



# CDFA-Bricker Webinar Series: Incentives & Financing for Green and Sustainable Assets

**THE BROADCAST WILL  
BEGIN AT 2PM EASTERN**

Submit your questions in  
advance using the chat box

Traditional Lending Institutions and C-PACE  
Financing

Wednesday, September 27, 2023

# Traditional Lending Institutions and C-PACE Financing



## Zeyu Zhang

Manager, Research & Technical Assistance  
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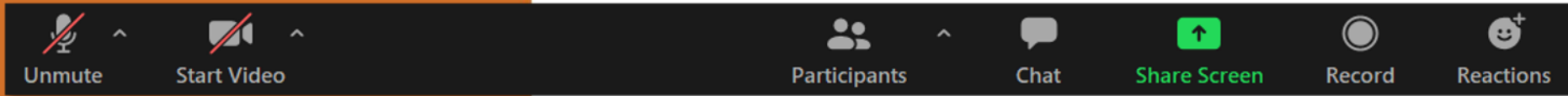
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# Panelists



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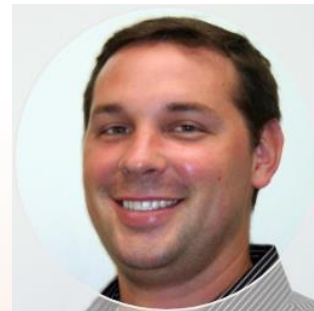
### **Tyler Compton**

Attorney  
Bricker Graydon



### **Colin Bishopp**

CEO  
Allectrify



### **Michael Monroe**

Senior Vice President, Senior Loan  
Administration Officer  
First State Bank of the Florida Keys



# Traditional Lending Institutions and C-PACE Financing



**Tyler Compton**

Attorney  
Bricker Graydon

A photograph of a multi-story brick building with a grid of windows. A dark banner across the top of the building reads "DELCO LOFTS" in white capital letters. A blue semi-transparent banner is overlaid on the middle of the image, containing the title text.

# CDFA Bricker Energy Efficiency Webinar Series: Traditional Lenders in PACE

**Tyler Compton**  
*Bricker Graydon LLP*

**Bricker**   
**Graydon**

# PACE

## PACE

- Property, meaning that the financing mechanism improves real property and is secured with an interest in real property
- Assessed, meaning that the financing mechanism is paid for with special assessments
- Clean Energy, meaning energy efficiency and alternative energy improvements are eligible for financing





# What is PACE Financing?

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- Special assessment financing for energy efficient and renewable energy building improvements that are repaid via a special assessment added to the property's tax bill.
- Private financing available to commercial property owners to finance up to 100% of energy and water saving improvements.
- Public-Private Partnership + Local Job Creator  
(15 jobs per \$1m of PACE financing – PACE Nation)

# What is PACE Financing?

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- Long-term loans (10 – 30 years)
- Fixed-interest rates/ Fixed payment
- 100% financing, no down payment
- Non-recourse loans (no personal guarantee)
- Payments can be passed through to tenants
- Loan transfers with the property

## Who is PACE for?

- **Commercial Property Owners**
  - Both existing properties and new construction
  - Includes hotels, hospitals, restaurants, office buildings, etc.
  - Includes multi-family housing, with 4+ units
- **Industrial Property Owners**
- **Agricultural Property Owners**
  - Farms, wineries, etc.
- **Nonprofits**
  - Churches, childcare facilities, private schools, etc.
- **Local Governments**
- Does not include single-family residential property (except CA, FL and MO)

# How Can PACE Be Used

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1. Existing buildings for retrofits and upgrades
2. New construction and “gut rehabs”
3. “Retroactive PACE”: refinancing eligible improvements

# Layering Incentives

## PACE can be combined with other types of financing and incentives

### Abatements

- Community reinvestment area (CRA) abatements
- Sales tax abatements
- Ohio Air Quality Development Authority (OAQDA) program

### Credit enhanced financing

- Bond fund credit enhancement
- State loan loss reserve
- State energy loan program

### Other

- Tax increment financing (TIF)
- Historic tax credits (HTC)
- New market tax credits (NMTC)
- Alternative energy tax credits
- Utility rebate programs

# Eligible Improvements

**Varies per state**

Energy efficiency

Renewable energy

Water efficiency

Resiliency

Indoor Air Quality

Some states broadening to include other non-ECMs



# Case Study

## Delco Lofts Project – Dayton, Ohio

- Urban redevelopment project in Dayton
- Historic industrial manufacturing building
- Redeveloped by Crawford Hoying Development Partners
- 134 market rate apartments, parking, amenities, and first-floor retail



# Case Study

## Delco Lofts Project – Dayton, Ohio

- \$17.6M Senior/Bridge Financing
  - Federal Historic Tax Credits (+/- 90% face value)
  - State Historic Tax Credits (+/-75% face value)
- \$3.8M Dayton Port Bonds
  - BBB+ rated
  - 4.05% (July 26, 2016)
  - 17-year term
  - 0.56% annual port authority credit enhancement, servicing, and trustee fee
- \$650,000 Dayton Port Sales Tax Savings





