

AGENDA ITEM SUMMARY

Utility Enterprise Board



STAFF

Brian Tholl, Energy Services Manager
Glenn Pease, Energy Services Supervisor

SUBJECT

Items Relating to Renewal of the Epic Homes Loan Program Third-party Capital Agreements.

EXECUTIVE SUMMARY

A. Second Reading of Ordinance No. 016, Authorizing a First Amendment to the 2022 Loan Agreement with U.S. Bank National Association to Provide Additional Funding for the Epic Loan Program.

B. Second Reading of Ordinance No. 017, Authorizing a First Amendment to the 2022 Loan Agreement with Zions Bancorporation, N.A., DBA Vectra Bank Colorado to Provide Additional Funding for the Epic Loan Program.

These ordinances, unanimously adopted on First Reading on May 21, 2024, granted approval by the Utility Enterprise Board of two ordinances authorizing extensions of loan agreements with U.S. Bank and Vectra Bank to provide continuity in funding for the Epic Homes Loan Program.

Epic Homes Loan is offered to Fort Collins Utilities' customers to help fund energy efficiency upgrades and/or solar PV and battery system projects. This program aligns with the Our Climate Future plan by making residential electrification and renewables more accessible to our community members, so collectively we can continue to reduce climate pollution.

The existing U.S. Bank agreement expires on May 31, 2024. The existing Vectra Bank agreement expires in July 2025. Staff is proposing to renew both agreements together now to reduce the administrative costs associated with preparing the renewals separately and to ensure continued success with program planning and participation.

The Council Finance Committee and The Energy Board both expressed support for the proposed agreement renewals at recent meetings.

Staff recommend renewal of the proposed U.S. Bank and Vectra Bank capital agreements as a key component of the ongoing implementation of the Epic Homes Loan program.

No substantive revisions were made to the AIS or the ordinances, but clarifying revisions were made to the AIS. Because the parties continue to negotiate on final terms such as maturity dates for the term loans, the most recent versions of the First Amendments are included as exhibits and replace those presented on First Reading. The ordinances allow for continued negotiations after the Board's approval of the

ordinances, subject to changes approved by the President or the Treasurer of the Electric Utility Enterprise Board.

STAFF RECOMMENDATION

Staff recommends adoption of both Ordinances on Second Reading.

BACKGROUND / DISCUSSION

Epic Homes Loan is an offering within the larger Epic Homes Program. Detailed descriptions of each are provided below.

Epic Homes is a comprehensive program to help Fort Collins Utilities customers achieve more efficient, comfortable, and healthy home living environments for homeowners and renters alike. The program offers:

- Discounted home energy assessments: helps customers prioritize energy efficiency upgrades, improve their indoor air quality, reduce greenhouse gas emissions, and potentially save on utility bills.
- Equipment rebates: for home upgrades and renewable energy projects, that also support Our Climate Future goals through promoting electrification and reducing carbon emitting equipment in homes.
- Participating Contractors Network: helps connect customers to participating contractors to complete their upgrades.
- Quality assurance: provides customers with post-improvement verification to ensure customer satisfaction.
- Epic Home Loans: attractive on-bill financing options with competitive rates that can be paid through monthly utility bills to help afford energy efficiency upgrades.
- Epic Certificate: Certificates provided by Fort Collins Utilities that document energy improvements that can increase home value.
- Epic Real Estate Ally Network: a network of realtors that are familiar with our certificate and its significance.

Epic Homes won the 2018 Bloomberg Mayor's Challenge for its proposal to bring together energy efficiency and easy financing options with an emphasis on health and well-being for Fort Collins homes, and an increased focus on connecting with rental property owners to improve the quality of Fort Collins' rental housing stock. It's not about the home, it's about the people living in the home.

Epic Homes provides non-energy benefits in addition to efficiency, such as increased comfort, health, and safety.

Epic Homes Loan is Fort Collins' Utilities finance program that provides a way for customers to fund home energy efficiency projects, has competitive interest rates, and allows customers to pay their loan off through their monthly utility bill.

It is a component of the program portfolio which supports community priorities for:

- Electrification
- Renewables
- Energy efficiency
- Reduced greenhouse gas emissions
- Increased equity and well-being for residents.

