

Green Evaluation

# Greenworks Lending LLC's Pacewell 3 LLC Term Notes Series 2018-1

## Transaction Overview

Pacewell 3 LLC is a Delaware limited liability company (SPV) created to issue private placement notes secured by a portfolio of commercial property assessed clean energy (C-PACE) assets in 16 states and the District of Columbia.

C-PACE programs allow for low-cost financing of a variety of energy efficiency, renewable energy, water conservation, and storm protection on commercial properties. The financing is repaid via a special tax or an annual or semiannual assessment on a property's tax bill. For purposes of this evaluation, we assess the technologies in the underlying collateral assets, which include building refurbishment, solar photovoltaic (PV) installations, and water conservation. The pool also includes boilers, elevators, structural, electrical, and other projects that are not in scope for our Green Evaluation but are eligible under PACE programs. Greenworks Lending LLC is a private capital provider founded in 2015 and dedicated to funding commercial real estate through C-PACE. In our view, this transaction is aligned with the Green Bond Principles (GBP) 2018.

**Entity:** Greenworks Lending LLC  
**Subsector:** Specialized Finance  
**Location (HQ):** Connecticut, USA  
**Financing value:** \$166.4 million  
**Amount evaluated:** 75%  
**Evaluation date:** Sept. 16, 2020  
**Contact:** Srabani Chandra Lal  
 +1-212-438-5036,  
 srabani.chandra-lal@spglobal.com

## Green Evaluation Overview

### Transaction's Transparency

- Use of proceeds reporting
- Reporting comprehensiveness

### Transaction's Governance

- Management of proceeds
- Impact assessment structure

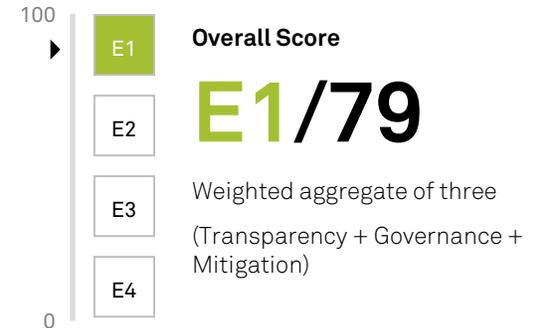
### Mitigation

<b>Sector</b>	→ <b>Net benefit ranking</b>	→ <b>Hierarchy adjustments</b>	
Green energy, green buildings, water	Solar PV, refurbishment, water conservation	Carbon, water	

88

78

79



## Project Description

Pacewell 3 LLC's term notes series 2018-1 invests in commercial PACE assets issued to finance renewable energy, energy efficiency, water conservation, seismic retrofit, hurricane protection, weather resiliency, and other commercial improvement projects. All proceeds of the financing are used to purchase commercial PACE assets that are originated or purchased by Greenworks Lending LLC.

On May 2019, we issued a Green Evaluation to Pacewell 2 LLC Term Notes, 2017-1. That transaction also achieved a Green Evaluation score of E1.

The portfolio benefits from geographical and technological diversification. The projects are spread across 16 states and the District of Columbia. We consider 75.48% of the underlying collateral in our evaluation. Approximately 17% of the proceeds are allocated to solar photovoltaic green energy projects, 58% to green building projects, and less than 2% to water conservation measures in commercial buildings. We spread the financing fees across the proceeds on a weighted basis.

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 a special tax on the property owner's tax bill. C-PACE programs enable business owners to cover the upfront costs associated with environmentally beneficial property improvements and repay the financing over longer terms than are typically commercially available for similar projects.

At this stage, S&P Global Ratings is unable to provide an opinion of the projects' or assets' resilience to extreme weather and climate change as part of this Green Evaluation.

## Scoring summary

The transaction achieves an overall score of 79 out of 100, which is equivalent to a Green Evaluation score of E1--the highest score on our scale of E1 to E4. We derive the Green Evaluation score by weighing the Mitigation score of 79 by 60%, the Governance score of 78 by 25%, and the Transparency score of 88 by 15%. The overall Green Evaluation score is capped by the Mitigation score of 79. The Mitigation score is largely supported by proceeds allocated to PACE assets that are

secured by renewable energy, energy efficiency, water conservation, hurricane protection, weather resiliency, and other commercial improvement projects. A net benefit ranking is calculated based on the avoided emissions and water savings estimated for each technology type according to the carbon intensity of each state. On an aggregate basis, we consider the grid carbon intensity and the water stress as medium-high. We apply our hierarchy adjustment to the net benefit rankings to reflect the role each of these technology types play in systemic decarbonization and sustainable water use to arrive at the environmental impact scores. Finally, the net impact scores are combined, based on the actual allocation of underlying collateral values, to derive the overall Mitigation score.

