ULI Kansas City

ULI Kansas City Net Zero Imperative

CITY & REAL ESTATE CLIMATE MITIGATION

MARCH 2022

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- KC
- Plexpod
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- EY
- Kissick Construction Kansas City, Missouri
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- Newmark Zimmer
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- Terracon

Thank you

- Trent Dansel, Olsson & ULI Kansas City TAP Co-Chair
- Katherine Carttar, Director of Economic Development at Unified Government Of Kansas City, Kansas and Wyandotte County, TAP Co-Chair
- Kevin Pinkowski, BHC, TAP Committee
- Michael Collins, JE Dunn & ULI Kansas City Chair
- Joy Crimmins & Samantha Moores, ULI Kansas City

Thank you

KC

be ex building energy exchange Kansas City

OVERLAND PARK
K A N S A S

ULI'S MISSION

The mission of the ULI is to shape the future of the built environment for transformative impact in communities worldwide.

ULI Net Zero Imperative

Given the climate need and the growing global mandate for zero carbon buildings, how can we accelerate market transformation towards a net zero built environment?

- Thanks to a generous gift from Owen Thomas, ULI is launching the Net Zero Imperative – a multi-year initiative to accelerate decarbonization in the built environment.
- The program will hold technical assistance panels in five global cities per year, designed to help building owners, cities, and other relevant constituents reduce carbon emissions associated with buildings, communities and cities.
- The fundamental goal of the effort is to provide concrete ideas and strategies to real estate owners, public sector leaders, and the general public to eliminate carbon emissions from the built environment to reach net zero.

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uli.org/NetZeroImperative

Why is this Important?

Real estate has a responsibility and opportunity to address the climate crisis and reach net zero

Buildings are responsible for 40% of global greenhouse gas emissions, and up to 70% of emissions in urban cities

- Over the past five years nearly every country and more than 300 US cities made a commitment to achieve the Paris Climate targets, but as of 2020 only a handful of cities have made meaningful progress in developing climate action plans that will accelerate decarbonization of the built environment.
- Cities, countries, investors, and tenants are looking to the buildings sector to meet comparable greenhouse gas reduction goals.
- Leading investors are including ESG in their real estate debt and equity considerations, leading tenants are including it in their leasing decisions, and regulators are incorporating a path to net zero into their building codes and regulations for new and existing buildings.

Key Components

Leverage a 2-day technical assistance event in each city to help the public and private sector develop a "roadmap to decarbonization"

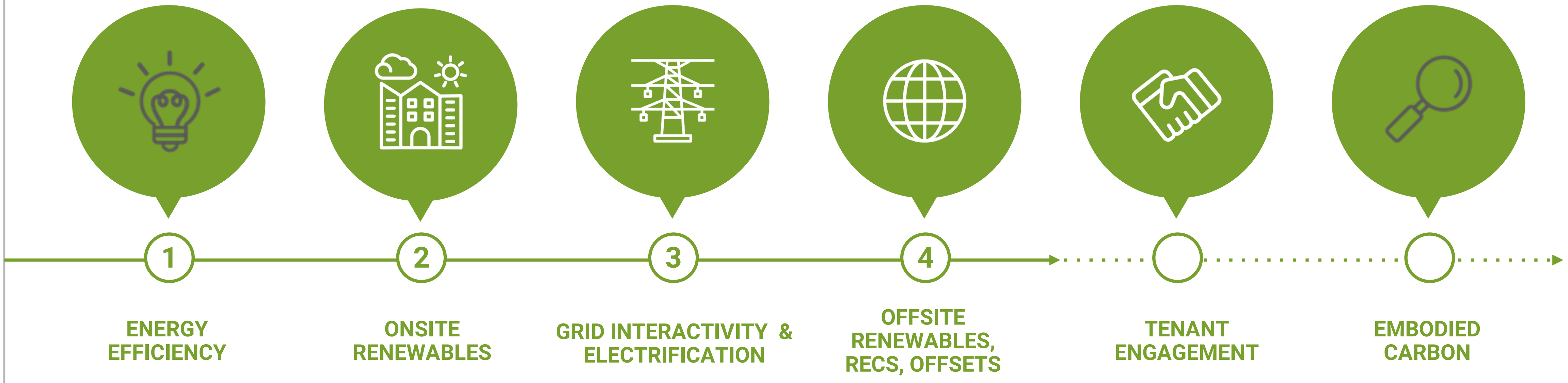
Run long-term on-the-ground campaigns in those same global cities to accelerate decarbonization of the built environment

