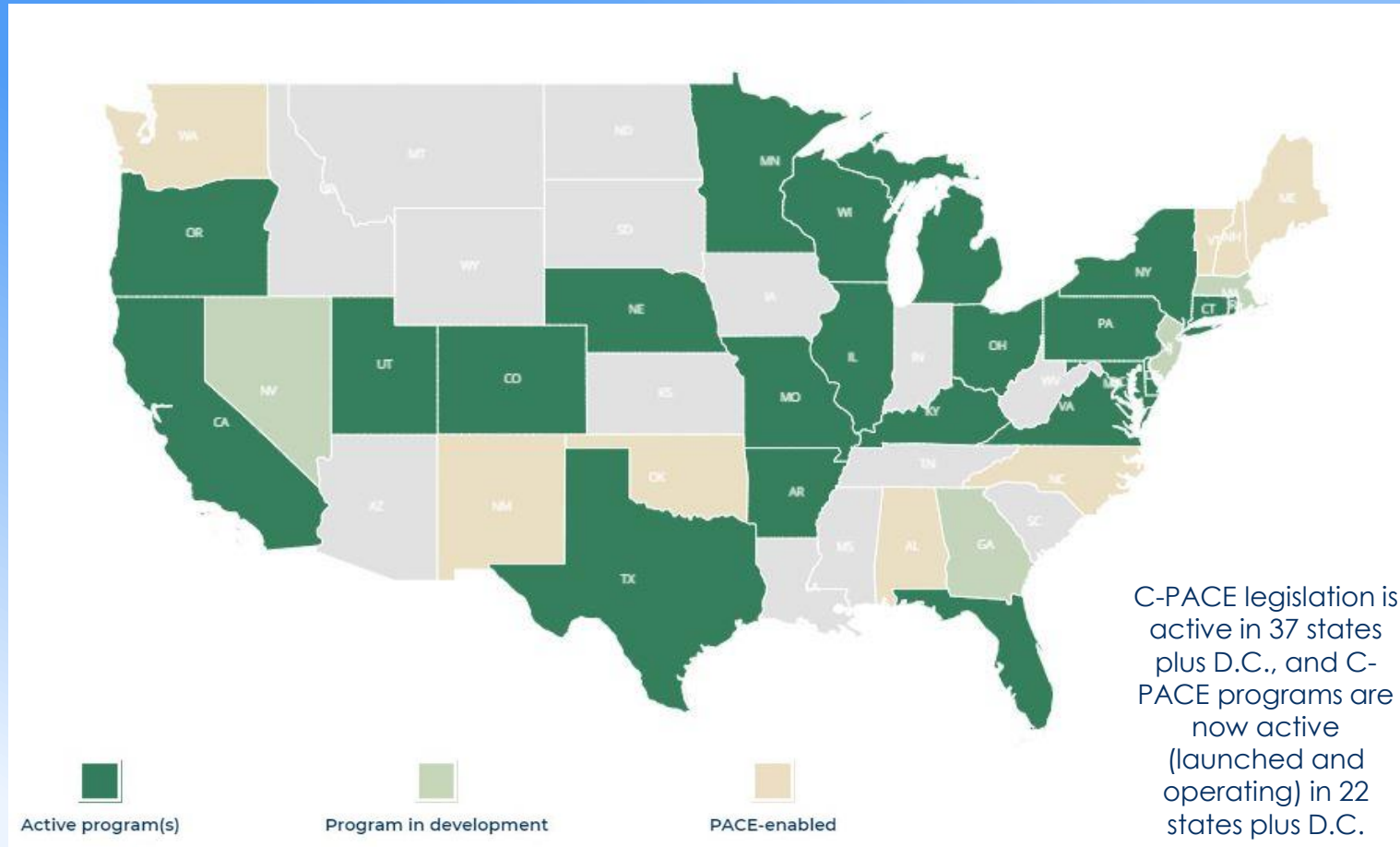
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\$1,538
investment (MM)

2,400
(commercial projects)

17,848
jobs created

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C-PACE TRANSACTION STRUCTURE

