Bridging the Gap: a Green Building Loan Fund Diversifies The Pittsburgh Region’s LEED™ Portfolio

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1. INTRODUCTION

In many regions of the country, the momentum for LEED™ Certified projects has been achieved through governmental efforts. In Pittsburgh, the opposite tack was taken. Note that Pittsburgh’s initial LEED™ projects were developed by private owner/developers such as PNC Financial Services, and KSBA Architects. Despite this fact, many developers and building owners in the Pittsburgh region felt that LEED™ projects were out of their financial reach. Since adopting new techniques often increases costs, at least initially, credence was given to the perception that LEED™ was for the elite. To make LEED™ more widely available, the need to develop a tool to bridge the financing gap became apparent.

The Green Building Fund (GBF) was created when the Heinz Endowment, working in conjunction with the CL Fund and the Green Building Alliance (GBA), provided a resource base to fund loans to increase the number and variety of projects pursuing LEED™ Certification in the Southwestern Pennsylvania region. The CL Fund was provided with $3,000,000 in start-up, seed capital by the Heinz Endowments, while GBA contracted to the CL Fund to market the fund and to provide oversight and quality control regarding green building issues.

The total CL Fund loan portfolio value is $16,000,000, which includes non-green building programs as well, that works to increase employment and expand economic opportunity in Southwestern Pennsylvania. CL Fund provides capital to manufacturing firms & businesses in Southwestern Pennsylvania. Begun in 1990 as a housing and social service lender, the CL Fund continued to respond to the market by adding small business lending in 1994. Throughout its 10-year history, the CL Fund has applied a blend of entrepreneurial vision, community knowledge and operational expertise to strengthen and help reinvent the employment base of local communities. Since 1991, loans in excess of $7 million have been disbursed throughout the 9 counties of Southwestern Pennsylvania. The CL Fund maintains a Board of Directors comprised of investors, business advisors and community members. The CL Fund is a member of the National Community Capital Association and is certified as a (Community Development Financial Institution) by a division of the U.S. Treasury Department. Mark Peterson is the Executive Director of the CL Fund and was instrumental in developing the GBF.
Hershman, Portfolio Manager for the CL Fund, works most closely with the GBA staff and end clients on each prospective business deal.

The Green Building Alliance is the first Affiliate recognized by the US Green Building Council. GBA has a professional staff of seven and has been in operation for over six years. GBA has developed a fee-for-service program named Green Team Builders (GTB) that is responsible for fulfilling the contract with the CL Fund. This effort is staffed by GBA’s Executive Director Rebecca Flora (AICP, LEED™ Accredited Professional), Deputy Director Gary Goodson, Project Manager Marc Mondor (AIA/ LEED™ Accredited Professional), and Resource Coordinator Ryan Snow (LEED™ Accredited Professional).

Some of the highlights from the program are outlined below:

- GBF has increased market penetration of LEED™ projects in Southwestern Pennsylvania
- LEED™ Certified required as a minimum standard
- The GBF provides loans of up to $400,000 with flexible terms
- The GBF is a revolving loan fund
- Small grants are given in conjunction with the loan to cover some soft costs associated with LEED™ certification
- LEED™ products used include LEED™ CI (Pilot Project)
- The retainer fee earned by the GBA helps diversify its funding base and contributes to the capacity of the region
- The GBF brings positive press to the region and to the LEED™ system

This paper provides significant information on how to develop such a fund to help build LEED™ market share. Topics covered include: the process that was used for developing the GBF, fundraising, developing user friendly loan requirements, marketing the GBF, and managing the process. The appendices include selections from the GBF’s loan packages that may use as templates.

2. DEVELOPING THE FUND

Because this was to be a sizeable investment from GBA’s most significant funder, the GBA felt the need to ensure that there was truly a market for such a product and sought advice to determine how such a fund should be marketed and operated. Focus groups were held for prospective borrowers and designers. An agenda was developed for each meeting and a report was issued to the funder. The full report on the results of these focus groups is available from the GBA. The focus groups were essentially comprised of 12 borrowers and 7 total designers/builders and were facilitated by GBA’s Executive Director, Rebecca Flora. The discussions were set to cover a variety of issues but the main points of the actual agenda are provided below as bolded subheadings.

2.1.1 Green Building and the Potential Challenges & Benefits
Since the time that the focus groups were conducted in February of 2000, the USGBC has made great strides in establishing LEED™ as the green building standard in the United States (and beyond) for commercial, institutional and high-rise residential buildings. In spite of this progress, it is useful to note some of the reservations that prospective customers have about this system and green building in general. Such research is likely to be especially valuable for regions that have seen little green building development.