Build a global cohort who meets monthly, to receive ongoing technical assistance to refine their on the ground campaigns, and work together to share best practices and lessons learned

Create global resources (research, toolkits, and other tools) to help all ULI members accelerate decarbonization in their real estate operations (and in their cities)

Net Zero Community Impact

A net zero building portfolio is highly efficient and fully powered by on-site and off-site renewable energy sources and offsets



Journey to Portfolio-Wide Net Zero

ULI will provide guidance, tools, and training to support members on their journey

NZI Cohort 1 Participants

8 participants accelerating the built environment to net zero across the globe

- Austin
- Beijing
- Kansas City
- Los Angeles
- Minneapolis
- San Jose
- Shenzhen
- Toronto

Net Zero Imperative in Kansas City Metropolitan Area

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Questions for the Panel

1. Advise on the best practices for structuring the EEIF. How should the fund be structured to best incorporate public funding streams as well as other private or philanthropic capital sources? How can we determine which areas of the market require subsidy to best target public dollars?
2. How can we design the application and evaluation process to meet community benefit goals (i.e. housing affordability, improved environmental health, etc.) as well as set a consistent and high bar for energy performance?
3. How can this fund promote denser housing development (3-5 stories) in existing neighborhoods?
4. What lending tools and terms make the most sense for our market given our utility costs, cost of materials/labor, and other real estate considerations? How does this differ across new construction, major renovation, and retrofitting of multifamily projects?

Susan Leeds
NYCEEC
Panel Co-Chair

Doug Stockman
Helix Design
Panel Co-Chair

Andrew Chintz
Energy Infrastructure Partners

Michael Freedman-Schapp
Forsyth Street Advisors

Davin Gordon
Hall Family Foundation

Sara Greenwood
Greenwood Consulting Group

Shalaunda Holmes
Urban Neighborhood Initiative

Brian Handshy
HUD

Allan Kotin

Kerry O’Neill
Inclusive Prosperity Capital

Emmet Pierson, Jr.
Community Builders of Kansas City

Jay Wilson
JLL

Process

- Briefing materials
- Tour of Kansas City, MO, and Overland Park, KS
- Interviews with over 30 stakeholders
- Dinner discussion
- Panel discussion

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Stakeholder Meetings

- Elected Leadership
- City Professional Staff
- Area Business Owners
- Property Owners
- Developers
- Utilities
- Lenders
- Community Organizations
- Architects

Insights from Stakeholder Interviews – what we heard

- Make it easy – no additional barriers
- Quick payoff (not just pencil)
- Incentives and grants (reduce permitting time)
- Energy code is baseline
- Rents are based on funding source(s)
- PACE is underutilized
- Conservative lending community
- Utilities are interested in partnerships
- New construction is easy yet there are significant redevelopment needs
- Hard to model upgrades to scale
- Limited energy efficiency program visibility in developer community
- Challenging to marry historic tax credits with some energy efficiencies
- Limited access to affordable and energy-efficient housing
- Need pre-development funding support
- Preserve naturally-occurring affordable housing
- Overland Park – low vacancy, rising prices, limited development opportunity

Energy Efficiency Investment Fund - Approach

- Fund structure and capital sources
- Performance metrics and community impact
- Lending tools

Fund Structure and Capital Sources

Fund Structure & Governance

- Scope of the Fund Specifically
- Capital Resources
- Fund Structure
- Management of Fund
- Phasing/Long-term Considerations

Energy Efficiency Ecosystem

Energy Efficiency Investment Fund (EEIF) should exist within an ecosystem of related activities:

- Education and awareness
- Information and research
- Technical assistance
- Contractor training and certification
- Referrals to trusted contractors and other service providers
- Referrals to financing solutions, including the EEIF

EEIF Geographic scope

- Focus on KCMO
  - Adopt the KC Climate Plan
  - Approve 2021 IECC
  - BEPS
  - Complementary public policy tools (i.e., PACE, utility incentives)
  - Help the Fund scale and go to market more expeditiously
- Establish a flexible structure that can expand to Overland Park and beyond

