We’ll be starting in just a few minutes….

Tell us…please send your response to the webinar organizers via the question box:

What topics are you interested in for future webinars?
Show Me the Money!
How to Find Financing, Access Incentives, and Get Projects Done

December 6, 2016
3:00-4:00 PM ET
# Today’s Presenters

<table>
<thead>
<tr>
<th>Name</th>
<th>Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joe Indvik</td>
<td>JDM Associates</td>
</tr>
<tr>
<td>Brenna Walraven</td>
<td>Corporate Sustainability Strategies, Inc.</td>
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<tr>
<td>Billy Grayson</td>
<td>Bent Branch Strategies</td>
</tr>
</tbody>
</table>
In the next hour, we’ll cover...

1. State of the financing market
2. Better Buildings Financing Navigator
3. Advice and perspective from industry leaders
Takeaway: Practical tools and insights to help you find funding that works for your organization
State of the third-party efficiency financing market
Opportunity by Sector

$520B Opportunity

Residential (35%)
Industrial (40%)
Commercial (25%)

Easily accessible financing by project size

- Under $250k: 37%
- $250k - $1.5M: 60%
- Over $1.5M: 70%

Source: Efficiency Financing And Insurance Survey (Joule Assets, 2013)
Financing options available in the market

Energy Efficiency Financing

Traditional Financing
- Leases
  - Capital Lease
  - Operating Lease
  - Tax-Exempt Lease
- Loans
  - Commercial Loan
  - Below-Market Loan

Specialized Financing
- On-Bill
  - On-Bill Financing (OBF)
  - On-Bill Repayment (OBR)
- Property Assessed Clean Energy (PACE)
  - Commercial PACE
  - Residential PACE
- Savings-Backed Arrangements
  - Energy Performance Contract (EPC)
  - Energy Services Agreement (ESA)

Source: Better Buildings Financing Navigator
There are many ways to finance energy efficiency projects in buildings you own or occupy. The Navigator helps you cut through this complexity to secure financing that works for you.

What would you like to do?

- Explore financing options
- Find financing that fits your needs
- Connect with Financial Allies

More about the Navigator
Have feedback? Email us at BetterBuildings@ee.doe.gov

[Live Demo]
Launching this week!
Stay tuned for an email with the link
Brenna Walraven

Corporate Sustainability Strategies, Inc.
Show Me the Money!
How to find financing, access incentives, and get projects done

DOE Better Buildings Webinar
December 6, 2016 – 3 to 4 pm eastern
Market Context

• The economy continues to grow
  – albeit more slowly than historically but also with longer sustained growth

• But with interest rates at generational lows and Fed Funds rate close to zero
  – Owners can no longer rely on cap rate compression to drive value creation

• Owners must be *proactive* in managing assets
• Must make *strategic investments*
• Must drive tenant retention, occupancy, NOI to *create value*
The new “four letter word” is RISK.

Owners are used to taking risk around leasing, maintaining and managing real estate –

- not around sophisticated energy retrofits

Sophisticated, larger, well capitalized Owners are executing retrofits

- who typically have internal expertise
- And who have the internal capital to do so

But these Owners are 15% or less of the real estate market

Thus for most Owners efficiency retrofits raise real concerns about RISK and access to capital

- and without the internal expertise or capital to mitigate
Retrofit Risk

• But the risk of doing nothing is also very real...
  – Rising utility and maintenance costs
  – Less reliable service
  – Tenant expectation of transparency in energy/environmental performance
  – Increasing heat load due to increased density: more people, phones, monitors, printers per SF
  – Tenant complaints
  – Market trends
  – Legislative and regulatory trends

• Doing nothing means a less competitive building

Challenges are often lack of capital and “how to execute”
**Expertise Challenge**

