CastleGreen Services

California Statewide Communities Development Authority ("CSCDA")

Open PACE Program

Program Handbook

Table of Contents

1. OVERVIEW:

The CastleGreen C-PACE program (the "Program") is administered by CastleGreen Services, LLC ("CGS" or the "Administrator") under a program sponsored by the California Statewide Communities Development Authority (the "Authority" or "CSCDA"), a joint powers authority. The Authority administers a commercial property assessed clean energy ("C-PACE") program (the "Open PACE Program") under the California PACE Legislation, Division 7, Chapter 29 of the California Streets & Highways Code.

The Authority is offering the Open PACE Program on a statewide basis to encourage the installation of distributed generation renewable energy sources, energy efficiency improvements, water efficiency improvements, seismic strengthening improvements and electric vehicle charging infrastructures (collectively "C-PACE Improvements").

The Program allows commercial property owners to obtain long-term financing for eligible PACE improvements from proceeds derived from the sale of the bonds and other financing mechanisms authorized by law. It utilizes a tool that is widely used by local agencies in California to finance public benefit projects: land-secured financing. State law has long provided cities and counties with the power to issue bonds and levy assessments on the county property tax bill to finance public projects such as sewers, parks, and the undergrounding of utilities. Chapter 29 of the Improvement Act of 1911, commencing with Section 5898.10 of the Streets & Highways Code of the State, authorizes the levy of contractual assessments to finance the installation of C-PACE-eligible improvements. The assessment contract ("Assessment Contract") is voluntary and is executed by each participating property owner and the Authority.

Under the Program, a contractual assessment lien is placed on each participating property in an amount necessary to (i) finance the installation of the PACE Improvements over a 5-39 year period, depending upon the expected useful life of the financed improvements, (ii) pay for costs of issuing bonds or other financing mechanisms and (iii) pay the costs of administering the Program. The contractual assessment installments are collected on the property tax bill of the county in which the participating property is located, and the funds are used to repay the PACE financing. If the owner sells the property, the contractual assessment obligation remains an obligation of the property.

Under the Open PACE Program, if a property owner fails to pay the annual contractual assessment installments, CSCDA is obligated to strip the delinquent installments off the property tax bill and commence judicial proceedings to foreclose the lien of the delinquent installments.

CSCDA has engaged third-party administrators, including CGS, to administer its Open PACE Program. CGS will review and process applications, register contractors, interact with third-party capital providers/lenders, and provide services to property owners who wish to participate in the Program. The Authority allows for financing mechanisms that include the issuance of assessment-backed bonds. The bonds are issued under an indenture between the Authority and a trustee for the holders of the bonds. The capital to fund improvements is provided through the purchase of bonds or other financing mechanisms and will be provided by an affiliate of the Administrator or a third-party capital provider.

C-PACE financing has several positive features that are attractive to property owners, including:

- Long duration, fixed rate financing
- The availability of interest-only periods, provided that the bond will fully amortize by its maturity date.

- Competitive pricing
- No acceleration in an event of default
- Non-recourse to the property owner
- No due on sale provisions
- The non-ad valorem contractual assessment transfers with the property in a sale process.

The Authority and/or the Administrator reserve the right to amend, supplement, or modify this Program Handbook at any time, and may suspend participation in the Program altogether. No change in the Program or California's PACE legislation will affect a property owner's obligations to pay C-PACE assessments incurred under the Program prior to such changes.

This Program Handbook is published as of the date noted in the footer of the document and is current as of that date.

2. PROGRAM REQUIREMENTS

This Program Handbook identifies the Program requirements relating to the types of improvements that can be financed under the Program, eligible properties, property owner requirements and how to register contractors working with the Program.

2.1. Eligible Improvements

As permitted by California's PACE legislation, the Program allows qualifying property owners to finance certain improvements to their commercial property.

Improvements are generally broken down into three categories, collectively described as the "Improvements" as noted previously:

a) Energy and water conservation and efficiency
b) Renewable energy
c) Resiliency

In accordance with the Program, minimum energy efficiency specifications are set at EnergyStar, California Title 24 and Title 20, and WaterSense standards, as applicable. Efficiency standards will "ratchet-up" with EnergyStar, WaterSense, California Title 24 and Title 20 standards, or other new standards as may be appropriate and as agreed upon by the Administrator. Eligible improvements will be verified in advance of closing as eligible under the California PACE legislation by the Administrator.

Any solar PV system must be eligible for and participate in California Solar Initiative or an equivalent utility rebate program, unless the property is not connected to the electricity grid or such utility rebate program is not available.

To qualify under the Program, all proposed improvements must be affixed to a building or facility that is part of the subject property and constitute an Improvement.

