

EIC C-PACE Advisory Committee Meeting

September 20, 2018

SUSAN MORTH/EIC: There are three topics on the agenda. Two are EIC related items and we are lucky to have some comments from one of our committee members, **David Friedman**, who will be talking to us about PACE from a Commercial Property Owner Perspective. David is the Real Estate Director at Montefiore.

Starting out, **ROBERT FISCHMAN**, EIC Managing Director, is going to be talking about technical requirements for PACE projects. Robert is the program administrator representing all of our municipal members. Where you see references to the municipality, that really means us. And when I say us, that really means Bob.

ROBERT: Thank you Susan and Good morning everyone. NYSERDA issued its new C-PACE Guidance Document effective June 1, 2018. This has helped the marketplace by giving considerable clarity to what is needed to qualify a project for C-PACE financing in New York State. At the same time, this document successfully eliminates many of the barriers to getting projects funded without compromising consumer safeguards.

There are three pathways now for meeting the basic criteria for PACE financing in New York State. The essential thing to understand is that an energy audit of some sort is required for a PACE financing. These questions are what qualifies as an energy audit and who is qualified to undertake that audit.

The first approach is to submit the measures to incentive programs offered by either the local utility or NYSERDA. Utility companies in New York State offer rebate programs for the more obvious measures such as lighting and HVAC equipment. The approval of a utility rebate application signals that the measure qualifies for PACE. The utility company will often identify the savings, with a catch. Those savings are most often calculated against code, not against the property's baseline energy use.

NYSERDA's incentive programs are geared toward emerging technologies that need more of a boost to gain a toehold in the market place, such as ground source heat pumps, air source heat pumps, CHP plants, and solar. NYSERDA also offers cost sharing of energy audits also through its FlexTech program. Under the NYSERDA programs, the consultant or contractor have the needed credentials to do the energy audit and qualify the project for PACE.

The second approach is to have a qualified professional undertake a whole building energy audit whereby all the energy related upgrades that generate savings are identified in a comprehensive energy audit of the property. The projected savings of the measures over their weighted average life should exceed the cost of the improvements. That means that the Benefit-to-Cost ratio is greater than 1.

The third approach would be to select pre-qualified energy efficiency improvements from certain lists, such as those products certified through Energy Star, the Consortium for Energy Efficiency, or the Federal Energy Management Program. If measures are selected from one of these lists, its CBR is assumed to be greater than 1.

Now there is within the C-PACE Guidance stipulation that an energy audit is required and also stipulated through the statute that enables C-PACE in New York State. The guidance document states that an ASHRAE Level 2 or Level 3 audit may qualify a project for PACE. But it also offers that other methodologies may be accepted by the municipal corporation (read EIC) such as ENERGY STAR® savings calculation tools. Now I've done a little deeper dive into ASHRAE Level 2 or Level 3 Energy audit. ASHRAE, along with ANSI and ACCI, published Standard 211-2018. This was actually only issued on May 1st of this year with the goal of bringing "some order to the chaos by establishing minimum performance levels for energy audits." It provides a new and clearer working definition of Energy Audit Levels 1, 2 and 3 that will aid building owners, facility managers and government agencies and entities like NYSERDA and ourselves that do require energy audits.

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ASHRAE 211-2018 actually defines a Level 0 audit as a simple benchmarking of the energy performance of a building.

Level 1 includes this and builds on this by providing the owner with an appreciation of how their building compares to other similar buildings through programs such as the EPA Portfolio Manager which I'm sure many of you are familiar with.

Level 1 targets low cost / no cost measures and looks for other opportunities at a high level.

Level 2 goes further by conducting a detailed analysis of the energy use of individual systems. This level of audit requires a deeper dive into the individual systems and requires detailed evaluation of potential improvements, either through stipulated values, engineering calculations, or building energy modeling. Some degree of financial analysis is delivered to the property owner, generally done as a simple payback or ROI.

Level 3 adds schematic engineering, Life Cycle Cost Analysis, Risk Analysis and can include some additional financing analysis.