# Delco Lofts PACE Improvements

LED Lighting

Windows

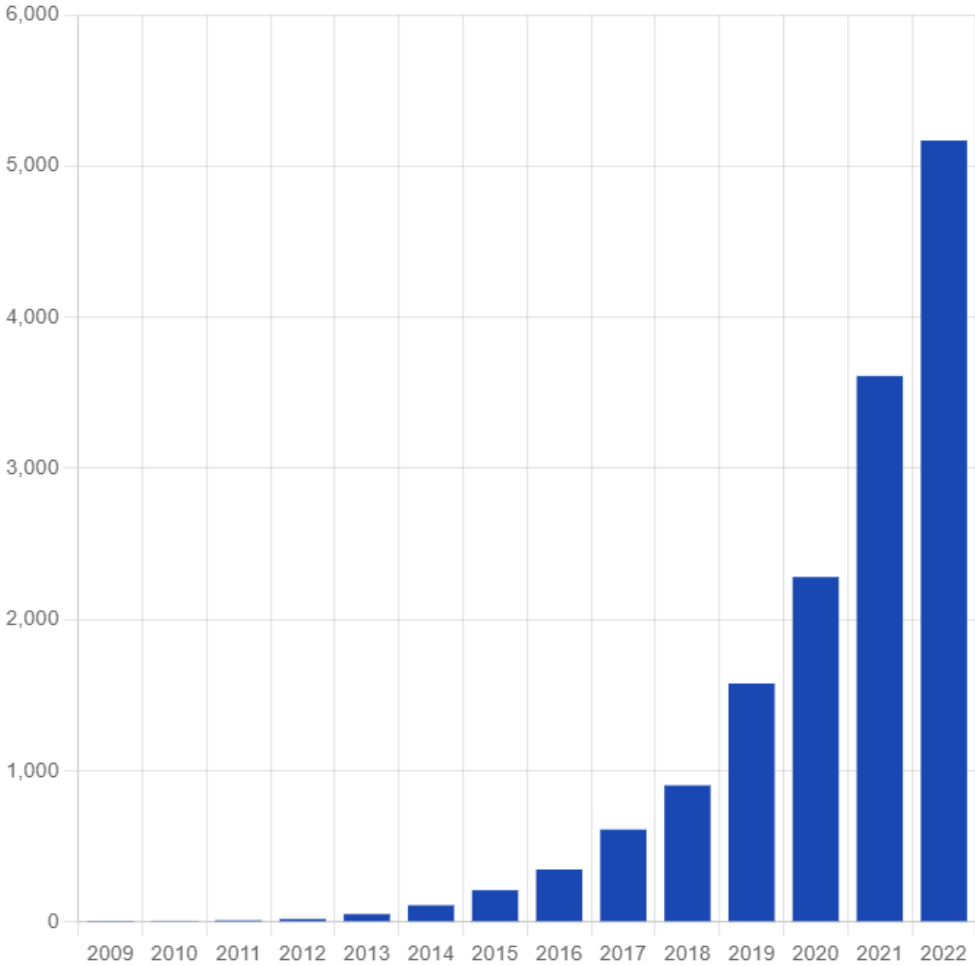
HVAC

Insulation

Thermostats/controls



# National PACE now > \$5B



Source: PACENation

# Leading PACE States



C-PACE INVESTMENT BY STATE (STATES >\$50MM, TO DEC. 2022)

<input type="checkbox"/>	State ▾	Investment (\$, MM) ▾
1	CA	\$1,239
2	OH	\$682
3	TX	\$407
4	MN	\$263
5	UT	\$251
6	CO	\$249
7	CT	\$232
8	MI	\$221
9	NY	\$209
10	FL	\$205

Source: PACENation

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Insights & Resources

## PACE Financing Resource Center



# PACE Resources

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# Traditional Lending Institutions and C-PACE Financing



**Colin Bishopp**

CEO  
Allectrify



# Traditional Lending Institutions and C-PACE Financing



## Michael Monroe

Senior Vice President, Senior Loan Administration Officer  
First State Bank of the Florida Keys







allectrify

## C-PACE Made Simple

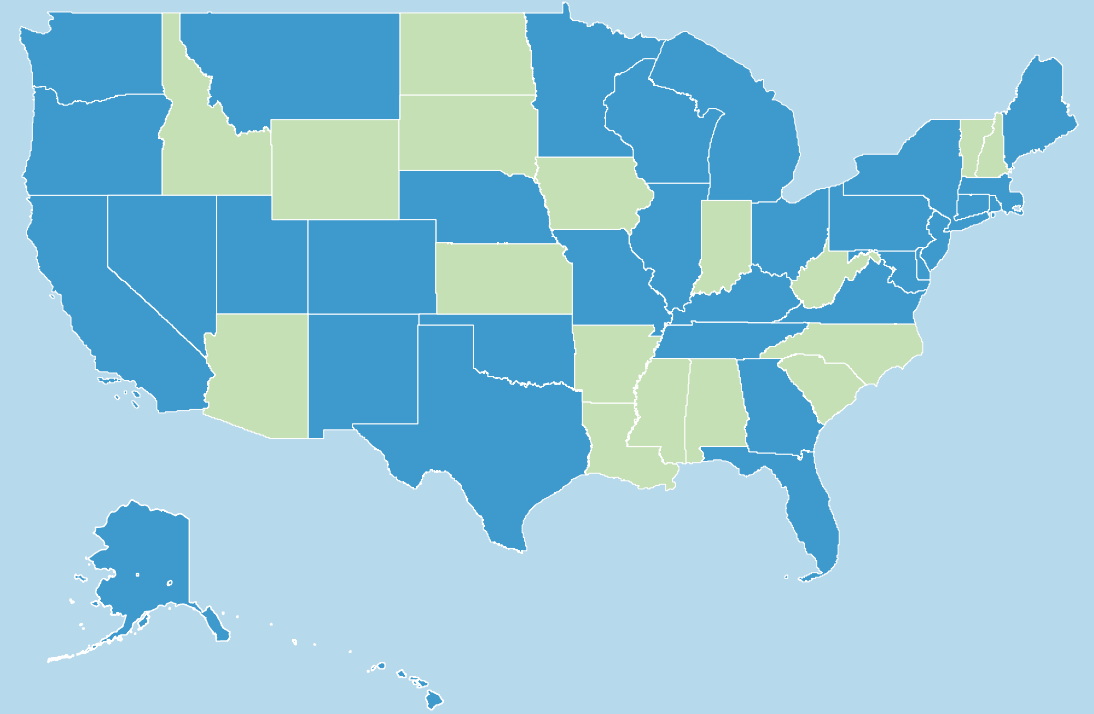
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**Colin Bishopp**