Subject to the exceptions noted in **Section 2.2,** the Program will finance new construction, deep retrofits, "gut rehabilitations", or minor/moderate renovation projects. Improvements which have already been installed (or partially installed) may be eligible for Program financing on a case-by-case basis however in no instance shall this lookback period extend for more than 39 months from installation date (as determined by the Certificate of Occupancy or other documentation approved by the Administrator).

The Administrator reserves the right to impose additional qualifications on certain Improvements. This may include the acquisition of additional technical information, operational or maintenance information, or information regarding the nature of the ownership or permanent affixation to the real property.

The Administrator does not recommend or endorse any specific Improvement and participation in the Program does not constitute an endorsement, or provide any form of guaranty or warranty, with respect to eligible Improvements.

2.1.1. Energy and Water Conservation and Efficiency Improvements

Qualifying conservation and efficiency improvements are measures which reduce consumption through conservation or a more efficient use of water, electricity, natural gas, propane, or other forms of energy. Examples include (but are not limited to):

- Air sealing
- Insulation
- Energy-efficient heating, cooling, or ventilation systems
- Building modifications to increase the use of daylight
- Window replacement
- Low flow toilets, faucets, or showerheads
- Energy controls or energy recovery systems
- Electric vehicle charging equipment
- Efficient lighting equipment
- Installation of other building fixtures that can reasonably be expected to contribute to electrical or water savings.

2.1.2. Renewable Energy Improvements

Qualifying renewable energy improvements are measures in which electrical, mechanical, or thermal energy is produced from a method that uses hydrogen, solar energy, geothermal energy, bioenergy, and/or wind energy. Power Purchase Agreements (PPAs) and leases may be eligible for PACE financing. Additional criteria apply and the initial PPA term must be at least as long as the Assessment term.

2.1.3. Resiliency

Resiliency improvements generally classified as:

a) **Seismic strengthening** - a broad array of improvements and measures designed to prevent damage or destruction of a building during a seismic event.
b) **Wildfire hardening** – any improvements approved by the California Department of Forestry and Fire Protection. (https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=SHC&sectionNum=5899.4.)

2.2. Properties/Property Owners

To qualify for financing under the Program, a property and property owner must meet the following eligibility criteria:

- The property must be located within the geographic boundaries of a local government who has opted into the Program.

    - For a list of current eligible local governments please see CSCDA's Open PACE website at https://cscda.org/wp-content/uploads/2021/05/Agency-List-5.7.21.pdf.
- The property must be a commercial property, which is defined as (i) a property not designed for residential use; or (ii) designed for residential use, of five or more non-owner-occupied units; for projects financing new construction of a residential building containing five or more units, the initial construction must be undertaken by the intended owner or occupant.
    - Depending on the legal structure and proposed scope of improvements, condominium properties, co-op ownership groups, properties subject to long-term ground leases, and properties subject to homeowner associations may be eligible on a case-by-case basis.
- The record owner must be the property owner of the property to be levied.
- The total annual property taxes and assessments cannot exceed 5% of the property's market value.[1]
- At the time of closing:
    - property taxes for the property must be current,
    - any property-based debt must not be subject to any notices of default or other evidence of debt delinquency,
    - the combined mortgage debt and C-PACE assessments may not exceed 95% of the market value of the property,
    - the property must not be subject to any involuntary liens, judgments or defaults or judgments in excess of $5,000, unless such liens shall be satisfied to the satisfaction of the Administrator with the proceeds of the financing at closing.
    - the property owner must not currently be in bankruptcy or have declared bankruptcy within a period of ninety days prior to the anticipated closing date of the financing.

The Administrator reserves the right to impose additional eligibility qualifications on certain properties or owners, in its sole discretion.

2.3. Installation of Improvements/Contractor Registration

The Improvements must be installed by a contractor that is registered with the Program; however, the property owner may also install his/her own Improvements and will not need to be registered. If the financing is for Improvements for which construction or installation of is complete such that the Improvements have been fully installed on the property, there is no need for the contractor to be registered with the Program.

A full list of contractors that have registered with the Program may be obtained from the Administrator and may also be found on its website. Contractors are any general contractor who has been engaged by the property owner to install the Improvements who shall provide the Administrator the following:

a) An executed Contractor Registration Agreement, as provided by the Administrator,
b) All licenses, certifications as required by the State or local Jurisdiction where the Improvements are being Installed,

[1] Market value may be determined by the Administrator, in its sole discretion, using one of the following methodologies: a) an automated valuation model ("AVM) prepared by an independent third-party, a broker price opinion or an independent appraisal performed by a licensed, independent appraiser.

c) Any additional information as requested by the Administrator from time to time.

Registration of a contractor with the Program is neither a recommendation of such contractor nor a guaranty of or acceptance of responsibility for such contractors by CSCDA, the Administrator, or the County or City where the property is located upon which the Improvements are installed.