Fund Goals

- Finance demonstration or pilot projects initially to provide a data set and prototypes in support of a city BEPS
- Be a “carrot” to support costs and perceived costs of building code upgrades
- Serve all eligible property owners who apply
- Engage existing lenders to expand capital availability for EE projects

EEIF Activities

- Grants versus loans – EEIF is specifically focused on the financing gap component of projects. Many projects will require incentives/ grants to “pencil” and achieve deep EE, path to Net Zero
  - EEIF loan officers should encourage and facilitate close coordination with grant programs and resources
- Range of products that include direct loans / loan loss reserves/guarantees for co-lenders
- Provides access to other public of private financing sources, co-lenders

Possible Capital and Operating Sources

Federal	State	Local	Philanthropic	Private
Infrastructure Bill (IIJA) • Energy Efficiency Conservation Block Grant (KCMO allocation) • EE Revolving Loan Fund Capitalization Grant (requires Missouri SEO to allocate) ARPA • via HUD ($8.4M to KC) for housing (EE is an eligible use) • via Treasury Potential newly established resources under potential Build Back Better or Federal Climate Legislation (TBD)	• Existing Missouri state-administered energy loan program (TBD) • Further research into possible state resources recommended	• Central City Sales Tax District • Set-asides from TIF • City Housing Trust Fund	• Capital grants • Operating grants • PRIs • Loan guarantees	• CRA-driven capital facilities • Utility concessionary balance sheet loan

Public funds and deployment of funds into loans will help leverage private funding

Fund structure options – legal formation and governance

We need a structure that can:

- Accept public and private capital for lending and working capital
- Enter into a contractual fund management relationship with fund management platform
- Serve KC and expand geographically without significant friction
- Be accountable to public policy goals
- Leverage its funding
- Enter into a variety of financial transactions with properties, developers contractors and lending institutions
- Allow for transparent and inclusive public participation in the effort as a whole without burdening the EEIF's ability to efficiently deliver needed products and services

Recommended Structure Options

- New 501(c)(3) affiliated with KC and/or other municipalities; can be incubated with an existing sponsor
  - Pros
    - Straightforward vehicle for raising philanthropic funding
  - Cons
    - Technical 501c3 limitations but they can be overcome
    - Need to establish and monitor public accountability

Recommended Structure Options

- Use a “Clean Energy District” under Missouri RSMO 67.2800 – PACE statute
  - Two options:
    - Local jurisdiction joins existing district
    - Local jurisdiction formation of a new KC-specific “clean energy board”
  - Pro: defined market-accepted way in Missouri to accept public and private sources of capital; Under current state enabling legislation – seems that the clean energy board can receive sources of capital from private, philanthropic, and public sources and structure finance vehicles to meet market need.
  - Con: will philanthropy be as ready to fund? Also, does the underlying statute allow for broad development and implementation of various financial vehicles? May be limiting for bi-state formation without involvement of state legislatures if contractual JPA is not sufficient. May bring in state oversight.

Management of Fund

Recommendation is to outsource to a professional asset management platform

Rationale:

- We expect that fund will initially be capitalized in the $10M range – too small scale to merit investment in stand-alone operational capacity
- Typical green bank or small CDFI operating budgets range from $1-3 million – is only feasible for an entity at capitalization of >$40-60M
- Allows a faster launch with a small team; cheaper to purchase expertise and systems than to build from scratch
- Caveat: requires close management to ensure alignment with policy goals and impact metrics

Management of Fund

Steps:

- Identify and secure initial fund capitalization
- Establish loan and financing products and activities of fund
- Issue an RFP to identify and secure a fund manager
- Considerations for possible options:
  - Housing-focused CDFI or other mission-driven established retail lending operation with experience in energy and EE lending
  - An entity that is accustomed to operating as an intermediary (understands how to work with “riskier” mission-driven projects)
  - An entity that can contain and control incremental administrative costs

How to Get Started

- Model can be financially sustainable:
  - A $10mm fund, with $9mm set aside for lending capital pilot concept (stage 1 example) once fully lent out will only generate $270k/year max on 3% spread.
  - Minimum budget of $500k for a $10mm fund during deployment - before there is significant earned income.
  - 501(c)(3) structure or sponsor will allow for active philanthropic fundraising to supplement earned revenue and support operating expenses.
- $9mm EEIF lending capital may not revolve as quickly as desired, especially if term loans are part of the equation.
- Initial board sets the tone for the future and requires appropriate representation of various viewpoints and stakeholders. Requires ability to facilitate the raising of capital for EEIF.

