NY Green Bank

RFI No. 6: On-Lease Commercial Tenant Energy Efficiency Financing

Webinar | April 9, 2019
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On Earth Day 2018, Governor Andrew M. Cuomo announced a new energy efficiency ("EE") target of 600 TBtu

- Meeting the EE target is expected to reduce 40% of overall greenhouse gas emissions by 2030

NYGB has been engaged in ongoing conversations with REBNY, EDF, MOS and other members of the real estate community on a potential commercial tenant EE financing product, specifically:

- The scope of the EE financing need
- How a NYGB financing product should be structured to best meet Owners/Managers, tenants and NYGB needs and requirements
NYGB seeks to facilitate commercial tenant EE improvements

- Inform stakeholders about NYGB’s commercial tenant EE improvement loan product
- Determine the interest of property owners/managers in the EE loan product
- Illustrate proposed structure of the EE loan product
- Identify EE projects that may be suited to proposed loan structure
RFI Objectives (Cont’d)

NYGB seeks to facilitate commercial tenant EE improvements

Provide a scalable and replicable product offering

Create efficiency and standardization

Finance up to 100% of hard and soft costs of tenant EE upgrades

Structure tenant’s monthly debt service payments on efficiency improvements to be less than anticipated monthly energy savings

Have Owner/Manager continue to manage all aspects of the landlord-tenant relationship

Maximize energy efficiency impacts and GHG emission reductions
Overview of Financing Approach

- **NYGB Financing Approach to Commercial Tenant EE Loans**
  - NYGB enters into Master Service Agreement with Owner/Manager who originates and services the EE loan to commercial tenant
  - Tenant’s monthly debt service on EE loan is added to tenant’s monthly rent payment as “Additional Rent” and collected by Owner/Manager for remittance to NYGB
  - Amendment to tenant lease at the time of closing of EE loan
    - Identifies tenants EE improvements & EE loan terms
    - Adds NYGB as a third-party beneficiary with direct contractual claim against tenant (separate from and independent of lease obligations) for unpaid debt service payments
NYGB Financing Approach to Commercial Tenant EE Loans (Cont’d)

- Transaction is non-recourse to Owner/Manager except as relates to performance obligations as originator/servicer of EE loan.
- Owner/Manager eligible for loan origination and performance-based servicing fees from NYGB to Owner/Manager.
- Events of non-payment or partial payment of rent and/or debt service to be negotiated between NYGB and Owner/Manager within the Master Service Agreement.
Contractual Relationships

**Master Servicing Agreement:**
1. Between NYGB and Property Owner/Manager
2. Property Owner/Manager:
   - Serves as originator and servicer of NYGB EE Improvement Loan
   - Non-recourse except as relates to agreed upon performance obligations as originator/servicer
3. Master Servicing Agreement sets forth:
   - Underwriting criteria, credit and use of proceeds parameters for a proposed EE Improvement to be considered an Eligible Project
   - Debt servicing terms & responsibilities (e.g., billing, remittance, events of notification and in arrears/non-payment protocols)

**NYGB EE Improvement Loan:**
1. Between NYGB and Tenant
2. Codified within Amendment to Lease which:
   - Identifies tenant’s EE improvements and terms of associated debt service
   - Adds NYGB as a third-party beneficiary with direct contractual claim against tenant (separate from and independent of lease obligations) for unpaid debt service payments
**Construction Flow of Funds**

**Key Steps and Parameters:**
1. Tenant requests EE Funding from Property Owner/Manager
2. Property Owner/Manager determines whether the request meets definition of Eligible Project as agreed within Master Servicing Agreement
3. Property Owner/Manager and Tenant amend lease to codify proposed EE improvements, terms of associated debt service, and add NYGB as a third-party beneficiary
4. Property Owner/Manager requests EE Funding from NYGB for Eligible Projects
5. NYGB provides Commercial Tenant EE Funding to Property Owner/Manager which transfers such funding to Tenant
6. Tenant funds Contractor Requisitions for the EE improvements
**Key Steps and Parameters:**

1. Property Owner/Manager issues monthly rent bill to tenants which includes EE Improvement Loan debt service as Additional Rent
2. Tenant pays monthly rent bill to Property Owner/Manager
3. Property Owner/Manager retains monthly rent received from Tenant and remits to NYGB the EE Improvement Loan debt service Additional Rent
4. Property Owner/Manager is eligible for loan origination and performance-based servicing fees from NYGB as set forth in the Master Servicing Agreement
5. Events of non-payment or partial payment of monthly rent and/or Additional Rent to be negotiated between NYGB and Property Owner/Manager within the Master Servicing Agreement

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(1): Pari passu application of tenant collections is preferred to align interests between NYGB and Property Owner/Manager; NYGB may consider a first loss position priced at a commensurate premium to pari passu treatment.
Responses

Through this RFI, NYGB seeks to connect with and solicit feedback from the following groups regarding NYGB’s proposed commercial tenant energy efficiency financing product:

- Owners/Managers
- Commercial tenants
- Architects
- Brokers
- Engineers
- Energy consultants
- Contractors
- Other real estate market developers, financiers, service providers and participants
To respond to this RFI, please complete the RFI 6 Questionnaire

Responses are due to NYGB by 3:00 p.m. EST on May 17, 2019

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