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# C-PACE Made Simple

Allectrify was founded to make it easier for banks, credit unions and CDFIs (“Community Lenders”) to offer C-PACE financing alongside traditional products.



# **FASTPACE**

by allectrify

■ Denotes states with active C-PACE programs

# ***FASTPACE***

by allectrify

We enable **lenders** to offer C-PACE financing efficiently and cost-effectively

# ***FASTPACE***

by allectrify

We enable **building owners and developers** to access the lowest cost of capital with the most efficient execution for deals of all sizes, even deals as small as \$100K



WHAT IS C-PACE?

# ASSESSMENT-BASED FINANCING

## DATES TO OUR NATION'S FOUNDING



**1736** – First assessment district in Philadelphia

**2023** – 37,000 assessment districts nationwide

- Water & Sewer Service
- Parks
- Sidewalks
- Lighting
- Downtown Renewal
- Energy, Water & Resilience (C-PACE)

**C-PACE** – Voluntary assessment district of one property



WHY WE ARE HERE

# Building Owners & Developers Have a Problem

- **State and local mandates**, some of which include financial penalties, are forcing developers and property owners to upgrade new and existing buildings
- **Traditional financing** is incapable of meeting the need; at least 33% of the capital required must come from Commercial PACE <sup>1</sup>
- **No easy way exists** for owners of small and medium sized commercial properties to access C-PACE financing; banks and credit unions already serve this market segment and, if they had a C-PACE product, could offer the most competitive rates due to their lower cost of funds.

National Building Performance Standards Coalition  
May 3, 2022





# Traditional Lenders Have a Problem Too

- **Banks are under significant pressure** to a) find yield in less risky assets, b) meet Community Reinvestment Act & ESG objectives, and c) win new business.
- **C-PACE financing addresses all of these challenges.** C-PACE assets are extremely low credit risk; they meet ESG & CRA objectives; they reduce the weighted cost of capital in CRE deals; and they can be booked as a muni, a loan or an investment. C-PACE serves the same customer demand as CRE exposures without CRE concentration risk.
- **No easy way exists** for community banks and credit unions to offer C-PACE financing, even though they are best positioned to serve 75% of the market.

## US banks exceeding CRE regulatory guidance hit multiyear high in Q2

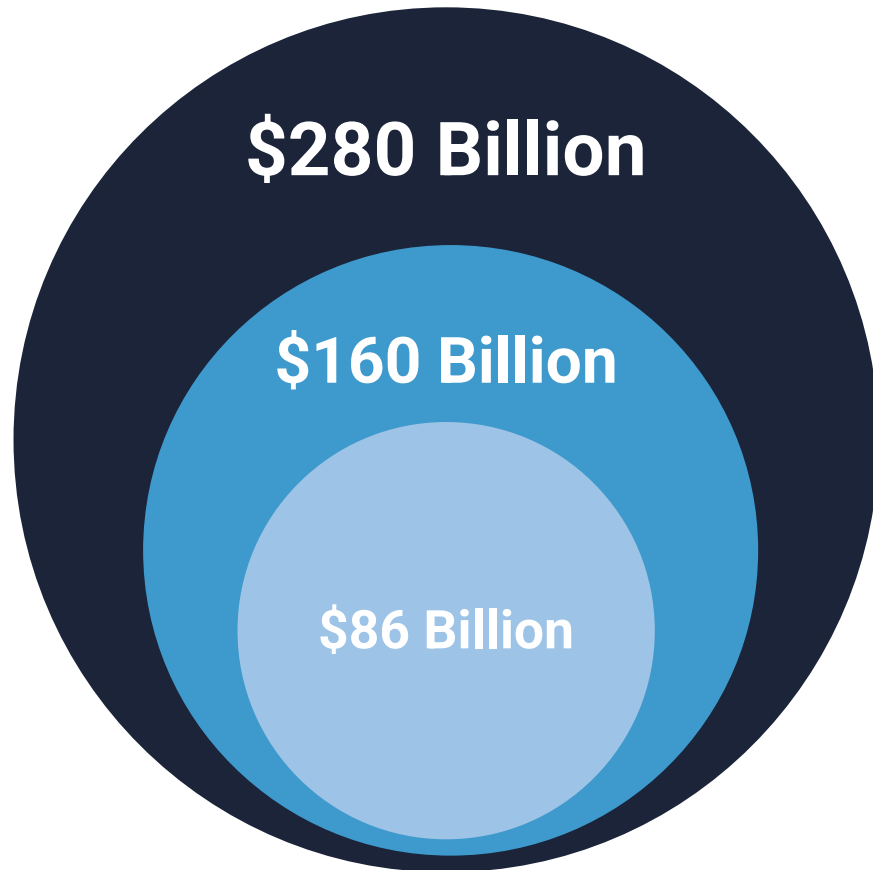
The number of U.S. banks that went beyond regulatory guidance on commercial real estate loan concentration rose for the fifth straight period in the second quarter and reached its highest level in five years.

