Frequently Asked Questions about Commercial Property Assessed Clean Energy (PACE) Financing

General Questions

What is PACE?
Property assessed clean energy, or PACE, financing allows property owners to fund energy efficiency, water efficiency and renewable energy projects with little or no up-front costs. With PACE, eligible property owners living within a local government area that has adopted PACE can finance up to 100% of their project and pay it back over time as a voluntary property tax assessment through their existing property tax bill.

Who administers PACE programs in Minnesota?
Two public entities operate PACE programs: [1] the St. Paul Port Authority (SPPA) and the [2] Rural Minnesota Energy Board (RMEB).

The St. Paul Port Authority is authorized to administer a PACE program after a city or county enters into a joint powers agreement with the SPPA. While the St. Paul Port Authority's primary mission is to finance business expansion in the east metropolitan region, the authority operates a PACE program statewide, on behalf of the state Department of Commerce. Learn more about the Saint Paul Port Authority program.

The Rural Minnesota Energy Board is an 18 county Joint Powers Board staffed by the Southwest Regional Development commission (SRDC). RMEB operates a separate PACE program for its member counties. RMEB counties include Cottonwood, Jackson, Lincoln, Lyon, Murray, Nobles, Pipestone, Redwood, Rock, Renville, Sibley, Brown, Watonwan, Blue Earth, Mower, Freeborn, Faribault and Martin. Learn more about the Rural Minnesota Energy Board program.

How is this different from a traditional loan?
PACE is a special assessment, commonly referred to as a PACE assessment, for a benefit tied to the property. Unlike a loan, when a transfer of ownership of the property takes place, the PACE assessment obligation stays with the property, not the property owner. PACE assessments can also generally be repaid over longer terms than a bank might allow.

What are common aspects of PACE financing?
The financing term must not exceed estimated life expectancy of improvement. For example, if the financing were used to pay for a new chiller with an expected operating life of 10 years, the financing term must be equal to or less than 10 years.

Projects should have a savings-to-investment ratio greater than one. For example, if a business makes lighting improvements that save the company $12,000 a year, the assessment will be less than $12,000, thereby making the project cash flow positive from the outset.

What are the differences between the St. Paul Port Authority PACE program and the Rural Minnesota Energy Board PACE Program?

Question	St. Paul Port Authority	Rural MN Energy Board
Are nonprofits and churches eligible?	Yes	Yes
What is the cap?	20% of assessed value of property	20% of assessed value of property up to $100,000
Are renewable-only projects eligible?	Yes	Yes
What is the minimum loan?	$2,500	$5,000
What is the maximum loan term?	15 years	20 years
What is the interest rate?	Typically a fixed rate under 5%	As low as 4%
Is there an origination fee?	No	Yes, 1%
Is mortgage lender consent required?	Yes	No, although they are consulted

Where does the money for PACE financing come from?
PACE is a financing tool to leverage private sector investment. The St. Paul Port Authority utilizes funds from the American Recovery and Reinvestment Act (ARRA) and the Center for Energy & the Environment. Similarly, the Rural Minnesota Energy Board utilized a revolving loan account initially capitalized with ARRA funds through the MN Department of Commerce and funds from the US Department of Agriculture's Rural Economic Development Loan & Grant Program and East River Energy's Rural Economic Development, Inc. Fund.

Who is eligible for PACE?
Eligible entities for both the RMEB and SPPA programs include commercial and industrial businesses, nonprofits (including churches), and owners of multi-family housing.

Do residential properties qualify for PACE?
Generally no. The only residential properties that can quality for PACE are multi-family buildings. Single family homeowners, including condominiums, should contact their utility for rebate information and http://www.dsireusa.org to learn more about financing opportunities available.

Questions for Businesses and other Eligible Entities

Is my property eligible?
Property eligibility is the same for both the Rural Minnesota Energy Board PACE program and the St. Paul Port Authority PACE program. Under both programs, businesses, multi-family housing owners, and nonprofit enterprises (including churches) are eligible. The residential sector and public sector are not eligible.

What are the property eligibility requirements?

1. Applicant must be the legal owner of the property, and all of the legal owners of the property must agree to participate.
2. Property owner must be current on any existing mortgage(s); property owner must not have defaulted on the deeds of trust.
3. Property must not be subject to any involuntary liens or judgments.
4. Property must not have been delinquent on property taxes.
5. Property will be subject to the appropriate jurisdiction's permitting inspections and all other applicable federal, state, and local codes and regulations.
6. Property owner must not be in bankruptcy.
7. Term of financing requested does not exceed the weighted average of the useful life of the improvements.
8. Applicant(s) has/have obtained an energy audit or renewable energy feasibility study on the property.
9. Properties must be in a jurisdiction that has a PACE program (the 18 counties of the RMEB or a local government that has passed a joint powers agreement with the SPPA).

Who are the ideal commercial property candidates?

