

REPORT HIGHLIGHTS

Colorado New Energy Improvement District
Performance Audit, May 2019

AUDIT CONCERN

Revenues from program administration fees paid by property owners participating in the C-PACE Program have yet to be sufficient to cover the District's operating costs.

KEY FINDINGS

- The District's goal is to be self-sustaining through program administration fees paid by property owners who participate in the C-PACE Program. However, new project activity and the related program administration fee revenue is not yet at a breakeven level:
 - In 2018, the District collected about \$500,000 in program administration fees, and its operating expenditures were nearly \$630,000. For 2019, the District projected about \$1.125 million in revenues from program administration fees and about \$1.273 million in operating expenses.
 - The District's forecasts suggest that it needs to close roughly 70 projects per year to reach a sustainable level, which neither the District nor its Program Administrator project will occur until 2020 or 2021.
 - Over the near term, the District remains dependent on grant funds received from the Colorado Energy Office (CEO) to make up for any operating shortfalls. As of March 31, 2019, the District reported an unrestricted fund balance of \$198,000.
- The District has not established a formal management structure that defines the roles and responsibilities of District management separate from the Board of Directors (Board). Since the Board was first appointed in 2013, the CEO-designated Board member has been elected to serve as the Board Chair and, in this capacity, has also served as the District's de facto chief executive/administrator.
- The District continues to rely on CEO staff and resources to help fulfill or support its operations. However, this reliance on CEO also blurs the administrative separation between the District and the State that the General Assembly specified in statute. The District is a separate legal entity that is not an agency of state government nor subject to administrative direction by the State.

BACKGROUND

The Colorado New Energy Improvement District (District) oversees and administers the Commercial Property Assessed Clean Energy Program (C-PACE Program or Program).

The Program allows commercial property owners to obtain financing for eligible energy efficiency or renewable energy improvements through private third-party lenders. The loans are secured and paid for through a special assessment and corresponding lien that the District places on the property.

The District is governed by a seven-member Board of Directors that includes the CEO Director or his or her designee and six other members appointed by the Governor.

Between 2016 and 2018, the District closed a total of 34 projects totaling approximately \$32.5 million through the C-PACE Program.

RECOMMENDATIONS

- Continue to adjust the program administration fee, as needed, to encourage new projects while generating sufficient annual revenues to support the District's operations.
- Evaluate and pursue alternative revenue sources, as needed, until the program administration fee-based funding model is fully self-sustaining.
- Establish a formal management structure, including clearly defining the scope, authority, and responsibilities of a chief executive/administrator position that is separate from and accountable to the Board.
- Execute a formal agreement with the CEO that outlines the scope of services, responsibilities, and related compensation for activities that are performed, provided, or supported by CEO employees or resources.

The District agreed with these recommendations.