



**SUSTAINABLE  
MELBOURNE  
FUND**

# How EUAs Work and Communicating the Business Case

Local Government Economic Development and Sustainability Forum  
1 September 2014

Scott Bocskay, CEO, Sustainable Melbourne Fund

# Agenda

- About SMF
- EUA Context in Victoria
- What EUAs can offer your communities
- What does an EUA enable
- How Does an EUA work
- Better Building Finance
- How can Local Governments offer EUAs?

# SMF

Owned by Local Government, Servicing Local Government



Work with customers to identify the commercial opportunities in 'sustainability' through EUAs and direct investments



An investor in innovative approaches to achieve 'sustainability' outcomes since 2002



**Third party administrator** – To enable Councils to offer cost effective programs for EUAs

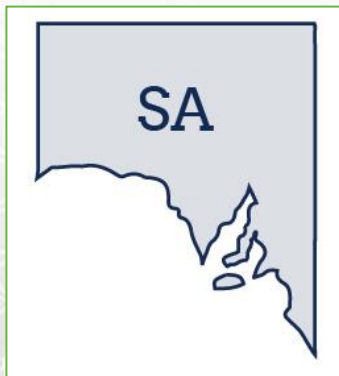
# About Environmental Upgrade Agreements (EUAs)



- Pioneer - Victoria legislated 2010
- First program open – Melbourne 2011
- Legislation updated in 2011
- Current amendment to expand