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### About this analysis

*Regulators define commercial real estate loans as construction and land development loans + multifamily loans + nonowner-occupied nonresidential property loans + commercial real estate loans secured by collateral other than real estate.*

# Market Size Will Triple Over 10 Years

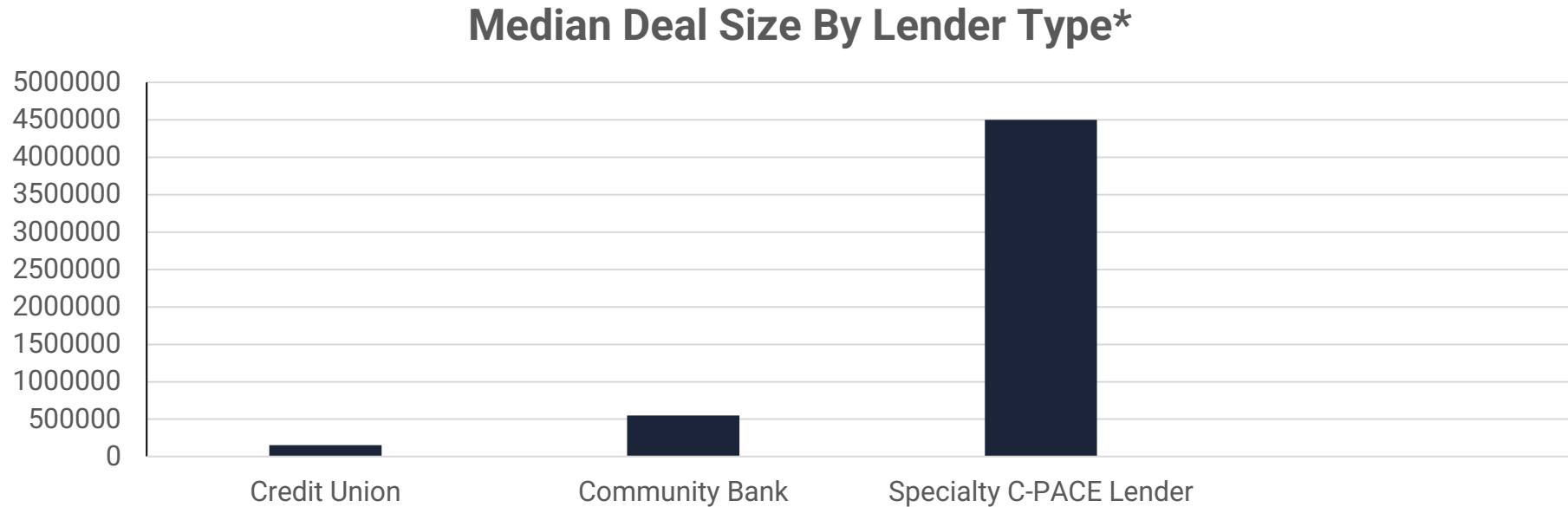


**Annual spend in mature market (~10 years)** New construction + HVAC/full retrofit/solar PV market, accelerated by state and local regulations

**Annual spend in partially mature market (~5 years)** A third of the new construction opportunity plus annual maintenance spend for existing buildings, accelerated by state and local regulations

**Annual spend today – like for like replacement** Minimum HVAC maintenance spend for existing commercial buildings only, with high efficiency new equipment. No new construction, no solar PV, and no new regulations incentivizing upgrades

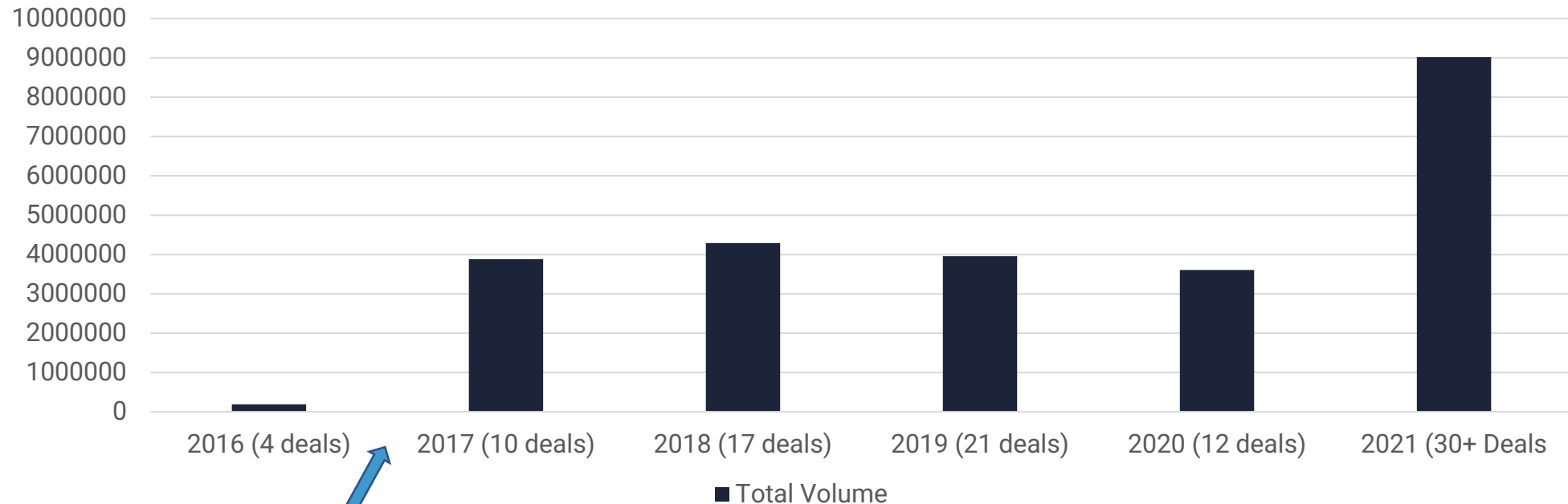
# Market Growth Has Led to Further Specialization



