MAXIMIZING THE USE OF COMMERCIAL PACE FINANCING FOR AFFORDABLE MULTIFAMILY HOUSING

ENERGY EFFICIENCY FOR ALL

March 28, 2018

SAHHLN Webinar Series

Speakers

- Yerina Mugica, Sustainability in Affordable Housing Lender Learning Network / EEFA
- Elizabeth Chant and Peter Adamczyk, Vermont Energy Investment Corporation
- Mark Thielking, Energize NY
- Bracken Hendricks, Urban Ingenuity

ENERGY EFFICIENCY FOR ALL

A collaborative, coalition-driven, 13-state campaign to increase energy efficiency in affordable multifamily housing

** Strong presence in Atlanta, Chicago, Kansas City, Los Angles, Minnesota, New Orleans, New York City*

ENERGY FOUNDATION
building a new energy future

NATIONAL HOUSING TRUST

NRDC

ELEVATE ENERGY

Our Long Term Vision: EEFA's success catalyzes equitable access to clean energy resources for healthier homes, reduced poverty, a cleaner environment and more climate-resilient communities

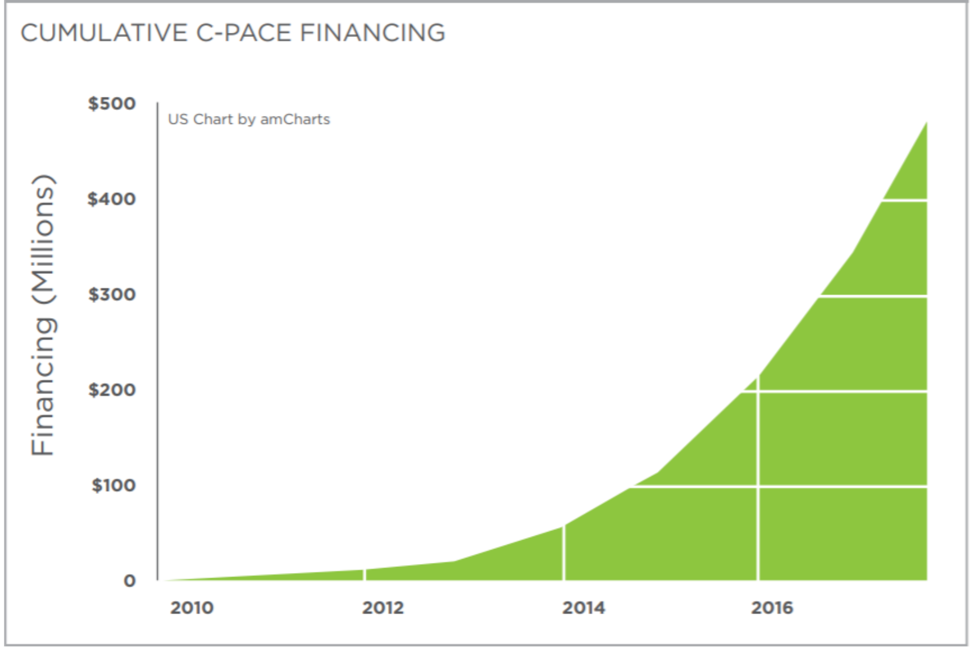
Sustainability in Affordable Housing Lender Learning Network

- Vision: Stable, affordable multifamily housing for all supported by investments in environmental sustainability
- Mission: Leverage the collective expertise and relationships in our network to support a multifamily housing financing market where lenders value environmental sustainability as a means to support economic sustainability
- Knowledge sharing through an online resource hub, program and transaction database, webinar series, and connecting at in-person events
- Advisory Group:

C-PACE, from start to now

- C-PACE – since 2009
- 30 states have enabled
- > 1,000 deals
- 15 MFAH deals
    - Assisted housing
    - NOAH

FIGURE 1: Cumulative C-PACE Financing (2010-2017)



Source: PACENation (http://pacenation.us/, accessed October 2, 2017)

Why not more uptake in MFAH?