The E1 score also reflects the strong Governance score and very strong Transparency score. The transaction's Governance and Transparency scores reflect the allocation, management, and reporting of proceeds. The Governance score reflects the defined eligibility criteria underlying the PACE programs in each state and the third-party verification of the allocation of bond proceeds. The state administrators are responsible for ensuring that all C-PACE applications meet the statutory requirement for project eligibility as a public energy or a climate mitigation upgrade benefit. All C-PACE assessments must be approved by the state administrator prior to closing.

The Transparency score considers the transaction's requirement to report on the allocation of proceeds and the overall environmental impact. Greenworks Lending produces the impact report on a quarterly basis and provides it publicly on the company website. Impact measures are based on the Environmental Protection Agency's Greenhouse Gas Equivalencies Calculator and the economic useful life of the financed equipment.

In our view, the transaction is aligned with the GBP 2018.

## Rationale

The strong Mitigation score of 79 is largely supported by green building projects in states that exhibit medium-high grid carbon intensity. Green building projects in Kentucky, Missouri, Ohio, Rhode Island, and Wisconsin enable the highest net benefit scores, given the high carbon intensity of the local grid.

The transaction received a strong Governance score of 78 and a very strong Transparency score of 88, given the eligibility parameters established by the PACE programs in each state and the securitization structure. The Governance score reflects the fact that all the funds have been allocated to existing PACE projects, which by their nature are in environmentally beneficial technologies. The structure stipulates regular reporting requirements on the use of proceeds.

### **Key Strengths And Weaknesses**

The strong Mitigation score of 79 reflects our understanding of the environmental contribution of the use of proceeds over the life of the assets and is a function of the location of the projects and the technology financed. The proceeds fund commercial PACE assets across 16 states and D.C. We assess over 75% of the collateral, including green energy assets, green building assets, and water improvement related assets. Financing fees are distributed on the assets on a weighted average basis.

The strong Mitigation score is supported by high net benefit rankings for green building improvements in Connecticut, Delaware, Florida, Maryland, Michigan, Missouri, Ohio, Rhode Island, Texas, and Wisconsin.

The E1 score reflects the very strong Transparency score and the strong Governance score.

### **Second Opinion On Green Bond Principle Alignment**

Based on our Transparency score of 88 and Governance score of 78, and the fact that 100% of the proceeds have been or will be allocated to green projects, we expect this bond to meet the basics of the four pillars of the voluntary GBP 2018, given that the issuer has committed to:

- Allocating the full amount of the net proceeds of bonds to eligible green projects (as defined by the issuer),
- Using clear “green” criteria (as defined by the issuer) to select projects for funding,
- Managing and tracking proceeds (using subaccounts), and
- Committing 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 (mil. \$)	Use of proceeds treatment	Net benefit ranking
Green Energy	California	Solar Power	8.207	Actual	20
Green Energy	Connecticut	Solar Power	15.349	Actual	21
Green Energy	District of Columbia	Solar Power	0.497	Actual	21
Green Energy	Maryland	Solar Power	0.153	Actual	30
Green Energy	Missouri	Solar Power	0.044	Actual	48
Green Energy	Ohio	Solar Power	1.576	Actual	39
Green Energy	Rhode Island	Solar Power	1.231	Actual	30
Green Energy	Texas	Solar Power	0.317	Actual	30
Green Energy	Wisconsin	Solar Power	0.227	Actual	39
Green Buildings	California	Commercial LED	0.371	Actual	50
Green Buildings	Connecticut	Commercial LED	0.755	Actual	70
Green Buildings	District of Columbia	Commercial LED	0.288	Actual	50
Green Buildings	Florida	Commercial LED	0.337	Actual	80
Green Buildings	Maryland	Commercial LED	0.541	Actual	80
Green Buildings	Michigan	Commercial LED	0.168	Actual	80
Green Buildings	Missouri	Commercial LED	2.973	Actual	80
Green Buildings	New York	Commercial LED	0.931	Actual	60
Green Buildings	Ohio	Commercial LED	2.964	Actual	90
Green Buildings	Rhode Island	Commercial LED	0.253	Actual	80
Green Buildings	Texas	Commercial LED	1.759	Actual	80
Green Buildings	Wisconsin	Commercial LED	3.339	Actual	80
Green Buildings	California	Commercial Insulation	1.916	Actual	33
Green Buildings	Colorado	Commercial Insulation	1.606	Actual	65
Green Buildings	Connecticut	Commercial Insulation	4.390	Actual	50
Green Buildings	Delaware	Commercial Insulation	3.033	Actual	70
Green Buildings	District of Columbia	Commercial Insulation	0.254	Actual	50

