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Council Finance Committee Hybrid Meeting  
CIC Room / Zoom  
April 4, 2024  
4:00 - 6:00 pm

Council Attendees: Emily Francis, Kelly Ohlson, Mayor Jeni Arndt

Staff: Kelly DiMartino, Travis Storin, Tyler Marr, Ginny Sawyer, Teresa Roche, Kelley Vodden, Chris Martinez, Jennifer Poznanovic, Lawrence Pollack, Trevor Nash, Renee Reeves, Monica Martinez, Brian Tholl, Glenn Pease, Terri Runyan, Victoria Shaw, Dave Lenz, Joe Wimmer, Zack Mozer, Nina Bodenhamer, Carolyn Koontz

Others: Kevin Jones, Chamber

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Meeting called to order at 4:00 pm

NOTE: Staff follow-up included on the last page of draft minutes.

Approval of minutes from March 20<sup>th</sup>, 2024, Council Finance Committee Meeting.  
Kelly Ohlson moved for approval of the minutes as presented. Emily Francis seconded the motion.  
The minutes were approved unanimously via roll call by; Emily Francis, Kelly Ohlson.

**A. 2025-2026 Budget Process Review**

Jennifer Poznanovic, Revenue Manager  
Chris Martinez, FP&A Manager  
Kelley Vodden, Compensation, Benefits and Wellbeing Director  
Lawrence Pollack, Budget Director

**SUBJECT FOR DISCUSSION** (a short title)

2024 BFO Assumptions for funding availability, expense pressures, salary adjustments, and changes to benefits costs in the 2025-26 Budget.

**EXECUTIVE SUMMARY** (a brief paragraph or two that succinctly summarizes important points that are covered in more detail in the body of the AIS.)

## **B. EPIC Home Loan Bank Renewal**

Brian Tholl, Sr. Manager Mechanical Engineering  
Glenn Pease, Mechanical Engineer II

**SUBJECT FOR DISCUSSION:** Renewal of Epic Homes Loan Program Third-Party Capital Agreements

### **EXECUTIVE SUMMARY**

The purpose of this item is to update Council Finance regarding the capital sources for Utilities on-bill loan financing component, Epic Homes Loan, and to seek support for presenting US Bank and Vectra Bank capital agreement renewals to the Electric Utility Enterprise Board for approval. The blended public and private capital strategy of Epic Loans supports the Our Climate Future plan and the council priority of reducing climate pollution and air pollution through electrification.

The existing US Bank agreement expires on May 31, 2024, and staff is proposing to renew the Vectra Bank agreement in parallel to reduce administrative efforts and to continue success with program participation.

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

### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

- What questions does Council Finance Committee have on the Epic Homes Loan program?
- Does the Committee support bringing the proposed third-party capital agreements to the Electric Utility Enterprise Board for approval?

### **BACKGROUND/DISCUSSION**

#### **Epic Homes**

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 encompasses various offerings, including:

- Discounted home energy assessments
- Equipment rebates on home upgrades and renewable energy projects supporting the Our Climate Future goals
- Participating contractors
- Quality assurance
- Attractive on-bill financing options (Epic Homes Loans)
- Certificates that document energy improvements

In October 2018, Fort Collins became a winner of the 2018 Bloomberg Mayors Challenge and the associated \$1M prize. The 2018 Bloomberg Mayors Challenge involved over 300 cities proposing ideas to address important issues in their community. The City's proposal was selected as a winner for its innovative approach to providing health and equity benefits to residents, specifically for low-to-moderate income renters, by improving the energy efficiency of homes. Residential property owners can take advantage of Epic Homes' easy, streamlined steps to make their homes more comfortable, healthy, and efficient. Partnering with Colorado State University, Fort Collins also established a research study which links the health and well-being indicators of improved indoor environmental quality from efficiency upgrades.

