

# Commercial PACE: Program Development & Implementation



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**SunShot**  
U.S. Department of Energy

August 14<sup>th</sup>, 2013

# About the SunShot Solar Outreach Partnership



The SunShot Solar Outreach Partnership (SolarOPs) is a U.S. Department of Energy (DOE) program designed to increase the use and integration of solar energy in communities across the US.

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The interface includes a menu bar (File, View, Help), a title bar (Attendee List (2 | Max 201)), and several sections: Attendees (1) and Staff (1) tabs, a search bar, an Audio section with Telephone and Mic & Speakers options, a Questions section with a question and answer, and a footer with Webinar Now information and the GoToWebinar logo.



# Speakers

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- Chad Tudenggongbu, ICLEI – Local Governments For Sustainability
- Julia Burrows, President & Executive Director of Greenwise Joint Venture
- Maggie Theriot, Director of Leon County Resource Stewardship
- Dave Good, Program Manager at the District Department of the Environment
- John Wakefield, Director of Program Development at Ygrene

# Who we are



Economy. Environment. Engagement.

## VISION

- Sacramento is the Emerald Valley—the greenest region in the country and a hub for clean technology.

## TRANSFORMATIONAL GOALS

- **ECONOMY:** Create a self-sustaining sector
- **ENVIRONMENT:** Become the greenest region in the country
- **ENGAGEMENT:** Brand the region as the Emerald Valley and raise the region's Green IQ

# What is PACE?

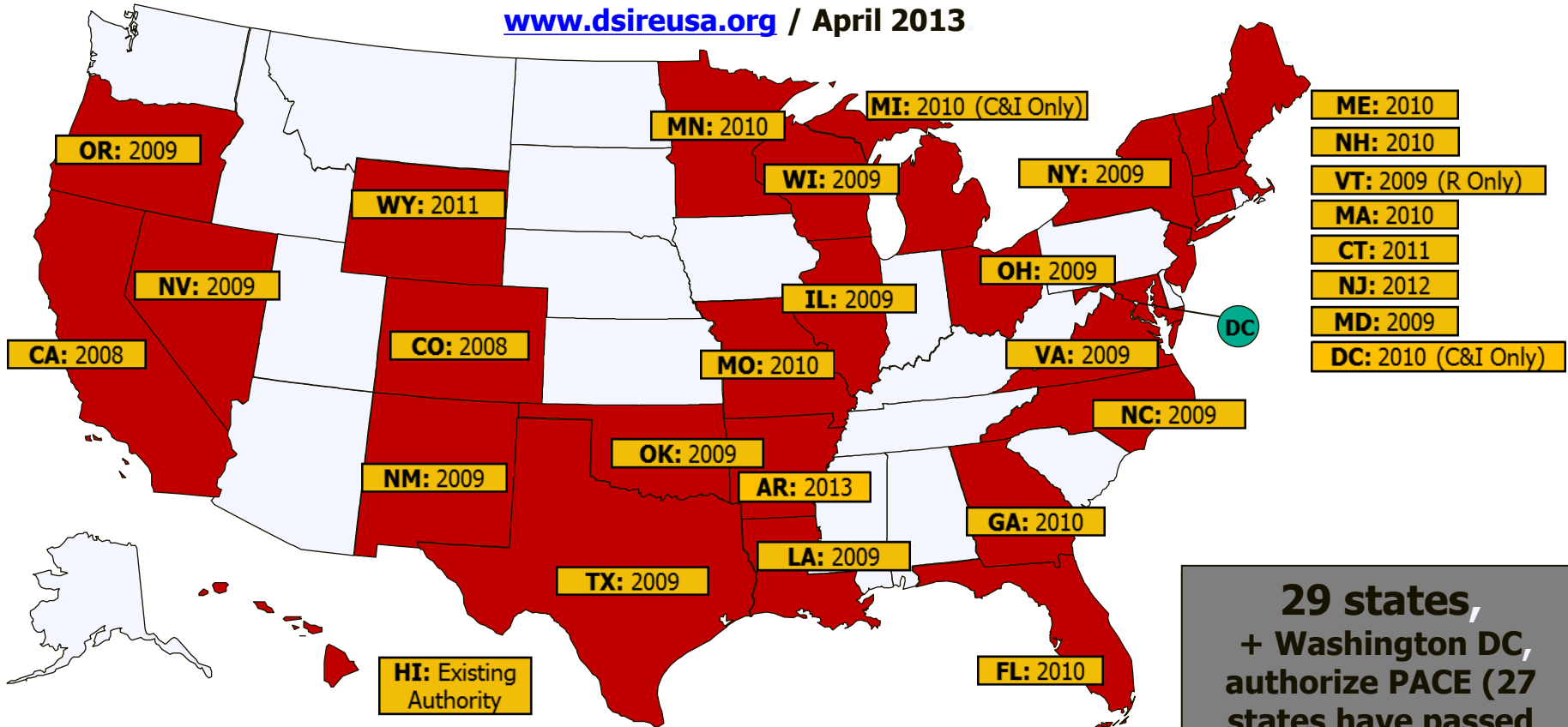
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Under Property Assessed Clean Energy (PACE) financing, a property owner receives full up-front financing for a solar installation, and repays the costs as an annual or biannual assessment on the building's property tax bill.