<b>Sector</b>	<b>Location</b>	<b>Technology</b>	<b>Use of proceeds (mil. \$)</b>	<b>Use of proceeds treatment</b>	<b>Net benefit ranking</b>
Green Buildings	Florida	Commercial Insulation	0.739	Actual	48
Green Buildings	Kentucky	Commercial Insulation	1.097	Actual	90
Green Buildings	Maryland	Commercial Insulation	0.634	Actual	45
Green Buildings	Michigan	Commercial Insulation	0.136	Actual	80
Green Buildings	Missouri	Commercial Insulation	3.249	Actual	79
Green Buildings	Ohio	Commercial Insulation	22.620	Actual	89
Green Buildings	Rhode Island	Commercial Insulation	0.991	Actual	80
Green Buildings	Texas	Commercial Insulation	3.630	Actual	72
Green Buildings	Wisconsin	Commercial Insulation	0.380	Actual	75
Green Buildings	California	Commercial HVAC	1.513	Actual	50
Green Buildings	Connecticut	Commercial HVAC	1.553	Actual	80
Green Buildings	Delaware	Commercial HVAC	0.237	Actual	80
Green Buildings	District of Columbia	Commercial HVAC	0.759	Actual	60
Green Buildings	Florida	Commercial HVAC	1.279	Actual	80
Green Buildings	Maryland	Commercial HVAC	0.548	Actual	80
Green Buildings	Michigan	Commercial HVAC	0.029	Actual	80
Green Buildings	Missouri	Commercial HVAC	3.914	Actual	90
Green Buildings	New York	Commercial HVAC	1.498	Actual	70

<b>Sector</b>	<b>Location</b>	<b>Technology</b>	<b>Use of proceeds (mil. \$)</b>	<b>Use of proceeds treatment</b>	<b>Net benefit ranking</b>
Green Buildings	Ohio	Commercial HVAC	10.126	Actual	90
Green Buildings	Rhode Island	Commercial HVAC	2.530	Actual	90
Green Buildings	Texas	Commercial HVAC	2.658	Actual	80
Green Buildings	Wisconsin	Commercial HVAC	3.945	Actual	90
Green Buildings	California	Commercial Miscellaneous	0.283	Actual	50
Green Buildings	Connecticut	Commercial Miscellaneous	2.221	Actual	70
Green Buildings	District of Columbia	Commercial Miscellaneous	0.342	Actual	50
Green Buildings	Florida	Commercial Miscellaneous	0.662	Actual	80
Green Buildings	Maryland	Commercial Miscellaneous	0.189	Actual	80
Green Buildings	Missouri	Commercial Miscellaneous	0.032	Actual	80
Green Buildings	Ohio	Commercial Miscellaneous	0.994	Actual	90
Green Buildings	Texas	Commercial Miscellaneous	0.316	Actual	80
Green Buildings	Wisconsin	Commercial Miscellaneous	0.990	Actual	80
Water	District of Columbia	Conservation	0.217	Actual	48
Water	Florida	Conservation	0.528	Actual	48
Water	Maryland	Conservation	0.217	Actual	67
Water	Michigan	Conservation	0.022	Actual	39
Water	Missouri	Conservation	0.213	Actual	39
Water	Mississippi	Conservation	0.021	Actual	20

<b>Sector</b>	<b>Location</b>	<b>Technology</b>	<b>Use of proceeds (mil. \$)</b>	<b>Use of proceeds treatment</b>	<b>Net benefit ranking</b>
Water	Ohio	Conservation	0.710	Actual	48
Water	Rhode Island	Conservation	0.014	Actual	58
Water	Texas	Conservation	0.082	Actual	58
Water	Wisconsin	Conservation	0.022	Actual	39
			<b>125.623</b>		

# Carbon

## Green Evaluation Process

88

Transparency

78

Governance

79

Mitigation

Weighted aggregate of three:  
(Transparency + Governance + Mitigation)