2.4. Lender Consent/Underwriting Requirements

If a property is secured by a mortgage or other form of recorded debt, it is a requirement of the Administrator that, prior to entering into an Assessment Contract, the property owner must provide notice to and receive the written consent of any holders or loan servicers of any existing mortgages on the property.

Generally, the investor or purchaser of the bonds issued by the Authority, will perform its own underwriting in addition to the underwriting of the Administrator and the investor may have underwriting requirements more stringent than those of the Program.

3. TRANSACTION PROCESS

3.1. Financing Structure

The Authority will finance the installation of Eligible Products by issuing bonds backed by the assessments created by the Program. The proceeds from the sale of the bonds will provide capital to finance the Improvements. The term of the assessment may not exceed the useful life of the Improvements, as determined by the Administrator in its sole discretion based upon information provided by any energy reviewers/auditors or industry information provided.

3.2. Inquiry

A property owner may apply with the Program for C-PACE financing by completing and submitting an Inquiry form to: inquiry@CastleGreenfinance.com. Please find the Inquiry form at: CastlegreenFinance.com/CA Program. The Administrator shall review and request any further information it needs to evaluate the project. The Administrator will approve or deny the Inquiry, via email to the applicant, on a timely basis.

3.3. Term Sheet

After preliminary approval is granted by the Administrator a term sheet will be issued by an affiliate of the Administrator or a third-party capital provider. The term sheet will outline the terms of the proposed transaction under the Program, as well as any conditions precedent to closing. If the property owner elects to execute the term sheet (subject to any negotiated terms and conditions) the project will proceed and the property owner will work with the capital provider and the Program to begin the underwriting process.

3.4. Underwriting

During the underwriting process, the capital provider will work with the Administrator to obtain all due diligence items it requires for closing. As discussed previously, capital providers may require more information on a project than what is required under the Program by the Administrator. The Administrator will coordinate for the receipt of diligence information with the property owner and the capital provider.

3.5. Documentation

Through its participation in the Open PACE Program, the Program has worked with the Authority to assemble a package of closing documents that will be used to evidence the terms and structure of the financing as well as the form of assessment that will be levied at closing. These documents satisfy all requirements of the Authority and the capital provider. The property owner and its counsel will review these documents and coordinate throughout the process with the Administrator and the capital provider.

3.6. Closing

Upon finalization of the documents referenced above, the Administrator will coordinate the process whereby the Assessment Contracts will be recorded in the land records of the applicable jurisdiction in which the property is located. After confirmation of recording is received, the Administrator will coordinate the closing based on the date agreed with the property owner in the Assessment Contract.

The Assessment Contract is comprised of the following amounts:

- **Project Funds** – include the cost of the Improvements as well as any ancillary costs that were incurred in connection with the installation of the Improvements. These costs may include the cost of energy audits, appraisals, engineering or architectural fees, etc. The Administrator will work with the property owner and the capital provider and approve all eligible Improvement costs that may be included in the total assessment amount.
- **Program Costs of Issuance** – there are certain fees and costs associated with closing an assessment under the Program. These include various fees to cover the costs of the Authority and its partners. These fees will be communicated to the property owner by the Program prior to closing.
- **Capitalized Interest** – the Program allows for interest to be capitalized into the Assessment to account for the payment of interest to the capital provider during the period (established during the term sheet negotiation) from the closing date to the date the Administrator receives its first payment of principal and interest under the bond or other financing mechanisms.
- **Closing Costs** – these ancillary fees and expenses will be agreed between the capital provider and the property owner and will include, for example, all legal fees and costs of the capital provider.

At closing, the bond or assessment proceeds will be funded to an escrow account administered by a trustee or other qualified escrow agent engaged by the Administrator. Funds will then be available for distribution for the below:

1. **Project funds** –Eligible Improvement costs:
    a. to the Property Owner for reimbursement of costs incurred to date
    b. to the contractor for reimbursement of costs incurred to date to the extent not included in (a) above
2. **Issuance Costs of the Program**
3. **Capitalized Interest**
4. **Other Closing Costs** - fees and expenses incurred by the Program or Property Owner.

3.7. Disbursements

Unless the Project funds have been fully disbursed to the property owner on the closing date, the remaining Project Costs will be disbursed to the property owner, from time to time, according to an agreement between the capital provider, and the property owner. Disbursement requests shall be prepared by the capital provider (or its designee) and shall pertain directly to the installation of the eligible Improvements. Documentation may be required by the Administrator (in coordination with the capital provider) to evidence the expenses.

After receipt of a disbursement request (and any requested supporting documentation), the Administrator will authorize and instruct the trustee to release the requested funds be sent to the property owner or its contractor within a commercially reasonable period of time.

