

Green Evaluation

Greenworks Lending LLC's Pacewell 2 LLC Term Notes, 2017-1

Transaction Overview

Pacewell 2 2017-1 is a special purpose vehicle (SPV) created to issue \$75 million in private placement notes secured by a portfolio of commercial property-assessed clean energy (C-PACE) assets in 10 states and the District of Columbia. C-PACE programs allow for low-cost financing of a variety of energy efficiency, renewable energy, water conservation, storm protection, and seismic improvements on commercial properties; a special tax or an annual or semiannual assessment on a property's tax bill repays the financing. Greenworks Lending LLC, the transaction sponsor, was founded in 2015 and in 2017 issued the U.S.'s first securitization of solely C-PACE assets with this transaction.

Entity: Greenworks Lending, LLC
Subsector: Specialized Finance
Location (HQ): Connecticut, US
Financing value: \$80.4 mm
Amount evaluated: 99.9%
Evaluation date: May 1, 2019
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Green Evaluation Overview

Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

85

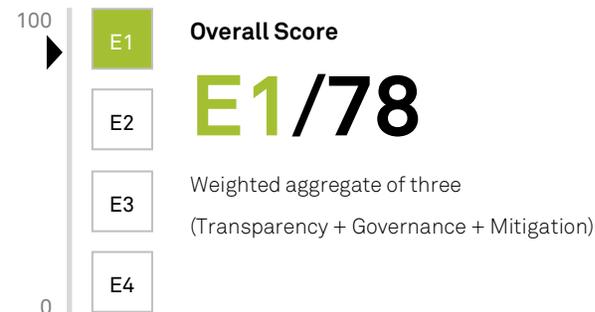
Transaction's Governance

- Management of proceeds
- Impact assessment structure

81

Mitigation

Sector	→ Net Benefit Ranking	→ Hierarchy Adjustments	
Renewable energy	Solar, PV	Carbon	78
Green refurbishment	HVAC, LED, building envelope	Carbon	
Water	Conservation	Water	



Project Description

Pacewell 2017-1 is using \$75 million in private notes plus equity funding to securitize an \$80 million portfolio of C-PACE assets in California, Colorado, Connecticut, Maryland, Missouri, Michigan, Ohio, Rhode Island, Texas, Wisconsin, and D.C.

Proceeds from the transaction are allocated 50% to green building projects, 12.5% to water conservation measures in commercial buildings, and 37.5% to solar photovoltaic green energy projects. We consider 99% of the underlying collateral in our evaluation. We spread energy design and project management fees across the proceeds on a weighted basis. We exclude less than 1% of proceeds that fund an elevator installation. While that project qualifies as PACE eligible, it is not in scope under our analytical approach.

C-PACE programs were established by state legislation and approved by local governments to provide low-cost financing for energy and water efficiency retrofits, distributed renewable energy generation, and (in some locations) storm resilience and seismic improvements for commercial properties. C-PACE financings are repaid via an annual or semiannual assessment or special tax on the property owner's tax bill. C-PACE programs enable business owners to cover the upfront cost associated with environmentally beneficial property improvements and repay the financing over longer terms than are typically commercially available for similar projects.

Scoring Summary

The transaction achieves an overall Green Evaluation score of E1 on our scale of E1 (highest) to E4 (lowest) and an overall score of 78. The evaluation reflects a Mitigation score of 78 that is supported by green building projects, renewable energy installations in geographies with a total grid carbon intensity we consider medium high, and water conservation projects in areas with medium-high baseline water stress.

The E1 score also reflects robust governance and transparency measures. The criteria selection set forth by regional C-PACE programs and the governance of verification of the underlying assets bolster our assessment of proceed management. Comprehensive KPI reporting

and strong public reporting of use of overall proceeds positively impact the transparency assessment.

In our opinion, this transaction is aligned with the Green Bond Principles 2018 (GBP).

Rationale

- The green buildings refurbishments in Ohio, which consist of LED, HVAC, and building envelope, are the largest allocation of green building refurbishment projects of any state in this transaction. These projects rank at the top of our green building refurbishment technologies, yielding a high net benefit impact, contributing to the overall mitigation score. Similar projects in Colorado and Missouri also score well given the carbon intensity of their state grids.
- The Pacewell 2017-1 notes achieve a strong Governance score in part due to the robust eligibility requirements established by C-PACE programs across the U.S.
- The notes also achieve a very strong Transparency score, benefiting from Greenworks Lending's impact report that it updates quarterly. Here, the company discloses some comprehensive environmental impact indicators.

Key Strengths And Weaknesses

The proceeds from the Pacewell 2017-1 notes will fund the acquisition and securitization of a portfolio of C-PACE assets across 10 states and D.C.; and finance a number of green building refurbishment, renewable energy, and water conservation. We assess over 99% of the collateral pool, including green energy assets, green building assets, and water improvement-related assets. Fees for project management, financing, and design are rolled up in the assets on a weighted basis.

