



LOS ANGELES

444 S. Flower Street, Suite 525
Los Angeles, CA 90071

www.usgbc-la.org

LEED for Existing Buildings Subcommittee

Joint Meeting with USGBC-LA Commercial Real Estate Finance Subcommittee

Meeting Minutes for Meeting No.04/2009

Date: November 4, 2009 – 12:00—1:30 pm PST

Location: TPG's office at 515 South Flower St. 51st Floor, Los Angeles CA 90071

Prepared by: Daniele Aquino & Drew Shula

Next Meeting: TBD, first quarter 2010

Attendees:

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Please do not use this members list to solicit members about products & services. This subcommittee is organized as a resource for building owners and managers of commercial office buildings that are implementing Green Operational Programs and pursuing LEED EB certification.



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Meeting Minutes

1. Intro Daniele Aquino, Kevin Devine & James Finlay

- Welcome All.
- This is the first joint meeting between the USGBC-LA LEED for Existing Buildings & Commercial Real Estate & Finance Subcommittees.

2. Energy Independence and Security Act of 2007 (EISA)..... Marika Erdely

- The Energy Independence and Security Act of 2007 mandates that Federal buildings:
 - 1) Reduce energy use psf to 30% below 2003 levels by 2015
 - 2) Reduce water usages to 16% below 2007 levels by 2015, and
 - 3) Draw on renewable energy for at least 7.5% of electrical needs by 2013.
- To accomplish these goals, Energy Savings Performance Contracts (ESPC's) were established to encourage federal agencies to become more energy-efficient and reduce energy costs. ESPC's improve efficiency through private investments. An ESPC is an agreement between a federal agency and an Energy Services Company (ESCO). The ESCO audits and then designs a project to increase the energy efficiency at the facility. The ESCO guarantees energy cost savings sufficient to pay for the improvement. The ESCO purchases, installs and maintains the necessary equipment. The federal agency pays the energy costs savings to the ESCO until it is paid off.
- The law also encourages energy reduction in Commercial and Industrial Buildings. The U.S. Department of Energy (DOE) announced the launch of DOE's Zero-Net Energy Commercial Building Initiative (CBI) with establishment of the National Laboratory Collaborative on Building Technologies Collaborative (NLCBT). These two efforts focus on DOE's goal to make all new Commercial Buildings to be Zero Energy by 2025.

3. AB1103.....Elizabeth Watson

- AB 1103, codified as Public Resources Code section 25402.10, mandates energy efficiency benchmarking for commercial buildings. Effective January 1, 2009, gas and electric utilities are required to compile and maintain energy use data utilizing EPA's Energy Star Portfolio Manager for all commercial buildings. Twelve months of energy use data as well as the Energy Star rating for individual properties must be disclosed by the building owner to buyers, tenants and lenders in transactions involving the entire building.
- The original January 1, 2010 commencement date for such disclosure obligations was extended by AB 531, signed in October, based on a schedule to be devised by a committee of the California Energy Commission. The CEC is in the process of formulating proposed regulations to implement the statute. Among the issues to be addressed are means to overcome the confidentiality of utility usage information for individual tenants, ratings for commercial building types (such as apartments and hotels) which are not covered by the Energy Star system, and the required timing of owner disclosures. According to CEC staff, the earliest anticipated start date for owner disclosures is January 1, 2011. Interested parties are encouraged to track and comment upon the proposed regulations. The next draft is expected to be released later this month.



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4. AB811 & Green Retrofit and Workforce ProgramDavid Hodgins

AB811 – On-Bill Financing

- Allows property owners to finance energy efficiency and renewable energy projects and repay the loan through a voluntary assessment on the property tax bill.
- Attempts to address key barriers to financing energy efficiency and distributed generation projects: first cost, collateral issues, owner credit issues, split incentives, holding period bias.
- Current Status: program administrators have been selected, bond counsel has been engaged, program design/development underway, conversations around eligible improvements, loading order, etc., drafting language to create County-wide Special Tax District. Language will be shared with Cities that elect to “opt in.”
- AB 811 applies to any property type, so long as the owner is not property tax exempt (i.e. non-profits and government buildings).
- Local enabling language must allow applicability of tax lien financing to other building types (commercial office, retail, industrial, multi-family residential).
- Since commercial owners are more sophisticated and projects are larger and more unique, an owner-arranged approach would be advantageous.
- See more information about AB811 on presentation slides attached.