- NSW 2011
- 5 Councils
- Expansion review underway



- Program to open 2015
- State-wide

# Local Government and EUAs.

## What's in it for us?



Stimulate Local Economic Activity



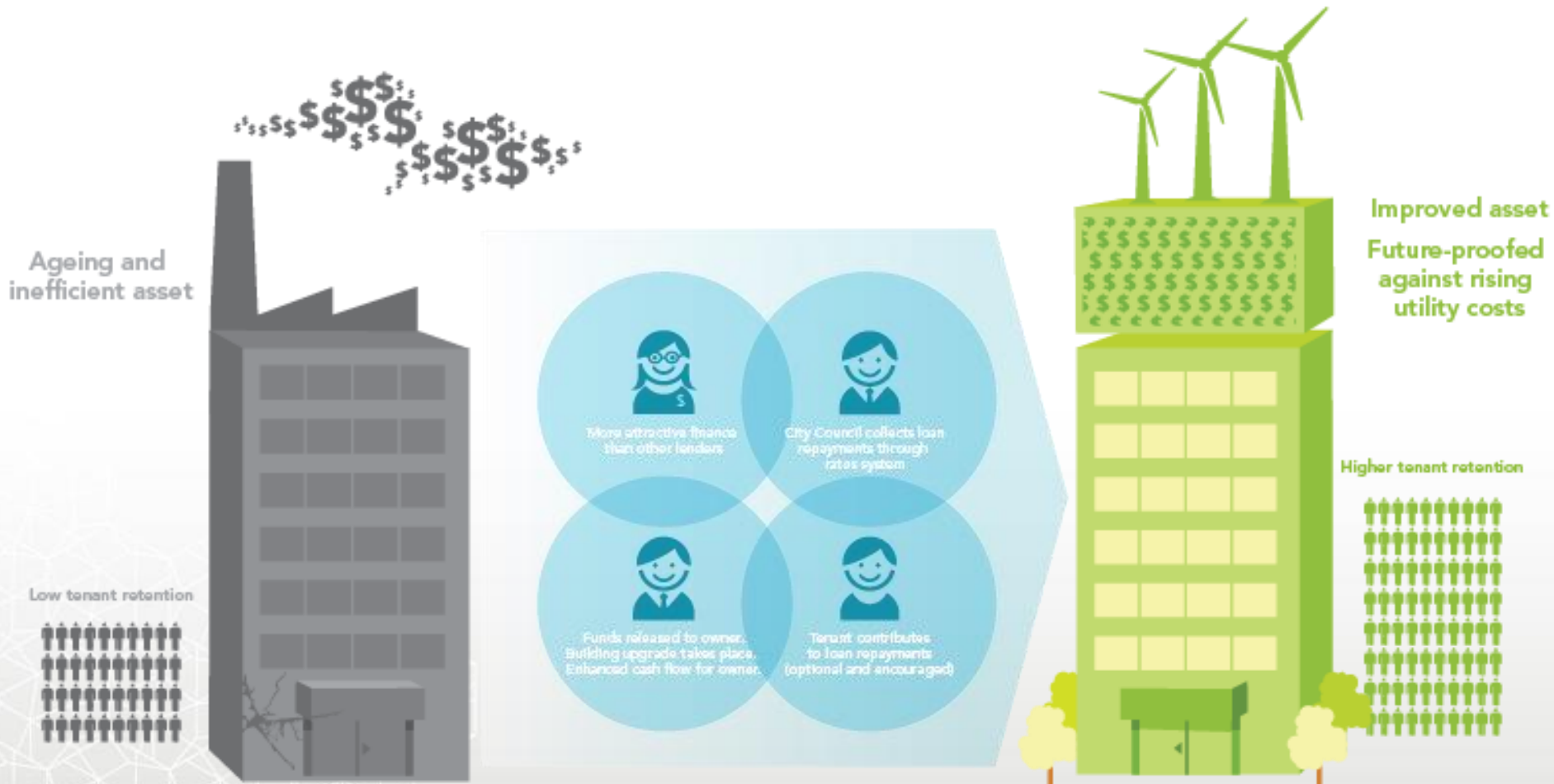
Achieve sustainability objectives



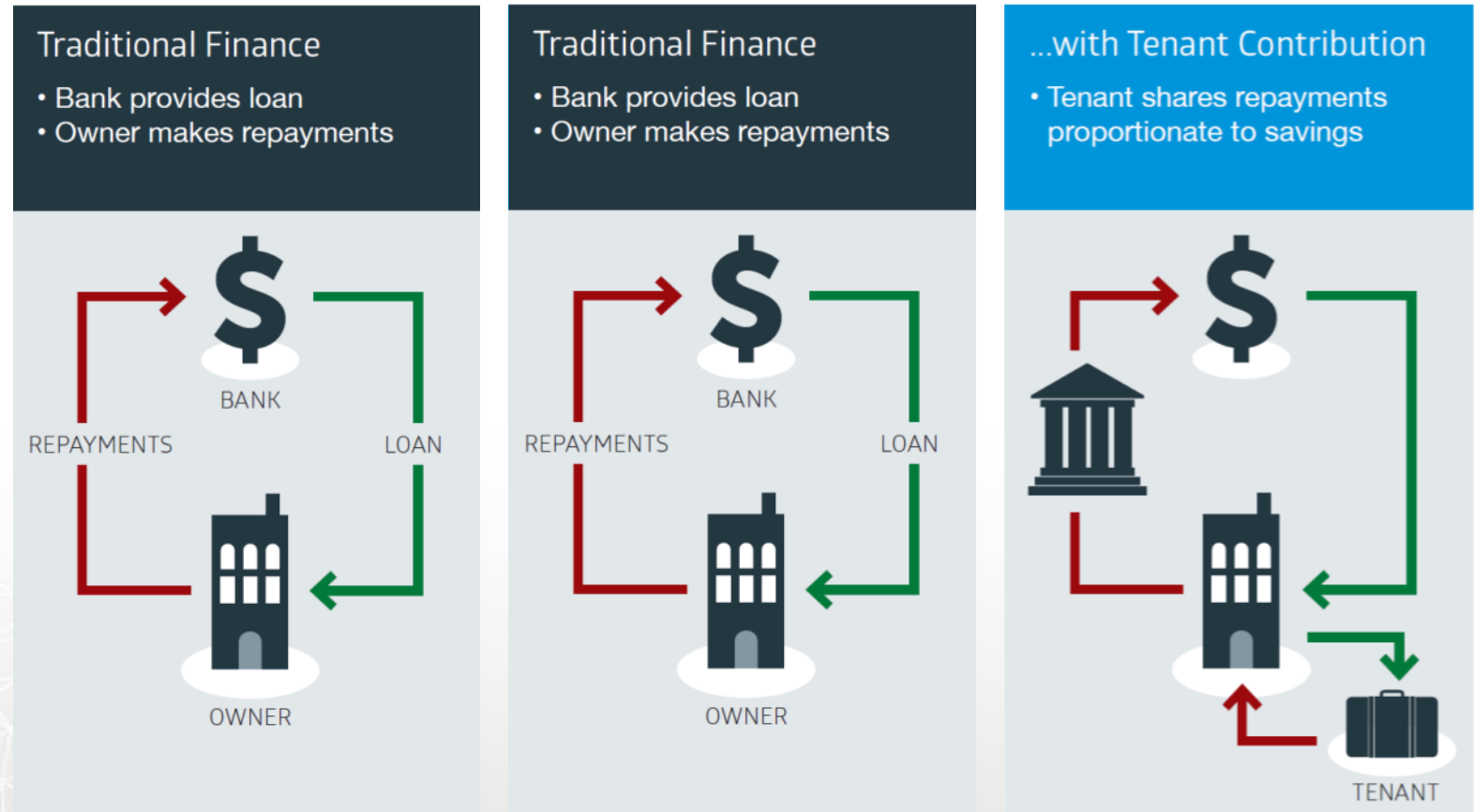
Assist local businesses

# How does an EUA deliver these outcomes?

Captures wasted money and allocates it to capital improvement



# How does an EUA work?



# Simple Project Opportunity

	Split incentive
Loan Amount	\$2,420,800
Interest rate	5.25%
Years of loan	4
Payments per year	12
Annual Payment (P&I)	-\$672,287
Annual Savings	-
Project Simple Payback	-
Net annual Cost	-\$672,287
Cash-flow benefit	-\$289,308
<b>NPV</b>	<b>-\$2,226,698</b>