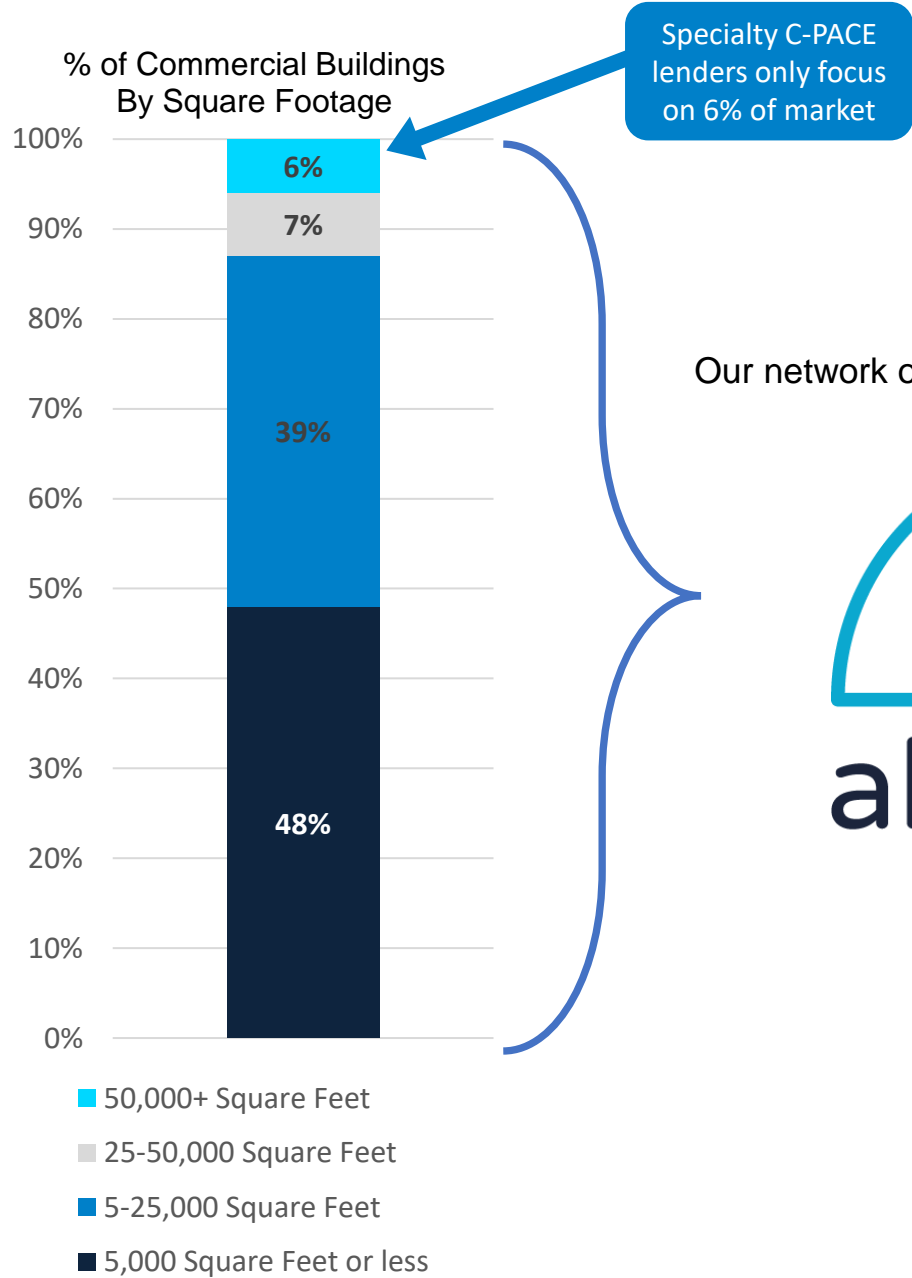
\*Based on PACENation market data through 2020. Specialty lender deal size is estimated.

# OUR INSPIRATION: MINNESOTA

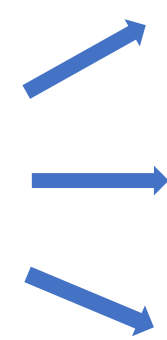
A motivated community lender can source 30+ deals per year\*



\*St. Paul Port Authority used a \$10M loan fund and substantial in-house capacity to provide the necessary platform that made this jump possible (from 2016 to 2017). Allectrify has developed a scalable platform called FASTPACE that can be implemented anywhere in the country.