Now I want to move on to the next key point in the C-PACE guidelines and that is the Energy Auditor Certification. Previously NYSERDA required organizations apply to become certifying entities. Candidly, there was a limited response from organizations wishing to invest time effort in stepping up to do this. Perhaps there was not enough of a revenue stream for these organizations. This left a gap wherein even those highly qualified to conduct energy audits were not able to provide PACE-qualified energy audits unless they were affiliated with a utility or NYSERDA program. Having recognized this gap - or I'll call it a chasm, NYSERDA has allowed that individuals having particular highly regarded industry credentials be eligible to conduct and submit a PACE energy audit. These include NYS registered Professional Engineers and Architects, Certified Energy Auditors, Certified Energy Managers, BPI Building Analysts, ASHRAE Building Energy Assessment Professionals, ICP Quality Assurance Assessors, and specifically for multifamily projects, BPI Multifamily Building Analysts

The last aspect I want to touch on here on the C-PACE Guidelines is that under the statute and reiterated in the NYSERDA Guidance is a requirement to verify and report "on the installation and performance" of improvements and systems that are financed through PACE. This can be done by the final installation approval by the participating utility or NYSERDA incentive program, or in the absence of that, the submission of paid invoices and a site inspection by a municipal corporation (again, read EIC); municipal corporation approved inspector or a certificate of completion signed by the installer and the property owner.

With that as an introduction to what is going on with the New C-PACE guidelines, let me leave that here and open the floor to questions and let me see what I can do to those and keep you up to speed and get more projects done here in New York State.

SUSAN: At this time do we have any questions about the new C-PACE Guidelines for Bob? If we don't have any questions we will move on to an update from Mark Thielking as to what is happening with our municipal membership and roll out of Pay When Received PACE.

CLIFF KELLOGG/C-PACE Alliance: I joined a minute or two late and I heard most of Bob's presentation, I believe. I just want to make sure I understood. Is anything that Bob just talked about different from what we covered in prior group conversations?

ROBERT: I don't think so Cliff, I think this is really more to put a fine point on what's in these guidelines and extract from the guidelines a clearer pathway for getting these jobs done.

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CLIFF: So the ASHRAE definitions that you provided are the ones that a project must meet. In other words it must have either ASHRAE 2 or 3 audit or if there is an alternative approved by the municipal corporation (read EIC);

ROBERT: The wording actually in the Guidance document says that a project *may* have an ASHRAE Level 2 or Level 3 energy audit but it is still up to the municipal corporation or in the case of what we are doing here in New York State, EIC, to establish whether there may be other methodologies that would be accepted. One of the things that NYSERDA allowed for frankly in that same paragraph was that there are other types of calculators that can be used such as the Energy Star calculators that you could find on the DOE website. So it opens the door to other methodologies beyond the detailed level 2, level 3 energy audits. One of the key things to bear in mind ... (lost connection, continued below)

The other tools do require, just as the ASHRAE Level 2 energy audit does, that there be an some type of onsite inspection of the building and the individual systems that are operating in the building and that you look at those and you run your calculations based on real data of what is happening in the building as opposed to benchmarking the building against other buildings of a similar type. There has to be some voracity but it leaves the door open for us to look at other modeling systems that might be presented and to approve those and as long as there is some real voracity to the projected savings, I don't see any reason why we wouldn't approved those modeling approaches.

CLIFF: So I really appreciate the flexibility built in here and I know that a lot of that flexibility is due to the efforts of EIC staff, so congratulations and thank you. My question is, how should a capital provider advise the property owner as to what type of energy audit, what level of energy audit would be acceptable? Granted there's alternative approaches that would be possible under the guidelines, would we know the property owner is getting one type of analysis accomplished, expecting that would meet the energy audit requirements. Is it be possible that later it would turn out to not be acceptable?

ROBERT: Cliff, there are two things to consider in answering that. One is, what is the kind building we are looking at and what kind of project involved. If it's a simple boiler replacement or something like that it's pretty obvious how you approached that. What did the boiler consume in the past? What's the new boiler going to do in the future? These kind of single measure approaches are addressed in the NYSERDA Guidelines. If you are at a more substantial whole building approach, I think everyone wants to see some real voracity to the numbers so you want to have something more detailed. I don't think we are going to go to the level of looking at a piece of software an energy engineer or energy auditor has in their suite of operations and say "that's not good enough" I think we just want to know that you are presenting your customer something they can trust and the projected savings are likely to be realized.

CLIFF: Thank you.

ROBERT: I guess what I am saying, Cliff, is we are not going to put out a list of acceptable software, that is really up to the developer and the team that they engage to get these projects done.

GREG SAUNDERS/Clean Fund: Just to ask something that you may have already been covered, but on the inspection by the EIC that is part of the audit or the pre-work that is done but is there a requirement for that kind of inspection in the commissioning of the completed project?