- Complexity of MFAH deals
- Access to more favorable financing by MFAH
- Absence of technical support
- Owner struggle with competing priorities
- HUD criteria
  - Assessed pursuant to law; sent with tax bill
  - Payment collected with tax bill
  - No accelerated payment
  - If default, mortgagee has notice and time
  - State Atty Genl opinion required

Strong case for using C-PACE for MFAH

- Tax assessment (not a loan)
- Off balance sheet
- Based on equity not future income
- Structured to recoup savings to cover costs
- Potential to fill financing gaps
- Consent of existing lienholders typically required

Best Practice – Policy & Programs

- Encourage “open” C-PACE
- Pursue deals with few barriers to start
- PHA opportunities
- Document HUD communication
- Require cost-effective investments
- Consider local development corp.
- Consider longer term over lower (subsidized) rate
- Consider opportunities with
  - PHAs
  - USDA RD

Best Practice – MFAH Owner / Operator

- Consider C-PACE as “gap” financing
- Prioritize C-PACE at major financing points
- Encourage HFA involvement
- Document & Codify

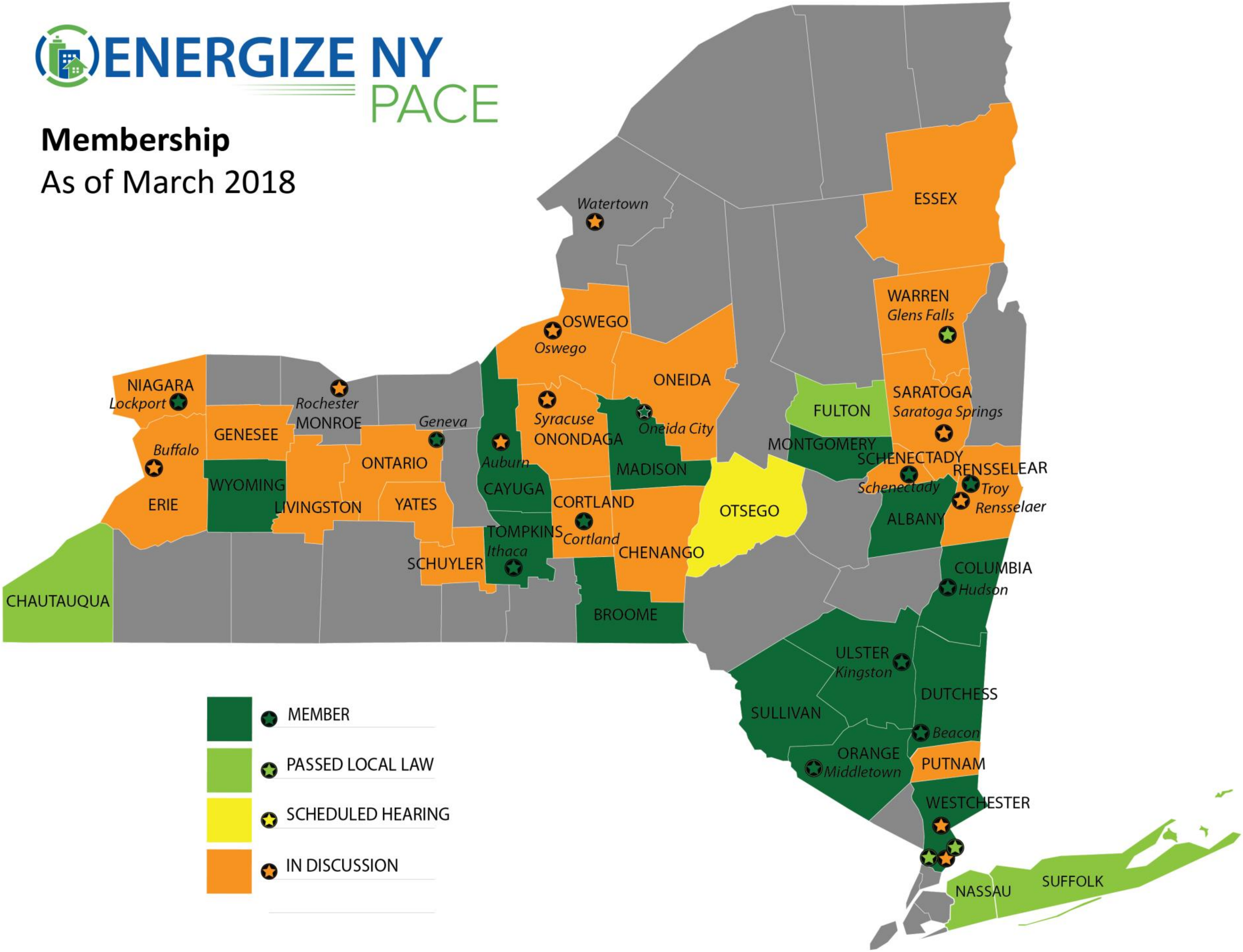
EIC
Energy Improvement Corporation

- Not-for-profit, Local Development Corporation
- Mission to increase clean energy adoption across NYS
- Controlled by member municipalities
- Shared service structure
- Funded by NYSERDA, US-DOE, revenue from financings
- Serve property owners with services through ***Energize NY***

