Commons Energy

Saving Energy, Strengthening Communities

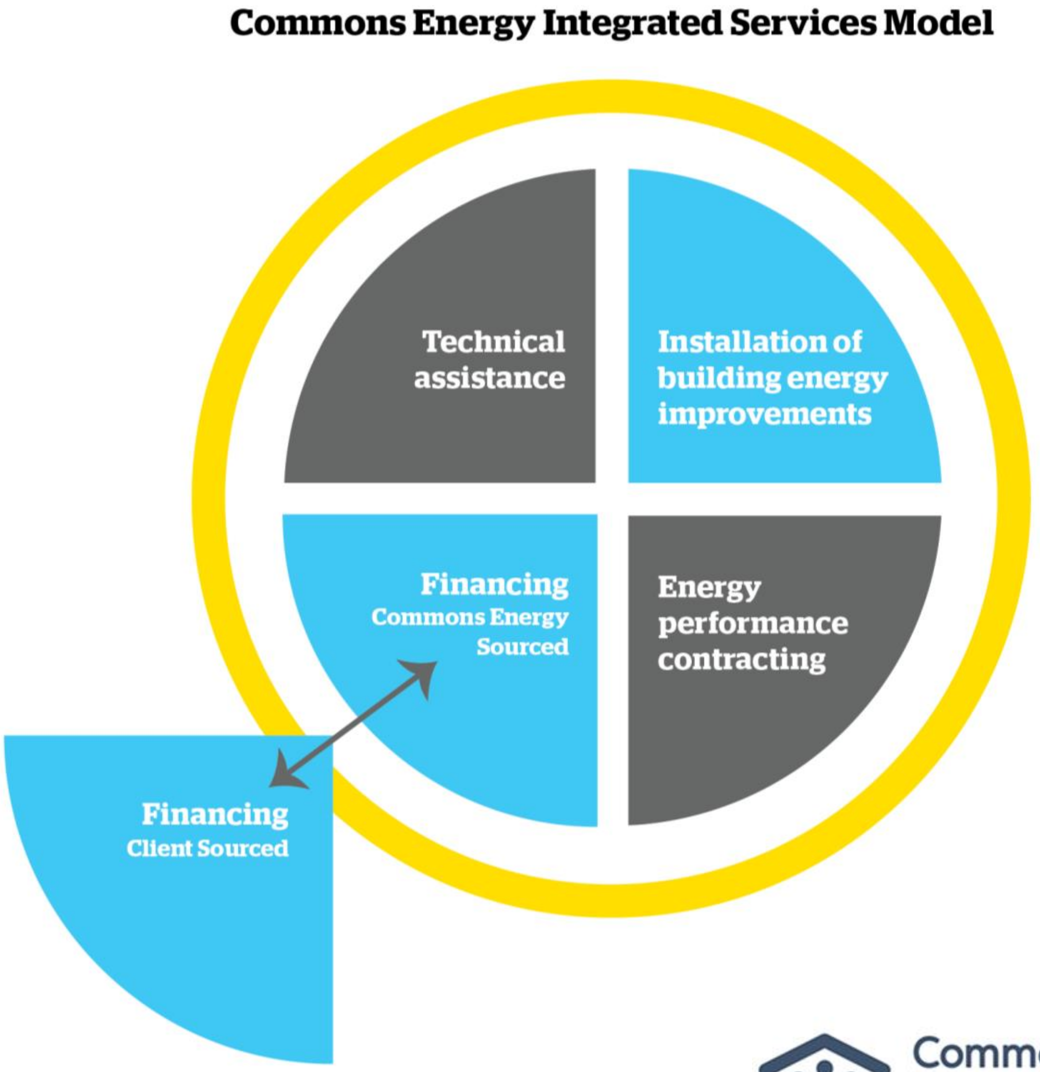
ACEEE Finance Forum
Innovative Multifamily Financing
May 22, 2018

Commons Energy is a wholly owned subsidiary of VEIC and was started in 2014 for the sole purpose of providing a turn-key approach to help underserved public-purpose entities reduce utility costs

http://www.commonsenergy.com/

Method:

Integrated services offering comprehensive, whole-building, client-based solutions to existing barriers. With the flexibility to meet clients where they're at.