LA’s “Green Retrofit and Workforce Program”

- Purpose: “The City’s Climate Change Action Plan sets a goal of reducing the City’s GHG emissions by 2030 to 35% below 1990 levels.”
- Ancillary reasons: to position the City for future federal funding opportunities; improved employee productivity; critical need for improvements in City facilities; drive tax revenues within the City; develop green-collar jobs in economically depressed areas.
- 50% of projects undertaken in the first 5 years must be located in areas of high unemployment/poverty.

Key Points:

- Goal = LEED-EBO&M Silver
- Applies to any City-owned building constructed prior to 1978 and greater than 7,500 gross square feet.
- Measures to be considered: water efficiency, HVAC & mechanical systems, lighting, envelope.
- Prioritization of projects based on: whether there is a health/safety concern with the building, whether the building serves the public (e.g. libraries), whether the building is located in a depressed community.

Current Status:

- City allocating a portion of its EECBG funds for this program.
- Identifying other potential funding sources: State Energy Program, QECB’s, CREB’s.
- GSD is working with a consultant, ICF, to collect baseline data and develop an implementation plan: RCx, Retrofits, tenant engagement.
- Workforce training and job placement programs are under development: LACCD / LA Trade Tech, LA Green Corps, LA Infrastructure Academy, Apollo Alliance / SCOPE.

5. Roundtable Discussion.....All

- Proposition 13 potential limitation: is this a tax or an assessment? This problem needs to be addressed on a deal by deal, property by property, basis. We shifted to discussing the Debt Svc Coverage Ratio as a critical metric. The critical point is not to impair the cash flows, but rather to enhance NOI. This is possible if work is performed by a good contractor who can consider and model out all options where savings per period are greater than the loan re-payment.



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- Defined: Proposition 13, (a) limits the sales tax to 1% of the assessed value of each property at transfer; and (b) limits annual increases in assessed values to the lesser of 2% or the increase in the cost of living for the year, with the exception that upon the sale of a property, the assessment would be updated to the transaction price. AB811 is via contact and with consent of the property owner, outside Prop 13 protection
- On average, the loan would be approximately \$2 per foot. A better case scenario than AB 811 would be if the first mortgage holders embraced the loan directly. \$2 is a rule of thumb, but every building/project is different. In some cases spending \$3/sf will yield more savings invested than spending \$2, but in other cases where there's less opportunity a lower level of investment makes more financial sense. Lenders' rights are not completely clear, but erring on the safe side, it is recommended that owners seek first lender consent. The first mortgagee may even decide to do the loan themselves rather than allow a third party to go ahead of them.
- In Los Angeles County it is plausible that this law could be functional by the end of the 2nd quarter 2010, and definitely by the end of 2010.
- In 5 years, it could be plausible that 200-300 million dollar securitized deals are realized. Once there are enough of these projects financed, it could be possible to bundle the loans and securitize them. It is doubtful that this will happen in the near future, however. One committee member mentioned he was seeing securitizations as "small" as \$200-300M, which would translate into roughly 250 projects.
- The question was posed, what happens if major investments take place and newer technologies come to market that would have allowed for an even greater savings? How would that affect the loan rates? With certain "new" technologies, like solar PV, the state of the art is so rapidly evolving that it is risky to pick a product since it will likely be obsolete by next year. Additionally, solar is sometimes inefficient, so there's not a compelling economic or environmental case to do solar at this point (better to invest in further efficiencies).
- Other more established equipment, like chillers or roofing technologies, are evolving **less** quickly, so there is less technology risk in installing a high efficiency chiller. Lenders typically want to see "safe" projects, so putting in experimental technologies might negatively impact loan rates."

6. Potential Topics for Next Meeting.....All

- LEED EBO&M - Volume Certification & Implementation Strategies
- Greenbuild Feedback about Greening Existing Buildings

7. Closing Remarks.....Daniele Aquino, Kevin Devine & James Finlay

Thank you to Marika Erdely, Elizabeth Watson and David Hodgins for speaking at our meeting and for all the attendants who participated in this event. The EB committee creates value to its members through participation and dialogue and we have had an amazing turnout thus far. Thank you to Thomas Properties Group for hosting our meeting and Devin Saylor and the USGBC-LA Chapter for sponsoring and ordering the food!

Between now and our next meeting we will be looking for speakers to address the requested topics of interest and a meeting host. The USGBC LA Chapter will be formally recognizing all meeting hosts and sponsors. Please contact Kevin or Daniele if you are interested in hosting or sponsoring food at the next meeting. Suggestions are welcome! We are also looking for volunteers for the EB group to help us with market outreach programs. We will send a calendar request as soon as the next meeting location and speakers are established in Q1 of 2010.



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