



CDFA-Bricker PACE Webinar Series: PACE 101 - The Basics of PACE Financing

Welcome

The Broadcast will begin at 11:00 AM (Eastern)

In Partnership with





CDFA-Bricker PACE Webinar Series: PACE 101 - The Basics of PACE Financing

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Pearl-Jean Mabe

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CDFFA-Bricker PACE Webinar Series: PACE 101 - The Basics of PACE Financing

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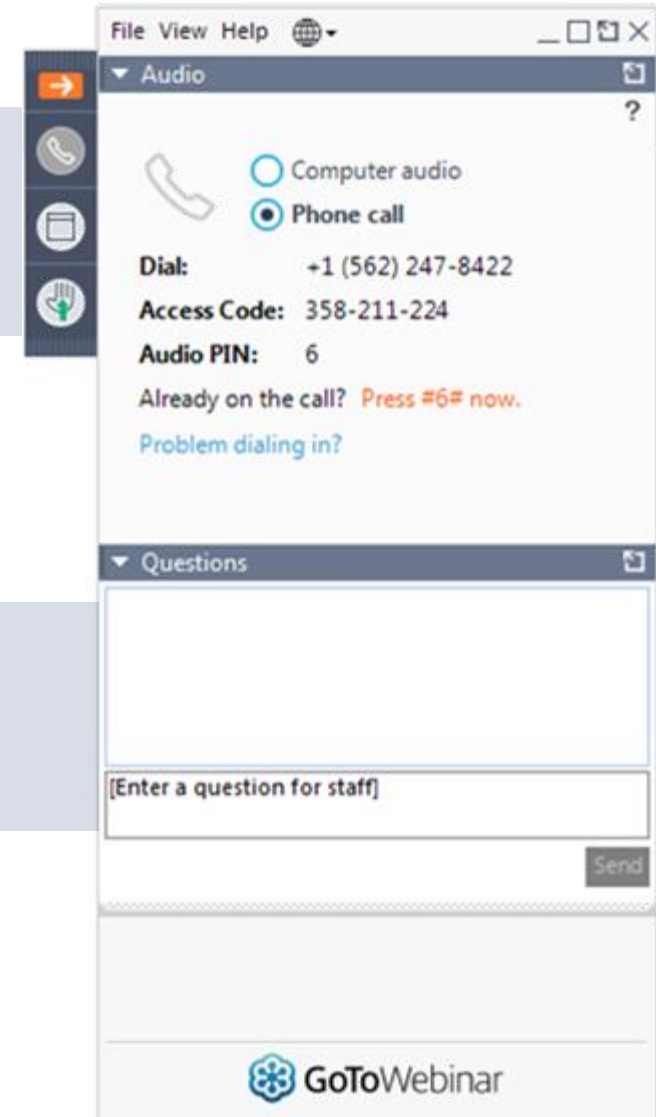
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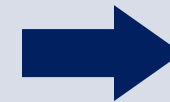
Using your telephone will give you better audio quality.



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Submit your questions to the panelists here.





CDFA-Bricker PACE Webinar Series: PACE 101 - The Basics of PACE Financing

Moderator

In Partnership with



Caleb Bell

Partner
Bricker & Eckler, LLP

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More About This Series

CDFA-Bricker PACE Webinar Series:

PACE 101: The Basics of PACE Financing

May 12, 2020

PACE Program Efficiency: Managing an Effective PACE Program

June 9, 2020

Focusing on Sustainability Using PACE

July 14, 2020

Policy and the Future of PACE

August 11, 2020

PACE Program Capitalization

September 22, 2020

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Bricker & Eckler
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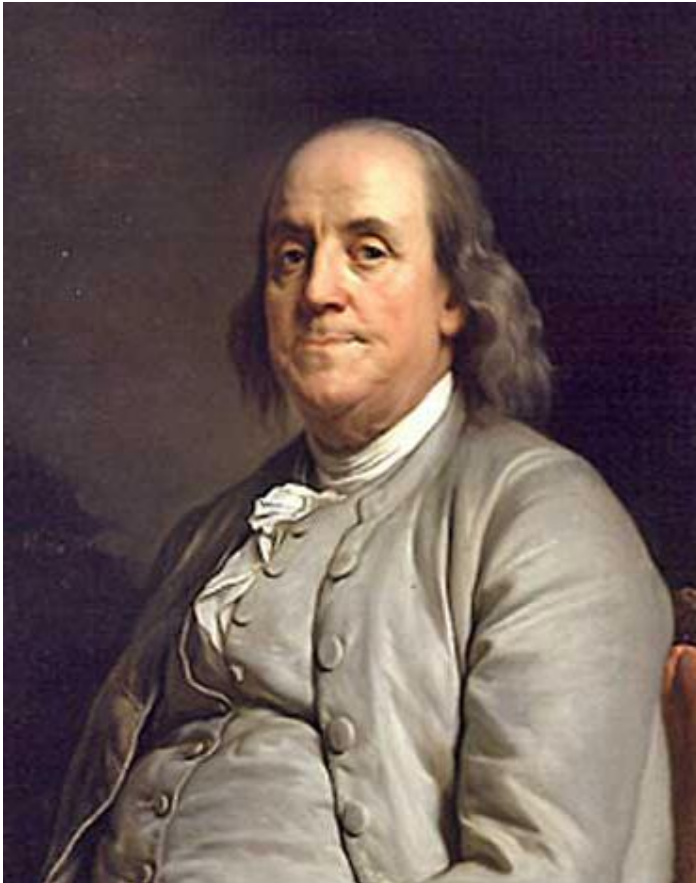
What is PACE?

PACE is a tax-assessment based financing mechanism for energy efficiency, renewable energy, and water conservation projects.



New Idea?