- **What if there is no internal expertise on efficiency retrofits?**
  - Many agencies and utilities have retrofit resources and rebates – worth the time!
    - Los Angeles Better Building Challenge – provides technical expertise, process guidance
    - Northwest Energy Efficiency Alliance (NEEA), NYSERDA and other efficiency agencies
    - State Energy Offices
    - Building Owners and Managers Association International (BOMA) – more to follow
      - BOMA Energy Efficiency Program (BEEP) Offers education on the financial valuing of efficiency and how to sell internally
      - BOMA Energy Performance Contract (BEPC) model toolkit
  - Many projects can be run just like any other capital project –
    - Energy Service Companies (ESCo) provide project management oversight expertise and completion guarantees
    - Consultants that focus on retrofit project management
  - DOE’s Efficiency Navigator can help
    - To understand the options available
    - Better understand the pro’s and con’s of each option
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Why do Owners consider using third party financing?

• When there is limited capital available

• When an upgrade was not underwritten in the original investment proforma
  – And the owner doesn’t want to “go back” to investment partners for more capital
  – Often concerns the message would be “we missed something”

• When there are higher priority competing demands –
  – Large lease transactions with large tenant improvement (capital) requirements
  – Or large renovation budgets focused on aesthetics to support leasing, sale or both
How do Owners consider using third party financing?

- Often consider traditional lending sources –
  - Mortgage lenders like banks and insurance companies

- But these lenders often aren’t familiar with efficiency financing
  - So if not part of original financing or re-financing more challenging

- Hence the value of DOE’s Efficiency Navigator –
  - Often Owners focus on typical lending terms & issues
    - What’s the interest rate?
    - What’s the term of the loan?
    - My lender won’t approve additional debt
  - Focus first on the types of questions that are important to Owners
What if there is no capital for efficiency retrofits?

- Third party financing is an option
  - PACE
  - Energy Services Agreements
  - Equipment Leasing
  - On Utility Bill Financing
  - 2nd Mortgage
  - Equipment Loan

- Also internal funding options
  - Setting up annual “capital reserve” funding within annual opex budgets
    - Build ability to “self fund” over time and “pay back” the capital reserve fund out of efficiency savings
  - Can also set up an internal Green Fund –
    - external companies can manage fund for fee
  - Identifying needed investments during acquisitions process
    - so that they are underwritten can help
Owner’s Perspective

The right questions are key to determine the right financing solution

• Is non-recourse, no personal guarantee required important?

• Is having the debt transferable or assignable upon sale of the building important?

• Is having the project with financing being “expense neutral” or create a positive effect to cash flow in year 1 important?

• Does the owner have to own the equipment?

• Does the owner want an off balance sheet or is on balance sheet ok?

• Will there be a requirement to get permission from existing lenders on the property?

• What is the owner’s cost of capital – for both debt and equity?

The answers to these will help drive what type of financing should be considered
Pro’s and Con’s of Financing Options

Some examples:

- What’s important?
  - non-recourse, no personal guarantee requirement
  - ability to transfer on sale
  - pass through to tenants as an operating cost and
  - be “expense neutral”

- Then financing options that will work better are:
  - Property Assessed Clean Energy (PACE)
  - Energy Services Agreement
Pro’s and Con’s of Financing Options

Some examples:

• What’s important?
  – No permission required from Existing Lender
  – Balance Sheet Neutral
  – pass through to tenants as an operating cost and
  – be “expense neutral”

• Then financing options that will work better are:
  – Energy Services Agreement or Energy Performance Contract
  – On Utility Bill Financing
Questions to Ask

First ask the questions of decision makers to understand real requirements

- Is Lender Approval Important?
- Is Operating Expense Pass Through and being Opex Neutral (or net reduction in Opex) Important?
- Is Owning the Equipment Important?

Then ask for proposals from financiers

- Ask each to provide pro’s and con’s of offering
- Ask each to address specific criteria of Ownership
- Be flexible in allowing for “all alternatives”
- Stay focused on the outcomes and key criteria – not interest rate
Key Concept that the Efficiency Navigator Can Help with

- Alignment with what’s important with financing options

- Key concepts
  - Often the most important factors are not interest rate
  - What’s most important is financing that addresses all of the needs of the Owner/Borrower
What is it?

