PROPERTY ASSESSED CLEAN ENERGY (PACE) OVERVIEW

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About Harcourt Brown & Carey

HB&C designs clean energy finance programs

Recent Projects:

- Draft legislation for Massachusetts Commercial PACE program;
- Design California's On-Bill Repayment program and;
- Advise Hawaii PUC in designing On-Bill Repayment program and integration with its green fund.

Commercial Property Assessed Clean Energy (C-PACE)

A financing mechanism leveraging private capital for energy efficiency retrofits and renewable energy systems ("clean energy") for commercial/industrial properties:

- Clean energy projects financed via voluntary assessment on the property tax bill, similar to water service upgrade or other benefit assessment.
- Costs amortized over time (up to 20 years) and billed/collected with property taxes as a separate line item on the property tax bill.

COMMERCIAL PACE BASICS (CONTINUED...)

- Repayment obligation transfers automatically to new owner if property sold.
- No acceleration on default or transfer.
- Secured by lien senior to commercial mortgages (equivalent or junior to property tax lien) on the property.
- Private investors purchase PACE assessment bonds/notes from taxing authority or special district. Government funds are not required.
- Some programs use public or ratepayer funds as a credit enhancement or to establish a warehousing/aggregation facility, but this is not required.

COMMERCIAL PACE BASICS (CONTINUED…)

- PACE NOW reports 15 Programs operating in 7 states and $33 million invested in 168 projects.
- C-PACE programs have been launched in California, Connecticut, Ohio, Minnesota, Michigan, Florida and the District of Columbia and are beginning to see deal flow.
- C-PACE legislation has been enacted this year in Texas, Utah, Arkansas and Colorado and is likely to pass in Massachusetts.

WHAT IS THE BENEFIT OF C-PACE?

PACE is beneficial because it fills a gap in commercial sector financing for clean energy:

- PACE funding provides 100% of project capital
- Terms beyond 10 years are rare for commercial loans (including mortgages). C-PACE offers longer term (up to 20 – year) financing for commercial energy improvements.
- Interests rates are low because investors see the PACE loan as the equivalent of a first position real estate loan with less than 5% loan-to-value ratio.
- The combination of long term and low rate allows the PACE transaction to produce greater positive cash than other financing alternatives and this increased net operating income should translate into greater property value.

WHAT IS THE BENEFIT OF C-PACE? (CONTINUED…)

- Solves the “split incentive” problem for commercial buildings because most commercial leases allow pass-through of taxes and assessments to tenants. This means that tenants both see the benefits and bear the costs.
- Clean energy projects generally result in energy savings, so C-PACE provides a mechanism to upgrade commercial and industrial building stock without requiring property owners to deplete cash reserves or tap existing credit lines.
- While it is unclear what accounting treatment C-PACE will receive, some advocates say that, similar to the property tax bill, a C-PACE assessment should be ”off-balance sheet”, and recorded as an operating cost. This treatment would remove a barrier to clean energy adoption, balance sheet limitations.

WHAT DO THE BANKERS SAY ABOUT C-PACE?

- Connecticut's and Texas' C-PACE legislation passed with the support of the states' bankers' associations.
- Colorado's bankers testified neutral on C-PACE.
- Major national banks such as Wells Fargo support C-PACE.
- Recent versions of C-PACE address bankers' concerns:
  - ✓ Mortgage holder consent is required. This means that a bank's security interest can not be primed unless the lender is comfortable that its position is not impaired.
  - ✓ Requiring a positive savings to investment ratio means that the net operating income of the building increases, resulting in a more valuable asset and overall improved security for the lender.
  - ✓ C-PACE offers lenders the opportunity to increase their business with their customers and expand their customer base.
  - ✓ C-PACE is generating attractive yields in today's financial environment, so financial institutions may find it a compelling asset class in which to invest.

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Commercial PACE Key Program Attributes

What are the key attributes of a successful PACE program?

- A clear legal opinion on the PACE lien;
- Mortgagee consent;
- Standard application, documents and procedures, state-wide;
- Assessment established prior to construction;
- Origination and securitization, open to all parties;
- No restriction on clean energy technologies;
- Soft costs can be financed with construction;
- Reasonable fees allowed for all parties;
- Public credit enhancements available to all originators and;
- Saving to investment ratio calculations include all incentives.