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To: Kathleen James <KJames@leg.state.vt.us>

Cc: Alex Michalka <Alex.Michalka@vtleg.gov>

Subject: [External] CPACE

Representative James,

Thank you for all the time and effort you have put into CPACE and moving it forward in your committee and the House.

I listened to the testimony given on April 1 and I think good points were raised. I'm especially appreciative of your thoughtful and balanced approach to the bill text and the intent of the legislation.

I thought it might be helpful for us to review a couple of key points that continue to pop up, especially regarding the option for a municipality to bring on a third-party administrator, and further discussion on the bifurcation of effort on the front end (application review and approval) vs. collection/back-end efforts.

The language that "no capital provider may serve as a program administrator" is there to capture situations, for example, whereby a municipality elects XYZ to be its program administrator, and then XYZ (which is also a CPACE Capital Provider) does not introduce potential CPACE borrowers that reach out to the municipality/program to all potential lenders and instead keeps all deals for itself. This is the fox in the henhouse issue that was raised. When you don't have an open lending market it results in a program that operates in a less efficient manner.

What can happen, instead, is that the municipality could choose to work with multiple capital providers and appoint each registered capital provider to be the program administrator of its own projects. This is doable and would require minimal changes to the bill. The municipality would have to be open to working with a couple of groups/capital providers for this but as we noted earlier, there may only be one or possibly two transactions per year for each municipality.

There are multiple, independent administrators that we can introduce to you (or DFR) to discuss the option of engaging with an independent (from the lender) entity. These entities are well-vet, easy to work with and would welcome the opportunity to work at a local level to do the program application, etc. Costs to engage such third parties can be rolled into the Program so borrowers bear the cost (and reap the benefits) of this. If no VT entity wants to take this on there are other firms that work with municipal entities that can do it. When run appropriately there is no "underwriting" or heavy lifting on the administrative side, the

capital providers underwrite and review all documentation to be sent to the Program. There would be a check the box application and the capital providers would ensure documentation meets the statutory criteria and any additional municipal criteria (if any) a town might want to add in addition to its own underwriting. Documents that demonstrate eligibility under the statute would be provided by each lender to the Program Admin, as well as documentation of the items required by statute (such as the appraisal and documentation of the 90% of appraised value criteria).

I'm happy to walk through other questions you might have but the group, by and large, got to the right answers on all of it.

- The municipalities will not bear the burden of any CPACE payments (even if no interested tax buyer steps up to buy a defaulted payment). (sec 3267(C) explicitly and 3255(a)). This is similar to property taxes such that if there are unpaid property taxes the municipality will not pay those for properties in default.
- Administrative work is largely on the application side, checking to ensure all documentation is obtained. CPACE Alliance has a form set of documents that can be used to set up uniform documentation for all municipalities – this ensure continuity across the state and will leverage the expertise of the firms already working across the US when facilitating Program set up at the local level. I did not hear anything to lead us to believe that collection of the assessment, segregation of the assessment amount from the property tax and other assessments, or anything on the “back-end” collection process would be problematic. Also, the towns know how to enforce delinquencies – (3255a and b)
- Re: are there any changes to R-PACE in the bill. No, there are no contemplated changes to the existing procedures for R-PACE. Any reference in the bill to an R-PACE Subchapter 2 line item is to amend that section to allow for different (if necessary) treatment for commercial PACE application.

I would like to highlight one additional point which I hope helps as you gain insight and knowledge on this financing tool. Property owners view this as another tool in their tool belt. As Megan rightly pointed out, the improvements live in the property, benefit the property and the option to leave the financing at the property level is up to the current owner and any new/potential buyers. We have deals done in 2021 with low interest rates in place (on a relative basis given where treasury rates are today) and property owners are selling properties with the financing remaining in place – or refinancing their construction debt but keeping the PACE financing in place. New lenders, if they prefer to remove the

PACE financing, can ask for it to be paid off or the property owner might also try to find another lender who will agree to lend to the property owner with the existing PACE in place.

The flexibility of the financing, the longer term, and the non-recourse nature (stays with the property not the property owner) of the financing are the key factors that make this appealing to property owners. The security provisions of the lien at the property level, that may not accelerate upon a default, may not be dismissed in a bankruptcy of the borrower and that is senior (to the extent of the annual payment missed and any fees/penalties due under real property tax law) to a mortgage are the factors that make PACE financing interesting to our investors. As a result of these provisions the PACE financing may often be offered at an interest rate lower than construction debt and competitive with more traditional lending. This helps property owners build efficient, resilient properties that have better operating margins, at a lower blended cost of capital than might otherwise be available when considering a lender offering a “second lien” or Mezzanine debt for the last piece of capital needed to complete a project.

I hope this is helpful, I’m available to discuss any of these topics further.

Thank you again for your support and thoughtful process.

Kind regards,

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