FROM PROJECT ORIGINATION TO REPAYMENT

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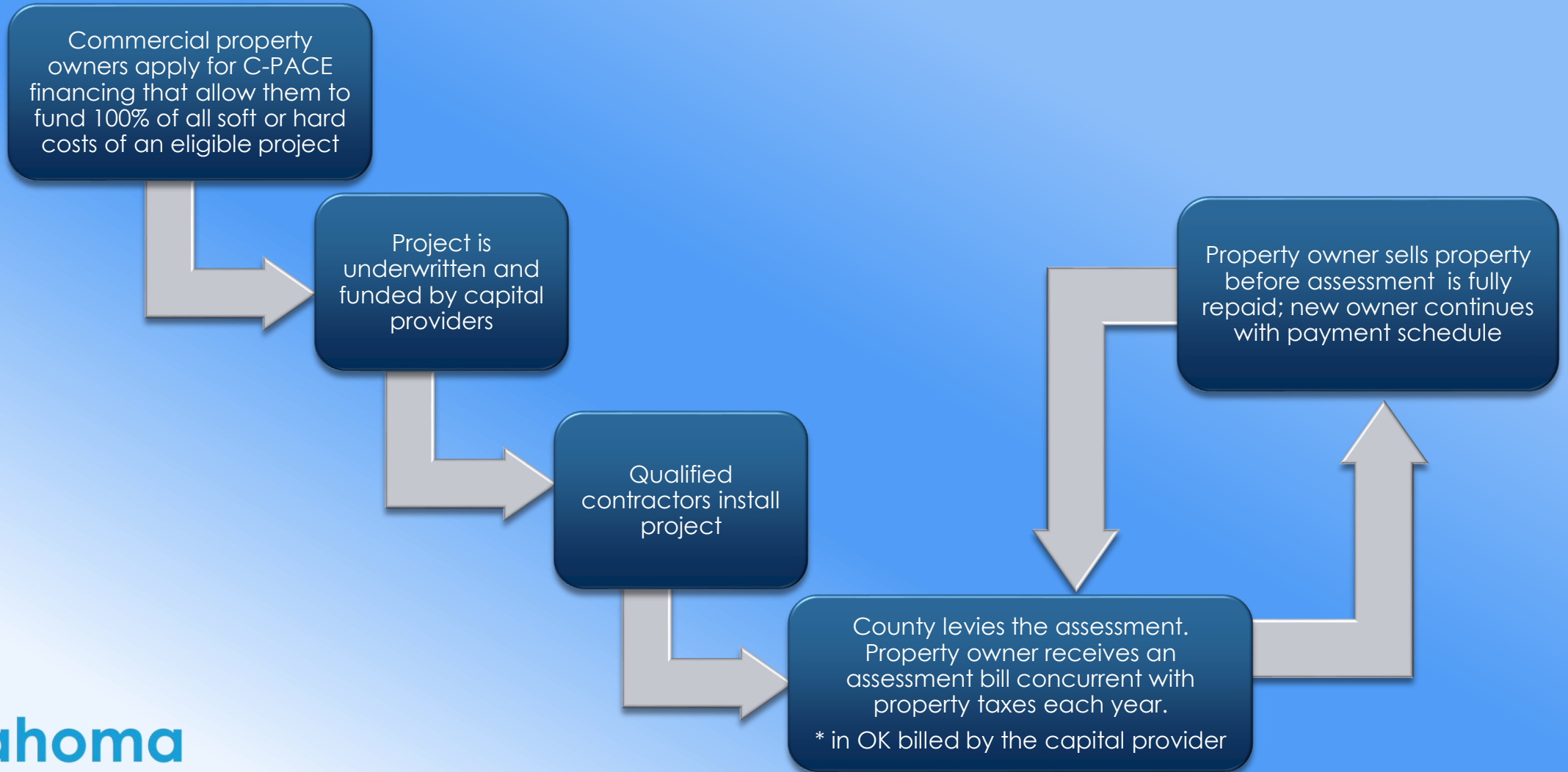
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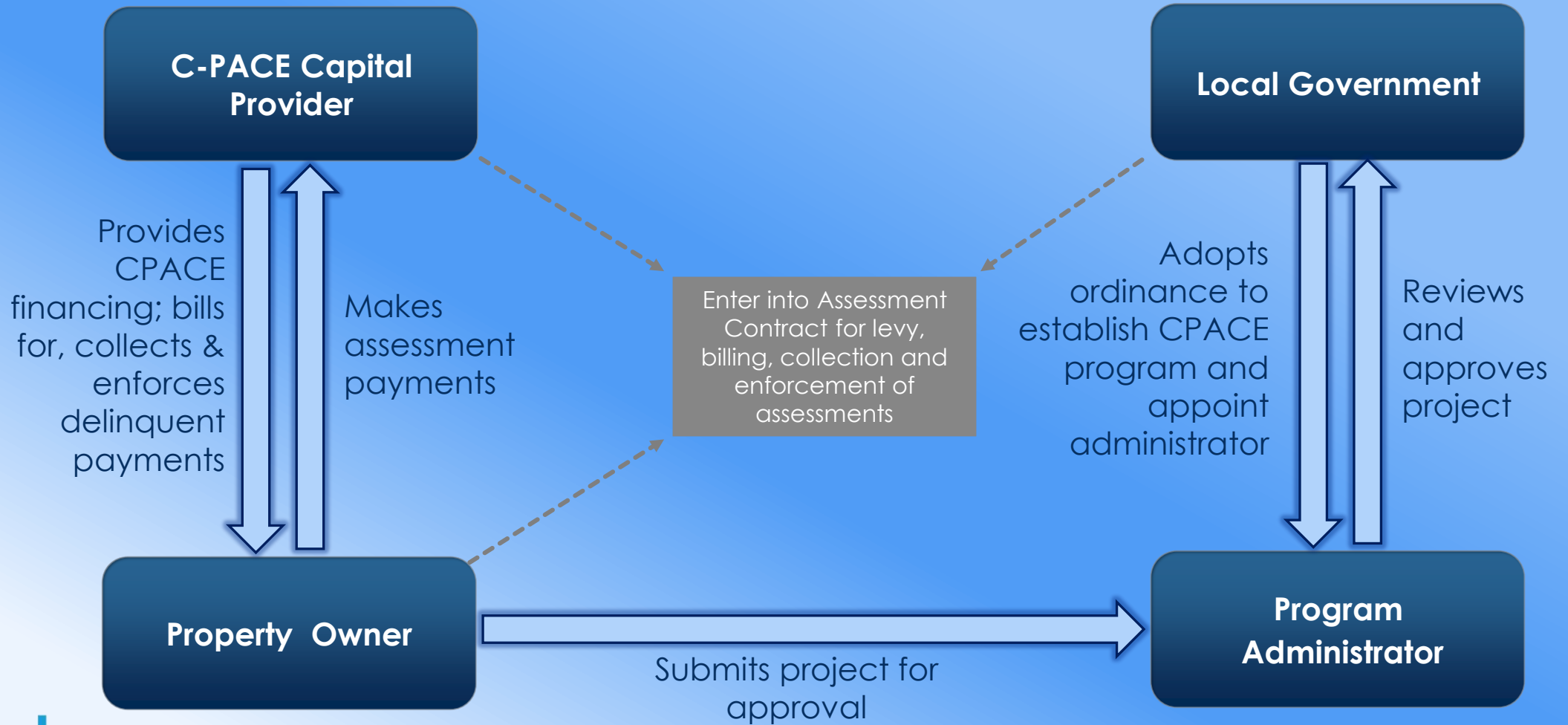
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ROLES AND RESPONSIBILITIES