# Where is PACE available?

## Property Assessed Clean Energy (PACE)

[www.dsireusa.org](http://www.dsireusa.org) / April 2013



**■** PACE financing authorized by the state\*

\*The Federal Housing Financing Agency (FHFA) issued a [statement](#) in July 2010 concerning the senior lien status associated with most PACE programs. In response to the FHFA statement, most local PACE programs have been suspended until further clarification is provided.

**29 states,  
+ Washington DC,  
authorize PACE (27  
states have passed  
legislation and HI  
permits it based on  
existing law).**

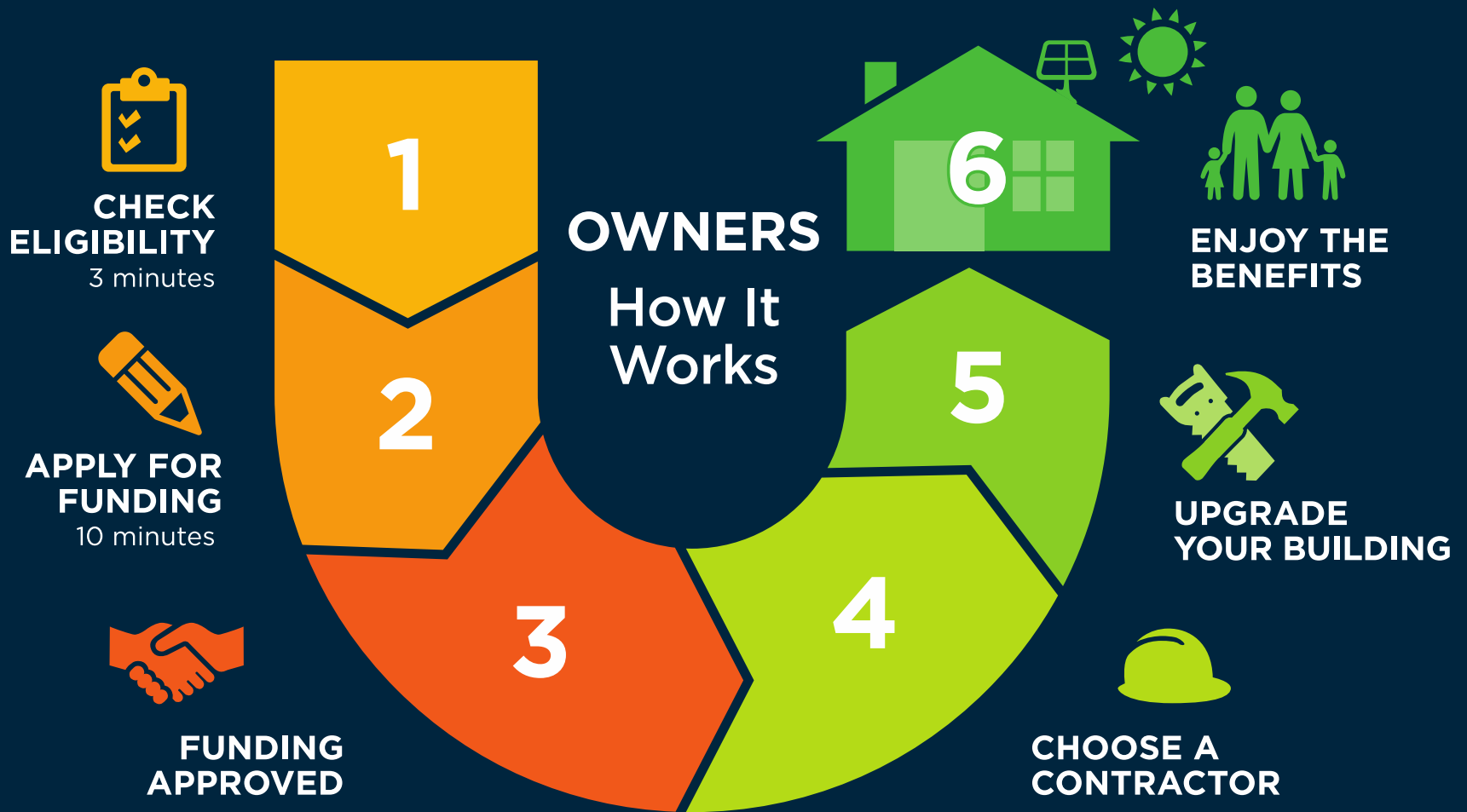
# PACE Process

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- Local government creates PACE assessment district
  - May contract with a third party provider to administer the PACE program
- Building owners choose cost saving projects
- Local government or PACE provider arranges financing – adds PACE assessment to property tax roll
- Building owner pays PACE assessment with other property taxes



# Example Project Process



# Financing Benefits

Financing Barrier	PACE Solution
Insufficient Capital	100% Upfront Financing
Difficulty securing loan	Qualification based on property value and equity, not credit
Long-term investment, but may wish to sell building	Lien responsibility stays with property, not owner
Return on Investment	Long terms and low interest rates make cash flow positive
