

Capital Stack Comparison

Worksheet — blended cost, equity requirement, and carrying cost

DOCUMENT	MGBA-DEV-JA-03
MODULE	Segments 1 and 3 — the capital stack and its effect on returns
USE	Modeling C-PACE against the capital it displaces
OWNER	Developer and capital markets team
VERSION	v1.0 — Draft for Review

The question this worksheet answers is narrow and it is the only one that matters at the screening stage: does substituting C-PACE for a portion of the subordinate tier improve the blended cost of capital and the equity requirement on this specific deal?

Run it twice — once with your conventional structure, once with the assessment in place. If the blended cost does not improve, the mechanism is not right for this project, and that is a legitimate outcome. Rates are quoted by the capital provider; enter the quoted rate rather than an assumption.

STEP 1 — STATE THE CONVENTIONAL STRUCTURE

Use total project cost as the denominator. The illustrative percentages below reflect the structure discussed in the module; replace them with your own.

Tranche	Amount	% of cost	Rate / cost of capital	Term
Senior debt		65%		
Mezzanine or preferred		15%		
Common equity		20%		
TOTAL PROJECT COST		100%		

ON COSTING THE EQUITY TIER

Common equity has a cost even though it carries no rate. Use your target levered return, or the promote-adjusted cost of the partner capital you would otherwise take. Costing equity at zero is the single most common error in this comparison and it understates the case for the assessment.

STEP 2 — STATE THE C-PACE STRUCTURE

Carry the estimated eligible basis from the Eligible Cost Checklist (MGBA-DEV-JA-01). The assessment reduces the subordinate tier first, then equity — it does not displace senior debt.

Tranche	Amount	% of cost	Rate / cost of capital	Term
Senior debt				
C-PACE assessment			Fixed — as quoted	Up to 20 yrs, ≤ WAUL
Mezzanine or preferred (remaining)				
Common equity (remaining)				
TOTAL PROJECT COST		100%		

STEP 3 — COMPARE

Blended cost of capital is the weighted average of each tranche's cost against its share of total cost. Compute it for both structures and record the difference.

Metric	Conventional	With C-PACE	Change
Blended cost of capital			
Equity requirement (\$)			
Equity requirement (% of cost)			
Annual carrying cost of the subordinate tier			
Levered return on remaining equity			
Total leverage (all debt + assessment / cost)			

THE THREE EFFECTS TO EXPECT

Blended cost of capital falls

High-cost subordinate money is swapped for lower-cost long-term money. The size of the effect scales with how much of the subordinate tier the eligible basis can displace.

Equity requirement falls

The assessment fills dollars equity would otherwise fill. Less equity in against the same residual value out raises the return on the equity that remains.

Annual carrying cost falls

The assessment amortizes over a term matched to the useful life of the improvements — up to twenty years under Missouri statute — rather than the five-to-ten-year horizon of the instrument it replaced. Longer amortization means lower annual carrying cost, which means more net operating income reaches the bottom line during the hold.

THE FOURTH EFFECT — OFTEN DECISIVE FOR MERCHANT BUILDERS

On exit, the assessment transfers with the property. It is not defeased, not prepaid, and not carried by the seller. The buyer assumes it along with the improvements it funded.

COUNTERWEIGHTS — PRICE THESE BEFORE YOU DECIDE

These belong in the model, not in the diligence surprise. Each is real and each has a defined answer.

Counterweight	What it means for your deal	Where it shows up
Encumbrance at exit	A buyer will price the assessment. Sophisticated buyers price it correctly against the improvements and the NOI they produce. Less sophisticated buyers, or their brokers, sometimes treat it as a straight deduction from value. Plan for disclosure and education at exit.	Residual value assumption
Prepayment restrictions	Prepayment is generally restricted or carries a premium. This is long-term capital priced as such. A short flip is probably the wrong application; a three-year-plus hold or a build-to-hold is a different calculation.	Hold period and exit timing
Transaction costs	Program fees, capital provider fees, legal, and energy modeling are real costs. Below a certain eligible-cost scale they begin to consume the rate advantage. Size them against your specific eligible basis rather than a rule of thumb.	Sources and uses; blended cost
Underwriting timeline	Roughly sixty to one hundred twenty days from engagement to closing on a typical project, longer on complex ones. This is a scheduling reality, not an obstacle — but it has to be sequenced against the senior debt calendar.	Closing schedule

DECISION

Test	Result
Does blended cost of capital improve?	Yes / No

Test	Result
Does the equity requirement fall by an amount that matters on this deal?	Yes / No
Is the hold period long enough to absorb prepayment restrictions?	Yes / No
Is eligible basis large enough that transaction costs do not consume the advantage?	Yes / No
Can the senior debt calendar accommodate the underwriting timeline?	Yes / No

If the answer to the first two is yes, size the assessment and disclose it at the senior debt term sheet. If either is no, the mechanism is not right for this project — record the reason and re-screen the next one.

Markets set in motion. It all starts with collaboration.