On the demand side, one of the biggest challenges is a lack of consumer awareness. One developer emphasized the need to educate the marketplace on the economic advantages of using LEED™. Note for example the following comment from one of the participants “A Fortune 500 Corporation leased space in our office park because of the building’s flexibility; it wasn't because of green stuff. They needed a building that they could grow into so they were using the green features that we had put in place but they didn’t know what those features were.” While one participant noted that even when she had had customers ask about green building strategies, these were cut from the budget 90% of the time. It was also felt that appraisers needed to learn more about green building so that they could more accurately assess a value to this type of product so that customers could attain the loan/asset ratios that they seek. In the meantime, it was felt that a green building loan fund could help support the market.

Like many development environments, Pittsburgh’s is somewhat conservative. Comments from some developers included: “…if it ain’t broke why fix it, it’s been working for 80 years?” or, “Of course we do need to change-we just don’t want to take the time” and “if it worked all (of us) would be doing it.” Another person chimed in with, “California and Colorado are on top of this issue but people in this region we say that we have $2 million for building a structure of X thousand square feet… make the budget fit.” This is especially true in regards to speculative development which is a challenging sector for green building in general. It was noted that for these types of projects it doesn't help to borrow or defer payments; the problem lies in having to pay any first cost premium at all. Possible incentives would be to lease buildings more quickly and to reflect decreased turnover, but it was felt that it would take time for the tenants to see the advantages of leasing space in a LEED™ building. Corporate lease holders typically commit to a space for two years, then either buy or relocate. So they should be made aware of the potential utilities savings (in a triple net lease situation) if the building is LEED™ Certified, especially if the company is entertaining the idea of purchasing a property.

The general feeling was that while LEED™ is a laudable goal, it is difficult to prove that there is an adequate payback to compensate for the increased complexity and cost. In fact, one of the developers reported that his company had even created their own (less rigorous) green building guidelines. Of particular concern is having adequate computer modeling available to ensure that a design has been optimized to save energy. (And this is a relatively objective benefit in
most peoples’ minds, especially when compared to quantifying productivity increases). As one developer said, “Do we believe the modelers, and do I know enough to evaluate the evaluators?” Continuing he said “…we worked on a townhouse project and the projected 40% savings was seen as a bill of goods. Prospective buyers need proof first that their utility bills are really going to be less than $100/month.” In addition to the modeling challenge, few were experienced in properly integrating the design process thus impairing the ability to save money.

In spite of the focus on items that have a reasonable payback one of the participants felt that green building should just be accepted as a part of the “economy of the future” and more specifically “defining where the market is going (starting with) the workplace of the future and finally (getting to the point where we are developing) more livable communities.” A follow up comment was that this type of effort represents the “New Economy which must be consumer driven.” Another person countered that much of green building is still top down driven and that it hadn’t really filtered down yet. A fairly positive report was made by at least one developer in the group who said that her clients do want to sit down with the company and go through the (green) “options.” And institutions are “… motivated by opportunity to be good citizens, even if a small premium is required.”

Additional comments from the Designer Focus Group include:

- First cost increases for energy efficiency measures usually have reasonable paybacks
- IEQ issues (air quality, good lighting and ventilation) improve comfort but may not have paybacks from energy savings
- Green materials do cost more and performance may not be as good (additional painting cost, etc.)
- Construction manager may be hired by owner but not always an advocate
- Productivity is a big selling point, but is difficult to quantify
- The suggestion of picking 3 projects and piloting the program before conducting a broad roll-out of the fund
- There was some discussion over what type of construction process lends itself best to green construction (i.e. design-build versus design-bid-build).

### 2.1.2 Possible Loan Program Parameters – Identifying Potential Issues & Potential Market Demand

While the GBF requires that projects attain LEED<sup>TM</sup> Certified level of Certification as the minimum green performance benchmark, one developer actively lobbied against this action and felt that it was too strict, limiting (in his mind) the ability to develop greenfields.

Of greater concern to the focus group as a whole was the need to keep the loan fund as simple as possible. It was noted that developers often work on very thin margins and if too much time has to be put into financing a deal, it can tip the
balance and make a deal unprofitable. Some of the deals that GBF team has reviewed required as many as 17 sources of capital, thus anything that could be done to streamline the process was considered to be important. A fixed turn around time of no more than 90 days also helps maintain interest in the fund. The funds obviously are needed before a LEED™ rating can be determined so it was recommended that the team agree in writing to attain at least 29 specific LEED™ Credits, providing a safety buffer above the 26 points minimum for LEED™ Certification.

Another key issue is the interest rates that are offered. One developer noted that conventional funding may not be sufficient anymore as other financial entities may offer, low, or even zero interest rate loans. Thus it is critical that one looks at the rates that are available, keeping in mind that some of the most attractive rates don’t factor in the considerable paperwork or lead time. Consequently, most developers don’t consider them to be truly viable options.