Financing a Public Purpose



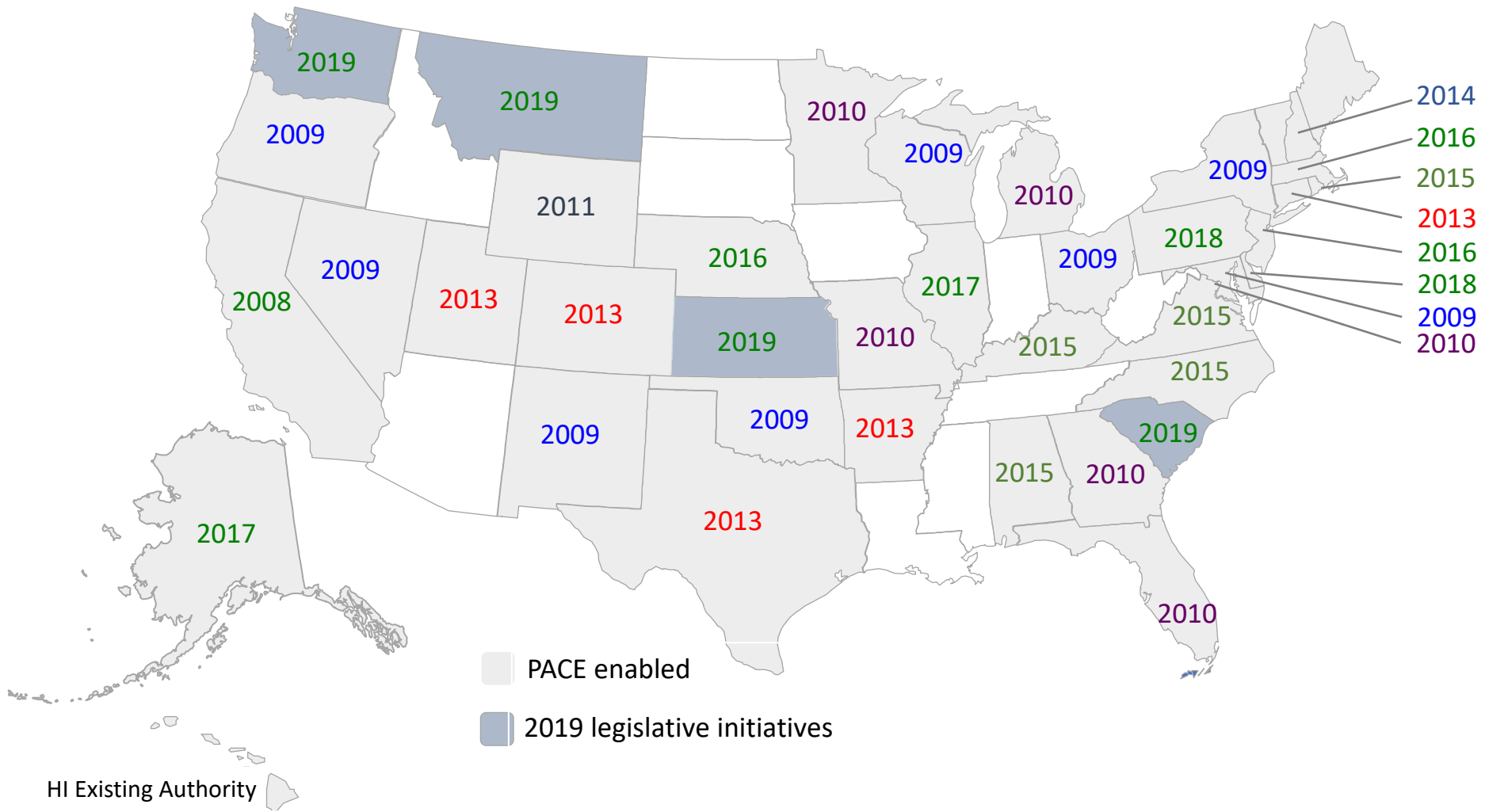
1736 – First Assessment District in Philadelphia

Today – 37,000 Assessment Districts nationwide

- ✓ Water & Sewer Service
- ✓ Parks
- ✓ Sidewalks
- ✓ Lighting
- ✓ Downtown renewal
- ✓ Energy Efficiency (PACE)

PACE Legislation

37 States and DC 84+% of the U.S. Population



PACE Process

1. State passes legislation enabling use of property-based tax assessments for clean energy projects. (Public Purpose)
2. Tax-collecting municipalities within the state pass local ordinances to enable PACE programs.
3. Programs are administered by the state, muni, or contracted to an independent Third Party Administrator, which are often non-profits
4. Projects are financed by government bonds or loans from PACE capital providers.



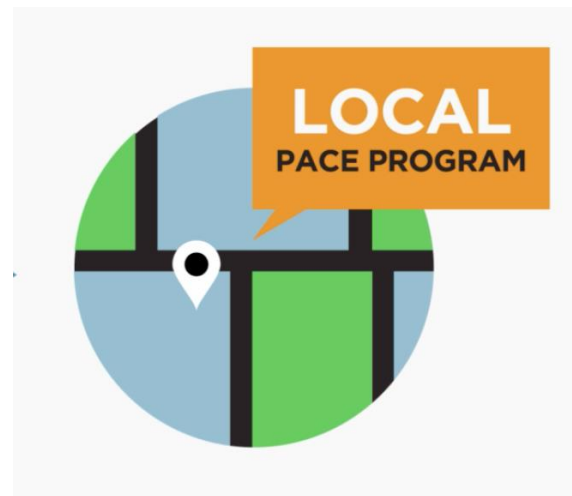
PACE Process

1. Energy related project(s) identified
2. Underwriting process ensures property qualifies
3. Funding provided
4. PACE assessment placed on tax bill



What Makes a PACE Project?