**E1/79**

Overall Score

Technology	Baseline carbon intensity	Net benefit ranking	→ Carbon hierarchy adjustment	Environmental impact score	Proceeds (mil. \$)
	<p>Medium-high</p> <p>USA</p>				
Wind power					
Solar power					
Small hydro					
Large hydro (excluding tropical areas)					
Energy management and control					
Unspecified					
Green transport without fossil fuel combustion					
Green buildings – new					
Unspecified					
Energy-efficient projects (industrial and appliance efficiencies)					
Green transport with fossil fuel combustion					
<b>Green buildings refurbishment</b>		<b>79</b>			
Unspecified					
Nuclear					
Large hydro in tropical areas					
Unspecified					
Coal to natural gas					
Cleaner fuel production					
Cleaner use of coal					
Fossil fuel-based cogeneration					
Unspecified					
			Systemic decarbonization		
			<b>Significant decarbonization in sectors already aligned with a green economy</b>	<b>80</b>	<b>95.991</b>
			Alleviating emissions of existing carbon-intense industries		
			Decarbonization technologies with significant environmental hazards		
			Improvement of fossil-fueled activities' environmental efficiency		

Increasing decarbonization impact ↑

# Water

## Green Evaluation Process

88

Transparency

78

Governance

79

Mitigation

Weighted aggregate of three:  
(Transparency + Governance + Mitigation)

**E1/79**

Overall Score

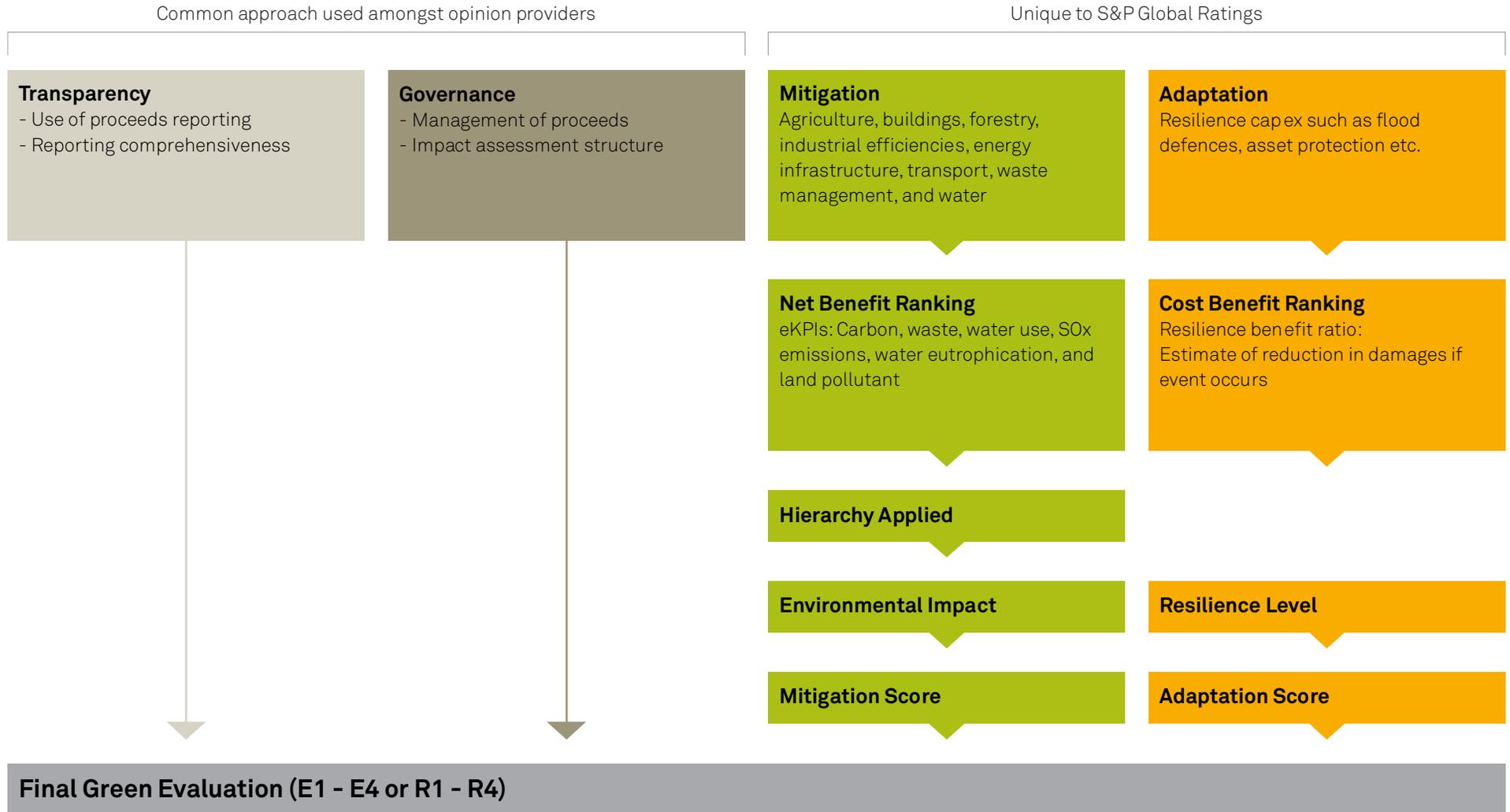
Technology	Baseline water stress	Net benefit ranking	Water stress and hierarchy adjustment	Environmental impact score	Proceeds (mil. \$)
	<p>Medium-high</p> <p>USA</p>				
Recycling wastewater for water (agricultural uses)					
Recycling wastewater for water (other uses)					
Wastewater treatment with 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					
<b>Conservation measure in commercial buildings</b>					
Conservation measure in industrial buildings		49			
Smart metering in residential buildings					
Unspecified					
			Increasing freshwater availability through system enhancements		
			Improving delivery of existing freshwater supplies		
			Increasing freshwater availability with significant negative environmental impact		
			<b>Reducing demand on potable water supplies</b>	50	2.028