Split incentives	Most commercial leases allow tenants to pay property taxes

- PACE program in Sacramento home to largest commercial PACE project in the nation
  - HVAC rooftop units and building controls
- Has funded over \$4.2 million in retrofits since the program began in January 2013

# mPOWER Placer

- PACE Program for Placer County administered and funded by County Treasurer's office
- Solar case study: North Auburn Gold Country RV Park
  - 1.7 acre, 450 panel solar photovoltaic system
  - Funding through mPOWER Placer (\$330,000) and federal grant (\$150,000)
  - 20 year term, 6% interest rate
  - Projected to save \$2 million over 25 years





# **Julia Burrows**

President and Executive Director, Greenwise Joint Venture

[Julia@GreenwiseJV.org](mailto:Julia@GreenwiseJV.org)

August 14, 2013

# Leon County, FL Board of County Commissioners





# Leon's Pursuit of PACE

**CONSERVATION INCENTIVES**

**DISTRICT FORMATION**

**RESIDENTIAL - FHFA**

**COMMERCIAL RFP – Third Party Administrator**

**YGRENE**

# Third Party Administrator



# Leon County Program Overview & Benefits

**FULLY FUNDED 100% PROJECT FINANCING**

**LOCAL CONTROL & CUSTOMIZED PROGRAM OFFERING**

**END TO END PROGRAM MANAGEMENT SOFTWARE**

**LOCAL CONTRACTOR CERTIFICATION**

**INVESTMENT IN COMMUNITY**

# Eligible Property Owners

CRITERIA	1	15% MINIMUM EQUITY
	2	CURRENT ON PROPERTY TAXES FOR PAST 3 YEARS
	3	CURRENT ON MORTGAGE FOR PAST 3 YEARS
	4	NO BANKRUPTCY FOR PAST 3 YEARS