A developer voiced concern over the need to have enough capital in the fund to keep a decent loan portfolio and still keep it revolving over a substantial period of time. One suggestion that came up was to integrate the fund into a major local bank so that it would not represent a whole new layer. One answer to the challenge of loan fund longevity is to sell some of the loans to another bank (while retaining a management fee as a way to earn income as well).

2.1.3 Needs to Assist in Meeting (Loan) Parameters
Since most developers’ experience with LEED™ is minimal, some felt that the GBA should help guide the fund’s projects and attend job meetings periodically. It was noted that such a partnership should continue through to the post occupancy phase. These activities would help integrate the process and act as quality assurance for all involved.

Because of the challenges noted in section 2.1.1 most participants agreed that assistance in selecting (and potentially having the fund pay for) computer modeling and commissioning would go a long way towards ensuring quality and helping developers and designers with two of the greatest challenges in developing a LEED™ Certified building. Modeling will help estimate the Return on Investment (ROI), while commissioning will act as quality assurance that the ROI is met and that all parties have some protection. As a seasoned developer said, “… unless I know the cost of meeting (the fund’s) needs to ensure that I don’t lose money (I can’t make a commitment).” The same developer said that “The full benefits are not garnered by the market (thus) you need an innovation grant.” Another developer concurred and said that people won’t do it unless (grant) funds are available.”

Other comments from the developers focus group include:

- Since measuring the savings is very hard. Shared cash flow mortgages may help
• For every dollar of savings credit $1.25 to debt service
• Offer a credit on principal (rather than interest), such that every year as savings mount provide a credit towards principal

3. FUND RAISING
As noted in the introduction, the initial investment in the Green Building Fund was provided by one foundation. The GBF charges 5% annual percentage yield (APY) interest on its loans as a way to generate income and to provide for GBA’s fees. However, even before any loans were made the CL Fund was able to use the seed money to earn interest that provided significant contributions to the fund. In most regions, the pool of loan funds would need to be built up over time from a greater variety of sources. These sources might include: state environmental departments, corporate sponsors, oil/utility overcharge funds, banks that could use this for a percentage of their community development funds (as required by the Community Reinvestment Act), federal budget earmarks and venture capital funds that focus on environmentally responsible investments. As the GBF is a revolving fund, an emphasis on short term bridge loans, and/or selling the loans to commercial banks (as mentioned above) are all ways that the GBF plans to increase the number of loans that can be made with a set amount of money. Efforts are also being made to triple the amount of the money in the GBF pool by meeting with legislators and others but this is a protracted process that will take significantly more time to bear fruit.

4. GREEN BUILDING FUND OPERATIONS
As mentioned in the introduction, the Green Building Fund is a partnership between the CL Fund which operates as the bank for the fund and the GBA. The CL Fund is responsible for all GBF contracts with the borrowers and approving or declining loan applications. The CL Fund contracted with the Green Building Alliance to market the fund and provide quality assurance for the green building elements. GBF is presently on track to generate 2-4 loans per year with an average loan amount of approximately $375,000. The variety of building types through the GBF has also added significant diversity to the Pittsburgh Region’s LEED™ portfolio. Once a prospect is identified, the GBA completes an intake form on the prospective deal. It is important to determine whether or not the project’s developers have site control, and if the majority of the financing is in place (for larger projects that require other sources of financing). Ideally GBA’s support occurs early in the process, prior to selection of the design team. The GBF has found that it is important that developers hire designers and/or builders that are LEED™ Accredited Professionals. Note that the GBA has helped write requests for proposals and requests for qualifications to help ensure that the need for this prior degree of knowledge is adequately emphasized in the selection process. The importance of this step cannot be overstated. The architect must also be made aware that the client expects them to hire an MEP engineer that is innovative and flexible. Engineers with LEED™ experience are not that numerous, but the additional effort in retaining the right firm has proven to be
well worth the effort. It is interesting to note that since the GBF takes a secondary position to banks, the money from the fund acts as developer capital to close funding gaps which acts as a significant incentive to us the fund.

5. CASE STUDIES

5.1 CastCon Stone
This project is a manufacturing plant that makes pre-cast concrete stairs and architectural details. The total project budget was $4.5 million, and is 36,000 gross square feet. Notable green features include natural swales to absorb stormwater and a rainwater catchment system for landscape irrigation. The project is currently registered to attain a LEED™ Certification. This completed project is located in Butler County, which is northeast of Pittsburgh.

The deal was originally brought to the attention of the GBA by a local green builder involved with the project, Clearview Project Services Company. The client had an appraisal gap and needed the GBF to make the pro-forma work. The loan amount was $400,000 and the GBF also provided a $15,000 grant to assist with building commissioning, computer modeling and documentation costs. The GBF provided ongoing advisement, research and wrote an RFP for commissioning services.