Local Government “Services” the Financing



Why Building Owners Love PACE

No \$ Out of Pocket - Hard and Soft Costs



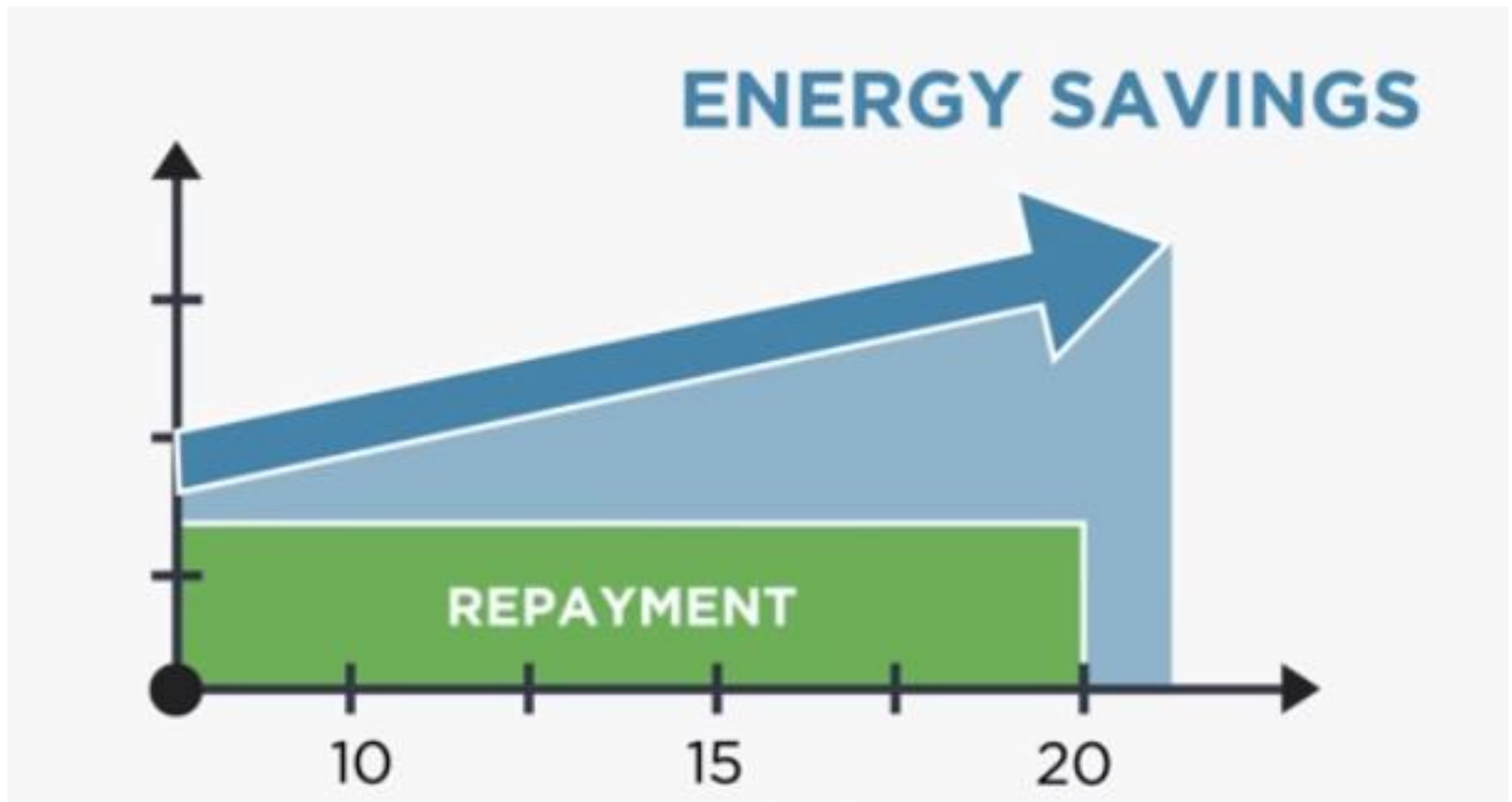
Why PACE?

Long-Term Payback



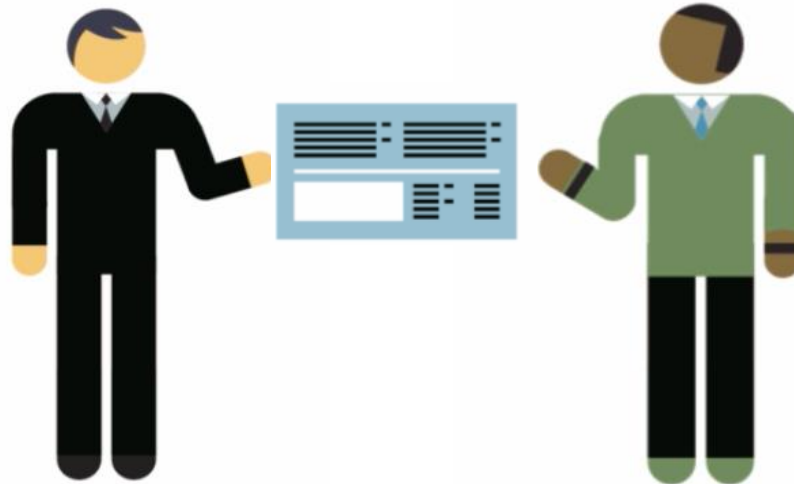
Why PACE?

Long-Term Payback - Makes Projects Cash-Flow Positive



Why PACE?

For C-PACE - Assessment Transfers on Sale



Why PACE?