Unlike previous PACE transactions we have evaluated, which contained residential and commercial assets, Pacewell 2017-1 contains solely commercial assets. The robust mitigation score is supported by high net benefit rankings for green building improvements in geographies like Ohio, Maryland, Texas, Colorado, Missouri, Wisconsin, and D.C. Although the regions have a medium-to-high baseline carbon intensity

overall, there are a number of states (such as Ohio and Colorado) that rely more heavily on carbon based fuels. As a result, the net benefit ranking for LED, HVAC, and window-related loans based in those states is as high as 100, at the top of the list of technologies in our green building refurbishment sector. These three states account for a quarter of the transaction and contribute significantly to the strong Mitigation score.

The transaction's Governance and Transparency scores reflect robust proceeds allocation, management, and reporting. These scores support but do not enhance the final evaluation, given the Mitigation score of 78 caps it.

The Governance score is supported by the underlying PACE programs, which vary state by state, but serve to define project selection criteria with environmental benefits in mind. Using Environmental Protection Agency methodology, Greenworks Lending calculates comprehensive carbon impact indicators and the effect on job creation based on project expenditures from recommendations by the Council of Economic Advisors. All environmental data gathered reflects energy audits conducted and reviewed by independent, third-party engineers.

However, this review cannot include a guarantee of actual annual energy savings. While there are robust reporting measures in place for carbon, water conservation reporting is more modest.

Second Opinion On Green Bond Principle Alignment

Based on our Transparency score of 85 and Governance score of 81, and that 100% of proceeds have or will be allocated to green projects, we expect this bond to meet the basics of the four pillars of the voluntary GBP given the issuer has committed to:

- o allocating the full amount of the net proceeds of bonds to eligible green projects - as defined by the issuer;
- o using clear "green" criteria (as defined by issuer) to select projects for funding;
- o managing and tracking proceeds (potentially with the use of sub accounts); and
- o pledged to regular reporting of environmental impact and use of proceeds.

A Green Evaluation is a point in time assessment and is not monitored.

Sector level scores

Sector	Location	Technology	Use of Proceeds (USD mil.)	Use of Proceeds treatment	Net Benefit Ranking
Green Energy	California	Solar PV	0.54	Actual	39
Green Energy	Colorado	Solar PV	0.17	Actual	67
Green Energy	Connecticut	Solar PV	24	Actual	40
Green Energy	Maryland	Solar PV	0.84	Actual	49
Green Energy	Missouri	Solar PV	0.45	Actual	67
Green Energy	Ohio	Solar PV	0.61	Actual	58
Green Energy	Rhode Island	Solar PV	2.4	Actual	40
Green Energy	Texas	Solar PV	0.42	Actual	49
Green Energy	Wisconsin	Solar PV	0.20	Actual	58
Green Buildings	California	LED	0.35	Actual	50
Green Buildings	California	HVAC	0.40	Actual	60
Green Buildings	California	Windows, doors and skylights	1.5	Actual	50
Green Buildings	Colorado	LED	1.3	Actual	100
Green Buildings	Colorado	HVAC	1.4	Actual	100
Green Buildings	Colorado	Windows, doors and skylights	1.3	Actual	100
Green Buildings	Connecticut	LED	0.87	Actual	50
Green Buildings	Connecticut	HVAC	2.0	Actual	60
Green Buildings	Connecticut	Windows, doors and skylights	3.0	Actual	50
Green Buildings	Washington DC	LED	0.13	Actual	80
Green Buildings	Washington DC	HVAC	1.1	Actual	90
Green Buildings	Maryland	LED	0.52	Actual	80
Green Buildings	Maryland	HVAC	6.8	Actual	90

Green Buildings	Maryland	Windows, doors and skylights	0.92	Actual	80
Green Buildings	Missouri	HVAC	0.03	Actual	100
Green Buildings	Michigan	Windows, doors and skylights	0.14	Actual	90
Green Buildings	Ohio	LED	3.9	Actual	100
Green Buildings	Ohio	HVAC	6.6	Actual	100
Green Buildings	Ohio	Windows, doors and skylights	6.0	Actual	100
Green Buildings	Rhode Island	LED	0.03	Actual	70
Green Buildings	Rhode Island	HVAC	0.03	Actual	80
Green Buildings	Rhode Island	Windows, doors and skylights	0.20	Actual	70
Green Buildings	Texas	LED	0.04	Actual	80
Green Buildings	Texas	HVAC	0.35	Actual	90
Green Buildings	Wisconsin	LED	0.03	Actual	90
Green Buildings	Wisconsin	HVAC	0.84	Actual	90
Green Buildings	Wisconsin	Windows, doors and skylights	1.0	Actual	90
Water	Colorado	Conservation: Commercial Building	0.78	Actual	10
Water	Connecticut	Conservation: Commercial Building	0.48	Actual	10
Water	Washington DC	Conservation: Commercial Building	3.2	Actual	10
Water	Maryland	Conservation: Commercial Building	0.95	Actual	10
Water	Ohio	Conservation: Commercial Building	4.5	Actual	10

80.3

Carbon

Green Evaluation Process

85

Transparency

81

Governance

78

Mitigation

Weighted aggregate of three
(Transparency + Governance + Mitigation)

