Mission-Driven Investment for Energy Efficiency Projects:

Case Study of The Seattle Foundation <u>Secured Investment Facility</u>

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Mission-Driven Investment for EE Projects

- Missions include: jobs & training, community economic development & resilience, pollution & emissions reduction & climate goals
- Mission-driven investors: Foundations, Individuals, Unions, Government s, Universities, Community development financial institutions & “B”-Corp FIs
- Our focus is project finance (vs. corporate finance)
- Our Panel: 2 investment originators/principals, Divest-Invest movement activist, institutional investor

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Chain of Financial Intermediation

- Primary markets vs. secondary markets
- Need for market/investment aggregation & aggregators: to bring EE investment to scale
- We will start with the “micro”: EE project investment originators, offering specialized EE project finance: EEFC & TRF
- Move to Investors: who are looking to purchase ready, suitable investment instruments, secured & in a portfolio
- Our panel illustrates examples across the chain: from project investment to aggregation to refinancing in 2ndary market
- Exciting needs & opportunities to build bridges and create linkages

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Leading Parties

- MacDonald-Miller Facilities Solutions, Inc. (MMFS)
  - Seattle-based mechanical/HVAC contractor; $150 million annual rev.
  - Management-owned; union
  - Community Workforce Agreement with City of Seattle
- Energy Efficiency Finance Corp. (EEFC)
- Seattle Steam Company
- City of Seattle, Better Buildings Program
- The Seattle Foundation, a community foundation
- Seattle 2030 District

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Offer to Building Owner

- Energy Services Agreement (ESA)
- No upfront capital costs; preserve capital for other purposes
- Turnkey implementation by MMFS: engineering, equipment procurement, installation, commissioning, services, savings monitoring, savings guarantees
- Project paid through operating cost savings; breakeven savings are guaranteed by MMFS
- Payments on steam utility bill. SCL bill payment being explored; direct collections by ECS on two deals

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Building Owner Business Case for Energy Efficiency Project Investment

- Save $ by lowering operating costs: energy, water, maintenance. Pay entirely from cost savings.
- Meet energy system replacement/upgrade needs
- Improve building value
- Improve facilities, comfort & productivity: upgrade mechanical/HVAC, controls, lighting
- Gain "green" branding in the marketplace; increase tenant appeal & occupancy
- Public goods: reduce GHG emissions, create jobs, macro recovery