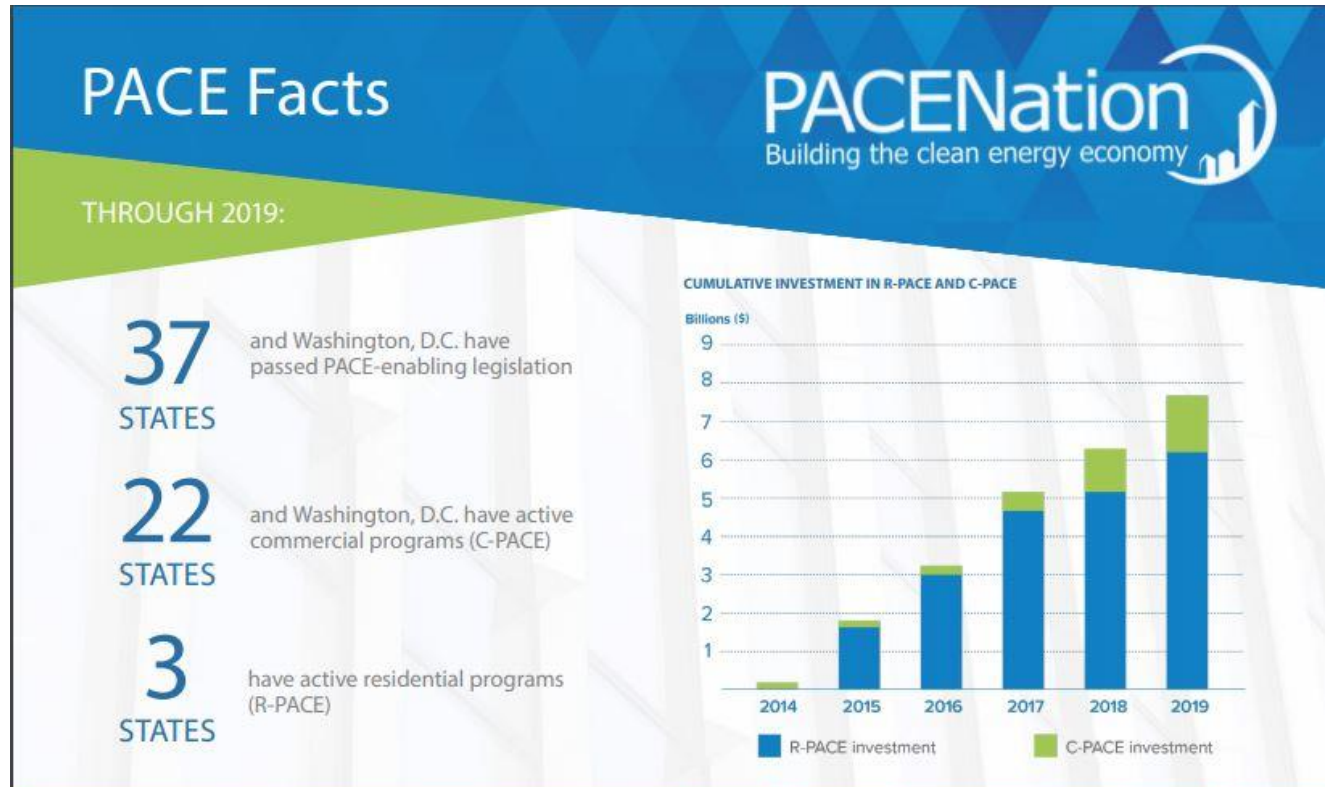
For C-PACE - Costs and Savings Shared with Tenants



PACE Market Data

**C-Pace dollars funded in each state (states > \$10MM)
(By \$ funded)**

| State | Investment (\$, MM) |
|-------|---------------------|
| CA | \$293 |
| OH | \$241 |
| CT | \$144 |
| TX | \$102 |
| MN | \$89 |
| CO | \$57 |
| MO | \$56 |
| DC | \$41 |
| WI | \$40 |
| MI | \$36 |
| NE | \$28 |
| FL | \$17 |



**C-Pace projects by amount financed
(By \$ funded)**



Thank you!

Questions?

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CDFA-Bricker PACE Webinar Series: PACE 101 - The Basics of PACE Financing

Panelists



Norma Horwitz

Special Projects Manager
Northeast Ohio Public Energy Council



Bali Kumar

Chief Executive Officer
Lean & Green Michigan, LLC



John Costlow

President
Sustainable Energy Fund

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PACE

PROPERTY **A**SSESSED **C**LEAN **E**NERGY

NOPEC

- ❖ The Northeast Ohio Public Energy Council (NOPEC) includes over 235 communities in Ohio participating in governmental gas and/or electric aggregation programs
- ❖ NOPEC's programs include nearly 1,000,000 customers
- ❖ NOPEC offers additional benefits, like PACE, to help our communities and our customers reduce their energy costs
- ❖ The PACE program at NOPEC provides project financing of \$100,000-\$500,000*

PACE Overview

What is PACE and Why Use It

- ❖ PACE is a unique financing structure that allows property owners to repay through a **VOLUNTARY** assessment on the property for energy efficiency and renewable energy projects
- ❖ Expanded PACE eligible purposes
 - California: quake resistant buildings
 - Texas: water conservation
- ❖ PACE-enabling legislation approved in 37 states and WDC, with active programs in 22 states

What is PACE and Why Use It

- ❖ Assessments secure the financing and are paid twice per year with property taxes over the financing term
- ❖ Energy savings from improvements often offset the amount of the assessments
- ❖ Assessments stay with the property upon sale

What is PACE and Why Use It

- ❖ Up to 100% up-front financing for all eligible hard and soft project costs
 - materials and labor
 - engineering
 - energy audits
- ❖ Provides a long-term financing structure, up to 30 years in some states
 - often lower cost and longer terms than traditional financing

