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## Green Transaction Evaluation

# Calvert Impact Climate Inc.'s C-PACE Asset-Backed Cut Carbon Notes Series 2023-1

June 5, 2023

Calvert Impact Climate Inc. is a Delaware non-profit 501c(3) nonstock corporation and special purpose vehicle (SPV) created to issue \$30.3 million of commercial property assessed clean energy (C-PACE) asset-backed notes secured by a portfolio of commercial property assets in Michigan, Nebraska, Ohio, Texas, Minnesota, and Wisconsin. The C-PACE programs provides low-cost financing for a variety of energy efficiency, renewable energy, water conservation, and storm protection measures for commercial properties. The financing is repaid through a special tax or an annual or semiannual assessment on a property's tax bill.

We have considered 100% of the underlying collateral pool to be in scope for our Green Transaction Evaluation environmental benefits analysis. The portfolio includes multifamily housing, assisted living, an office, a hotel, and a non-profit athletic facility. The sustainability upgrades include electrical and lighting projects, solar photovoltaic (PV) generation, green building envelope improvements, and heating, ventilation, and air conditioning (HVAC) projects.

Calvert Impact Inc., a 501c(3) non-profit nonstock corporation that conducts research and educates the public about the field of impact investing, is the sponsor and master servicer of the notes. Calvert Impact develops impact investment solutions based on the results of its research and education efforts.

In our view, Calvert Impact Climate's C-PACE Asset-Backed Cut Carbon Notes Series 2023-1 are aligned with:

 Green Bond Principles, ICMA, 2021

### Primary Analyst

**Sachi Jain**  
San Francisco  
+1 202-213-7083  
sachi.jain  
@spglobal.com

### Secondary Analysts

**Alex Louie**  
Englewood  
+1 303-721-4559  
alex.louie  
@spglobal.com

**Natalie Wu**  
San Francisco  
+1 415-371-5025  
natalie.wu  
@spglobal.com

### Environmental benefit score



### Governance and reporting opinion



### Transaction Evaluation

**75/100**

A higher score indicates greater environmental benefit

## Project Description

Calvert Impact Climate's Series 2023-1 Cut Carbon notes will be used to finance renewable energy, energy efficiency, and water conservation improvements in both multifamily residential properties and commercial buildings. The proceeds from the financing will be used to purchase C-PACE assets originated by PACE Equity, a Wisconsin limited liability company.

C-PACE programs are 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. These programs enable business owners to cover the upfront costs associated with environmentally beneficial property improvements while repaying the financing over a term longer than typically available for similar projects.

The portfolio is primarily concentrated in the Midwest and covers six states: Ohio, Nebraska, Wisconsin, Michigan, Minnesota, and Texas. Excluding administrative fees and capitalized interest (about \$2.538 million and \$1.29 million, respectively), we consider 100% of the underlying collateral to be in scope for our Green Transaction Evaluation. Of the \$28.08 million allocated for projects we consider in-scope, 76% is allocated for green buildings projects (including new build and energy efficiency retrofits), 18.9% for water conservation measures in commercial buildings, and 5.1% for PV green energy projects.

At this stage, S&P Global Ratings cannot provide an opinion on the resilience of the projects/assets to extreme weather and climate change as part of this Green Transaction Evaluation.

## Summary of environmental benefit score

Location	Environmental sector	Environmental project type	Environmental KPI(s)	Benefit ranking	Hierarchy score and tier	Benefit score	Use of proceeds (mil. \$)
Ohio	Green energy	Solar power	Carbon intensity, waste generation, water use	39	Score: 100 Tier: 2	84.75	1.43
Michigan	Energy Star products	Lighting	Carbon intensity	50	Score: 80 Tier: 4	64.5	0.77
Michigan	Energy Star products	Heating and cooling	Carbon intensity	80	Score: 80 Tier: 4	72	0.90
Michigan	Energy Star products	General	Carbon intensity	70	Score: 80 Tier: 4	69.5	0.06
Ohio	Green buildings	New build: residential	Carbon intensity, water use	31	Score: 90 Tier: 3	70.75	1.23
Nebraska	Green buildings	New build: general	Carbon intensity, water use	41	Score: 90 Tier: 3	73.25	2.50
Wisconsin	Green buildings	New build: commercial	Carbon intensity, water use	80	Score: 90 Tier: 3	83	3.89