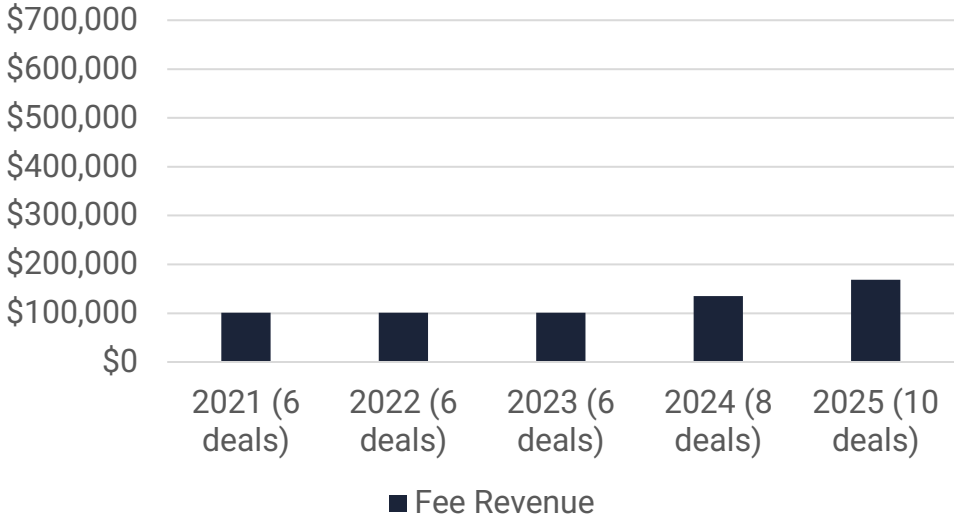
Our network of lenders can serve the entire market.



Bank logos for demonstration purposes only.

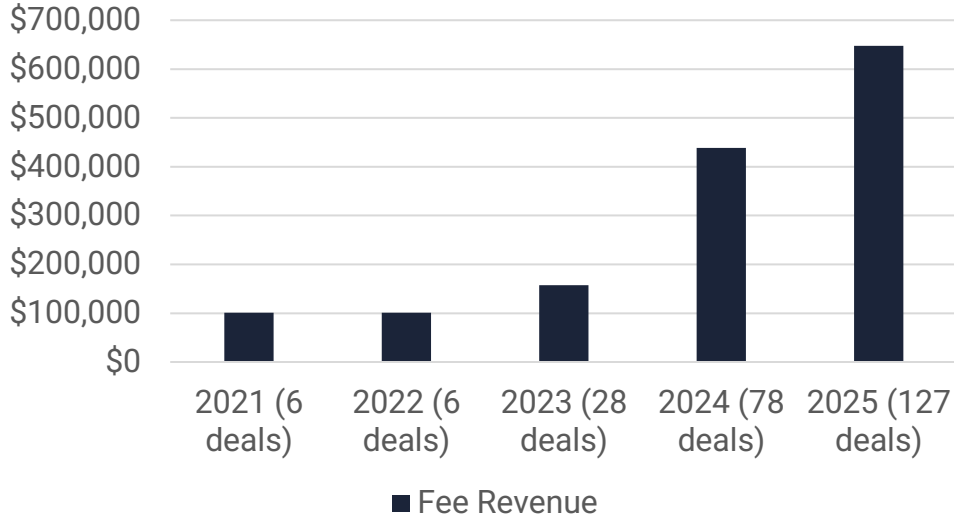
# FASTPACE INCREASES PROGRAM FEE REVENUE

**Scenario 1: Status Quo  
for deals under \$750K**



- Assumptions**
- 6 deals per year with small ramp (based on 2021 data)
  - \$750K project size
  - 2.25% fee per project
  - Outcome: \$405,000 in fees (2023-2025)**

**Scenario 2: Program adopts  
FASTPACE for deals under \$750K**



- Assumptions**
- 7 banks & CUs on platform, with 2 more joining each year
  - \$750K project size
  - 75% fee per project (based on FASTPACE model)
  - Outcome: \$1,243,688 in fees (2023-2025)**



YES, BUT WHY C-PACE?

# TRADITIONAL LENDERS LOVE C-PACE



Upfront Fees & Superior Risk-Adjusted Return



Extremely Low Credit Risk



Low Capital Requirement; C-PACE can be booked as a muni, a loan or an investment.



100% ESG Investment; Potential CRA Credit



C-PACE serves the same customer demand as CRE exposures without CRE concentration risk

Banks & Credit Unions already active in C-PACE



Northpointe Bank



ARLINGTON COMMUNITY FEDERAL CREDIT UNION





# First State Bank of the Florida Keys

- Founded in 1955 in Key West, Florida
- Branches throughout the Florida Keys
- Operations Center in Miramar, FL
- As of 8/31/2023:
  - Total Assets of \$1.24B
  - Total Loans of \$848M
- 2010 Objective: Diversify
  - Geographic Concentration
  - Hurricane Threat
  - Hospitality Concentration



# Diversification

As of 8/31/2023

- 35% of loan portfolio outside primary market
- Standard Participations
- Guaranteed Portions of USDA, SBA
- Purchased CRE, Residential Pools
- Bridge-to-HUD loans
- Muni & Corporate Leases
- C-PACE Loans
- Timeshares



