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CONNECTICUT GREEN BANK

Case Study
April 17, 2018
Multifamily Energy Efficiency
Oil-to-Gas Conversion / Value Added

Project Genesis: In September of 2013, Capital For Change, Inc. ("C4C," then known as Connecticut Housing Investment Fund, Inc.) received an inquiry from a developer who was planning an oil-to-gas conversion for one of his properties in Connecticut. As the property was by financed with a first mortgage from Connecticut Housing Finance Authority ("CHFA"), the developer could not use PACE financing, which requires a priority tax lien that is summarily disallowed by CHFA mortgage terms. As such, the developer hoped that C4C could provide a loan for the conversion costs that would not interfere with the CHFA lien. C4C was willing to consider providing unsecured financing, provided the projected cash flows to net operating income from the proposed conversion were sufficient to make the debt payments on the C4C loan.

Building Description: 120 Units in 10 Buildings
2 stories
100,000 SF residential

Affordability: The property is subject to rent restrictions per the CHFA loan agreement, requiring 20% of units to be maintained for tenants at or below 80% area median income (AMI) and 20% of units to maintained for tenants at or below 60% AMI. All units are naturally affordable at or below 80% AMI.

Project Scope: This project called for the replacement of ten inefficient oil-fired boilers with ten 95% efficient gas boilers, as well as the replacement of indirect, oil-fired hot water heaters with efficient gas models.

SOURCES			**USES**		
Utility Company Rebates	$	43,937	Boiler and HWH Replacements	$	338,872
C4C Loan	$	250,000	Removal of Existing Oil Tanks	$	31,400
Borrower Reserves	$	125,818	Demoltion of Steel Boilers	$	7,500
			General Contractor	$	28,333
			C4C Fees and Closing Costs	$	4,650
			C4C Debt Service Reserve	$	9,000
Total	**$**	**419,755**	**Total**	**$**	**419,755**

Three separate third-party reports provided to C4C projected annual energy savings in the range of $65,000 to $90,000 that were likely to result from the replacement of oil-fired equipment with high-efficiency gas-powered systems. For its underwriting purposes, C4C assumed that the savings to the property owner would be $70,000 per year.

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Financing Terms:	Loan Amount:	$250,000
	Term Length:	12 months installation (interest only) 9 years permanent, fully amortizing
	Interest Rate:	6.00%
	Projected Annual Savings:	$70,000
	Annual Payment:	$36,012
	Projected Project DSCR:	1.94X

Security:

No lien on real property
Personal guarantees provided by ownership group
First loss reserves held by CGB for 7.5% of exposure during interest-only term; 5% of exposure during permanent term

Financial Projections:

$70,000 increase to project NOI in Year 1
Free cash flows of $34,000 in Year 1; $300,000 over 9-year term

Actual Savings:

$75,000 in energy savings over first year post-conversion
$7,500 in maintenance savings from last two years pre-conversion
$82,500 total property NOI increase
$46,388 in free cash flow to property, net of C4C debt service

Sale of Property:

The property was sold two years after the conversion. The new owners took title subject to the existing loan. The income-based valuation of the property used for the sale was calculated using a capitalization rate of 5.7%.

The value that the oil-to-gas conversion contributed to the increased value of the property was $82,500 / 5.7% = *$1.45 million.*

Takeaways:

This loan served as the pilot for what would become the Low-Income Multifamily Energy (LIME) loan, offered by C4C in conjunction with Connecticut Green Bank. This product is an unsecured loan, which uses projected energy and maintenance savings as the payback mechanism for debt service on the C4C financing, with a minimum DSCR of 1.30X.

For this project, a debt and equity investment of less than $400,000 for an oil-to-gas conversion resulted in first-year positive cash flows of more than $45,000 net of debt payments and a subsequent realized profit at the time of sale of over $1 million.