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Ohio	Green buildings	Refurbishment : commercial wall insulation	Carbon intensity, water use	90	Score: 80 Tier: 4	74.5	0.75
Ohio	Green buildings	Refurbishment : commercial HVAC	Carbon intensity, water use	90	Score: 80 Tier: 4	74.5	0.14
Ohio	Green buildings	Refurbishment : commercial LED	Carbon intensity, water use	90	Score: 80 Tier: 4	74.5	0.05
Ohio	Green buildings	Refurbishment : commercial water heating	Carbon intensity, water use	20	Score: 80 Tier: 4	57	0.05
Ohio	Green buildings	Refurbishment : commercial not specified	Carbon intensity, water use	10	Score: 80 Tier: 4	54.5	0.12
Texas	Green buildings	Refurbishment : commercial wall insulation	Carbon intensity, water use	80	Score: 80 Tier: 4	72	0.27
Texas	Green buildings	Refurbishment : commercial HVAC	Carbon intensity, water use	80	Score: 80 Tier: 4	72	0.37
Texas	Green buildings	Refurbishment : commercial LED	Carbon intensity, water use	80	Score: 80 Tier: 4	72	0.76
Wisconsin	Green buildings	Refurbishment : commercial wall insulation	Carbon intensity, water use	80	Score: 80 Tier: 4	72	0.69
Wisconsin	Green buildings	Refurbishment : commercial HVAC	Carbon intensity, water use	90	Score: 80 Tier: 4	74.5	0.39
Wisconsin	Green buildings	Refurbishment : commercial LED	Carbon intensity, water use	80	Score: 80 Tier: 4	72	0.44
Wisconsin	Green buildings	Refurbishment : commercial water heating	Carbon intensity, water use	20	Score: 80 Tier: 4	57	0.28
Wisconsin	Green buildings	Refurbishment : commercial windows, doors, skylights	Carbon intensity, water use	80	Score: 80 Tier: 4	72	0.03
Wisconsin	Green buildings	Refurbishment : commercial not specified	Carbon intensity, water use	10	Score: 80 Tier: 4	54.5	0.17
Minnesota	Green buildings	Refurbishment : commercial LED	Carbon intensity, water use	70	Score: 80 Tier: 4	69.5	0.97
Minnesota	Green buildings	Refurbishment : commercial not specified	Carbon intensity, water use	10	Score: 80 Tier: 4	54.5	0.98

## Green Transaction Evaluation

Ohio	Green buildings	Refurbishment : residential wall insulation	Carbon intensity, water use	70	Score: 80 Tier: 4	69.5	3.53
Ohio	Green buildings	Refurbishment : residential: LED	Carbon intensity, water use	70	Score: 80 Tier: 4	69.5	1.08
Ohio	Green buildings	Refurbishment : residential high efficiency water heating	Carbon intensity, water use	30	Score: 80 Tier: 4	59.5	0.25
Ohio	Green buildings	Refurbishment : residential not specified	Carbon intensity, water use	20	Score: 80 Tier: 4	57	0.63
Ohio	Green buildings	Refurbishment : residential HVAC	Carbon intensity, water use	70	Score: 80 Tier: 4	69.5	0.95
Ohio	Green buildings	Refurbishment : residential roof insulation	Carbon intensity, water use	50	Score: 80 Tier: 4	64.5	0.24
Ohio	Green buildings	Refurbishment : residential windows, doors, and skylights	Carbon intensity, water use	70	Score: 80 Tier: 4	69.5	0.54
U.S. (Michigan, Unknown)	Water conservation	Conservation: residential buildings	Carbon intensity, water use	89	Score: 50 Tier: 7	54.75	3.66
				<b>Weighted average benefit score and total use of proceeds</b>	68	28.08	

Note: To disaggregate the score breakdown, please refer to "[Analytical Approach: Second Party Opinions and Transaction Evaluations](#)," published Dec. 7, 2022.

## Transaction Evaluation Summary

### Environmental benefit

Score **75/100**

The environmental benefit score of 75 largely reflects the allocation of the proceeds to C-PACE assets that are secured by renewable energy, energy efficiency, water conservation, and green building construction and refurbishment projects. Such projects play a role in driving systemic decarbonization and sustainable water use, in our view.

### Use of proceeds

**Alignment**  Calvert Impact Climate's C-PACE Asset-Backed Cut Carbon Notes Series 2023-1 is aligned with this component of the Green Bond Principles.

**Commitments score** Limited Satisfactory **Strong** Advanced

The issuer commits to use the net proceeds from the notes exclusively to finance renewable energy, energy efficiency, water conservation, and green building construction and refurbishment projects defined in the offering documents and the C-PACE program guidelines for each state in which the projects are located.

### Process for project evaluation and selection

**Alignment**  Calvert Impact Climate's C-PACE Asset-Backed Cut Carbon Notes Series 2023-1 is aligned with this component of the Green Bond Principles.