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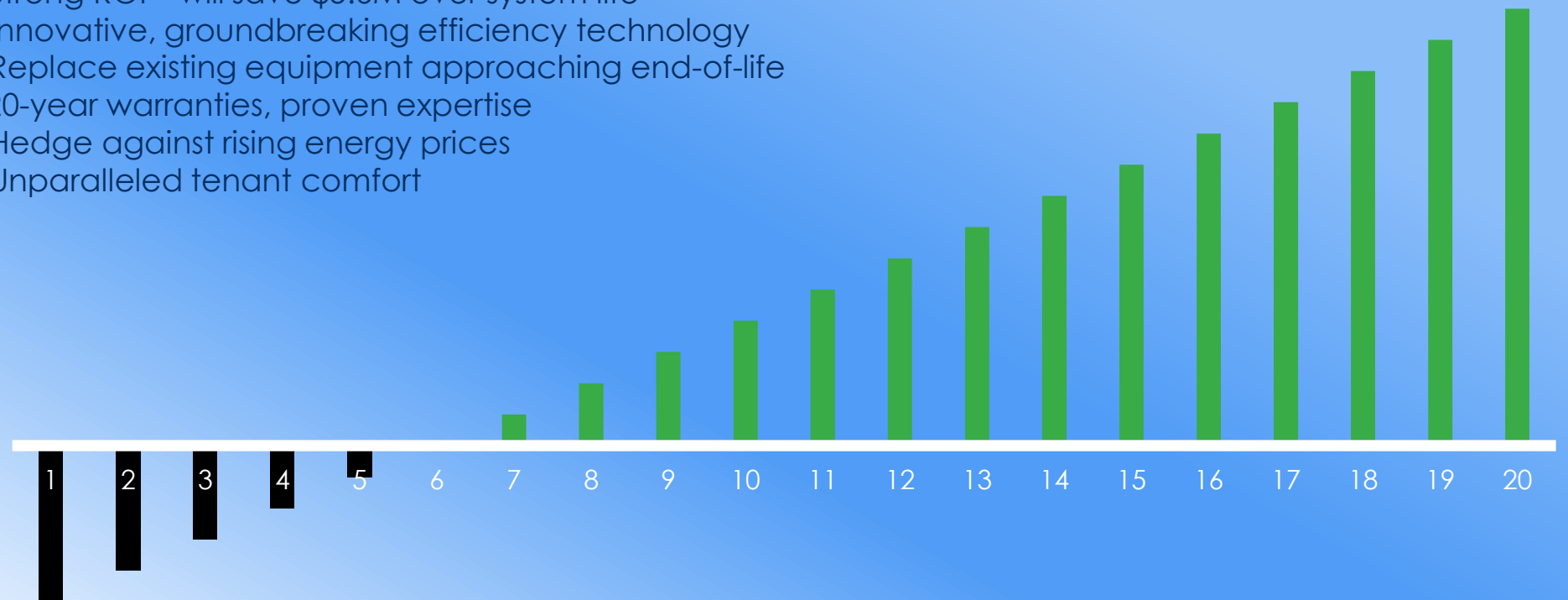
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Replacing old or broken energy and water systems have multiple benefits:

- ✓ Strong ROI – will save \$5.6M over system life
- ✓ Innovative, groundbreaking efficiency technology
- ✓ Replace existing equipment approaching end-of-life
- ✓ 20-year warranties, proven expertise
- ✓ Hedge against rising energy prices
- ✓ Unparalleled tenant comfort



Sample \$2M Project with \$320,000 in Annual Savings (~6.25 Year Simple Payback)

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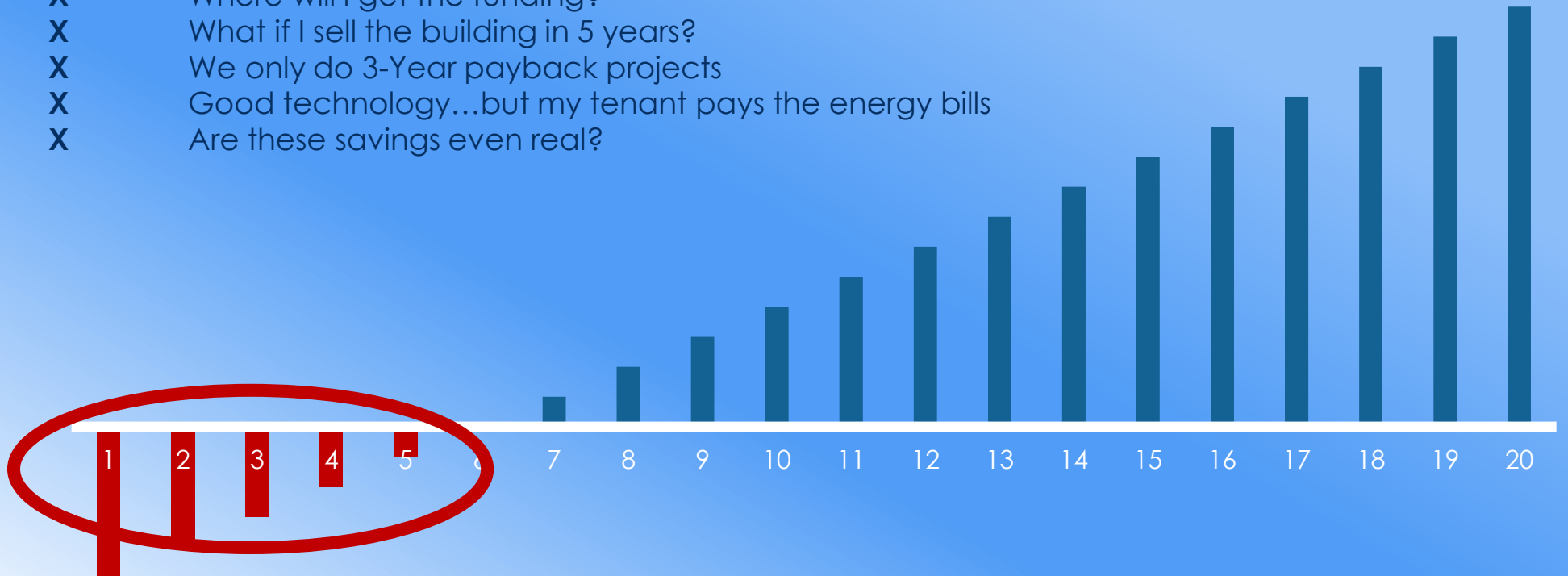
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But treatment of energy improvements as Capex investment considers only short-term costs:

- X Where will I get the funding?
- X What if I sell the building in 5 years?
- X We only do 3-Year payback projects
- X Good technology...but my tenant pays the energy bills
- X Are these savings even real?



Sample \$2M Project with \$320,000 in Annual Savings (~6.25 Year Simple Payback)

BENEFITS OF C-PACE

C-PACE provides 100% upfront funding and amortizes these costs over the full equipment lifetime

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	Cash	Bank Loan	PACE Assessment
Down payment amount	(\$2,000,000)	15% - (\$300,000)	\$0
Loan amount	\$0	\$1,700,000	\$2,000,000
Loan term	NA	5 yrs	20 yrs
Interest rate	NA	4.00%	6.25%
Annual Cash Flow			
Annual payment	NA	(\$382,295)	(\$180,978)
Annual energy savings	\$320,000	\$320,000	\$320,000
Net annual cash flow	\$320,000	(\$62,295)	\$139,022
5-Year Financial Performance			
5-Year Net Cash Flow	(\$400,000)	(\$611,475)	\$695,110
5-Year NPV @ 6%	(\$258,430)	(\$530,574)	\$585,611
5-Year IRR	-7%	NA	Infinite

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C-PACE solves the economics of energy efficiency projects by producing “Day 1 Payback.” C-PACE’s property-backed structure is secured by a tax lien, which allows for:

- \$0 down financing
- Long repayment terms (up to 30 years)
- Low, fixed-rate interest
- Projects are cash flow positive from day 1
- Secured by property – not by owner guarantee, bond rating, or credit score
- Obligation transfers with building
- Assessments may pass through to tenants

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C-PACE drives down cost of funds for the construction of new buildings

C-PACE can fund construction components that contribute to energy efficiency and resiliency:

- C-PACE can help to fill equity gaps in the capital stacks
- C-PACE delivers a cheaper cost of funds; typically half of mezzanine loans
- C-PACE works alongside senior lender
- Drives increased developer returns

BENEFITS OF C-PACE FOR LOCAL GOVERNMENTS

The structure drives job growth, economic development, and clean, efficient energy use

- ▶ Drive **private sector investment in your community**
- ▶ Serve as a tool for business owners to **decrease costs** and **improve asset value**
- ▶ **Improve taxable property base**
- ▶ Create **energy efficiency and clean energy jobs**
- ▶ Help meet efficiency and clean energy standards
- ▶ Carry **little/no cost for government**

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Mortgage Holders

- Improves the senior lender's collateral value
- Increases cash flow
- C-PACE assessments are not accelerating



Contractors

- Immediate, secure project financing for services
- Avoid using own credit line to fund projects
- Unlock projects that were previously "locked"



Communities

- Commercial buildings are energy and water intensive structures; even modest proportional improvements can result in large decreases in carbon footprint
- Increase economic development by attracting external investment in local businesses

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THE OK C-PACE PROGRAM



WHAT IS THE OK C-PACE PROGRAM?