Increasing water sustainability

# Our Green Evaluation Approach

Weighted aggregate of three:

Transparency + Governance + Mitigation or Adaptation = Green Evaluation



eKPI--Environmental Key Performance Indicator.

Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P) receives compensation for the provision of the Green Evaluation product (Product). S&P may also receive compensation for rating the transactions covered by the Product or for rating the issuer of the transactions covered by the Product. The purchaser of the Product may be the issuer or a third party.

The Product is not a credit rating. The Product does not consider state or imply the likelihood of completion of any projects covered by a given financing, or the completion of a proposed financing. The Product provides a relative evaluation of the estimated environmental impact of a given financial instrument and/or an alignment opinion of a financing framework with the Green Bond Principles and/or Green Loan Principles. The Product is a point in time assessment reflecting the information available at the time that the Product was created and published. The Product is not a research report and is not intended as such.

S&P's credit ratings, opinions, analyses, rating acknowledgment decisions, any views reflected in the Product and the output of the Product are not investment advice, recommendations regarding credit decisions, recommendations to purchase, hold, or sell any securities or to make any investment decisions, an offer to buy or sell or the solicitation of an offer to buy or sell any security, endorsements of the suitability of any security, endorsements of the accuracy of any data or conclusions provided in the Product, or independent verification of any information relied upon in the credit rating process. The Product and any associated presentations do not take into account any user's financial objectives, financial situation, needs or means, and should not be relied upon by users for making any investment decisions. The output of the Product is not a substitute for a user's independent judgment and expertise. The output of the Product is not professional financial, tax or legal advice, and users should obtain independent, professional advice as it is determined necessary by users.

While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Product. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for reliance of use of information in the Product, or for the security or maintenance of any information transmitted via the Internet, or for the accuracy of the information in the Product. The Product is provided on an "AS IS" basis. S&P PARTIES MAKE NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDED BUT NOT LIMITED TO, THE ACCURACY, RESULTS, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE PRODUCT, OR FOR THE SECURITY OF THE WEBSITE FROM WHICH THE PRODUCT IS ACCESSED. S&P Parties have no responsibility to maintain or update the Product or to supply any corrections, updates or releases in connection therewith. S&P Parties have no liability for the accuracy, timeliness, reliability, performance, continued availability, completeness or delays, omissions, or interruptions in the delivery of the Product.

To the extent permitted by law, in no event shall the S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence, loss of data, cost of substitute materials, cost of capital, or claims of any third party) in connection with any use of the Product even if advised of the possibility of such damages.

S&P maintains a separation between commercial and analytic activities. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

For PRC only: Any "Green Evaluation" or "assessment" assigned by S&P Global Ratings: (a) does not constitute a credit rating, rating, green bond assessment or assessment as required under any relevant PRC laws or regulations, and (b) cannot be used within the PRC for any regulatory purpose or for any other purpose which is not permitted under relevant PRC laws or regulations. For the purposes of this section, "PRC" refers to the mainland of the People's Republic of China, excluding Hong Kong, Macau and Taiwan.

Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

**[spglobal.com/ratings](https://www.spglobal.com/ratings)**