5.2 Coro Foundation
This project is the Pittsburgh headquarters for the Coro Center for Civic Leadership located south of Pittsburgh’s downtown across the Monongahela River. This non-profit organization occupies 11,000 square feet in the Terminal Building. The entire building, constructed as a storage building for the Pittsburgh shipping industry at the turn of the century, has over one million gross square feet.

This project is currently registered as a LEED™ CI (commercial interiors) pilot project. The GBF’s intervention was critical to the project, as it lent a majority of the funds to this $600,000 build-out project, along with $13,000 in grant funds to cover the energy modeling, commissioning and LEED™ fees. The GBF participated in the interview and selection of the construction manager, and the interview of the architect, as the owner desired a design-build project delivery method. The GBF provided LEED™ and green building advisement to the project, helped define the energy modeling scope, and wrote an RFP for commissioning services.

5.3 Millvale Expansion
This building serves as an expansion for the Three Rivers Rowing Association and is located along the Allegheny River. The project contains a training building
with rowing tanks, weight room, locker facilities, offices, conference room and a caretaker’s unit. There is also a separate boat storage building and access to the river.

This project was the first project funded by the GBF. Project monies largely included foundation grants, but the owner faced a financing gap. The GBF lent $375,000 as a bridge loan, along with a grant for $15,000 to assist with LEED™-related soft costs. The GBF provided green building advisement to the project.

More information on all of these projects can be located at: www.gbapgh.org

6. CONCLUSION

The LEED™ rating system has much to offer the development community. Tools such as this are helping to build acceptance in groups that have been somewhat skeptical of the use of the system for “their” projects. This fund also reaches non-profit organizations which want to use LEED™ but simply can’t attain this goal for their projects without a significant infusion of cash. The GBF appears to work best for small to mid-sized projects whereas higher available loan amounts would help impact larger projects. Overall the program has helped build the Pittsburgh Region’s LEED portfolio while building green building capacity.

7. APPENDICES
**CL FUND/GREEN BUILDING FUND APPLICATION CHECKLIST**

(Unless noted, the items listed below need to be submitted before a loan can be considered)

**Green Building Information**
- Site map showing building location
- Onsite tour with Green Building Alliance and CL Fund staff
- Set of plans or schematic drawings, including floor plans and elevations (if available)
- Set of specifications, including details on building modeling and commissioning (if available)
- LEED checklist signed by the architect detailing a total of at least 29 LEED credits and ensuring that all prerequisites are met (While LEED-Certified buildings require 26 USGBC approved credits, submitting at least three additional credits is advisable.)
- Sample timeline delineating the decisionmaking process
- Proof of LEED registration (provide as early as possible; see www.leedbuilding.org for information on the LEED rating system)

**Business Information**
- Signed letter of request for financing, including a brief description of the project and the applicant’s social security number or employer identification number
- Balance sheets* for the last three years
- Income statements* for the last three years (sole proprietors please use enclosed form)
- Cash flow statements* for the last three years
- Federal income tax returns prepared for the business for the last three years
- Balance sheet, income statement and cash flow projection for three years (first year on a month-by-month basis)
- Most recent interim year-end balance sheet, income statement and cash flow statement
- List containing the original date and amount, present balance owed, interest rate, monthly payment, maturity and security for each loan or debt that the business currently carries
- Company history, including a business plan that documents the management structure and professional background of the management
- Summary of total project costs
- List of vendor/supplier cost estimates (including installation) of machinery, equipment, furniture or fixtures for the project
- Construction budget in form and content acceptable to CL Fund, including copies of contractor estimates
- Documentation in form and content acceptable to CL Fund of any grant(s) committed to the project
- Information required for a credit check
- Evidence of property and general liability insurance acceptable in form and content to the CL Fund
- Evidence of title to real estate and a listing of all liens
- Other information and documentation that CL Fund may request

* Documents and projections must comply with generally accepted accounting principles (GAAP)
GREEN BUILDING FUND

FINANCING FOR GREEN BUILDINGS

The Green Building Fund was created by the CL Fund to assist building owners and developers with the implementation of green building practices. The application of these practices results in environmentally responsible buildings that are healthier to occupy and more efficient to operate. Green building practices work to improve our region's competitiveness through bottom-line benefits to businesses, including:

- Reduced utility costs
- Increased worker productivity
- Improved employee/tenant retention rates
- Enhanced public image

The Green Building Fund is available to qualified developers who plan to integrate green design into either new construction or rehabilitation projects. The Fund provides a source of flexible financing with:

- Loan amounts from $200,000 to $400,000
- Subordinate collateral positions
- Fixed market rate financing for the term of the loan
- Extended repayment terms available
- Potential support for soft costs associated with LEED™ rating system

CL Fund partners with the Green Building Alliance (GBA) to support green design. GBA uses the U.S. Green Building Council’s LEED™ building rating system as its design framework. LEED™ certification is a requirement of the Fund.

For further information about the Green Building Fund, please contact:

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