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

### **Epic Homes Loan**

Epic Homes Loan is Fort Collins' Utilities on-bill finance program. It is a component of the program portfolio which supports community priorities for energy efficiency, renewables, electrification, reduced greenhouse gas emissions, and increased equity and well-being for residents. Providing a simple, low-cost financial tool with Epic Homes Loan helps to meet these objectives by helping property owners undertake comprehensive efficiency improvements. This is especially important for older, less efficient rental properties, which make up a significant percentage of the City's housing stock.

Detailed information regarding the Epic Homes Loan program and loan terms can be found at <https://www.fcgov.com/utilities/epicloan>. The program operates under authorization in Code and the Financial Officer's Rules and Regulations, as updated periodically. 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 original on-bill finance program started issuing loans in 2013. The program was then paused in 2016 when the program's success resulted in reaching the cap of maximum outstanding loan balance funded through Light & Power reserves (\$1.6 million). Building on this success, on-bill finance was revitalized as Epic Homes Loan in August 2018 during the Champions Phase of the Bloomberg Mayors Challenge. The City was awarded grants from the Colorado Energy Office (\$200,000) and from Bloomberg Philanthropies (\$688,350 of the \$1M) for the Epic Loan Program.

One of the workstreams of the Bloomberg Mayors Challenge project was to secure third-party capital as a strategy to enable scaling of the program. In 2019, the Utilities entered into 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. This line of credit termed out in December 2021 and will again in May 2024. In 2020, an additional \$2.5M line of credit loan agreement was signed with Vectra Bank Colorado to provide 15-year capital. This line of credit is nearing its cap but will not term out until July 2025. A revision to the agreement to increase the limit is being proposed to sustain the growth of the program. Both of these agreements are structured as lines of credit which are periodically converted into fixed rate term loans. (See Table 1 for a summary of the program's capital stack.)

Through 2023, Fort Collins Utilities has serviced 536 on-bill loans to support energy efficiency upgrades in residential homes and to help property owners overcome financial barriers for making these important upgrades. The blending of zero cost capital (reserves and grants) with low interest third-party capital is what enables the program to offer attractive and competitive interest rates and terms for Utilities customers. With the enterprise fund as the borrower, the program is able to extend the benefits of the high credit rating of the organization to individual customers. These rates are periodically adjusted based on the blended cost of capital. See Table 2 for current interest rates and Table 3 for program results.

An ongoing and attractive financing structure to support energy efficiency retrofits is a critical element for success moving forward. The low rates and scalability of these third-party agreements align with the programmatic objectives and financial requirements of the City.

**Table 1. Summary of Proposed Epic Homes Loan Capital Stack**

Capital Type	Provider	Term	Rate	Amount
<b>Internal &amp; Grant</b>				
	Previously authorized Light & Power reserves	Ongoing	0%	\$1,600,000
	Bloomberg Philanthropies	Grant	0%	\$688,350
	Colorado Energy Office – Grant	Grant	0%	\$200,000
	<b>Internal Subtotal</b>			<b>\$2,488,350</b>
<b>External Market</b>				
	Colorado Energy Office – Loan	15 year	0%	<b>\$800,000</b>
	U. S. Bank	5 & 10 year	LOC: 1-Month SOFR + 1.05% Term: COF + 1.65% for 3 yr or COF + 1.85% for 8yr (Currently 6.88% and 7.14%)	<b>Up to \$2,500,000</b>
	Vectra Bank Colorado	15 year	LOC 10y T note + 2.75% (Currently 6.89 %) Term 10y T note (Currently 4.14%)	<b>Up to \$3,500,000</b>
	<b>External Subtotal</b>			<b>\$6,800,000</b>
<b>Total</b>				<b>\$9,288,350</b>

**Table 2. Customer Interest Rates**

Loan Term	Customer Rate (Effective June 2023)
<b>3 or 5 years</b>	5.25%
<b>7 or 10 years</b>	5.55%
<b>15 years</b>	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:**

- The terms of the previous US 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.

US Bank agreement, revised terms for extension to conclude in November of 2025:

- Line of Credit rate: 1M Secured Overnight Financing Rate (SOFR) + 1.05% for 1 –1.5-year term or 1M 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 carryforward from existing agreement.

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 yr Treasury +2.75%. Yr 1 \$1,012,000 at 5.56%; Yr 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.