What is PACE and Why Use It

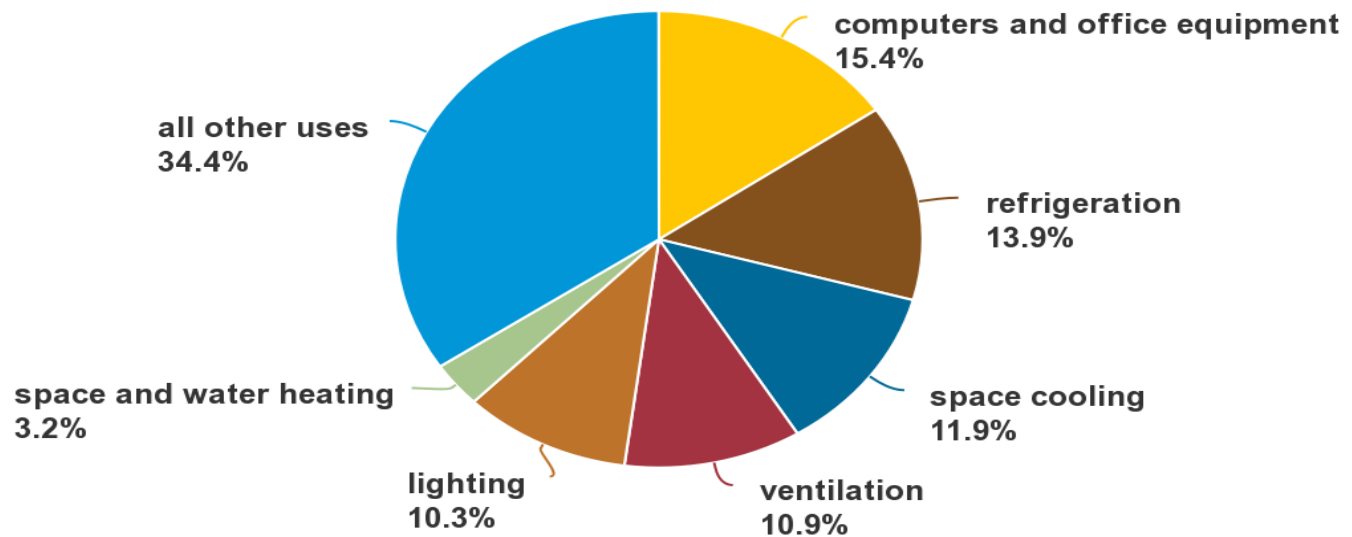
- ❖ As off-balance-sheet financing it preserves borrowing capacity through traditional sources
- ❖ Can be combined with other public and private financing
- ❖ Retrofit, renovation, building additions and new construction projects are eligible
 - additions and new construction requirements

What is PACE and Why Use It

- ❖ Available for commercial and residential properties
 - Residential: California, Florida, Missouri
- ❖ Commercial definitions vary by state
 - Ohio: government, private, non-profit, apartment buildings
- ❖ Typical project examples include lighting, roofs, windows, doors, insulation, HVAC and solar
 - other opportunities include building elevators

What is PACE and Why Use It

U.S. commercial sector electricity consumption by major end uses, 2018

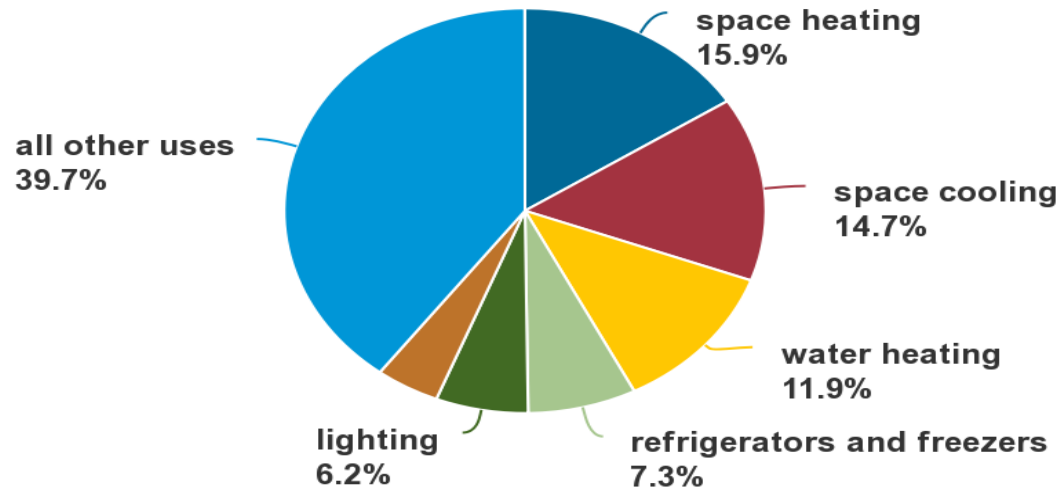


Source: U.S. Energy Information Administration, *Annual Energy Outlook, 2019*, Table 5, January 2019



What is PACE and Why Use It

U.S. residential sector electricity consumption by major end uses, 2018



Note: Space heating includes consumption for heat and operating furnace fans and boiler pumps.

All other uses includes miscellaneous appliances, clothes washers and dryers, computers and related equipment, stoves, dishwashers, heating elements, and motors not included in other uses.