# Simple Project Opportunity

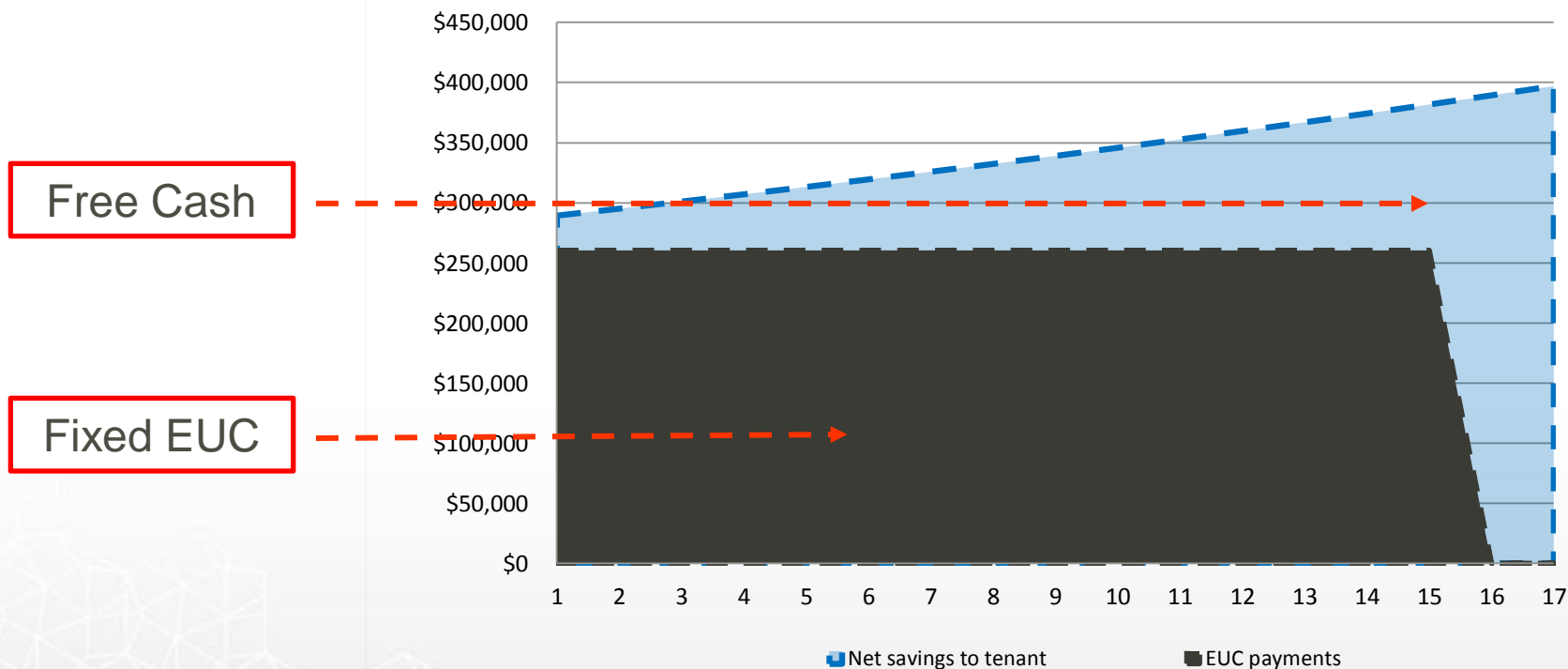


# Simple Project Opportunity

	Split incentive	EUA
Loan Amount	\$2,420,800	\$2,420,800
Interest rate	5.25%	6.75%
Years of loan	4	15
Payments per year	12	4
Annual Payment (P&I)	-\$672,287	-\$257,894
Tenant Receipts = 90% of savings →		\$260,377
Project Simple Payback	-	9.3
Net annual Cost	-\$672,287	\$2,483
Cash-flow benefit	-\$289,308	+\$674,769
<b>NPV</b>	<b>-\$2,226,698</b>	<b>\$167,625</b>

# Simple Project Opportunity

Tenant benefit - 2% growth in electricity prices



*Tenant NPV: +\$768,336*

Simple, right?



# Capturing the value of better buildings.

Local Government Economic Development and Sustainability Forum  
1 September 2014



**Australian Government**  
**Department of Industry**

This Activity received funding from the Department of Industry as part of the Energy Efficiency Information Grants Program. The views expressed herein are not necessarily the views of the Commonwealth of Australia, and the Commonwealth does not accept responsibility for any information or advice contained herein.

## A bit about this project:



**Australian Government**  
**Department of Industry**

This Activity received funding from the Department of Industry as part of the Energy Efficiency Information Grants Program. The views expressed herein are not necessarily the views of the Commonwealth of Australia, and the Commonwealth does not accept responsibility for any information or advice contained herein.