The proposed revisions to the Vectra Bank agreement will be:

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

*\*Vectra Agreement still under internal review at Vectra and is subject to change. US Bank and Vectra Agreements. Pending review and recommendations from City Attorney's office*

### **Next Steps**

- Staff seeks support from Council Finance Committee to proceed with Electric Utility Enterprise Board consideration of the proposed agreements.
- If supported, staff will finalize agreements and associated term sheets.
- Staff will present the agreements at soonest possible Council meeting.
- Continue with program operations and financial transactions.
- Continue to explore strategies for scaling the program to present to Council as part of seeking expansion of program limits in Fall of 2024

### **GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED**

- What questions does Council Finance Committee have on the Epic Homes Loan program?
- Does the Committee support bringing the proposed third-party capital agreements to the Electric Utility Enterprise Board for approval?

### **DISCUSSION / NEXT STEPS**

Mayor Arndt; I am fully supportive and love the on-bill financing program. This program is a win win. This is something government is good at. Minimizing risk

Travis Storin; this is one of the most innovative programs we have developed. We are leveraging our institutional borrowing power and extending it to the consumer level in a way that drives our climate goals. We have had zero defaults in 10 years which is amazing.

Mayor Arndt; this failed at the state level, but it is a perfect role for government.

Kelly Ohlson; are these ten-year agreements with the banks?

Brian Tholl; they are actually two-year agreements with the enterprise board of the city. The terms are 5 years with US Bank and a 15-year term with Vector Bank. The debt service and how we are paying the loans back is over a varied timeline.

Kelly Ohlson; I am so supportive of this program. Do we get good deals on the rates?

Travis Storin; yes, this is a creative instrument and I have to commend our two lending partners on this as they took some risk here with the idea of a two-year window where we can draw down the funds and extend it to our customers. At the end of the two years, it locks for a 5-, 10- and 15-year period. It is a variable rate product for the two-year window and then we lock in a rate for those intervals. It is an innovative and creative product.

Emily Francis; is the customer rate changing with these new agreements?

Brian Tholl; we don't anticipate that these new agreements would drive any changes to the customer rate.

Emily Francis; do we still partner with Larimer County to do the assessments?

Brian Tholl; that is a slightly different program – there are two different programs.

Mayor Arndt; there is no assessment just for HVAC, right?

Brian Tholl; due to the nature of emergency replacements, we don't require an audit in order to be eligible for incentives such as the loan product itself.

Glenn Pease; you do need to have an assessment which is required for installation for HVAC and solar. Harris is the company that does the assessments.

Kelly Ohlson; do we help in any way if someone gets a bum contractor?

Brian Tholl; part of the requirements for receiving the incentives, are that our contractors go through a series of trainings on the requirements for the program which include quality assurance standards for the Installers. We require photo documentation of the installation as well. We assist by ensuring quality and providing training. This is a closed program, which means we have a relationship with the contractors as well.

Kelly Ohlson; we don't want residents to be taken advantage of.

Meeting Adjourned

### **Staff Follow Up from Lawrence Pollack:**

Question: What drove the significant increases in 2023 actual revenue in the categories of Transportation Fee revenue and Utilities Other Miscellaneous revenue?

Response: 2023 Transportation Fee revenue was \$4.7M over budget, primarily driven by Transportation Capital Expansion Fees of \$3.5M. Another \$765k was from Payments in Lieu of Development and \$375k from hourly garage parking revenue. Utilities Other Miscellaneous revenue was over budget by \$1.1M split across the Utility Funds as follows: Light and Power \$512k, Water \$39k, Wastewater \$31k, Stormwater \$52k. and Customer Service & Administration (CS&A) \$512k. Of the two larger amounts, Light and Power's other miscellaneous revenue was primarily comprised of \$225k in repair charges (one of which was over \$100K for one of the switch cabinets), as well as warehouse revenue of just under \$300k for heightened transactional volumes. For CS&A, the amount over budgeted revenue was mostly driven by late fees of \$390k and reconnect charges of \$50k.