Performance Metrics and Community Impact

Outcomes

Housing Affordability

Health & Wellness

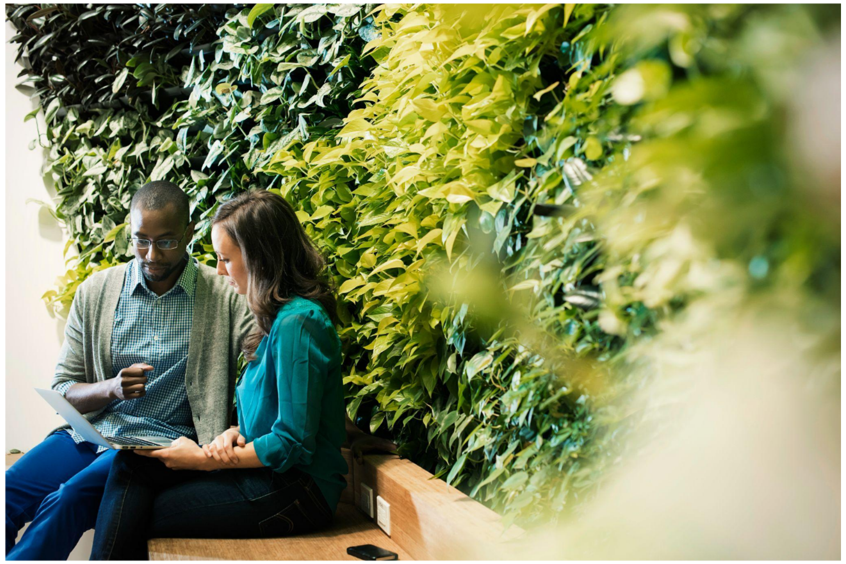
Walkable Neighborhoods

Education & Workforce Development

Community Benefits

Generate Demand

- Align with KCMO Building Code Updates to alleviate perceived added costs.
- Supports Building Performance Standards
- Improves resident affordability
- Reinforces Climate Action KC & Comp Plan
- Green Jobs & Economic Development



Key Performance Metrics (3 years)

- Clean Economy
- Environmental Sustainability
- Inclusive Prosperity/Health & Safety
- Financial Stability

-SOM Architects

Environmental Sustainability

- Annual GHG Emissions Saved
  - Commit to tracking metric tons of CO2 eliminated
- Energy Efficiency (kWh saved)
  - Projected energy savings/carbon emissions - Achieve 20% avg. energy efficiency across served projects
  - Long-term: Require reporting & compliance with state benchmarking ordinance
- Strengthen Climate Resilience
  - Stormwater Management (SWM)
  - Solar deployment
  - Clean energy sources (from the grid or otherwise)