Source: U.S. Energy Information Administration, *Annual Energy Outlook, 2019*, Table 4, January 2019



What is PACE and Why Use It

- ❖ PACE financing impacts more than energy savings
- ❖ Provides source for potential business growth
 - opportunity to expand operations and create jobs with energy savings
- ❖ Promotes job creation in energy efficiency and renewable energy industries
- ❖ Promotes building stock maintenance and improvement
- ❖ Provides an economic development tool for communities

Questions

Contact

❖ Find out more at

www.nopec.org/small-businesses/energy-efficiency-financing

- Contact NOPEC
- Norma Fox Horwitz, Economic Development Director
- nfhorwitz@nopec.org
- 440-249-7829



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Panelist

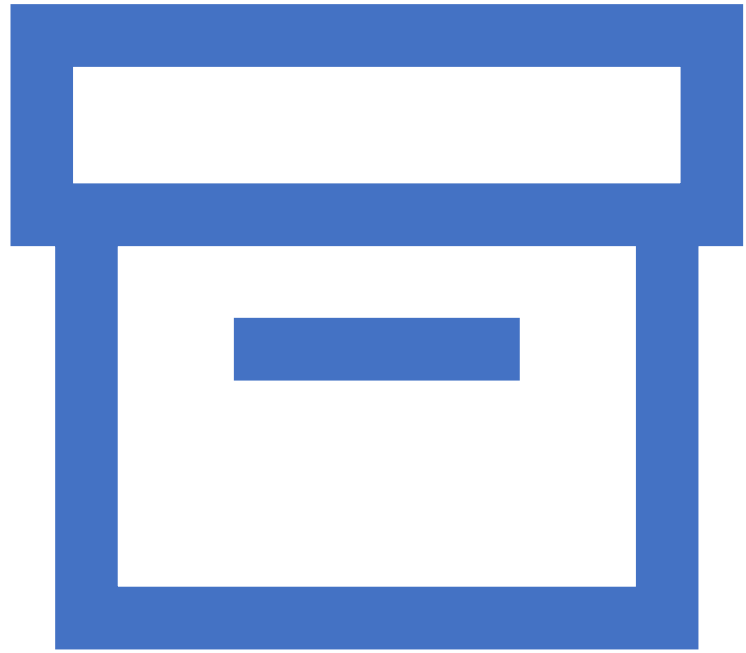
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John Costlow

President
Stainable Energy Fund

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Program
Administration

Pre Market Activities



ESTABLISH C-
PACE DISTRICTS



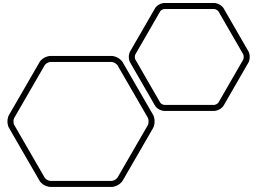
CO-OPERATION
AGREEMENT



GUIDELINES



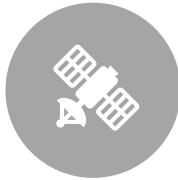
STATEMENT OF
LEVY & LIEN



Flow



Stimulate Market



Tracking



Registration



Preapplications



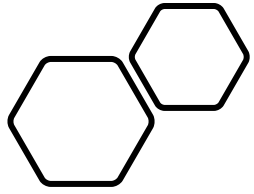
Lender Consent



Applications



Program Guidelines
and Statute



Post Project



Measurement
& Verification



Memorandum
of Financing



Publication of
Financing



Project Tracking
Website



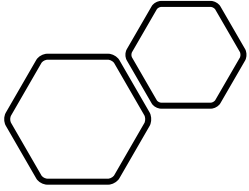
Certification for
Tax Rolls



Payment
Collection



Payment
Disbursement



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Panelist

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Bali Kumar

Chief Executive Officer
Lean & Green Michigan, LLC

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Anatomy of a PACE deal

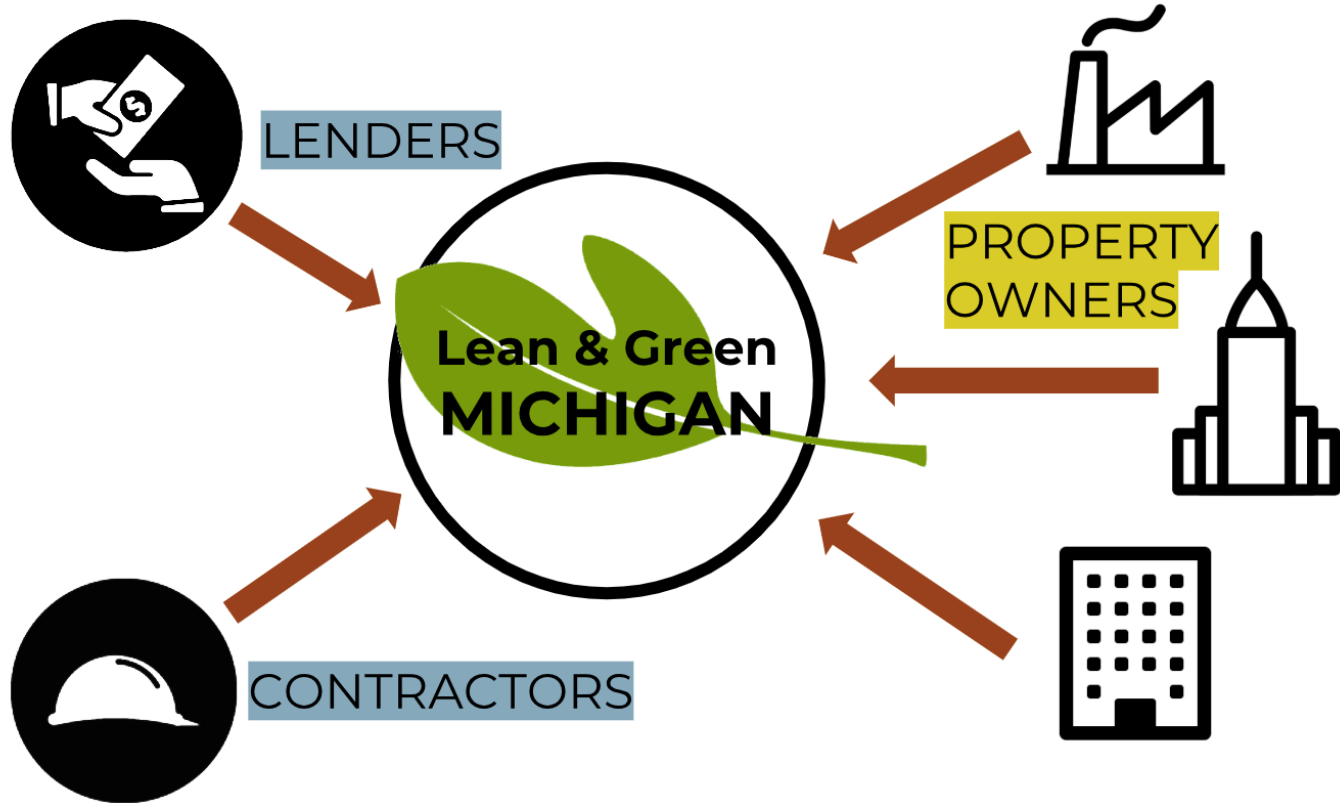
Presented by:

Bali Kumar, CEO

Lean & Green Michigan, LLC



Lean & Green Michigan



Who are the players in a PACE deal?



PROPERTY OWNER

- Commercial
- Industrial
- Multifamily
- Non-profit
- New construction

CONTRACTOR

- Design project
- Provide energy audit
- Guarantee SIR >1

PACE PROCESS

LOCAL GOVERNMENT/ LAGM

- Coordinate parties
- Provide security to lender
- Provide access to financial capital to property owner

LENDER

- Provides financial capital
- Underwriting process

Identifying the Right Property



Property Eligibility - Legal

- Located in a PACE district
- Right type of property
 - Depends on state
- Property owner is **not delinquent on property tax bills** (including previous PACE liens) or water/sewer bills



Jurisdictions not yet set up?

- If State – need legislation
- If Local – check state statute, check for statewide administrator, other administrators
 - Resolution of Intent
 - Resolution to Establish

Property Eligibility - Practical

- The property is likely to continue to be used for up to 30 years
- **Property is not overly leveraged**
- **Property value is sufficient**



Identifying a Good PACE Project



What PACE Allows

- Energy-efficiency or water conservation and/or add renewable energy generating capacity
 - Some states: Savings Guarantee required
 - **Bottom line: statutes are varied - some *incredibly broad*** and leave room to include new technologies
- Some states - resiliency, seismic, etc.

Examples of improvements include, but are not limited to:

- Insulation
- Lighting
- Efficient windows
- Caulking, weather-stripping,
- Air-sealing
- Energy control systems
- HVAC modifications
- EV charging stations
- Water efficiency improvements
- Solar
- Wind
- Geothermal
- Stormwater runoff
- Hot water systems
- Biomass
- Combined heat and power



PACE is mostly for Larger Projects!

- PACE is practical for projects of **\$100,000 and up**
- **High utility bills**
- PACE finances less than **25% of the property value**
- Makes sense for projects with **long paybacks**
- There is **no upper limit** for PACE projects – largest project is \$54M!

Understanding the PACE Process



1. Determine Eligibility

- Is the property a commercial, industrial, nonprofit, multifamily, or agricultural property?
- Is the property value greater than \$400,000?
- Does the property spend a lot (say, more than \$60,000) on utilities annually?
- Is the existing debt on the property less than 80% LTV?
- Is the Property Owner current on all property tax obligations?

2. Initial Energy Analysis

- PACE contractor or consultant
 - Visits property
 - Reviews historical utility bills
 - Gathers information about what property owner wants/needs
- PACE contractor provides general indication of viability of project and PACE opportunity for property owner



3. Complete PACE Application

- File any required application for PACE financing with lender and/or program administrator
 - Ensures compliance with applicable PACE statute
 - Asks for important information for due diligence purposes

4. Energy Audit & Final Scope of Work

- PACE contractor needs to:
 - Complete the energy audit
 - Finalize a scope of work
 - Provide an energy savings guarantee (where applicable)

5. Secure Financing

- PACE contractor/property owner teams up with PACE lender to determine opportunity for financing
- Property owners may use any authorized PACE lender
- Most likely a specialty PACE lender, not a bank
- PACE lender will do diligence on amount to lend and at what rate (often tied to Treasury rates)



Potential Hiccup! Lender Consent

The PACE lien actually improves the bank's position in three ways

1. Positive cash flow means property owner has more money to pay mortgage
2. The value of the bank's underlying asset is increased
3. The business outlook of the property owner improves

Hundreds of banks and agencies have given consent



When to Seek Consent?

- It depends. Some banks know nothing about PACE and will say no if asked to “take a back seat” out of the blue
- The case for consent is more convincing when you have a fully developed story – and then it is often *overwhelming*
- **The PACE lender and Program Administrator should be involved in discussions with the bank**

6. Documentation and Deal Closing

- Once lender has been secured, it is time to document the project and close the deal
- Program Administrator and the lender will handle a lot of the drafting of paperwork – property owner may want to have a lawyer review documents before signing



7. Project Implementation

- Upon completion, property owner and contractor may be required to submit an **installation verification letter** to the Program Administrator
- Make sure financed amount is used for proper purposes!



8. Measurement & Verification

- Energy Star Portfolio Manager, enter utility bill data
- Commissioning in some cases
- Periodic maintenance done by internal/external contractor

PACE in the Capital Stack: Local Incentives and Rebates

- Utilities
- Historic Tax Credits
- Brownfield TIFs
- Solar tax credits
- Match loans
- Opportunity Zones
- Beware: HUD, SBA, LIHTC – work with admin



Case Studies in Michigan



Heller Machine Tools



- ABM installed HVAC, Roof, Lighting, Building Controls
- 15 year term
- \$978,607 in PACE financing
- Total avoided utility costs \$1.7 million
- Total net-savings of \$230,498

Garfield Metro Building



- BASS Controls installed efficient heating and cooling systems, LED Lighting, Building Controls
- 20 year term, \$249,000 in PACE financing
- Total avoided utility costs: \$733,133
- Total net-savings of \$254,725
- Average annual cash flow increase: \$12,736

Multifamily Housing

Cambridge Court Apartments



Greenville, Montcalm County

ECMs: solar PV, LED lights, efficient boiler, building controls, and more...