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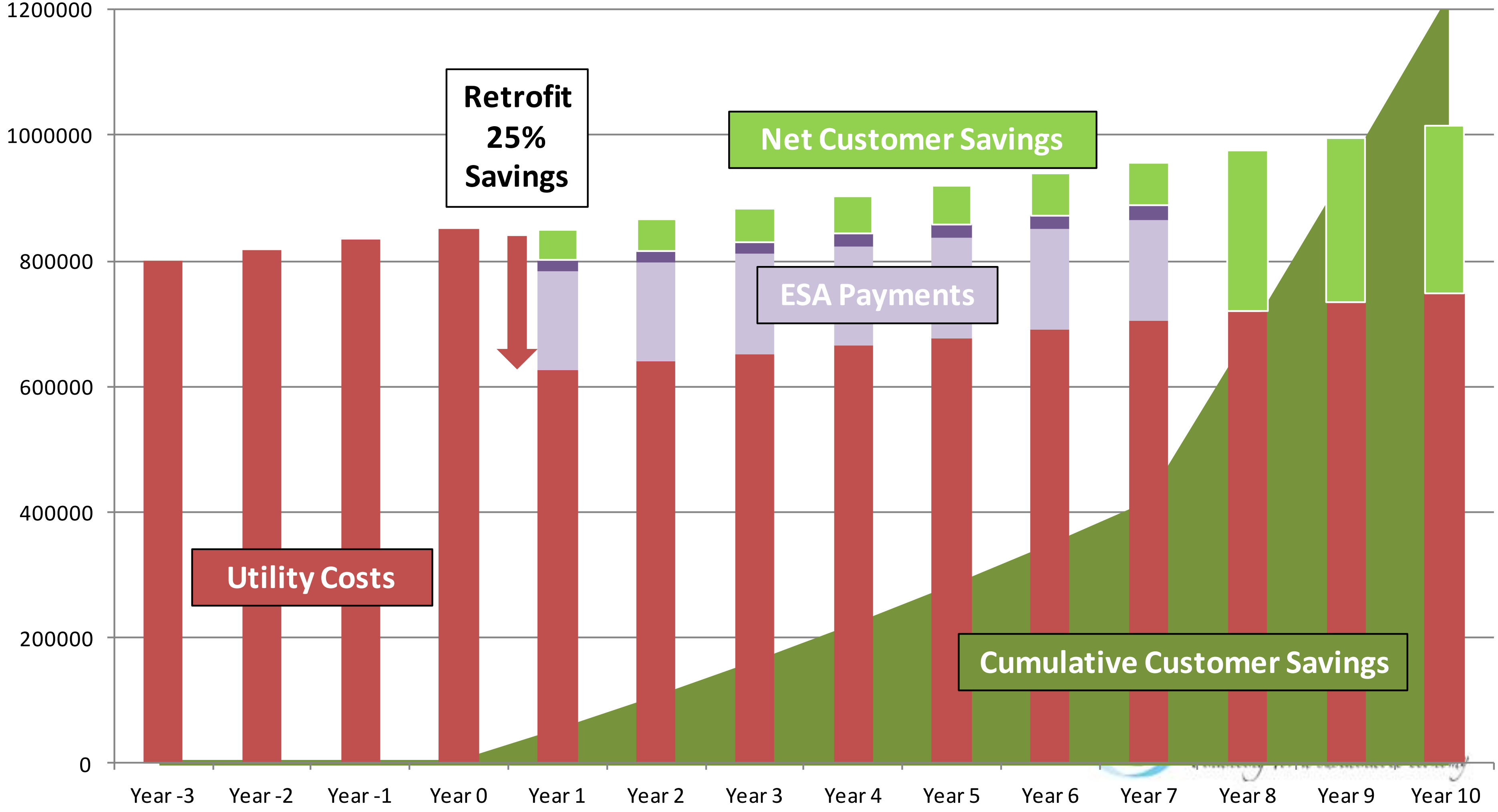
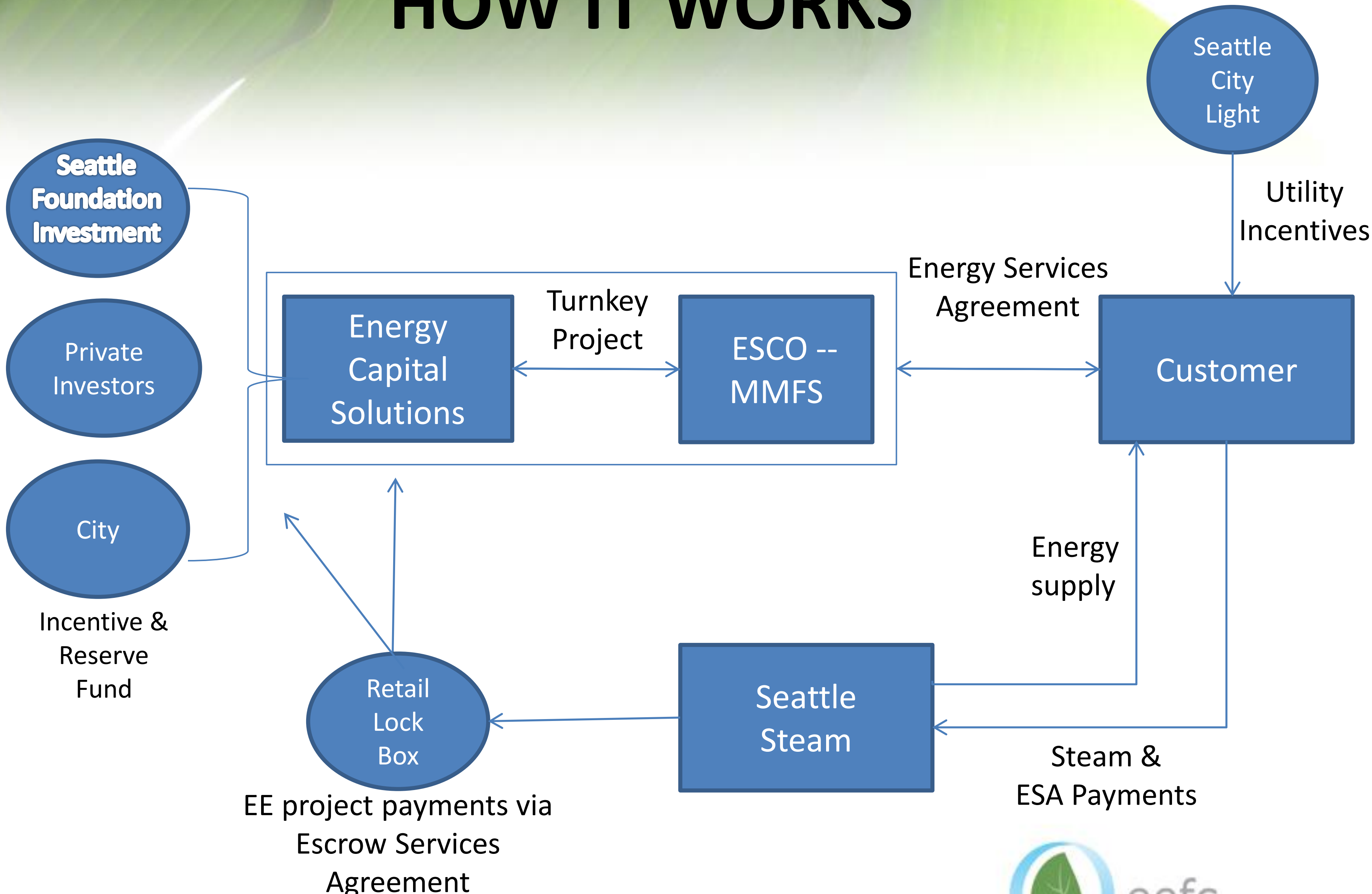
EE FINANCE PROGRAM CASH FLOW EXAMPLE