**Commitments score** Limited Satisfactory **Strong** Advanced

The issuer clearly communicates the process by which it identifies and selects projects eligible for funding. All projects must meet strict eligibility criteria outlined in the offering documents and the C-PACE program guidelines for each state.

### Management of proceeds

**Alignment**  Calvert Impact Climate's C-PACE Asset-Backed Cut Carbon Notes Series 2023-1 is aligned with this component of the Green Bond Principles.

The issuer commits to hold the undisbursed project funds for each C-PACE project in project funding accounts, which it will use exclusively to finance construction related to the eligible projects.

### Reporting

**Alignment**  Calvert Impact Climate's C-PACE Asset-Backed Cut Carbon Notes Series 2023-1 is aligned with this component of the Green Bond Principles.

**Disclosure score** Limited Satisfactory **Strong** Advanced

The issuer commits to publish an impact report on its public website for investors and noteholders, which includes the projects' key performance indicators (KPIs) and allocation of proceeds.

# Transaction Evaluation Assessment

## Environmental benefit

The environmental benefit score provides a relative ranking of the environmental benefits of projects financed by a given financial transaction. The score is a weighted average of the project's benefit ranking based on project type and location, and the project's placement within our environmental contribution hierarchy.

Score **75/100**

The environmental benefit score of 75 largely reflects the allocation of the proceeds to C-PACE assets secured by renewable energy, energy efficiency, water conservation, and green building construction and refurbishment projects. The environmental benefit assessment considers the benefit of each technology based on the carbon intensity, water use, and (for green energy projects only) waste generation of each project's state. On an aggregate basis, we consider the grid carbon intensity and water stress for all financed projects to be medium-high, which strengthens the environmental benefit score.


The renewable energy project is a solar PV system in Ohio, which has a carbon-intensive grid. The location of the project strengthens the overall environmental benefit score relative to other states, like Washington D.C. and Connecticut, that have low-carbon-intensive grids. However, the relatively small amount of proceeds dedicated to green energy projects limits the score.

The average net benefit score of green building projects, including new construction and energy efficiency improvements, is relatively high. A significant portion of the green building projects are in midwestern and southern states that have a high net benefit ranking in a global context because of the carbon intensity of their grid and the average energy consumption of their buildings. Green building projects fall in tiers 3 and 4 of our carbon contribution hierarchy and are below renewable energy and energy management and control projects, which--in our view--provide more systemic decarbonization benefits.

A small amount of the allocation pool is dedicated to water conservation projects, which fall in tier 7 of our water contribution hierarchy. These projects provide modest environmental benefits, such as the alleviation of water stress by reducing the water demand of commercial properties.

## Use of proceeds

Our alignment opinion focuses on the commitments and clarity on how the proceeds are used. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

 Calvert Impact Climate's C-PACE Asset-Backed Cut Carbon Notes Series 2023-1 is aligned with this component of the Green Bond Principles.

### Commitments score

Limited

Satisfactory

**Strong**

Advanced

We consider the issuer's overall use-of-proceeds commitments to be strong.

The issuer commits to use the net proceeds from the notes exclusively to finance eligible green assets that satisfy the eligibility criteria in the offering documents and the specific state-requirements outlined in the C-PACE program guidelines. The issuer provides a clear description of how it will allocate proceeds to the eligible C-PACE projects, which comprise renewable energy, energy efficiency, green building, and water conservation projects. The assets include solar PV, LED lights, HVAC, and wall insulation technologies.

The transaction's structure provides strict controls that govern the use of the proceeds for eligible green projects. The issuer, a special-purpose vehicle (SPV), has a specified investment mandate related to C-PACE programs, which provides certainty that it will use the net proceeds from the notes exclusively to finance eligible green assets. Finally, it is clear the projects contribute to Calvert Impact's mission to make the world more equitable and sustainable through impact investment solutions, which we view as a strong practice.

## Process for project evaluation and selection

Our alignment opinion focuses on the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

 Calvert Impact Climate's C-PACE Asset-Backed Cut Carbon Notes Series 2023-1 is aligned with this component of the Green Bond Principles.

### Commitments score

Limited

Satisfactory

**Strong**

Advanced


We consider the issuer's overall process for project selection and evaluation commitments to be strong.

In our opinion, the issuer clearly communicates the process by which it identifies and selects projects eligible for financing. All project categories must meet the eligibility criteria in the offering documents and the requirements of the C-PACE programs in each state, though we note the criteria, calculation methodologies, and disclosures can vary across states. For example, some state programs require all green projects to have a savings-to-investment ratio (SIR) equal to or greater than one, while other states require minimum energy conservation measures or average reduced annual energy consumption. State administrators are responsible for ensuring that all C-PACE applications meet the statutory requirements for project eligibility. The issuer also requires an opinion from counsel that each project meets the applicable statutory requirements.