This simple, low-cost loan makes comprehensive efficiency improvements more accessible. This is especially important for older, less efficient rental properties, which make up a significant percentage of the City’s housing stock.

The program operates with a neutral balance sheet impact as the obligations to the third-party capital providers are balanced by the obligations of customers to repay on their monthly utility bills.

The monetary award from the 2018 Bloomberg Challenge has made Epic Homes Loan funding possible. One of the workstreams required by the award is to secure third-party capital as a strategy to enable scaling of the program. Here is a timeline of occurrences:

- 2013 - The original on-bill finance program starts issuing loans.
- 2016 – Loan program pauses due to reaching cap of maximum outstanding loan balance (funded through Light & Power reserves).
- 2018 - Fort Collins wins the Champions Phase of the Bloomberg Mayor’s Challenge and is awarded \$200,000 from Colorado Energy Office and \$688,350 from Bloomberg Philanthropies.
- 2019 - Utilities enters a \$2.5M line of credit loan agreement with U.S. Bank to provide up to 10-year capital for the Epic Homes Loan Program.
 - Termed out in December 2021 and was renewed in May 2022.
 - Will term out again May 2024.
- 2020 – Utility Enterprise Board authorized a separate \$2.5M line of credit loan with Vectra Bank Colorado to provide 15-year capital.
 - Termed out in April of 2022 and was renewed by the Board in May 2022.
- 2023 - Fort Collins Utilities achieves overall program milestone of servicing over 500 on-bill loans since start of program.
 - Nearing caps of \$2.5M line of credit for both U.S. Bank and Vectra Bank agreements.

Competitive interest rates and terms are possible for our Utilities customers because of zero cost capital (reserves and grants) with low interest third-party capital. These rates are periodically adjusted based on the blended cost of private bank capital.

More detailed information regarding the Epic Homes Loan program and loan terms can be found at <https://www.fcgov.com/utilities/epicloan>.

Although the capital stack from Table 1 shows a proposed increase in the total available capital stack of \$10.2M, staff is managing the program to the limits of \$7.4M of outstanding principal balance until we are able to explore ways to scale the program to support its growth and future success. Our timeline for exploring and reporting scaling strategies to Council is Fall 2024.

Table 1. Summary of Proposed Epic Homes Loan Capital Stack

Capital Type	Provider	Term	Rate	Amount
Internal & Grant				
	Previously authorized Light & Power reserves	Ongoing	0%	\$1,600,000

	Bloomberg Philanthropies	Grant	0%	\$688,350
	Colorado Energy Office – Grant	Grant	0%	\$200,000
	Internal Subtotal			\$2,488,350
External Market				
	Colorado Energy Office – Loan	15-year	0%	\$800,000
	U. S. Bank	5- & 10-year	LOC: 1-Month SOFR + 1.05% Term: COF + 1.65% for 3 years or COF + 1.85% for 8 years (Currently 6.88% and 7.14%)	Up to \$3,500,000
	Vectra Bank Colorado	15-year	LOC 10-year T note + 2.75% (Currently 6.89 %) Term 10-year T note (Currently 4.14%)	Up to \$3,500,000
	External Subtotal			\$7,800,000
Total				\$ 10,288,350

Table 2. Customer Interest Rates

Loan Term	Customer Rate (Effective June 2023)
3 or 5 years	5.25%
7 or 10 years	5.55%
15 years	5.95%

Note: Customer interest rates are evaluated at a minimum of every 6 months, but usually quarterly when in a rate changing market

Table 3. Program Results

Number of Loans Issued	536
Number of Outstanding Loans	355
Number of Loans Paid in Full	181
Total Amount Funded	\$8,994,010
Amount Outstanding	\$5,634,529
Total Amount of Interest Payments	\$580,428
Median Loan Amount	\$14,985
Median Monthly Principal Payment	\$102.50
Median Monthly Interest Payment	\$35.84

Third-party Capital Agreement Summaries:

U.S. Bank

The terms of the previous U.S. Bank agreement, concluding on May 31, 2024, include:

- Amount: Up to \$2,500,000.
- Length: 10-years inclusive of draw period.
- Draw Period: Up to 2 years, with draw timing and amounts based on program/customer demand.
- Line of Credit Rate: 76% of the Prime Rate (6.46% as of March 2024); Rate set at time of loan closing.
- Term Rates: Cost of funds (COF) plus 1.65% for 3-year terms, and COF plus 1.85% for 8-year terms.
- Collateral: None.
- Pre-pay: The loan may be prepaid, in whole or in part, at the option of the Enterprise with no penalty.
- Repayment Position: Senior pledge on customer loan repayments and subordinate position on Electric Utility revenues, after the more senior pledge held by revenue bondholders.

U.S. Bank agreement, revised terms for extension to conclude in November of 2025:

- Amount: From up to \$2,500,000 to up to \$3,500,000.
- Line of Credit Rate: \$1.0M Secured Overnight Financing Rate (SOFR) + 1.05% for 1–1.5 year term or \$1.0 M SOFR + 1.68% for 2-2.5 year term (Currently 6.36% and 6.99%, respectively.).
- Term Rates: Cost of funds (COF) plus 1.65% for 3-year terms, and COF plus 1.85% for 8-year terms.
- Remaining terms carry forward from existing agreement.

Vectra Bank

The terms of the previous Vectra Bank agreement, which concludes in July 2025, include:

- Amount: Up to \$2,500,000.
- Length: 15-years inclusive of draw period.
- Draw Period: Up to 2 years, with draw timing and amounts based on program/customer demand.
- Fixed Rate: 10-year Treasury +2.75%. Year 1 \$1,012,000 at 5.56%; Year 2 6.908%.
- Collateral: None.
- Pre-pay: City may pre-pay in whole or in part after 2027 with no penalty. No prepayment is allowed prior to 2025, and between 2025 and 2027 there is a 1% prepayment fee.
- Repayment Position: Senior pledge on customer loan repayments and subordinate position on Electric Utility revenues, after the more senior pledge held by revenue bondholders.

Vectra Bank agreement, revised terms for extension from original expiration July 2025 to new proposed July 2026:

- Amount: From up to \$2,500,000 to up to \$3,500,000.
- Expiry Date: From July 2025 to July 2026.

Next Steps Include:

- Continue with program operations and financial transactions.

- Explore third-party program administration options for Epic Loans.
- Continue to explore strategies for scaling the program to present to Council as part of seeking expansion of program outstanding balance limits in Fall of 2024.

CITY FINANCIAL IMPACTS

The Epic Loan program is managed as a revolving loan program which is balance sheet neutral to the Electric Utility Enterprise fund. The program operates under several core tenets and guardrails, including:

- Maintaining an incremental interest rate of 0.75% to 1.0% above the blended source cost of capital and customer lending rates. This makes the program have a small positive cash flow.
- Lending rates are reviewed no less than twice annually.
- Ensuring parity between the length of term for borrowed capital and customer loans.
- Having no negative impact on future debt offering by the Electric Utilities Enterprise Fund.
- Protecting Utilities credit rating and existing bond coverage covenants.

Staff also projects the agreements under consideration will meet the project demand for the next one to two years are not anticipated to affect electric rates.

Risks include lack of customer demand for energy upgrade loans and/or risk of customer default if borrowers choose not to repay their Epic Homes Loans. Customer default risk is considered minimal based on lack of defaults over the 10-year history of the Program and the default protections the City already has in place. Customer demand risk is difficult to assess, but the line of credit model helps ensure that principal borrowed matches the Epic Loan volumes as closely as possible.

BOARD / COMMISSION / COMMITTEE RECOMMENDATION

The Council Finance Committee reviewed the proposed agreement renewals on April 4, 2024, and supported moving forward for review to Utilities Enterprise Board.

The Energy Board reviewed the proposed agreement renewals on March 14, 2024.

PUBLIC OUTREACH

None.

ATTACHMENTS

First Reading Attachments not included.

1. Ordinance A for Consideration (U.S. Bank)
2. Exhibit A to Ordinance A
3. Ordinance B for Consideration (Vectra Bank)
4. Exhibit A to Ordinance B