Community Impact, Health & Safety

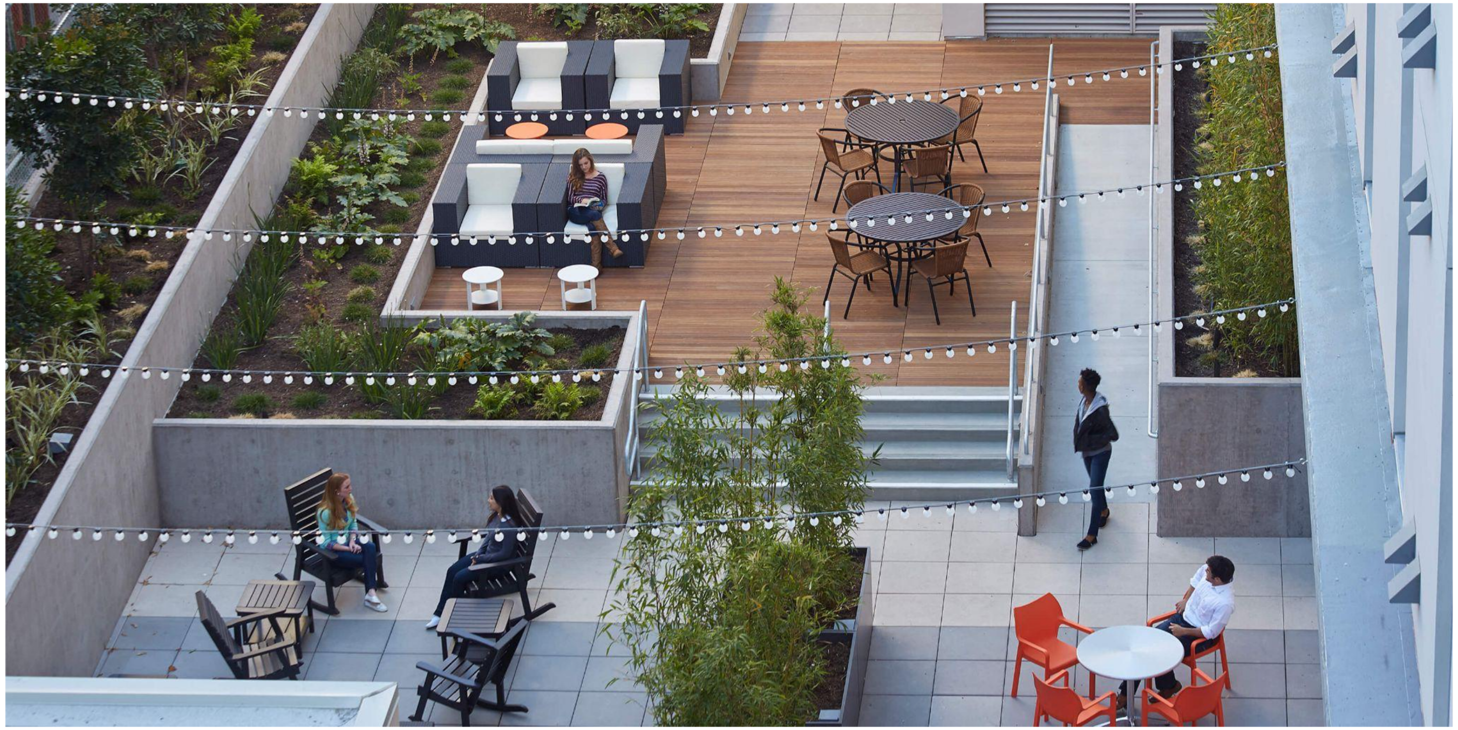
- New Construction
  - 20% of 2,000 units/ year
- Existing Buildings
  - KC Housing Authority - 100 units served
  - Affordable Housing - 900 (2.5%) units served
- Quality of Life
  - Utility costs saved (kW saved = $ saved)
  - Improved IAQ & Comfort - 100 units impacted
- Percentage of dollars invested in LMI communities

Clean Economy

- Support the creation of Green Jobs
  - Leverage green economy through jobs training and the innovation ecosystem to accelerate climate action
    - Climate Action KC
  - For every $100k of loans awarded equates to 1 job
- Build capacity through Education
  - Training/engagement events/year - 20
    - Involve all stakeholders in the process
  - Technical assistance for renter & building managers
    - Partnership with community colleges
- Improve data quality and transparency
  - Improve benchmarking compliance

Financial Stability

- Self-sustainability, 5 years
- Capital mobilized
- Partners engaged
- How many applications (understand the demand)
  - Conversion rates
- Leveraged capital



-Celadon, San Diego

Application and Evaluation Process

- Keep it Simple
  - Pre-approval
  - Affordability requirement
  - Technical Assistance
- Baseline: ASHRAE Level II Audit
  - Integrate visual inspection for health & safety improvement
  - Provide comprehensive recommendation report
  - Rebate to cover costs once implemented
- Performance Monitoring