# Why C-PACE (Capital Provider)

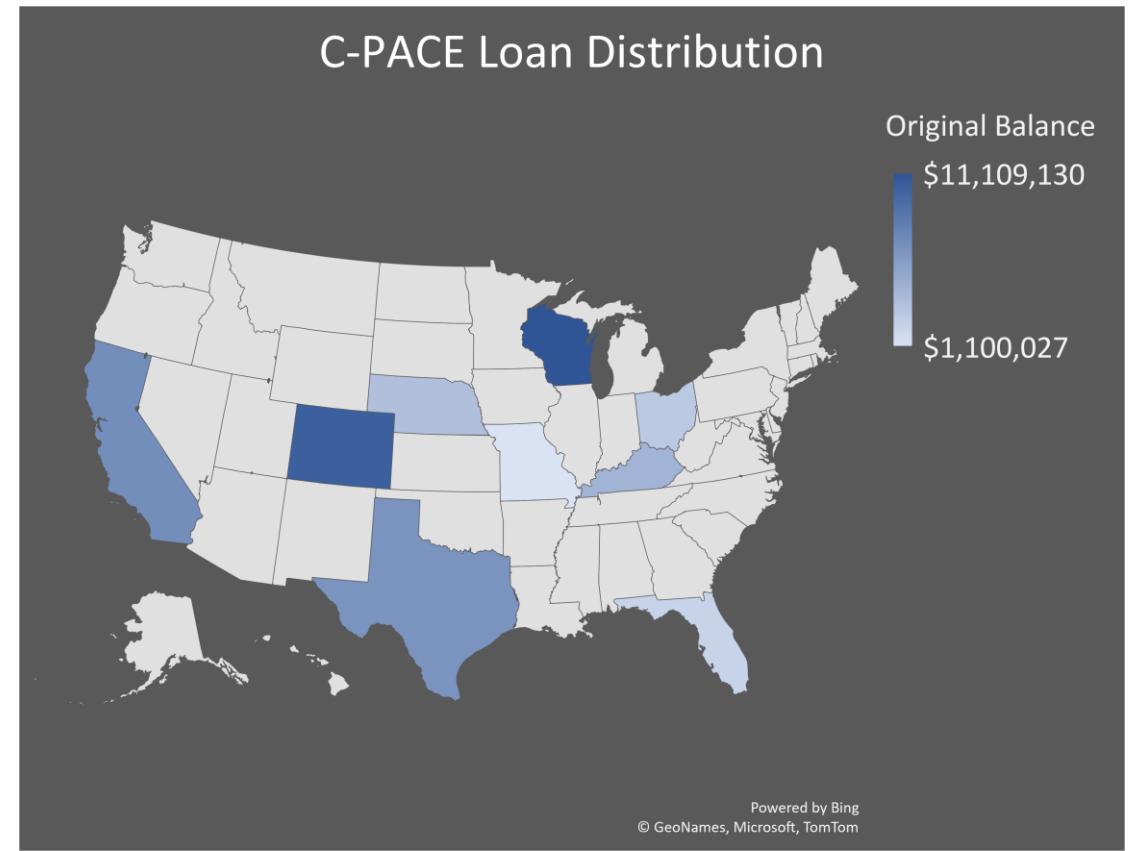
- Superior lien position to primary debt
- Billed on real estate tax bill
- Low LTV
- Initially, stronger yields while market adjusted
- Grow the loan portfolio
- Sustainability, environmental impact

# C-PACE Timeline

- Completed a Risk Assessment of C-PACE lending
- Approved a portfolio limit of \$10M
- May 2016 – settled the first C-PACE loan purchase (FL)
- May 2018 – increased portfolio limit to \$20M
- September 2020 – portfolio limit set to 25% of Capital
- September 2021 – portfolio limit set to 50% of Capital

# C-PACE Helps Meet Objective

- Geographic Diversity with C-PACE in 9 states
- Diversification of Property Types
  - Multifamily
  - Light Industrial
  - Condo/Townhome Construction
  - Office
  - Hospitality