## Sustainable buildings are good for business



REDUCED OPERATING  
COSTS



REDUCED MAINTENANCE  
COSTS FOR EFFICIENT  
EQUIPMENT



STAFF PRODUCTIVITY  
IMPROVEMENTS FROM  
BETTER LIGHTING  
AND AIR QUALITY



REDUCED STAFF  
ATTRACTION AND  
RETENTION COSTS

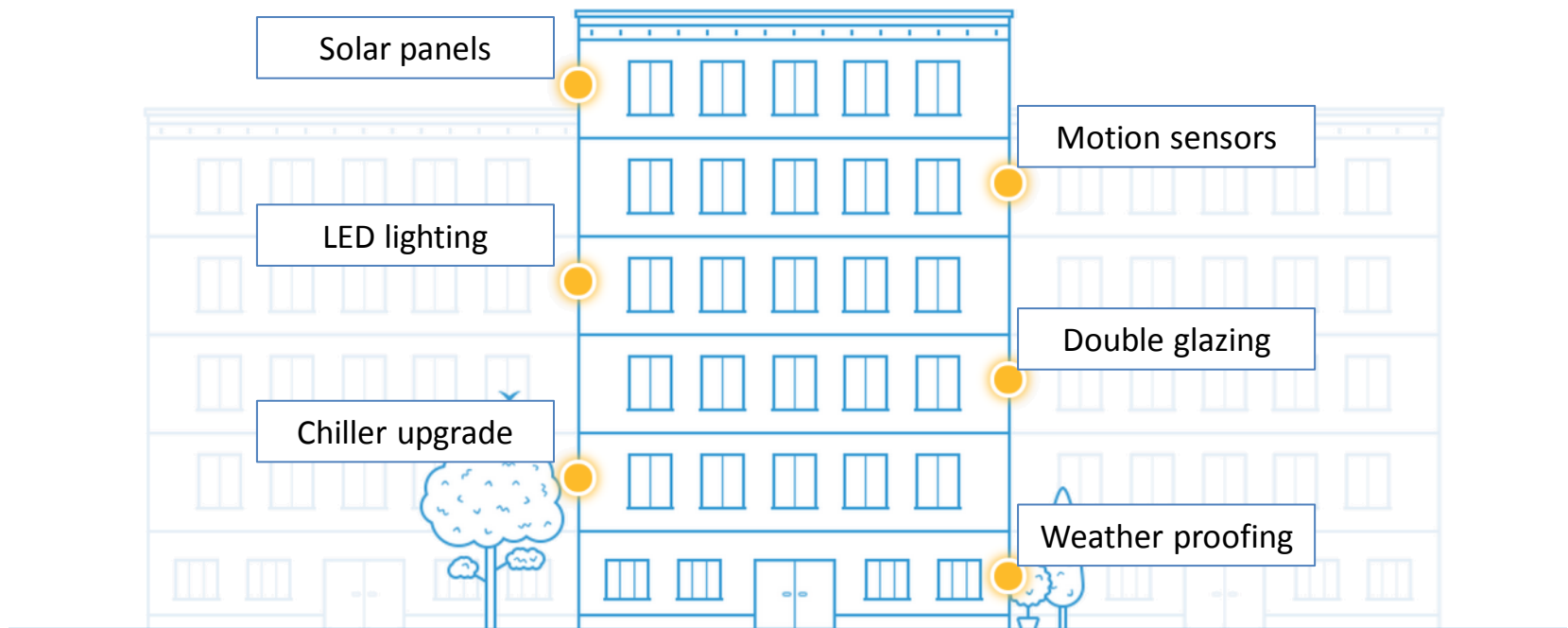
UP TO  
**23%**

PRODUCTIVITY  
IMPROVEMENTS  
FROM BETTER  
LIGHTING ALONE

UP TO  
**12%**

PRICE PREMIUM  
FOR 'GREEN'  
OFFICES

**EUF can pay for any upgrades that improve energy, water or waste efficiency, or increase renewable energy**





## Traditional financing mechanisms are well understood



3.5%



2.5%



## Whereas EUF may still appear complex



## For building owners, EUF can enable a building upgrade, or a more significant upgrade, than otherwise possible



**1. No requirement for additional upfront capital or security to be provided to the financier**



**2. Reduced re-financing risk**



**3. More significant upgrades can be achieved with no or minimal cash flow implications**



**4. Sharing of upgrade costs with tenants**

## For existing tenants, EUF can help them influence their landlord to upgrade, without increased rents



**1. Enables tenants to pro-actively influence their landlord to agree to an upgrade, particularly upgrades to tenancy spaces, which may otherwise not have been possible without rental increases**



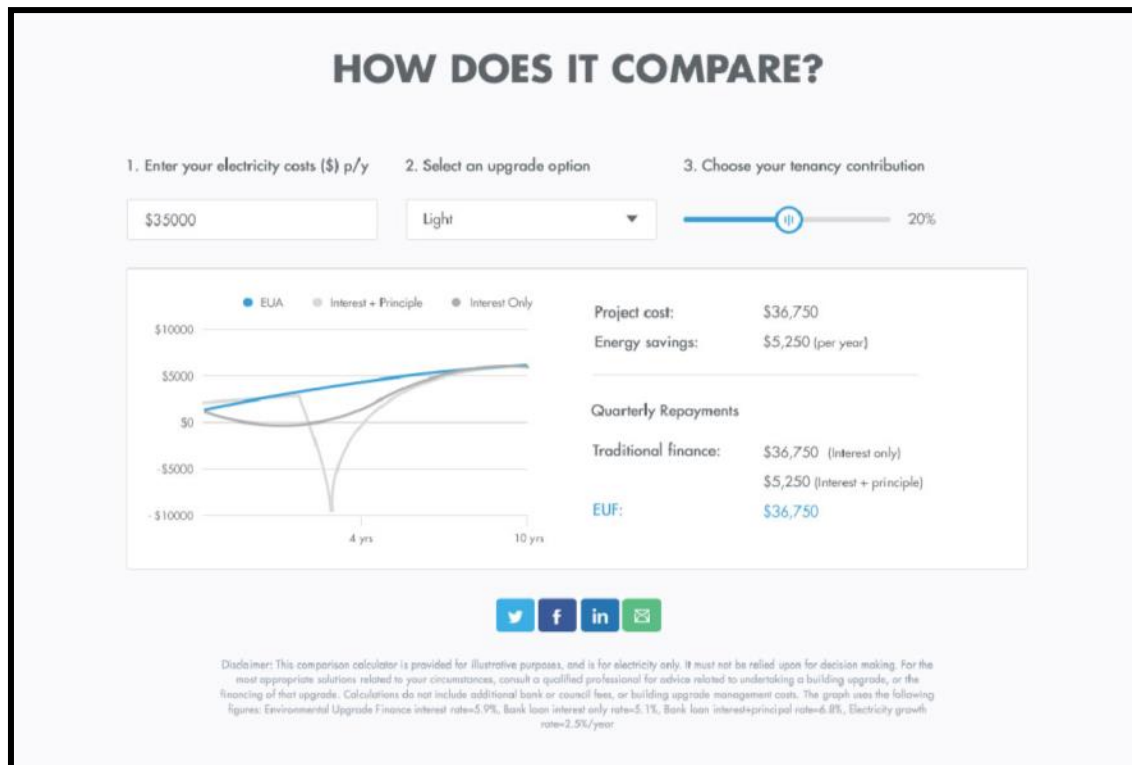
**2. Enables tenants to pursue a mid-lease upgrade, and therefore realise the benefits of a building upgrade sooner than would otherwise have been possible.**