Lending Tools

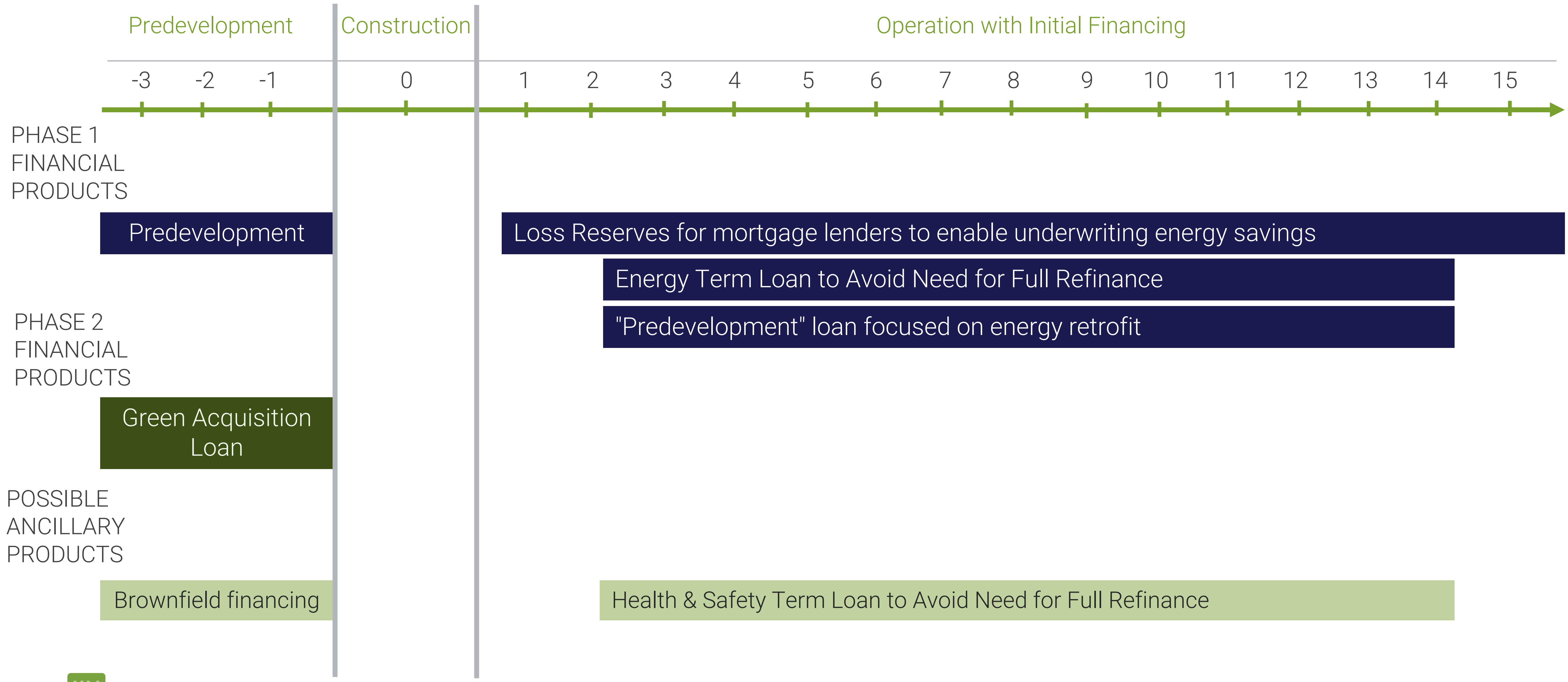
Premises

- Did not want to reinvent the wheel
  - We drew inspiration from affordable multifamily leaders in the green bank world like CT Green Bank, NYCEEC and Inclusive Prosperity Capital
- With limited initial funding, we wanted to start small and build for scale
- Wanted to support both new construction and existing buildings
- This won’t work without outreach!!

Products Have to be Developer- and Owner-friendly

- Easy process that integrates education/knowledge sharing
- Addressing the needs in initial development
    - We are providing *access* to capital for activities that aren't well understood at the pre-development stage
        - Energy technologies and savings are not well understood
        - Lenders don't value it
- Addressing the needs at mid-cycle
    - Mid-cycle is outside of a capitalization event such as initial mortgage or refinance
    - We are providing *access* to capital for
        - Design/engineering/audits to get a project ready for a refinance
        - Term loans for energy upgrades that don't force owner to rearrange the capital stack

Timeline for Proposed Financing Products and Possible Ancillary Products



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Phase 1 Product Recommendations