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PPESCO Success Factors

To be successful, a PPESCO must select projects that:

- incur at least $50K in annual utility bills (energy & water)
- have not recently undertaken major energy/water-saving work
- have realistic potential for 25%-30% energy/water savings
- involve owners open to a collaborative design and contracting approach
- are legally able to take on debt financing and execute an EPC
- are credit-worthy when using stretch underwriting criteria
- are owned/managed by clients interested in efficiency and committed to continuous energy efficiency improvements

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Step by Step

1. Identify clients with at least $50K in annual utility bills (energy & water)
2. Analyze bills to assess savings opportunities based on EUI
3. Free opportunity assessment (target projects $100K → ~$750K)
4. Complete investment-grade audit w/ limited risk to client
5. Develop implementation plan & financing package (as needed)
6. Oversee equipment installation & commissioning
7. Measure & verify ongoing electric/thermal/water performance
8. Perform corrective measures (no-cost) to ensure projected performance
9. Provide energy savings guaranty

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Common concerns of lenders for EE projects in AMFH Sector

- **Loan Defaults** – Perceived risk may limit willingness to offer financing, especially to projects/borrowers that are more credit-challenged
- **Late Payments** – Any missed payments of principal and interest due to tight operating cash-flow conditions may trigger reporting requirements for lenders to regulators
- **EE Savings not materializing** – Client may not realize the savings as expected thereby leading to lower NOI than required for debt service

Commons Energy provides risk mitigation at all 3 levels to partner lenders!

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Shared Loan Loss Guarantee – protection against borrower default

	Risk Issue	Solution	Description
1.	Loan Defaults	Shared Loss Loan Guarantee	Kresge's guarantee absorbs any individual project's loss due to default, to a maximum of 10%.

- Kresge's guarantee is a letter of commitment to pay for eligible claims up to $2 million
- All eligible projects are covered for 10 years from execution of guarantee.

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Debt Service Account - permanent protection against late payments

	Risk Issue	Solution	Description
2.	Late Payments	Debt Service Account	Kresge awarded a grant of $100,000 to create a revolving account so that principal and interest would be paid to portfolio even if individual borrower falls into arrears

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Financial Backstop – protection against Energy Performance Contract (EPC) Claims

	Risk Issue	Solution	Description
3.	Claims against EPC exceed Commons Energy's reserves	Financial Backstop	MacArthur provided a five-year $250,000 forgivable <u>loan</u> to support housing claims Kresge provided a ten-year $250,000 <u>commitment to pay</u> any eligible claims that exceed Common's Energy reserves (0.6% of project totals)

- EPC is essentially an insurance policy, and clients may be reluctant to rely on an EPC from a young company
- Foundation backing increases confidence both for clients, that they would get paid, and for funders, that they would have recourse if energy use were not as low as guaranteed

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Impact of Credit Enhancements

This backing benefits:

- **Clients:** confidence that they will be reimbursed if energy savings do not persist
- **Lenders:** mitigation against loan default risk and recourse in the event that energy savings do not persist
- **CE:** Greatly reduces risk that claims might exceed reserves

These credit enhancements have benefited all 3 lead underwriters/co-financiers of CE:

(1) National Housing Trust CDFI; (2) VT Community Loan
(2) Fund; (3) IFF CDFI

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Results to date

- 22 Projects under various stages execution
  - 8 projects completed ($ 5 Mn of projects with lifetime savings of $5.6 Mn) under M&V
    - 5 completed projects in VT; 1 completed project each in OH, DC and MD (7/8 in AMFH)
  - 5 projects under EPC implementation; 2 AMFH
  - 9 projects (VT, OH, CT, MD, DC) in the audit phase; 4 AMFH

- Financing provided to completed projects - $3 Mn ($2 Mn from CE & another $1 Mn from partners)

- Continuously seeking to expand the model with new partners
  - Housing/Building portfolio owners
  - PPESCO funders/implementers (currently exploring expansion in Michigan)
  - General contractors
  - Co-financiers/lead underwriters

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Open source information about Public Purpose ESCOs: www.ppescohowto.org

Commons Energy L3C (www.commonsenergy.com)