HOW IT WORKS



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TSF Secured Investment: Summary Terms

- Mission-related, market rate investment
- Secured Investment Facility Agreement (SIFA): security in project assets, contract rights & revenues; perfected rev. pledge
- Multi-project finance facility, available over 2 years
- $1.25 million facility, scalable
- 6%; 5 to 10 year terms; monthly pmts, level P & I
- Subordinatable & Revolving Facility
- $800k disbursed on 3 projects totaling $2.3 million

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Underwriting Guidelines

- Disbursements requested and approved as projects are prepared & ready to construct
- Disbursements made or term finance only after project construction is complete
- Main underwriting criteria:
  - Debt service coverage ratio > 1.25
  - Max. % total debt to total project cost = 80%
  - Debt service reserve fund, minimum = 3 months debt service
- Customer credit review & approval case by case
- First Mortgage Lender consents: sometimes
- UCC-1 fixture filings

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Conclusion, Scale-Up & Replication

- Community capital for community EE investment, playing an important development finance role
- Easy to increase SIFA Commitment Amount
- EEFC can offer senior position, i.e., eliminate subordination feature → better pricing for projects
- EEFC is developing & will graduate to other $ sources
- Program & structure are replicable by other investors and interested parties (contractors, utilities, governments, etc.)
- Originate EE project investment portfolios & instruments for take-out/refi by larger funds & institutional investors

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Thank You!

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