- Pre-Development Loan*
  - **Purpose**: Mitigate risk of pre-development activities for energy systems/upgrades, get a project's work scope ready for permanent financing
    - Could be mortgage financing (green or regular), C-PACE, or Fund's Energy Term Loan
  - **Cycle**: For new construction or existing buildings, all 5+ multifamily
  - **Uses**: design, engineering, audits, etc. of high-performance energy systems
  - **Terms**:
    - Sliding scale of rates based on Fund's priorities (e.g., lower rates for lower incomes served, distressed census tracts, increased density?, MBWE developers? etc.)
      - Ceiling of [6.99]%, down to [1.99]%
    - 2-year term, taken out when project moves to construction
    - Loan amounts of $[10]K to $[1]M
  - **Fund Allocation**: [TBD] and revolves within that allocation
  - **Reference**: CT Green Bank, NYCEEC, IPC, DC Green Bank, Philadelphia Green Capital Corp

** all rates/terms subject to Fund capitalization*

Phase 1 Product Recommendations

- Energy Term Loan*
  - Purpose: Designed to fill market gap for properties that are mid-cycle/not ready to refi, and/or can't take on more mortgage-secured debt
  - Cycle: For [new construction or] existing buildings, all 5+ multifamily
  - Uses: Installation of high-performance energy systems/upgrades
  - Terms:
    - Non-mortgage secured, alternatively secured (UCC-1s, corporate guarantees, etc.)
    - Expanded underwrite:
      - property financial underwrite PLUS
      - verifiable energy and operations & maintenance savings
    - Sliding scale of rates based on Fund's priorities (e.g., lower rates for lower incomes served, distressed census tracts, increased density?, MBWE developers? etc.)
      - Range of 5.79%/5 years up to 6.99%/20 years
      - Discounts down from this the deeper the project goes on Fund priorities, down to [4]%
    - Loan amounts of $[50]K to $[1.5]M
  - Fund Allocation: [TBD] and revolves within that allocation
  - Reference: CT Green Bank, IPC, Philadelphia Green Capital Corp

**all rates/terms subject to Fund capitalization*

Phase 1 Product Recommendations

- Loan Loss Reserve for Mortgage Lenders*
  - Purpose: Credit enhancement designed to crowd in mortgage lenders to lend additional proceeds for projects with deeper energy project scopes
    - Allows Fund to leverage private lender $'s for energy projects, target [7]:1
  - Cycle: For new construction or existing buildings, all 5+ multifamily
  - Terms:
    - Loss reserve is credit enhancement in qualifying projects, drawn down by mortgage lender on a project basis
    - Loan amounts of $[50]K to $[1.5]M
  - Fund Allocation: [TBD] and revolves within that allocation
  - Reference: NYCEEC (for public and private lenders)

** all rates/terms subject to Fund capitalization*

Phase 2 Product Recommendations

- Green Acquisition Loan
  - Purpose: provide financing for acquiring land for deep green affordable multifamily housing development. Acquisition financing is a major gap in the market, and this will unlock green affordable development, particularly in distressed areas.
  - Reference: NYC Acquisition Fund, IPC to launch later this year

Ancillary Product Recommendations

This is an opportunity to bring in other capital into the fund for related activities

- Health & Safety Term Loan
  - Purpose: Provide loans for remediation of health and safety issues that prevent installation of high performing energy systems, things like asbestos, lead, mold, structural issues, etc.
  - Reference: CT Green Bank/IPC
- Brownfields Remediation
  - Purpose: Unlock long-term, low-cost financing from EPA/state brownfields program, which is receiving significantly increased funding under the Infrastructure bill.
  - Reference: N/A

Market Support Needed

- Navigating financing application process
  - Connect with incentives
  - Connect with service providers
  - Provide Technical Assistance for projects
  - One-stop-shop for developers/owners
- Provide market education
  - Lender convenings (private, public)
  - Peer-to-peer network of developers/owners
  - Case studies
  - etc.
- Workforce development integration
  - Potential small/diverse Contractor accelerator (Elevate runs one in IL/MI)

This will not happen without…

Outreach!!

