

Energy Project Financing and Local Governments

Property-Assessed Clean Energy (PACE) and its Promise for the Commercial Sector

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What is PACE?

Property Assessed Clean Energy financing is a local government program that uses a 100+ year old provision of the property tax code to create a land-secured financing district that allows property owners to pay for improvements that are in the public interest. In this case, increasing building energy efficiency and installing renewable energy upgrades.



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Minnesota PACE

The Minnesota Legislature included SF 2720 in the 2010 Jobs bill enabling the establishment of PACE programs. This “opt-in” program allows local governments, individually or through a joint powers agreement, to authorize the creation of a PACE program. Best practices guidelines were included to assure a reliable and sustainable high quality financing mechanism for deep energy retrofits of commercial, industrial and residential buildings.



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Benefits of PACE

To Lenders

- Lower Default Risk
- Better Loan-to-Value Ratio

To Property Owners

- No upfront costs
- Improved Cash Flow
- Less investment risk
- Improved property values



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Key Provisions of PACE

- Property Secured Financing
- Senior Lien Status of Financing
- Transferability of lien
- “Opt-in” program
- Authorizes local governments to issue and sell bonds under the program
- Authorizes multi-jurisdictional PACE programs
- Adheres to Best Practices guidelines to reduce the risk of default
- Program sustainability ensured through quality assurance and controls



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Commercial PACE

- Commercial PACE programs may be used by local governments to finance energy efficiency and renewable energy improvements.
- Local governments help finance the up-front costs of improvements, and property owners repay the costs as a line item on property tax bills.
- State legislative authority (MS Chapter 216) allowing local governments to set up energy financing as an option to operate commercial PACE
- Federal Housing Finance Agency (FHFA) guidance does not impact commercial PACE because Mortgagee consent is required before PACE applications are approved and assessments are placed.



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Shallow vs Deeper Retrofits

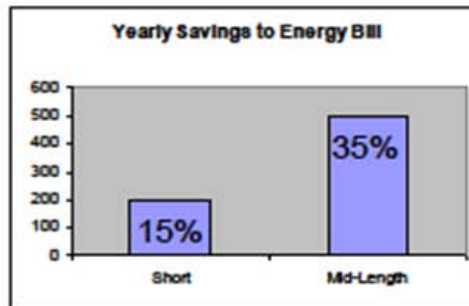
Short Payback Project

ECM's Implemented

- Lighting
- VFD's
- Controls
- Chillers
- Boilers
- Building envelope
- Etc

Unlikely to ever be implemented if not part of a bundled solution

| | |
|-----------|-----------|
| Cost | \$500K |
| Savings | \$200K |
| Payback | 2.5 years |
| % savings | 15% |
| Jobs* | 5 |



Mid-Length Payback Project

ECM's Implemented

- Lighting
- VFD's
- Controls
- Chillers
- Boilers
- Building envelope
- Etc

| | |
|-----------|----------|
| Cost | \$5M |
| Savings | \$500K |
| Payback | 10 years |
| % savings | 35% |
| Jobs* | 54 |

**More Savings
More Jobs**

* Based on \$93K/job

Supporting Mid-Length vs. Short Payback Projects Results in More Jobs and Higher Energy Efficiency Impact!



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Commercial PACE Mechanism



\$\$ Upfront



\$\$ Repaid on tax bill



- Creates special assessment roll & approval process
- Provides upfront capital (10% of Assessed Value)
- Repayment attached to the building

- Identifies work & chooses contractor
- Repays financing as a line item on the property tax bill
- Repayment obligation transfers with ownership



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Commercial PACE Challenges/Advantages

Challenges

- Legal and administrative expenses to set up
- May not be appropriate for small cities as scale is required to reduce costs
- Mortgage holder consent required



Advantages

- Allows for performance contracts of comprehensive projects over a longer term that enhances cash flow
- Repayment obligation runs with building, overcoming hesitancy to invest in longer payback measures
- Senior lien security taps into private capital, such as the revenue bond market
- Allows governments to do energy efficiency and renewable energy without risking credit/general funds.

Three Financing Pathways

Pooled Revenue Bond

PACE projects are aggregated, and a revenue bond is issued to fund projects

Reserve Funds Investment

Some public entities may have sufficient reserve funds to directly finance qualified properties in their jurisdictions. (Not currently an option with Minnesota PACE)

Owner-Arranged Private Finance

An owner arranges project financing with a private lender and the lender accepts PACE securitization and payback framework



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Eligible Energy Improvements

Savings of energy improvements should at least pay for projects' entire costs with potential for positive cash flow. Energy efficiency, plug-in capacity and renewable energy improvements are eligible for Commercial PACE financing.

Energy Efficiency

- Energy management systems
- Insulation & air sealing
- HVAC systems
- Boilers & furnaces
- Lighting
- Energy recovery & redistribution systems
- Motors & drives
- Solar hot water
- Solar photovoltaics

Renewable Energy



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Mortgagee Consent

Addressing Mortgagee PACE Concerns:

Concern #1 -- Diminution of the Mortgagee's Position

Concern #2 -- Further Encumbrance of the Owner

Concern #3 -- Impairment of the Marketability of the Asset

For analysis of this and other issues related to PACE Commercial Financing see: "Financing Retrofits in Large Commercial Buildings through PACE Loans" and DOE Guidelines.

<http://www.lessen.org/?page=FinancingRetrofitsinLargeCommercialBuildingsthroughPACELoans>

<http://pacenow.org/blog/wp-content/uploads/Chapter-13-Commercial-PACE.pdf>



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Existing Commercial PACE Programs

Fresno Commercial PACE Program

Fresno , CA

Sonoma County Energy Independence Program (SCEIP)

Sonoma County, CA

GreenFinance SF

San Francisco, CA

Boulder County ClimateSmart Loan Program

Boulder County, CO



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Thank You - Discussion

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