ENERGIZE NY PACE

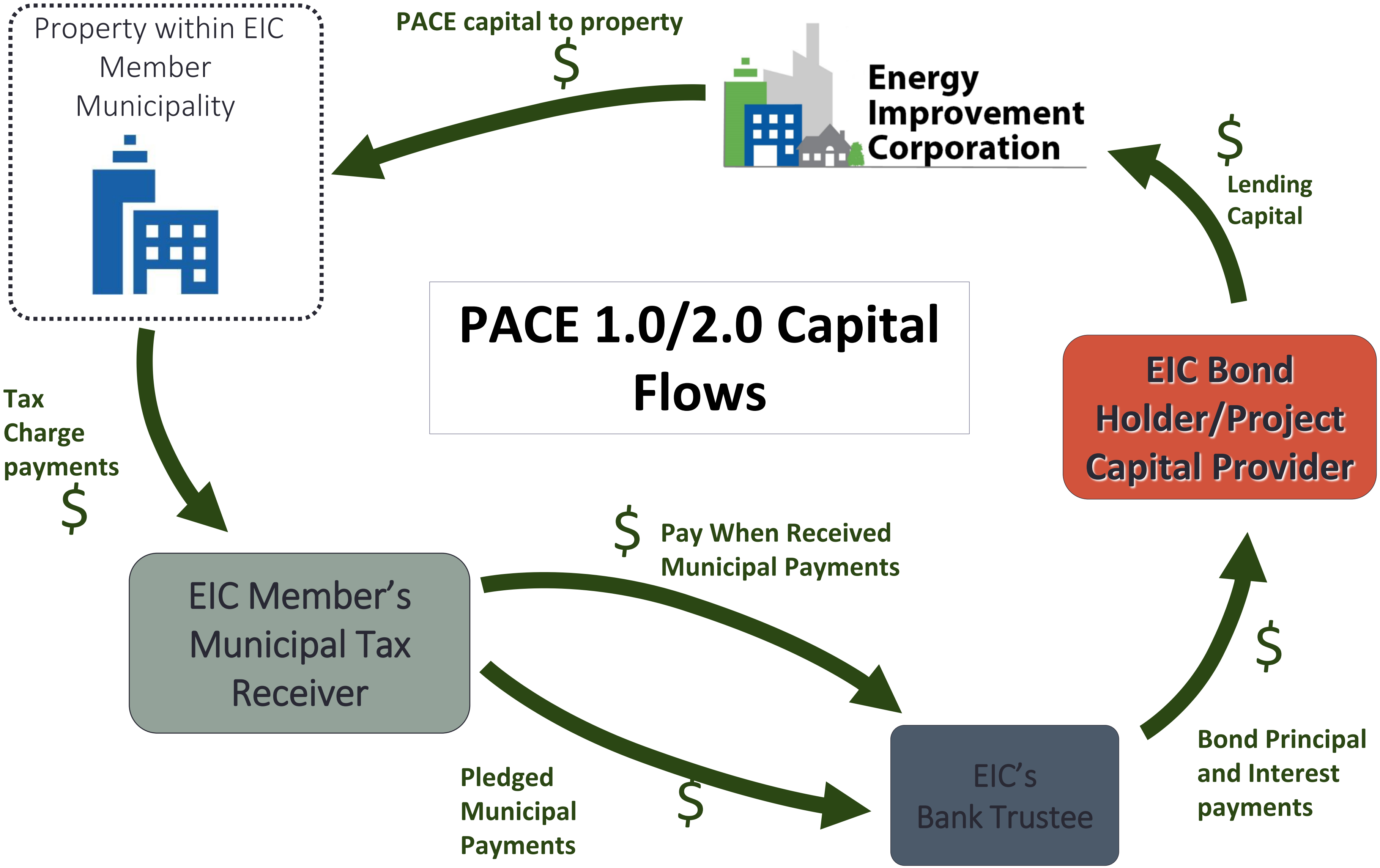
Membership

As of March 2018



ENERGIZE NY PACE

PACE 1.0/2.0 Capital Flows



PACE + Affordable Multi-Family Housing:

Challenges:

- Poor credit and/or limited access to capital
- Capital too expensive
- Deferred investments in building
- High maintenance, energy costs
- Lack of capacity and expertise to focus on energy

Opportunities with Clean Energy Improvements + PACE

- Reduce and fix energy costs
- Lower maintenance costs
- Improve heath, comfort + livability of residents
- Improve the surrounding community w/lower pollution, lower energy costs, higher property values

Naturally Occurring AH – *Mt Vernon, NY*

The Challenge: Conversion from old, inefficient oil fired heating / hot water system

The Solution: NYSERDA MPP/MPP Partner with comprehensive building performance solutions paired with Energize NY PACE

- allowed for deeper upgrade.

Naturally Occurring AH – *Mt Vernon, NY*

NatLew, Mount Vernon

Project

- Multifamily, 20,000 sq.ft.
- Efficiency Project
- $19,200/yr average annual cash flow
- 14% energy savings

Financing

Amount Financed: $238,078

Term: 20 years

Interest Rate: 6.08%

Financing Cost: $20,700/yr

Completion Date: March 2017

<u>Lead</u>

NYSERDA Multifamily Partner Customer

<u>Scope of Work</u>

- Fuel conversion
- Boiler
- Hot water heater
- Pipe insulation
- Lighting
- Windows

Subsidized Housing w/o HUD – *North Salem, NY*

The Challenge: AHOME, a non-profit owner of affordable housing, realized that energy improvements would cut energy costs for them and their tenants.

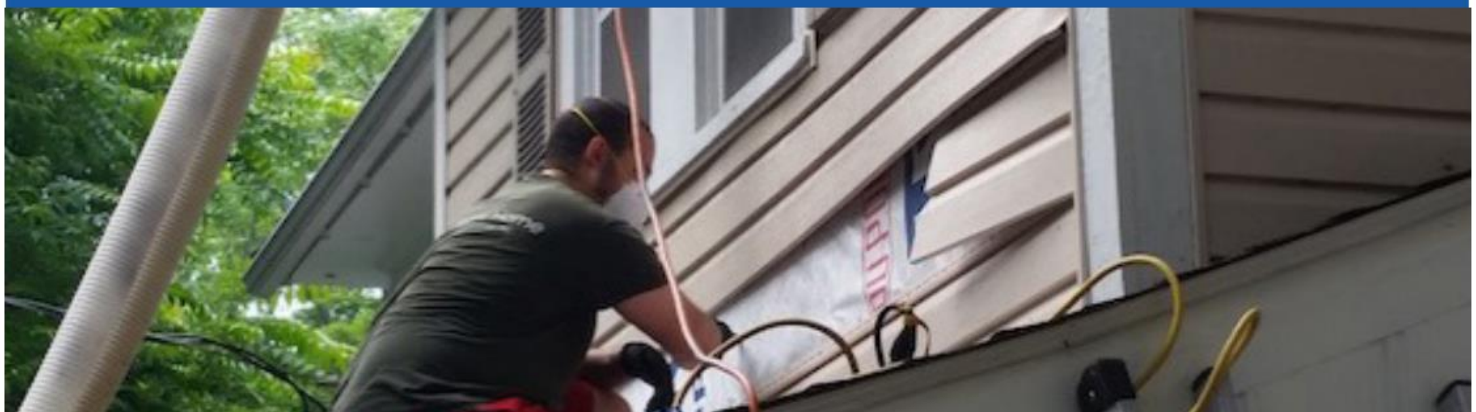
Finding project financing was a challenge even though project would pay for itself.

The Solution: ENERGIZE NY PACE QECB financing AT 2.94% was approved based on the property's value and the energy savings potential and did not depend upon the size of the non-profit's balance sheet. Robson House is 31% more efficient, comfortable and has eliminated costly maintenance issues, too.