1. Older buildings in need of major upgrades
2. Properties with no mortgage or low loan-to-value ratio
3. Multi-Family housing
4. Industrial/manufacturing facilities
5. Agricultural producers

You're an interested organization. Now what?

Rural Minnesota Energy Board	Saint Paul Port Authority
1. Complete application	1. Complete application
2. Energy audit and/or renewable energy feasibility study performed by an approved RMEB PACE energy auditor.	2. Energy audit and/or renewable energy feasibility study.
3. Submit cost estimates from a licensed contractor.	3. Submit cost estimates from a licensed contractor.
4. Provide documentation that the property owner is not in bankruptcy and the property is not an asset in a bankruptcy proceeding.	4. Provide three-year's worth of organization financials.
5. Provide property description from the Abstract	
6. Provide documentation that the property owner is current on mortgage(s). A letter from the mortgage lender can be submitted in lieu of a current statement.	
7. Provide documentation that the property owner is current on property taxes.	
8. Provide documentation that property title is vested in the applicant's name, without federal or state income tax liens, judgment liens, or similar involuntary liens on the property.	
9. Photo of all sides of the building(s)	

Are there any financing options beside PACE programs?
Yes. Minnesota has a wide variety of grants, rebates, loan programs and other incentives. A comprehensive list can be found at http://www.dsire.org.

What are some common projects financed by PACE?
Minnesota statute states that PACE may finance:

1. Any renovation or retrofitting of a building to improve energy efficiency that is permanently affixed to the property and that results in a net reduction in energy consumption without altering the principal source of energy;
2. Permanent installation of new or upgraded electrical circuits and related equipment to enable electrical vehicle charging;
3. A rule of thumb is that if your project is eligible for an energy rebate and can pay for itself under 20 years it is likely to be eligible for PACE financing;
4. A renewable energy system attached to, installed within, or proximate to a building that generates electrical or thermal energy from a renewable energy source. Common projects include solar arrays, HVAC upgrades, LED lighting, condensing boilers, digital controls, insulation, variable-frequency drive motors, building automation systems, water and energy conservation measures and more.

What are the PACE financing benefits?
1. PACE allows owners of eligible properties to finance up to 100 percent of project costs, allowing projects to be amortized over a longer period of time so they can be “cash-flow positive” from day one.
2. PACE helps property owners reduce operating costs while increasing property value.
3. Capital investments in energy efficiency using PACE financing can help owners increase rent, decrease vacancy and attract high-quality tenants.
4. Most commercial leases classify property taxes as operating expenses. Operating expenses, such as a PACE assessment, may be able to be passed through to the tenants, similar to a property tax.
5. If the property is sold, the financing assessment stays with the property and transfers to the new property owner since the improvements remain with the property.
6. Interest rates are often low because of the high security of repayments attached to the property tax bill.
7. The assessments are advantageous in that they generally are for much longer terms than banks allow.
8. PACE assessments do not require a personal guarantee. Personal guarantees are staples of small business financing whereby personal assets may be on the line – home, car, checking account – not just business assets.

What are drawbacks to using PACE?
1. Available only to certain property owners.
2. Cannot finance portable items e.g. standard refrigerators or other small appliances.
3. Not appropriate for investments below $2,500 for SPPA and $5,000 for RMEB.

Can you combine rebates with PACE financing?
Yes, you can combine PACE with other tax incentives and utility rebates that can significantly buy down the cost of your energy and water efficiency projects.

When will I make the first payment?
PACE assessments function in the same way as other assessments and follow the same collection schedule—twice-yearly payments in the spring and fall. The payment will appear as a line item on your property tax bill and will be submitted as part of that same payment. This collection schedule is dictated by Minnesota law and is not flexible; however, there is a wide flexibility to structure the details, term and interest rate of the transaction.

Once a project is approved, is there a timeline to get the project going?
Yes, the project must be completed by the first scheduled payment, therefore it is advantageous to have the project approved shortly after payment of property taxes in order to have adequate time before the first scheduled payment.

Can PACE finance new construction?
In rare instances PACE may work for new construction; however, the vast majority of PACE projects are not new construction. The 20% of assessed property value limitation restrains the amount of new construction. Additionally, projects must have a savings-to-investment ratio greater than one. New construction does not have an energy consumption history therefore no savings would be incurred as a result of new construction.

Is there a list of approved energy auditors or can you select anyone you wish?
PACE requires an energy auditor conduct an audit to identify potential projects. The Rural Minnesota Energy Board maintains a list of approved energy auditors that have had contact with the program in the past. The list may or may not be comprehensive; however it does provide applicants with options. The audit must include a summary of recommendations with the following information for each recommendation, if applicable: existing MMBTU usage, proposed MMBTU usage, MMBTU savings, existing kWh usage, proposed kWh usage, kWh savings, existing kW, proposed kW, kW savings, annual monetary savings, cost, payback years, expected life of the equipment (years), and percent of savings. The St. Paul Port Authority requires an audit or feasibility study but does not maintain a list of approved energy auditors.

When does interest begin to accrue?
For MinnPACE, typically interest begins to accrue when the project is installed.