ROBERT: Under the requirements of the statute of New York there has to be some kind of verification that the work is satisfactorily installed before funding could be fully paid out. I'm using that word "fully" deliberately, because there is an option for interim bridge and construction financing but that requirement is there would be

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some level of verification that work is installed. So, Greg, if you are working through a NYSERDA program or if you are working through a utility program where there are rebates you are going to get the sign-off from those programs anyway if the work is satisfactorily installed. If you are working independent of those not using that kind of financial assistance of the project then what you need to do is submit as final validation that the work is copies of paid invoices and there should be site inspection. You can have a third party site inspector, you can have the energy auditor who is signing off on the project do that onsite inspection to validate that the work is commensurate with what is in the energy audit and you can have that, I'll call it a certificate of completion, signed by both the installer of the improvements and the property owner. That will satisfy the requirement.

GREG: Ok, I just wasn't sure if there was also an EIC inspection in addition to those other ones. As to the provision of the invoices to prove out the completion of the project; I think, you used paid invoices. Is that to mean the owner may have fronted the costs and demonstrated payment already on those invoices before that final funding comes in? So then PACE comes in to essentially reimburse the owner?

ROBERT: So that language, paid invoices, comes out of the C-PACE Guidance. So, I guess the answer to your question is yes that at the very end of the project the funding is set up in some sort of escrow account where you have some level of validation the work is being completed. When you see that completion is when the funds are disbursed. This can all happen within a few days or even in the same day. There should be some confirmation that this work is actually complete and the invoice matches the funding that is being disbursed.

SUSAN: Greg, I don't think the intention is at all for the property owner to come up with these funds, PACE is the source of these funds. So we will work through that. It's included in the wording of the C-PACE guidelines but we don't expect the property owner to pay for something out of pocket, no. So we could work with you offline, but there is no intention to have the owner provide funds up front.

ROBERT: That's also how things are done generally throughout the construction industry. As, I'm sure you know, there are requisitions submitted and the payments are made off of that. In this case having this escrowed funding with the full amount set aside, that means the funds are there and the owner is not necessarily out of pocket for it.

GREG: Ok, got it.

SUSAN: If there are no further questions, we can move on to Mark's update on municipal membership.

MARK THIELKING: Hi, this Mark, everyone. Good Morning. I thought I'd start with a little background especially since topic of today's conversation is not just about membership but also the Pay When Received PACE product. So for those of you not familiar with that, I'll start with a little background. Last September Governor Cuomo signed into law the amendments to Article 5L that allow for additional products and expansion of PACE here in New York State. Subsequent to that event, we've completed mostly the amendments to our local laws that allow for PACE to be enable here in our local jurisdictions of both county and cities and townships here in Westchester. And since those are largely complete we now have the ability to introduce new PACE products for our members, which includes a product we are calling Pay When Received PACE. Pay When Received PACE was designed with participating members of this advisory group and it's been crafted to conform to generally accepted national PACE conventions. To enable Pay When Received PACE it requires an addendum to our municipal agreement and that has to be executed with our municipal members. This is not a local law process it is just a legislative act, it does not require a public hearing. But this biggest news is that last week EIC's Board of Directors approved Pay When Received PACE and the addendum for release and we've begun that process to market this product to existing and larger potential new members. I wanted to update you on that progress, again its early days but same time focusing on the larger counties that are existing members as well as large counties

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that are not members. These include Nassau, Suffolk, Erie Counties and Albany County as well, actually Albany County had a jump start and already approved it. We are also focusing on the Cities of: Yonkers, Buffalo, Syracuse and Rochester. Again what we are largely focusing on again are the larger municipalities that will have larger projects in them. But I would encourage all participants on this call interested in Pay When Received PACE participating in that product to contact us to make sure we are focusing on the right municipalities because we are likely to spread this across the State as fast as we can but if there is a project or an opportunity that you see in another County we will focus on those as well. I will pause here for any questions?

CLIFF: This is a question may be related to each municipality but it's not about the adoption. In a prior call it was clear that EIC advised capital providers that they would in effect underwrite how well the municipality handles its own property tax collection and foreclosure process. Because the outside capital provider does not have the ability to enforce or require a municipality to take any tax foreclosure options. So my question is, do you have any advice on how a capital providers may obtain information about the municipality's track record of handling foreclosures?

MARK: I certainly can't advise legally. I am not a lawyer and neither is the staff here, so on that front I can only advise on my experience which again is from a non-legal perspective that said I believe that any municipality that has been flagged by NYS Comptroller as having fiscal difficulty that may be a good place to start. That is a ready source of information on the health of a lot of our municipalities. Honestly, credit ratings are another factor and digging into those credit rating as to tax collections, receipts and payment of those and enforcement actions. A lot of the bonds issued for a lot of the larger municipalities have that data as well. Again without full disclosure I'm not a financial advisor nor a legal mind here so those are generally accepted ways of looking at a municipality's process.