A C-PACE program administrative platform that will work statewide for any county choosing to establish a program.



Keep it Low Cost & Simple

Establish clear, concise guidelines and transparent processes without high fees



Keep it Open

Catalyze innovation and promote growth through open-market administration



Keep it Standard

Enable scale by implementing one set of rules for capital providers and contractors

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DEVELOPING THE OK C-PACE PROGRAM

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- ▶ **Template Resolution for County to establish C-PACE program**
- ▶ **Assessment Contract(s)**
- ▶ **Guidance Manual**
- ▶ **Application Materials**
- ▶ **Etc.**

SAMPLE APPLICATION REQUIREMENTS

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PROPERTY DETAILS

- ▶ Property Address
- ▶ Property Parcel #
- ▶ Legal Property Owner
- ▶ Property Zoning
- ▶ Property Description

ELIGIBILITY

- ▶ Outstanding Mortgage(s)
- ▶ Mortgage Lender Consent
- ▶ Tax Payment History

PROJECT SCOPE

- ▶ Summary of Measures Financed
- ▶ Engineer Confirmation of Eligibility

FINANCING

- ▶ C-PACE Assessment Amount
 - ▶ Project Cost
 - ▶ Closing Fees
 - ▶ Other Fees
- ▶ C-PACE Assessment Term

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TULSA PILOT PROJECTS

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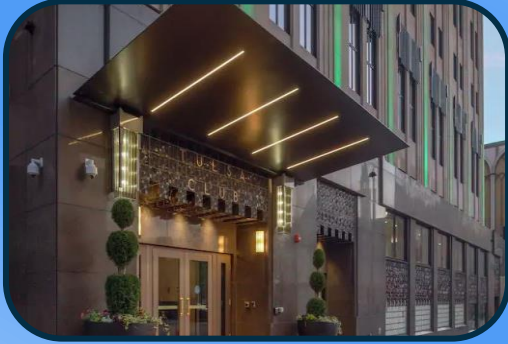
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Tulsa Club

- ▶ C-PACE Financing: \$3.2 million
- ▶ Renovation and conversion of the historic Tulsa Club building into a 90-room Hilton Curio hotel
- ▶ 1920s-era building was home to a prominent social club in the city but sat vacant for years before its recent conversion into a hotel



Holiday Inn Express & Suites – Downtown Tulsa

- ▶ C-PACE Financing: \$1.7 million
- ▶ Renovation of 116 room hotel
- ▶ Site was previously occupied by two older commercial buildings

Both hotels were developed by the Ross Group, which used C-PACE to fund sustainable design elements such as efficient heating, cooling, plumbing and lighting systems, and building envelope improvements.

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Webinar #2:

Workshop to Develop Oklahoma's C-PACE Program
Tuesday, June 30, 2020 at 10:00 am CT

This workshop-style web event builds on the previous introductory webinar to C-PACE in Oklahoma and will include opportunities to contribute to the program guidance manual.

- Introduction to C-PACE financing
- Legislative history of C-PACE in Oklahoma
- Introduction to INCOG, the program sponsor
- How to create a statewide C-PACE program
- Drafting the Oklahoma C-PACE Guidance Manual
- Opportunities to contribute to the Guidance Manual

Who should attend? Members of the real estate industry, engineering and contracting industry, financial industry, and economic development officials.

Webinar #3:

Oklahoma C-PACE: Benefits and Implications For Local Government
Wednesday, July 22, 2020 at 1:00 pm CT

C-PACE can be a new tool in economic development portfolios, but each county needs to first “opt in” to this new program. This web event will explore how C-PACE financing can benefit counties and communities, detailing the role of local governments in establishing and administering a C-PACE program.

- Fundamentals of C-PACE Financing
- Legal Background on Oklahoma C-PACE
- C-PACE program roles
- C-PACE transaction structure
- The county's role in establishing a C-PACE program
- Program Documents and case studies

Who should attend? Municipal and county tax and economic development officials, county commissioners, and staff.



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Adriane Jaynes,
Energy Programs Coordinator
918-579-9494
ajaynes@incog.org

Nancy Graham,
Air Quality Programs Manager
918-579-9418
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Jessa Coleman,
Senior Manager of Programs
202-844-9504
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