PACE Project:

- 15 year term
- \$117,580 in PACE
- \$68,000 net savings

Hatchery Road Apartments



Waterford Twp., Oakland County

ECMs: LED lights, new HVAC, building insulation, water conservation measures, and more...

PACE Project:

- 20 year term
- \$224,335 in PACE
- \$175,680 net savings

513-515 Ionia Street



Lansing, Ingham County

ECMs: solar PV, EV charging, LED lights, CHP system, more...

PACE Project:

- 20 year term
- \$247,829 in PACE
- \$276,457 net savings



Hotels

Roberts Riverwalk



Detroit, Wayne County

ECMs: windows, doors, insulation, solar, water conservation and more...

PACE Project:

- 20 year term
- \$4,760,000 in PACE
- over \$7M net savings

St. Clair Inn



St. Clair, St. Clair County

ECMs: insulation, LED lights, water conservation measures, ice machines, mini refrigerators, more...

PACE Project:

- 20 year term
- \$5,530,100 in PACE
- \$1,946,404 net savings

Hotel Harrington



Port Huron, St. Clair County

ECMs: water conservation measures, solar PV, high efficiency HVAC, elevators, more...

PACE Project:

- 20 year term
- \$2,627,750 in PACE
- \$1,964,749 net savings



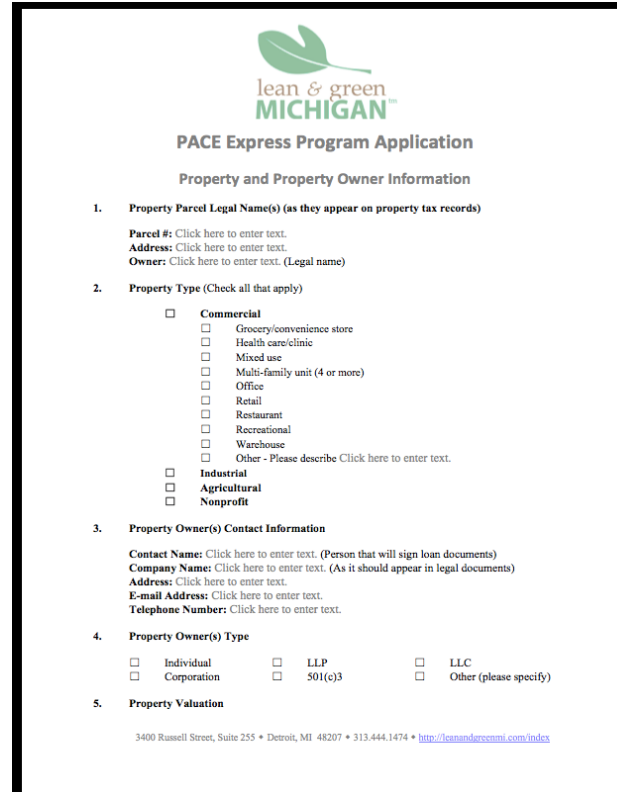
Michigan PACE market nuances




LAGM market updates

“PACE Express”


- PACE projects \$250,000 and below
- SIR and ESG not required
- Cheaper, faster, easier




PACE Express Program Application
Property and Property Owner Information

- Property Parcel Legal Name(s) (as they appear on property tax records)**
Parcel #: Click here to enter text.
Address: Click here to enter text.
Owner: Click here to enter text. (Legal name)
- Property Type (Check all that apply)**
 - Commercial**
 - Grocery/convenience store
 - Health care/clinic
 - Mixed use
 - Multi-family unit (4 or more)
 - Office
 - Retail
 - Restaurant
 - Recreational
 - Warehouse
 - Other - Please describe Click here to enter text.
 - Industrial**
 - Agricultural**
 - Nonprofit**
- Property Owner(s) Contact Information**
Contact Name: Click here to enter text. (Person that will sign loan documents)
Company Name: Click here to enter text. (As it should appear in legal documents)
Address: Click here to enter text.
E-mail Address: Click here to enter text.
Telephone Number: Click here to enter text.
- Property Owner(s) Type**
 - Individual
 - Corporation
 - LLP
 - 501(c)3
 - LLC
 - Other (please specify)
- Property Valuation**

3400 Russell Street, Suite 255 • Detroit, MI 48207 • 313.444.1474 • <http://leanandgreenmi.com/index>



LAGM market updates

New construction policy

- Code – baseline
- Savings – not just energy savings
- Investment – option to take out interest from calculation

Questions?



Contact

www.leanandgreenmi.com

Bali Kumar, 313-444-1473

bali@leanandgreenmi.com

info@leanandgreenmi.com for general inquiries





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Audience Questions

Questions?

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Upcoming Events



 **Intro Tax Increment Finance WebCourse** [Register >>>](#)

May 20-21, 2020
12:00 - 5:00 PM Eastern

In Partnership with



CDFA // BNY Mellon Development Finance Webcast Series: Historic Preservation Financing

May 19, 2020

CDFA Food Systems Finance Webinar Series: The Landscape of Food Systems Finance

May 28, 2020

Register online at www.cdfa.net



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Upcoming Events



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Next in this Series:

**CDFA-Bricker PACE Webinar Series:
PACE Program Efficiency: Managing an Effective PACE Program**
June 9, 2020, 11:00 – 1:00 PM Eastern

Register online at www.cdfa.net



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