CLIFF: Thank you, that is helpful.

SUSAN: If there are no further questions for Mark, I'm hoping David is on the call and he can share his thoughts about PACE for the property owner's prospective. David are you there?

DAVID FRIEDMAN/MONTEFIORE: Given the 30,000 level opportunity that PACE provides, the first one that comes to mind, especially with a health system, is the off-balance sheet opportunities. Health systems typically are looking to keep capital and be able to use it for things other than real estate and projects. So, the fact that this is available as an off-balance sheet and doesn't impact your ability to borrow, is something of real interest. One of the other things of interest is the very nature of how this is applied. And what I mean about that is who nature of this and it being put on as taxed and it goes with the property. That is something that is also really attractive. And from an ownership standpoint, to the extent that we have third party tenants, the opportunity to do PACE and pass it on as a tax if you have a triple net lease or a gross lease with us, that is very attractive. So the other thing that is also attractive is the fact that there is a look back period. There are a number of projects that we've done that if they were to qualify and we could go back in time and basically PACE those that is another very attractive part of PACE.

MIKE RAYMOND/PRIME: Can you elaborate on that last part just a little bit, on the look back part?

DAVID: Well, my understanding is after you've done a project and after you financed it or paid out-of-pocket for a particular project that there is a look back period where you could then PACE it, that is my understanding anyway.

ROBERT FISHMAN: I think that is a fair statement we in the past have looked at the projects that were done in the relatively recent past and the distinction we've made in the past, whether a project already had financing. An example, if you had done an addition on a building and under took that work that included energy efficiency

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where you could finance that with a mortgage then I think we would say this is precluded under the intention of the statute from being PACE financed but use your own resources if you put a bridge capital in place to carry that within reason we've found that we are able to provide financing for measures that were completed in the not too distant past.

MIKE: Okay, I understand it.

DAVID: I guess also the flexibility of with financing, what can be covered typically and also the possibilities that it can be up to 100% financing. And that rates that are within the range of prevailing rates through financing otherwise.

CLIFF: I was aware that Montefiore had facilities in New York City, but I'm assuming your hospital must also have locations outside the City that you are hoping will be part of the New York State program?

DAVID: Yes, we are in counties outside of the Bronx, we are in Rockland, Dutchess, Westchester, Putnam and we are also looking to expand to others. We actually just had an analysis done of a particular asset in Westchester. We were able to make a presentation to various members within the organization and they were very very impressed and also very interested. Also knowing that New York City is coming up and knowing that the Mayor of New York City is pretty much looking toward PACE that says a lot because especially considering all the requirements that are going to be put upon us and all the owners over the next few years they are pretty daunting and being able to look at PACE in order to achieve these things seems pretty interesting as well.

SUSAN: Great, thanks, David for sharing your thoughts with us and we are so happy to hear your organization is so far impressed and very interested in PACE. It's great news to all of us. I will open it up to questions now for either David or anyone here at EIC and if there aren't any questions, we thank you for your time. Go ahead with any questions.

CLIFF: I'm conscious if I'm precluding anyone else from jumping in with a question here, but I'm going to ask a familiar question to you, please indulge me. My question is, when will there an updated program handbook that documents all the changes that we have been discussing?

SUSAN: We have a draft of a handbook of Pay When Received PACE but I think we are still working our way through for example what is allowable under the C-PACE Guidelines for example, I think we feel that we wouldn't have all of the answers yet because we are lucky to be engaged with several capital providers and still speaking to other programs about things that perhaps could be included in the CBR. As one example, we feel we would be cutting off flexibility and opportunity to put out a handbook today. We do appreciate that everyone wants to be able to go to a handbook, we agree it is very important, we have a draft, but I'm going to say we won't have anything for you, Cliff, to be honest before the end of the year.

MIKE: Question for Bob quick, any news on updates for Saratoga County?

ROBERT: I'm going to defer this over to Mark, he's been working on the municipal member aspect.

MARK: Saratoga County we are hopefully that they will start to move forward now that Saratoga City was just confirmed as a member.

MIKE: The City was just confirmed?

MARK: Yes

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MIKE: Okay, alright.

MARK: The key determinant generally in moving County's forward is showing that there is interest in the County for PACE so if there is something that we can show either, hopefully something substantive but even if it is antidotal that would be very helpful. Reach out to me and I can give you more detail on that.

MIKE: That would be great.

SUSAN: If there are no further questions, thank everyone for your attendance. As always, please reach out to us directly, we are happy to work you through projects and answer questions.