E1/78

Overall Score

Technology	Baseline Carbon Intensity	Net Benefit Ranking	→ Carbon Hierarchy Adjustment	Environmental Impact Score	Proceeds (Mil. US\$)
	<p>High Low</p> <p>Country/Region Name</p>				
Wind power					
Solar power		41		85	29
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion					
Green buildings--new build					
Unspecified					
Energy efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
Green buildings refurbishment		87		76	41
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Unspecified					

Increasing Decarbonization Impact ↑

Systemic decarbonization

Significant decarbonization in sectors already aligned with a green economy

Alleviating emissions of existing carbon-intensive industries

Decarbonization technologies with significant environmental hazards

Improvement of fossil-fueled activities' environmental efficiency

Water

Green Evaluation Process

85

Transparency

81

Governance

78

Mitigation

Weighted aggregate of three
(Transparency + Governance + Mitigation)

E1/78

Overall Score

Technology	Baseline Water Stress	Net Benefit Ranking	Water Stress and Hierarchy Adjustment	Environmental Impact Score	Proceeds (US\$ mil.)
	<p>High Low</p> <p>Country/Region Name</p>				
Recycling wastewater for water (agricultural uses)					
Recycling wastewater for water (other uses)					
Wastewater treatment with no energy recovery					
Wastewater treatment with energy recovery					
Unspecified					
Reducing water losses in water distribution network					
Unspecified					
Water desalination to supply municipal water					
Unspecified					
Conservation measure in residential buildings					
Conservation measure in commercial buildings		10			
Conservation measure in industrial buildings					
Smart metering in residential buildings					
Unspecified					
			<p>↑</p> <p>Increasing Water Sustainability</p>		
			Increasing freshwater availability through system enhancements		
			Improving delivery of existing freshwater supplies		
			Increasing freshwater availability with significant negative environmental impact		
			Reducing demand on potable water supplies	36	10

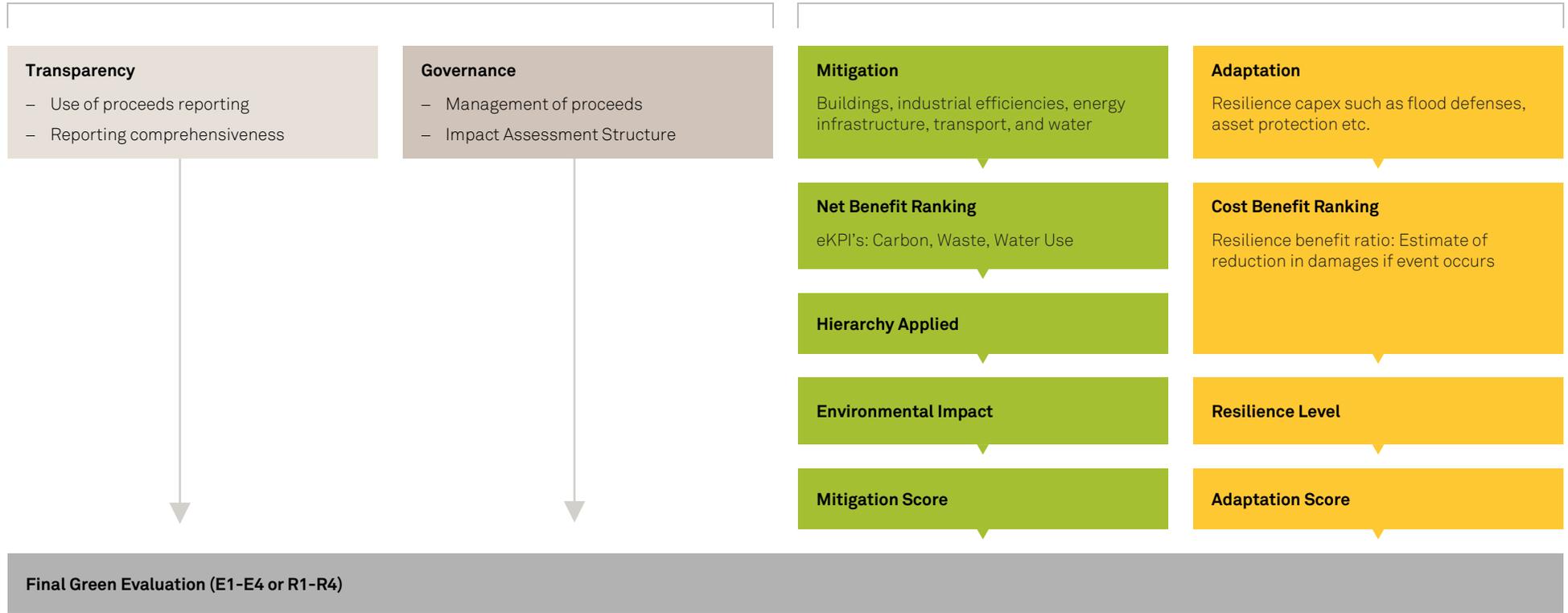
Our Green Evaluation Approach

Weighted aggregate of three:



Common approach used amongst opinion providers

Unique to S&P Global Ratings



eKPI – Environmental Key Performance Indicator

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