

AGENDA ITEM SUMMARY

Utility Enterprise Board



STAFF

Brian Tholl, Energy Services Manager
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SUBJECT

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

EXECUTIVE SUMMARY

A. First 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. First 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.

The purpose of this item is to seek approval by the Utility Enterprise Board of ordinances authorizing extensions of loan agreements with U.S. Bank and Vectra Bank to provide continuity in funding for the Epic Homes Loans program.

The blended public and private capital strategy of Epic Homes Loan program supports the Our Climate Future plan for residential electrification and renewables and aligns with the Council priority of reducing climate pollution and air pollution through electrification.

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

STAFF RECOMMENDATION

Staff recommends adoption of both Ordinances on First Reading.

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 \$1.0M 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 the 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 (\$1.6M). 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 \$1.0M) 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 was renewed in May 2022. The line of credit with US Bank will again term out in May 2024. In April 2020, the Utility Enterprise Board authorized a separate \$2.5M line of credit loan agreement with Vectra Bank Colorado to provide 15-year capital. That agreement concluded in April 2022, and was renewed by the Board in May 2022. 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 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 can 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.

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 yr or COF + 1.85% for 8yr (Currently 6.88% and 7.14%)	Up to \$3,500,000

	Vectra Bank Colorado	15 year	LOC 10y T note + 2.75% (Currently 6.89 %) Term 10y T note (Currently 4.14%)	Up to \$3,500,000
	External Subtotal			\$7,800,000
Total				\$ 10,288,350

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 of scaling strategies to Council is Fall of 2024.

Table 1. Summary of Proposed Epic Homes Loan Capital Stack

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:

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.

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.

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.

Next Steps

- 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 utility 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 1 to 2 years, and the agreements 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 Loans. Customer default risk is considered de minimis 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

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
5. Abridged Council Finance Committee Minutes, April 4, 2024
6. Abridged Energy Board DRAFT Minutes, March 14, 2024