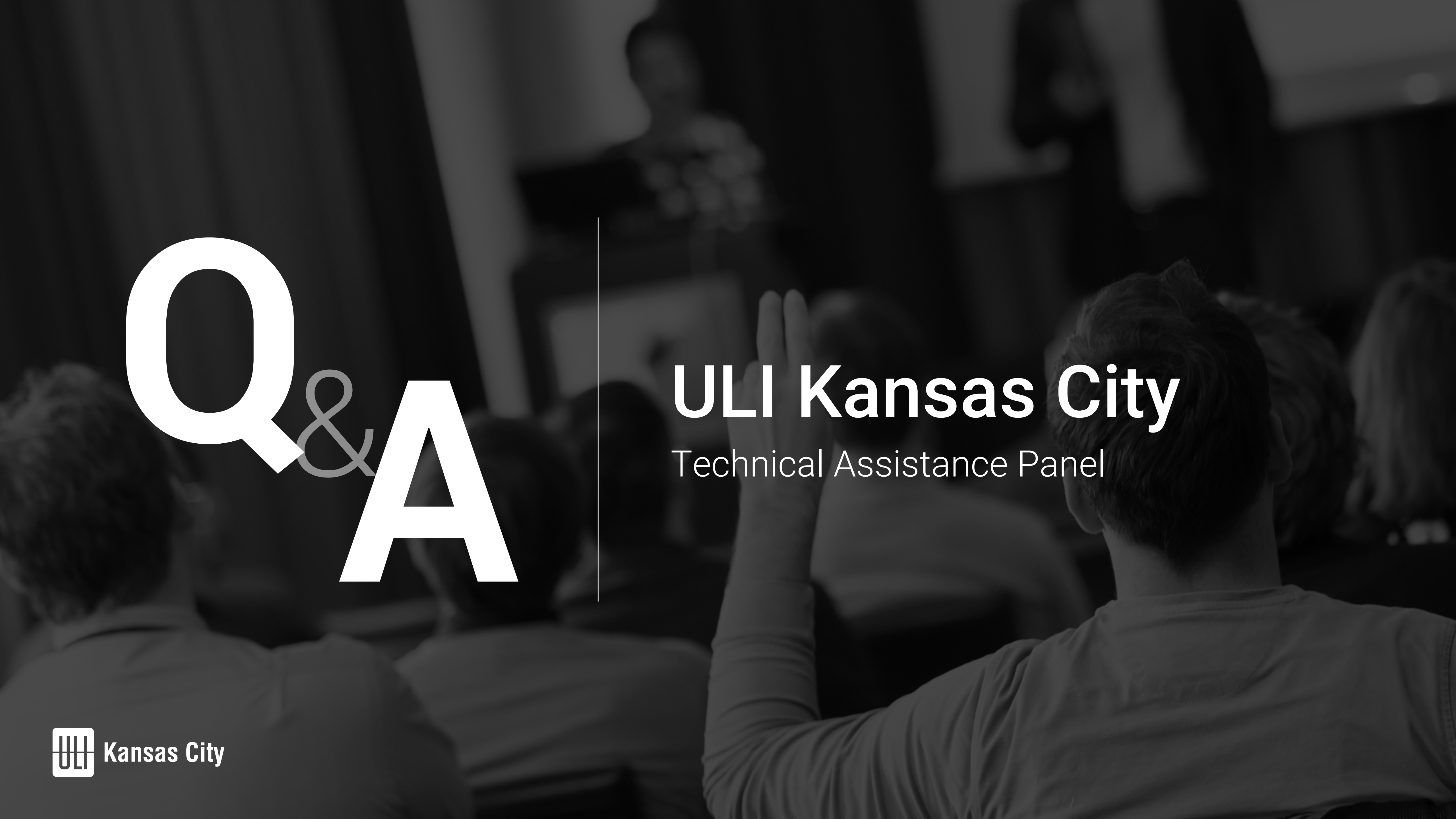
More capital!!

Next Steps

Kansas City

Next Steps

- There should be a point person or organization to champion the formation of the fund
- Will need a steering committee leading to perhaps a board to keep process moving
- With focus on KC, coordinate with appropriate KC staff to create an entity to launch the fund
- Locate the fund manager and negotiate the contract
- Launch financial products



Q&A

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Technical Assistance Panel

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