## **BetterBuildingFinance.com.au is a simple, user-friendly website designed to help the sector better understand and communicate the potential benefits of EUF**

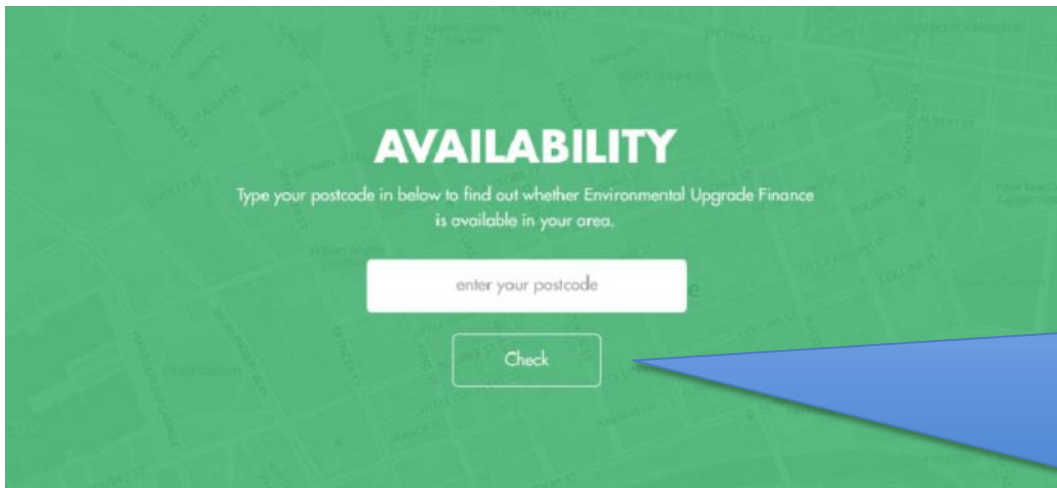
- Simple, business-friendly explanation of EUF
- Case studies of successful EUF projects
- Illustrative business cases for potential projects
- EUA v traditional finance comparison calculator, to see how EUA stacks up



## The comparison calculator, like a mortgage calculator, helps people get an early idea of what's possible



## The website will provide references to assist building owners and tenants to take the next step



Provides referrals to:

1. Certified energy efficiency professionals
2. Financiers that offer EUF
3. Relevant local governments

# In Summary

- EUAs are one tool to unlock value for:
  - Building owners
  - Tenants
  - Local Governments
- While it may seem complex, it primarily because its new
- There is expertise and tools in the market to help
- There is unlimited amounts of capital ready to invest
- The need for consistency

# A National EUA Marketplace

- Property industry preferred model of Third Party Administration (TPA)
- Extrapolating SMF's knowledge, frameworks and tools in establishing the TPA model in other municipalities.
- Enable council's to access EUA markets, capital and achieve carbon targets, upon a common platform.
- Use of SMF's TPA sales and marketing expertise in promoting EUAs.
- 'Least Cost' delivery mechanism for councils.
- Online portal for managing deal flow/pipeline.



**KEEP  
CALM  
AND  
CALL  
SMF**

## For further information:

Scott Bocskay, Chief Executive

P: +61 3 9658 8666

E: [scott.bocskay@sustainablemelbournefund.com.au](mailto:scott.bocskay@sustainablemelbournefund.com.au)

W: [www.sustainablemelbournefund.com.au](http://www.sustainablemelbournefund.com.au)

Facebook: [sustainablemelbournefund](https://www.facebook.com/sustainablemelbournefund)

Twitter: [@SMFAus](https://twitter.com/SMFAus)



**SUSTAINABLE  
MELBOURNE  
FUND**



Eli Court

Project Manager

P: +613 9803 8040

E: [eli.court@climateworksaustralia.org](mailto:eli.court@climateworksaustralia.org)

W: <http://www.climateworksaustralia.org/>