Can a business write off interest from an assessment?
Yes.

Is refinancing an energy efficiency or renewable project possible through PACE?
Generally no. This may be possible in rare cases with the St. Paul Port Authority.

How is the term determined?
The term is determined primarily by looking at cash flow projects. The revenue accrued through savings need to be able to pay for the assessment.

Can the assessment be paid off early?
Yes. There is no penalty for paying off early.

When does the contractor need to pay prevailing wage?
When the project is funded by the St. Paul Port Authority's Trillion BTU fund, Davis-Bacon (prevailing wage) rules apply. The St. Paul Port Authority will discuss this with potential borrowers during initial conversations. A representative from the port authority will also reach out to the contractor prior to the start of the project. Additionally, the loan agreement, signed by the borrower, clearly states the prevailing wage requirements.

Questions for Local Units of Government

What are the benefits of PACE for a county or city?

- Helps local businesses and organizations save money. Property owners are increasingly focused on energy and water conservation. PACE helps these owners save money by lowering energy costs. Long term pay back makes PACE funded projects immediately cash flow positive.
- Creates local jobs. PACE funded projects create more jobs and economic activity. According to a 2011 study by ECONorthwest, every $1 million in project spending results in 15 new jobs and $2.5M in economic output.
- Promotes sustainability. PACE helps communities achieve important energy and water conservation goals. Efficiency projects upgrade old equipment which reduces energy use, while renewables replace fossil fuels and reduce greenhouse gas emissions.

Is PACE a voluntary program?
Yes, each local government has the option of participating in the PACE program. There is no mandate that a county or city has to participate in the program. In addition, only property owners who decide to make a PACE eligible improvement will be subject to the PACE assessment.

What is the staff time commitment of the respective county government?
The time commitment is minimal. The SPPA and RMEB will provide the county with the approved application that contains the notarized request for the assessment, the interest rate and when the interest rate will start to accrue. The county calculates the payments, places the assessment on the property, collects the funds and passes the payment to either the SPPA or RMEB.

How do local governments with PACE programs get the word out to businesses?
CERTs actively communicates the benefits of PACE via its newsletter, website, brochures, and other communication channels; however, cities and counties that implement PACE projects are encouraged to utilize their own means to get the word out to their businesses. Local chambers of commerce are excellent means to get the word out. CERTs has developed a number of communication tools including case studies, one pagers, a website, and an online presentation which can be utilized by the local government for outreach efforts.

What will counties receive when an application has been approved by the St. Paul Port Authority?
The St. Paul Port Authority will send to the county the completed PACE application. Additionally, the SPPA will let the county know the amount of the assessment, the term, interest rate and that any accrued interest and principal should be amortized evenly over the term of the assessment.

What statutes authorize PACE?
Minnesota enacted legislation (H.F. 2695) in 2010 allowing cities, counties and towns to offer PACE financing programs. Subsequent legislation (H.F. 3729) allows a local government to designate another authority — the "implementing entity" — to implement such a program (e.g., the SPPA). Here are the statutes related to PACE:

- Minn. Stat. Sec. 216C.436
- Minn. Stat. Sec. 216C. 435
- Chapter 429 – Special Assessments

Are local government's financially accountable for any unpaid assessments?
No. State statute makes clear that local governments are not responsible for paying unpaid assessments. From Chapter 389 of Minnesota Session Laws: "No holder of bonds issued under this subdivision may compel any exercise of the taxing power of the implementing entity that issued the bonds to pay principal or interest on the bonds, and if the implementing entity is an authority, no holder of the bonds may compel any exercise of the taxing power of the local government. Bonds issued under this subdivision are not a debt or obligation of the issuer or any local government that issued them, nor is the payment of the bonds enforceable out of any money other than the revenue pledged to the payment of the bonds."

Is PACE different from other special assessments?
You may be wondering if PACE, which is a special assessment, is different from other voluntary special assessments that local governments already make to private properties under Minnesota law. The answer is: No. In fact, PACE assessments are more secure than other voluntary special assessments under Minnesota Statute 429.101 currently in use by cities for water line repairs, tree planting, or other improvements. Previously authorized assessments under Minnesota law have not required the acknowledgement of the existing mortgage-holder, and only PACE assessments are limited to 20% of the assessed value of the property. These added security measures were included in the PACE law to reassure private investors and potential bond-buyers, since PACE revenue bonds and assessments are somewhat new to the market.

What happens if the business fails?
Criteria are in place to ensure that loans are not issued to unstable businesses (see "property eligibility requirements") and the loan amount is limited to 20% of assessed property value. However, if an assessment is placed on a business and the business fails to pay the assessment, the county would undertake normal collection methods for tax-forfeited lands. When the land returns to private ownership the county will reinstate the outstanding balance of the assessment.

Get more support

Have a question that wasn't answered on this page? Please contact Pete Lindstrom with the Clean Energy Resource Teams at plindstr@umn.edu or 612-625-9634.