Once the Improvements have been fully installed, the property owner will submit a final disbursement request (such final disbursement request to serve as a form of completion certificate) to the Administrator certifying that the installation of the eligible improvements have been completed and that the Improvements are operating as designed and intended.

3.8. Assessment Repayment

Repayment of the C-PACE assessment is subject to the terms and conditions of the transaction documents which evidence the assessment. The Assessment represents a non-ad valorem tax on the property tax bill issued by the applicable County's taxing authority.

If an assessment installment payment, is not received by the date specified on the property tax bill, the Authority has the right to have such delinquent installment, and its associated penalties and interest, stripped off the secured property tax roll and immediately enforced through a judicial foreclosure action that could result in a sale of the Property for the payment of the delinquent installments, associated penalties and interest, and all costs of suit, including attorneys' fees.

Prepayment of the assessment shall be either in full or in part as documented in the agreements. Any notice to the Administrator prior to the prepayment or any prepayment premium (if any) which may be due shall be documented in the agreements.

4. FEE STRUCTURE

All fees for participation in the Program are detailed in **Exhibit B**. These fees may be reduced, increased, waived, or modified at any time, and for any transaction, at the sole discretion of the Administrator. Modification of fees payable to the Authority require approval by the Board of Directors of the Administrator prior to any modification.

Fees payable to a jurisdictional tax collecting authority may be reduced, increased, waived, or modified by that tax collecting authority as applicable.

5. HANDBOOK DOES NOT REPRESENT LEGAL ADVICE

The Administrator does not provide legal, financial, taxation, or accounting advice to any prospective property owner. No statements or representations, either in this Handbook or made as part of the transaction process, should be construed as such advice. Property owners are strongly encouraged to seek the advice of competent professionals as part of participating in the Program.

6. CONTACT INFORMATION

If you have any questions about the Program, this Handbook, or the Administrator, please contact the Administrator:

CastleGreen Services, LLC, 3 West Main Street, Suite 103, Irvington NY 10533

e-mail: inquiry@castlegreenservices.com

website: castlegreenfinance.com/CAOpenPace

7. EXHIBITS:

Exhibit A – Form of Financing Application

Exhibit B – Program Fees

EXHIBIT A

Form of Assessment Contract

EXHIBIT B

List of Current Administrative Fees as of June 1, 2021

Fees at Transaction Close*		
Services	Provider	Fee
Program Administration Construction Management Asset Servicing Recordation	Administrator	<u>**Base Program Fees:**</u> 1% for Assessments over $1,000,000 <u>**Construction Asset Management Services:**</u> $500 per disbursement request <u>**Asset Servicing:**</u> Assessments between: $1,000,000 to $10,000,000: 0.25% (25bps) $10,000,000 to $25,000,000: 0.15% (15bps) $25,000,000 + 0.10% (10bps) <u>**Lien Recordation:**</u> Between $150-$200 per parcel <u>**Additional Fees (if applicable):**</u> For transaction related services including but not limited to: • Document customization • Underwriting support Fees will be confirmed prior to providing such services.
Bond Counsel and Legal Opinion	Orrick	<u>**Standard Project Fees:**</u> Bond amounts: Up to $750,000 0.75% (75bps) ($3,500 minimum) $750,000 – $1,125,000 $5,625 $1,125,000 - $1,650,000 0.50% (50bps) $1,650,000 – $2,360,000 $8,250 $2,360,000 + 0.35% (35bps) Additional fees may apply for services beyond Standard Project Fees – such as involving counsel in property owner negotiations, revisions to Program Documents, or drafting/reviewing documents which are deemed to be outside the standard closing process.
Authority Administration	Authority	0.75% (75bps) Calculated based on ***Project Costs*** and subject to a minimum fee of $10,000 and a maximum of $250,000
Trustee	Wilmington Trust	TBD: Estimate $3,250 per bond/Assessment Contract as applicable
Trustee Legal	Wilmington Trust	$1,200 per bond
Tax Administrator	DTA	Calculated on ***Project Costs***: Up to $1,000,000 0.52% (52 bps) $1,000,000 - $5,000,000 $5,200 for the first $1MM of Project Costs, plus 0.10% (10bps) of Project Costs thereafter, up to $5MM

		Over $5,000,000	$9,200 for the first $5MM of Project Costs, plus 0.025% (2.5bps) of Project Costs thereafter
Bond Issuance Fee	CDIAC	.025% (2.5bps)	

*Unless otherwise noted all Fees will be calculated on the outstanding Assessment amount.

Annual Fees		
Services	Provider	Fee
Trustee	Wilmington Trust	$1,825 per bond issuance
Tax Roll Administration	DTA	$50 per parcel enrolled TBD: $500 - $1,100 per County (varies by the total number of parcels enrolled in the County)
Court Collection Fee	Local County Government	Varies by County