Subsidized Housing w/o HUD – North Salem, NY

ENERGIZE NY PACE

Robson House, North Salem



Project

- Multifamily, 3,816 sq.ft.
- Efficiency Project
- $1,050/yr average annual cash flow
- 31% Energy savings

Financing

Amount Financed: $25,258

Term: 15 years

Interest Rate: 2.94%*

Financing Cost: $2,100/yr

Completion Date: July 2015

*QECB Enhanced Rate

Lead

Energize NY Qualified Partner

Scope of Work

Home Performance upgrade

Duration

6 months from start to finish

ENERGIZE NY PACE

Subsidized Housing w/o HUD - Peekskill, NY

The Challenge: Drum Hill was facing a $50,000+ repair to its boiler and needed to upgrade its heating, cooling and lighting systems to better serve its elderly residents.

The Solution: 20-year PACE financing combined with QECBs at 3.14% interest with no upfront costs and no need to tap Drum Hill's credit lines. The project comprehensively addressed aging infrastructure and maintenance issues.

Subsidized Housing w/o HUD – Peekskill, NY

Drum Hill Senior Living, Peekskill

Project

- Senior Living Facility, 122,018 sq.ft.
- Efficiency Project
- $600/yr average annual cash flow
- 14% Electric Use Offset
- 10% Natural Gas Savings

Financing

Amount Financed: $429,000

Term: 20 years

Interest Rate: 3.14%*

Financing Cost: $29,000/yr

Completion Date: December 2016

*QECB Enhanced Rate

Lead

Former municipal official Identified this project

Scope of Work

- Boilers
- Chillers
- VFD Pumps
- Lighting

Duration

8 months from start to finish

About Urban Ingenuity

URBAN INGENUITY

- ✓ DC PACE Program Administrator
  - First use of PACE for affordable multifamily
  - First use of tax-exempt PACE nationwide
  - HUD approval on PACE for mixed-finance
- ✓ Solar Platform with National Housing Trust - Enterprise

PACE in the Capital Stack: *Affordable Rehab*

Uses	
Acquisition	$16,000,000
Hard Costs	$29,000,000
Soft Costs	$7,000,000
Total Costs	**$52,000,000**

Sources	
LIHTC (4%)	$22,000,000
Tax-Exempt Mortgage	$18,000,000
Local Govt. Soft Debt	$10,000,000
Total Sources	**$50,000,000**
Gap	$2,000,000

Options for addressing a $2M gap…

1. **Do Nothing:** *Project stalls or dies*
2. **Owner's Equity:** *High opportunity costs*
3. **Value Engineering:** *Lock in high op ex*
4. **Tax-Exempt PACE:** *Displace equity*

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Note: Project financials have been simplified for illustrative purposes.

PACE in the Capital Stack: *Increasing NOI*

Project Basics

Gap filled	$2,000,000
+ 350 kW solar	$1,000,000
Total PACE =	$3,000,000

PACE improves project & property value

Average Annual Cash Flow	
Utility Savings	$110,000
O&M Savings	$80,000
Solar (Energy + RECs)	$120,000
Total Savings	$310,000
PACE Payments	-$240,000
Net Cash Flow	**$70,000**

- **$190K in annual savings offsets debt service for $2M+ in PACE**
- **Self financing $1M more in solar PV further improves cash flow**
- **Solar tax credits are attractive to LIHTC investors**

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Note: Project financials have been simplified for illustrative purposes.

PACE in the Capital Stack: *Displacing Equity*

	Self-Funded	PACE
Investment by Property Owner	$3,000,000	$0.00
Annual Benefits	$310,000	$310,000
Annual PACE Payment	$0.00	$(240,000)
Net Benefit Year 1	$(2,690,000)	$70,000
Annual Net Benefit Years 2-20	$310,000	$70,000
5-year NPV of Cash Flows (@ 6% discount rate)	**$(1,524,000)**	**$295,000**
10-year NPV of Cash Flows (@ 6% discount rate)	**$(549,000)**	**$515,000**
5-year IRR	**-19%**	**Infinite**
10-year IRR	**1%**	**Infinite**

PACE is a valuable structure for multi-family housing!

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Note: Project financials have been simplified for illustrative purposes.

Scaling a Tax-Exempt PACE Platform

- Value proposition: PACE as a way to leverage additional capital, not to displace existing cheap resources
- Who is the market for tax-exempt "Civic" PACE?
  - Large 501c(3) entities – charter schools, hospitals, universities, etc.
  - Limited applications for affordable housing (PHAs)
  - Project must be big enough to justify transaction costs
  - Ability to access new savings


Courtesy Collective Architecture

UI is working with capital partners to scale this PACE product in 2018

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Questions (now and later!)

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