The issuer provides information on the process by which it identifies and manages perceived social and environmental risks associated with the eligible projects. The issuer's underwriting policies and procedures require properties to undergo an environmental risk rating and for insurance to be purchased, among other measures. Furthermore, eligible projects must abide by the risk management policies outlined by their respective C-PACE program guidelines. Lastly, the issuer details the final decision-makers and their relevant ESG expertise in the transaction documents, which we view as a strong practice

## Management of proceeds


Our opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will continue to be dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 Calvert Impact Climate's C-PACE Asset-Backed Cut Carbon Notes Series 2023-1 is aligned with this component of the Green Bond Principles.

The issuer will use the proceeds exclusively to purchase eligible C-PACE projects. In addition, it will hold the undisbursed funds for each C-PACE project in project funding accounts, which it will use exclusively to finance construction related to the eligible projects. PACE Equity will serve as the servicer and will manage the disbursement of proceeds to property owners as installation costs accrue. PACE Equity is thereby responsible for ensuring the project funds are solely disbursed to finance eligible projects throughout the life of the instrument. PACE Equity will manage and service the C-PACE assets in accordance with its standard operating policies and procedures.

## Reporting

Our opinion focuses on how clearly the financing documentation describes the issuer's level of disclosure and reporting practices. We provide an opinion on the level of commitment made in the documentation as limited, satisfactory, strong, or advanced.

 Calvert Impact Climate's C-PACE Asset-Backed Cut Carbon Notes Series 2023-1 is aligned with this component of the Green Bond Principles.

## Green Transaction Evaluation

### Disclosure score

Limited

Satisfactory

**Strong**

Advanced

We consider the issuer's overall reporting practices to be strong compared with standard market practices for sustainable debt.

PACE Equity will report on the disbursement of the bond proceeds, as construction costs are incurred, until all proceeds have been disbursed. Its allocation reporting will include the location of the projects, the construction progress of the projects, updated project budgets, and invoices and receipts for costs, among other items.

The issuer requires that each C-PACE project receives an engineering analysis that measures the expected environmental impact, including lifetime energy, carbon, and water savings. The issuer will enroll each C-PACE project in a utility monitoring service, which will track the actual energy efficiency of the buildings. The issuer will report on the environmental impacts semi-annually to noteholders, on each disbursement date, and will publish an impact report on its investor website annually. The environmental impact metrics include energy savings, water savings, savings relative to annual consumption, carbon savings, and installed PV capacity. Investors can also request additional materials, such as the C-PACE program guidelines per state, which include the eligibility requirements for the projects.



## Carbon Contribution Hierarchy

	Project
<b>Tier 2: Systematic decarbonization</b>	Green energy: Wind power <b>Green energy: Solar power</b> Green energy: Small hydro Green energy: Large hydro (excluding tropical areas) Energy efficiency: Energy management and control
<b>Tier 3: Significant decarbonization of key sectors through low-carbon solutions</b>	Green transport without fossil fuel combustion <b>Green buildings – new build</b>
<b>Tier 4: Decarbonization by alleviating emissions in intensive industries</b>	Energy efficient projects (industrial efficiencies and energy star products) Green transport with fossil fuel combustion <b>Green buildings refurbishment</b>
<b>Tier 8: Decarbonization technologies with significant environmental hazards</b>	Nuclear power Green energy: Large hydro in tropical areas
<b>Tier 9: Improvement of fossil fuel-based activities' environmental efficiency and impact</b>	Fossil fuel power plants: Coal to natural gas Fossil fuel power plants: Cleaner fuel production Fossil fuel power plants: Cleaner use of coal

## Water Contribution Hierarchy

	Project
Tier 2: System enhancements	Recycling wastewater to supply potable municipal water Recycling wastewater to supply non-potable water for agricultural uses Recycling wastewater to supply non-potable water for agricultural uses Wastewater treatment with no energy recovery Wastewater treatment with energy recovery
Tier 5: Marginal system enhancements	Reducing water losses in the water distribution network
Tier 6: Marginal system enhancements with material negative environmental consequences	Water desalination to supply potable municipal water
<b>Tier 7: Demand-side improvements</b>	<b>Conservation measure in residential buildings</b> Conservation measure in commercial buildings Conservation measure in industrial buildings Smart metering in residential buildings

## Green Transaction Evaluation

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