# Implementation Measures



**ENERGY EFFICIENCY**



**RENEWABLE ENERGY**

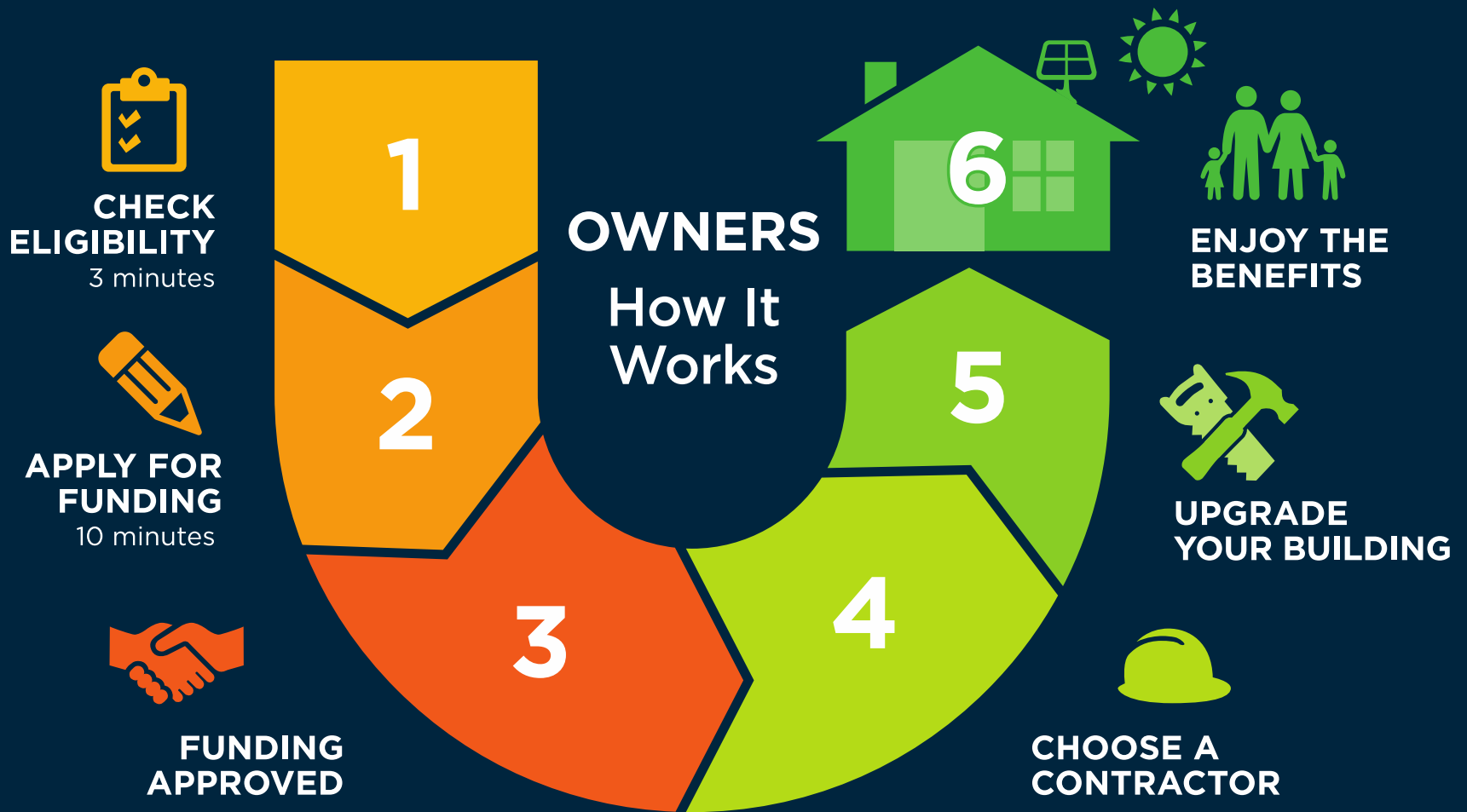


**WATER CONSERVATION**



**HURRICANE PROTECTION**

# How it Works: Property Owners





# How it Works: Contractors



Attend one of our upcoming contractor training sessions held at our Energy Center and convenient regional locations.