OUR PLATFORM

# **FASTPACE**

by allectrify

We enable **lenders** to offer C-PACE financing efficiently and cost-effectively

Lender signs up, receives training, gets market access and a toolkit



Lender offers C-PACE to new and existing customers



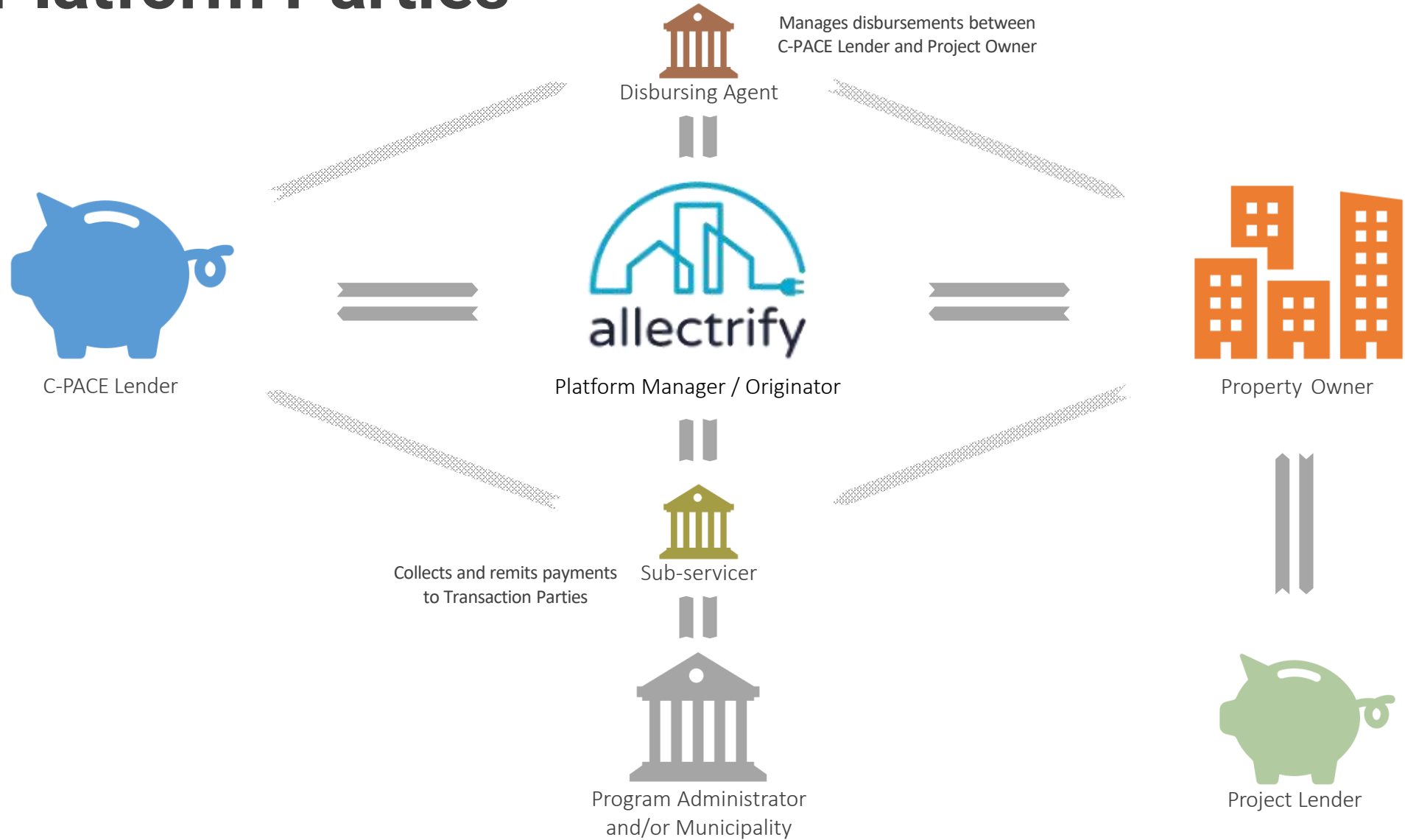
Allectrify provides full lifecycle support, from origination through payoff, plus funding options, offtake services, etc.



Marketplace offers lenders additional opportunities to buy or sell assets\*

**\*Participating lenders have the opportunity to fund C-PACE deals sourced by Allectrify**

# Key Platform Parties





LENDER TRAINING

# Lender Training – Module 1

## **Allectrify Training Program**

- **Module 1: Intro to C-PACE Financing**
- Module 2: Parties, Process and Policies
- Module 3: Example Transaction

## **Module 1: Intro to C-PACE Financing**

- **C-PACE Basics**
  - What is it?
  - Why is it important?
  - Who is involved?
  - Where and when can it be used?
- **How does a C-PACE deal work?**
- **State Programs**
- **Q&A**



# Lender Training – Module 2

## **Allectrify Training Program**

- Module 1: Introduction to C-PACE
- **Module 2: Parties, Process and Policies**
- Module 3: Example Transaction

## **Module 2: Parties, Process and Policies**

- Parties involved in a transaction
  - Roles and responsibilities
  - Length of involvement
- Transaction process
  - Steps involved from origination to close to servicing to repayment
- Policies
  - Due Diligence review
  - Underwriting criteria

# Lender Training – Module 3

## **Allectrify Training Program**

- Module 1: Introduction to C-PACE
- Module 2: Parties, Process and Policies
- **Module 3: Example Transaction**

## **Module 3: Example Transaction**

- Review C-PACE transaction underwriting materials
- Orientation to C-PACE legal documents
- Walk through example deal



# SAMPLE TRANSACTIONS

## Holiday Inn Express Farmington, MO

Solar PV

\$200K

Lender: Green Bank



## Hampton Inn & Suites Omaha, NE

New Construction

\$3.6mm

Lender: Community Bank



# JOIN US!

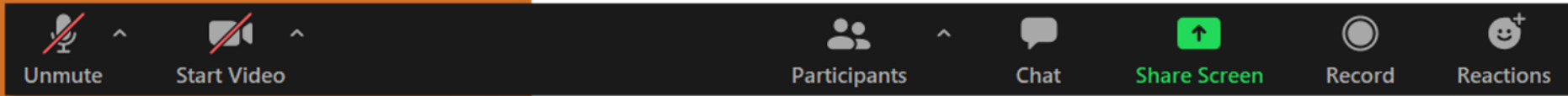
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# Audience Questions



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November 8-10, 2023 | Philadelphia, PA

## CDFA // BNY Mellon Development Finance Webcast Series: Financing Water Infrastructure Projects

October 17, 2023 | 2:00 PM - 3:00 PM Eastern

## CDFA Tribal Finance Webinar Series: Funding Healthcare Facilities on Tribal Nation Reservations

October 24, 2023 | 2:00 PM - 3:30 PM Eastern

# Contact Us



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