• An industry-vetted, proven process to procure and implement successful performance-driven retrofits
• A toolkit of model contracts language that can be used or adapted for individual projects
• Additional resources to help understand and execute projects
• It’s free – www.boma.org/bepc
How Performance Contracting Works

Baseline energy consumption

Rigorous M&V determines energy savings

Whole-building energy savings project is designed and implemented

Utility and operational costs are lower after project is completed

Guaranteed savings covers the investment value

New, reduced costs with Performance Contracting

Energy / Operating costs

Previous costs

Guarantee period begins

Contract expires

Time
Why should you care?

• Retrofitting buildings for performance
  – reduces costs
  – increases competitiveness and
  – enhances asset value

• Not solely for energy efficiency
  – Keep older buildings state of the art
  – More competitive – opex, capacity, comfort
  – Reinforcing brand & marketing – can include LEED & Energy Star

• Energy savings projects that are done right show better long-term performance
Owner’s investment criteria and core goals determine the project scope

Contractor provides a holistic creative innovative solution that meets or exceeds Owner’s investment criteria

Third-party standards and transparency are key

BEPC is financing agnostic –
• works with ESCo financing options, PACE, owner’s equity or other
Who is CSS?

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Show Me the Money!
Identifying the Best Way to Finance Efficiency Projects
Billy Grayson
12/6/16
Identifying the opportunity

- 700 industrial buildings, less than 50 with outdoor LEDs
- Outdoor lighting the only bill we paid directly
- LED price dropped 50% in last 2 years
- Green lease makes pass-through easy
How can we pay for this?

• Pay for it up front, charge it back to tenants
• Convince tenants to pay for it
• Use it as a bargaining chip in lease extensions and renewals
• Use 3rd party financing (bank, ESCO, utility company etc...)
• Lighting-as-a-service contract
• PACE (where available)
What we did – and how it worked out

- Paid for it up-front, charged it back to tenants (with interest)
- Prioritized based on payback, and focused on buildings soon-to-be-empty.
- Developed a marketing presentation to engage single-tenant buildings.

$3.5 million up-front investment:
- $1.5 million in annual energy cost savings
- $1 million in interest income (over 3 years)
- $1.5 million in lifetime maintenance savings (10 years)

- No net cost to us or the tenant
- Cash positive from day one
Sweetening the deal

- Chasing all the rebates (DSIRE, Real Win Win, EPACT, etc...)
- Negotiating national contracts with installers and manufacturers
- Using outdoor projects as an opportunity to look at indoor upgrades (and finance the same way)
Round 2 – do we get more creative?

- Lighting-as-a-service
- PACE
- Lease extensions and renewals

Even if we don’t use these strategies for lighting, they may make sense for longer-ROI investments (roof, cooling tower, HVAC, solar?)
Takeaways

• Every building and every portfolio has high-ROI opportunities

• A good ROI opportunity can turn into a cash-positive long-term financed project, if you are strapped for cash (or want to deploy it elsewhere).

• You should choose a financing strategy based on your cost of capital, hold strategy of building, and lease provisions with your tenant.

• If you have a big portfolio, leverage your size for better materials and labor pricing, and better interest rates.

• Don’t forget to look for rebates and other incentives

• After picking low-hanging fruit, consider long-term financing and/or PACE for the projects with a longer ROI.
THANK YOU

Billy Grayson
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Additional Resources
Resources

- Better Buildings Financing Navigator
  - [https://betterbuildingssolutioncenter.energy.gov/financing-navigator](https://betterbuildingssolutioncenter.energy.gov/financing-navigator)
    (Best viewed in Chrome)

- Database of State Incentives for Renewables & Efficiency
  - [http://www.dsireusa.org/](http://www.dsireusa.org/)

- BOMA Energy Performance Contracting Model (BEPC)
  - [http://www.boma.org/sustainability/info-resources/Pages/boma-energy.aspx](http://www.boma.org/sustainability/info-resources/Pages/boma-energy.aspx)

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### Additional Questions? Please Contact Us

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