Once you complete our simple software and program training, we'll add your name to our searchable contractor database.

Use our comprehensive suite of resources to kick-start your PACE sales efforts and boost your business.

Funding is fast, efficient and easy to access no matter the size of your project.

# How it Works: Contractors

**EDUCATION CENTER**

**PRODUCT SHOWCASE**

**CONTRACTOR HUB**



**PROGRAM STOREFRONT**

**CUSTOMER SUPPORT CENTER**

**COMMUNITY EVENT SITE**



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U.S. Department of Energy

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**PACE COMMERCIAL**  
*an energy finance solution*

# DC PACE Program Overview



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U.S. Department of Energy

# Policy Drivers

## Long-term goals

- Increase energy reliability
- Drive economic development and job creation
- Reduce GHG emission and environmental damage

## Constraints

- Lack of municipal funds
- Lack of in-house expertise

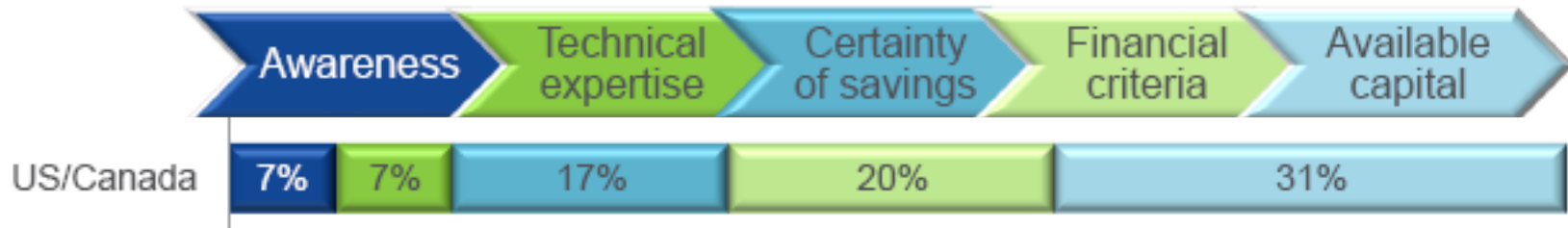
## Scalable

- Market-based
- Can help drive deeper retrofits



# PACE addresses the top barrier to pursuing energy efficiency

What is the top barrier to pursuing energy efficiency for your organization?



Source: Energy efficiency indicator 2013 Institute for Building Efficiency

institute  
for **building**  
**efficiency**  
an initiative of Johnson Controls



# Potential Advantages of PACE Financing

## Property owners

- **Attractive loan terms**
  - Up to 100% of project cost (both hard and soft costs)
  - Long repayment term
  - Competitive interest rate
- **PACE Assessment stays with property on sale**
- **PACE Assessment payments can be treated as operating expense**
- **No acceleration in the event of default**

## Investors

- **Very secure investment due to first lien position on property**

# Key Design considerations

<b>Market focus</b>	<ul style="list-style-type: none"><li>• Commercial, multi-family, residential</li></ul>
<b>Treatment of PACE Assessment</b>	<ul style="list-style-type: none"><li>• How similar to other property based assessments? (Billing process, Lien priority, Default process)</li></ul>
<b>Position on lender consent</b>	<ul style="list-style-type: none"><li>• None, lender consent, lender acknowledgement</li></ul>
<b>Project underwriting standards</b>	<ul style="list-style-type: none"><li>• What constitutes an eligible measure?</li><li>• Credit considerations</li></ul>
<b>Source of capital</b>	<ul style="list-style-type: none"><li>• Public or private</li></ul>
<b>Financial Terms to property owners</b>	<ul style="list-style-type: none"><li>• Cost of capital (credit enhancement options)</li></ul>
<b>Scalability</b>	<ul style="list-style-type: none"><li>• Takeout strategy (Attract institutional investors)</li></ul>
<b>Program administration</b>	<ul style="list-style-type: none"><li>• Internal or external</li><li>• How will program costs be covered?</li></ul>

# Potential sources of capital for PACE

Funding Source	Investment Vehicle	Advantages	Challenges
Public (Treasury)	None. Municipality holds assessment	<ul style="list-style-type: none"> <li>• Relatively easy to implement</li> <li>• Can offer customer very attractive rate and terms</li> <li>• Eventual takeout may be possible if scale is achieved and municipality can provide credit enhancement</li> </ul>	<ul style="list-style-type: none"> <li>• Municipal debt cap</li> <li>• Lack of credit support</li> <li>• Projects queue for funding</li> <li>• Blended credits with one rate</li> </ul>
Private (open market/owner arranged)	Revenue bonds, Promissory note	<ul style="list-style-type: none"> <li>• Property owners can leverage existing relationships with capital providers</li> <li>• Capital providers have more flexibility in underwriting standards</li> </ul>	<ul style="list-style-type: none"> <li>• High transaction costs</li> <li>• More difficult to bundle for takeout</li> </ul>
Private (turnkey/funding on demand)	Revenue bonds, Warehouse LOC, ABS	<ul style="list-style-type: none"> <li>• Lower transaction costs</li> <li>• Standard underwriting procedures improves chances for takeout</li> </ul>	<ul style="list-style-type: none"> <li>• More complex structure to set up</li> <li>• Standard underwriting may prove too restrictive for some projects</li> <li>• Blended rates and credits</li> </ul>

# DC PACE Timeline

## 2009

- 👉 Initial PACE proposal developed
- 👉 Meetings with key stakeholders to educate and obtain buy-in
- 👉 Initial DC PACE enabling legislation drafted
- 👉 White House issues PACE policy framework

## 2010

- 👉 DC PACE Enabling Legislation enacted
- 👉 DDOE allocates ARRA SEP money for design of PACE program
- 👉 Contractor selected to design DC PACE program

## 2011

- 👉 Program design

## 2012

- 👉 Complete program design delivered
- 👉 Introduced amendment to DC PACE Enabling Legislation
- 👉 Receive foundation grant to fund 12 month ramp up period
- 👉 Receive \$5 million commitment from regional bank

## 2013

- 👉 **First DC PACE deal closed**

# DC Program Highlights

## Basics

- Fully self-sufficient model requires no government funding to operate
- Open to Commercial and MF properties
- Assessment is senior to mortgage
- Lender consent required
- Eligible measures include energy (EE and renewables), water, and storm water mitigation
- Project size: ~\$100k to \$5 million
- Program designed to obtain investment grade rating for PACE ABS

## Capital providers

- \$5 million revolving LOC from regional bank
- Actively looking for additional capital providers

## Current Assessment Terms

- Interest Rate: ~6% (including all fees)
- Term: 20 year amort with 10 year term
- LTV: max of 80% (PACE Assessment limited to 10% of assessed value)

# 400 M St SE

## I<sup>st</sup> Use of PACE for Affordable MF Project

### Property:

- 139 Unit Affordable Multi-Family
- Part of HUD Hope VI development
- Financing: LIHTC Tax Equity (9%) and DCHA debt

### Project:

- \$340k Assessment
- ECMs: Common area lighting and controls, tenant water fixtures, 37kw PV installation, training
- Received consent from DCHA and LIHTC Investor
  - Off-balance sheet aspect of PACE was key
  - Assigned ITC from PV to LIHTC investor
- Energy Savings: ~15% EE + ~3.5% PV
- Total annual benefits
  - Before T&D: ~\$41k
  - After T&D: ~\$50k
- Total time to complete project: 1 year
- Project sourced by direct marketing to owner





# Key Lessons Learned

## Market segmentation

- Demand from Class A multi-tenant office has been less than expected due to access to low cost capital
- Affordable housing, co-op housing, and institutional properties have shown better than expected demand

## Capital providers

- Money center banks are interested in PACE but are unwilling to commit capital without substantial credit enhancement
- Regional banks are a great source of capital, but it takes time to fully educate them on the PACE structure

## Project Development

- The first deal(s) will take longer and cost more (in time and money) than anticipated
- Obtaining lender consent takes persistence and flexibility



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