

PACE COMMERCIAL
an energy finance solution

**DC PACE Commercial
Program Overview
Metropolitan Washington
Council of Governments
June 19, 2014**

DISTRICT
DEPARTMENT
OF THE
ENVIRONMENT

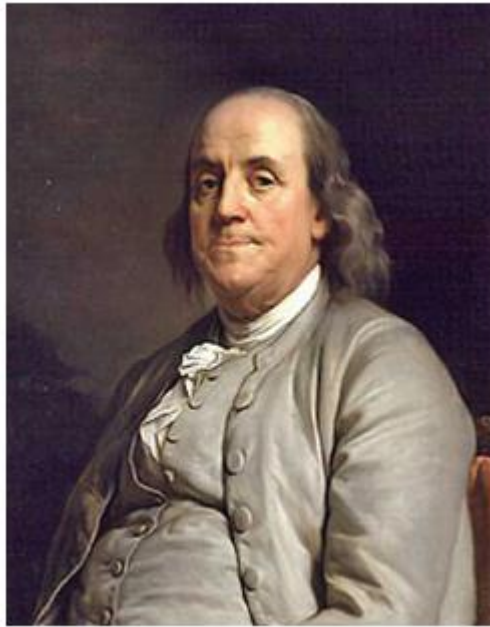


PACE FINANCING OVERVIEW

How PACE works

- PACE Commercial (Property Assessed Clean Energy).
- Enabled by Energy Efficiency Financing Act of 2010
- A global energy efficiency solutions program to:
 1. *Assist property owners to maximize clean energy, efficiency, and water savings in their properties and*
 2. *Upgrades for chillers, boilers, lighting, windows, solar, cogeneration, geothermal, water conservation, etc.*
 3. *Provide 100% financing to fund the improvements*
- No out of pocket costs, including design & engineering
- Loan payment is an assessment on tax bill
- Loan is sized to be repaid through savings
- Reduces annual operating costs

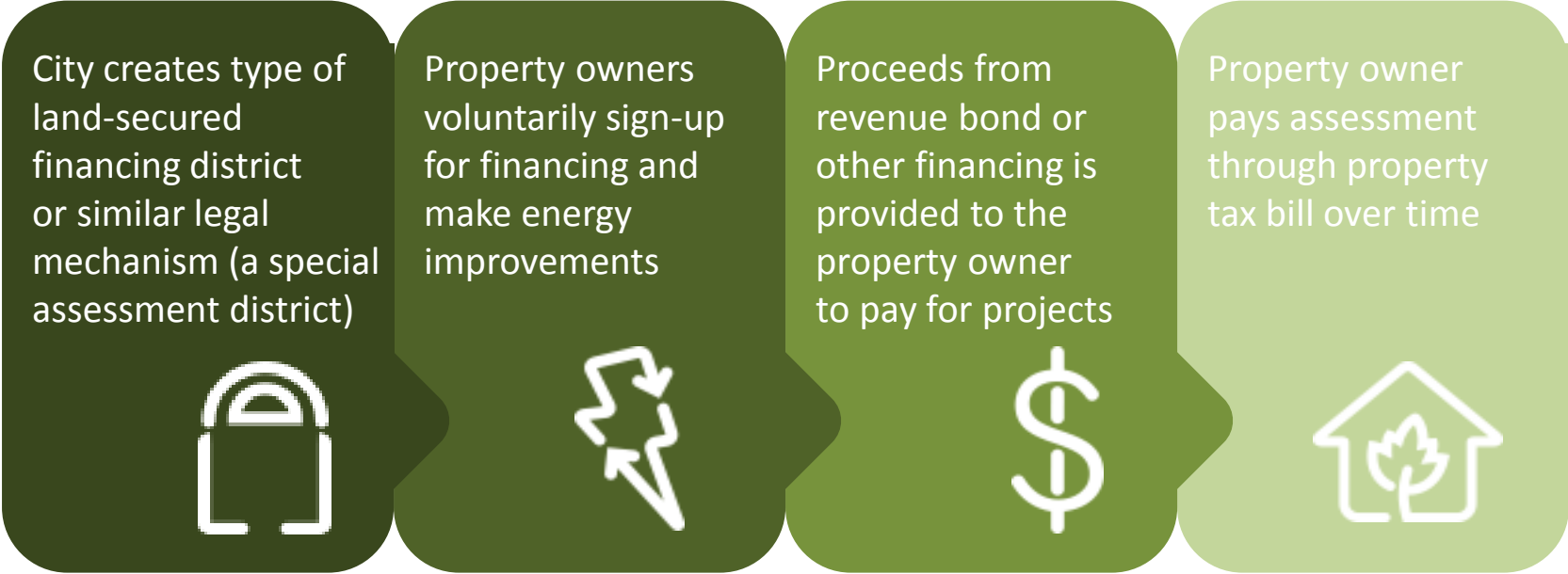
An Old Concept



**Philadelphia Opt-in Fire
District 1736**

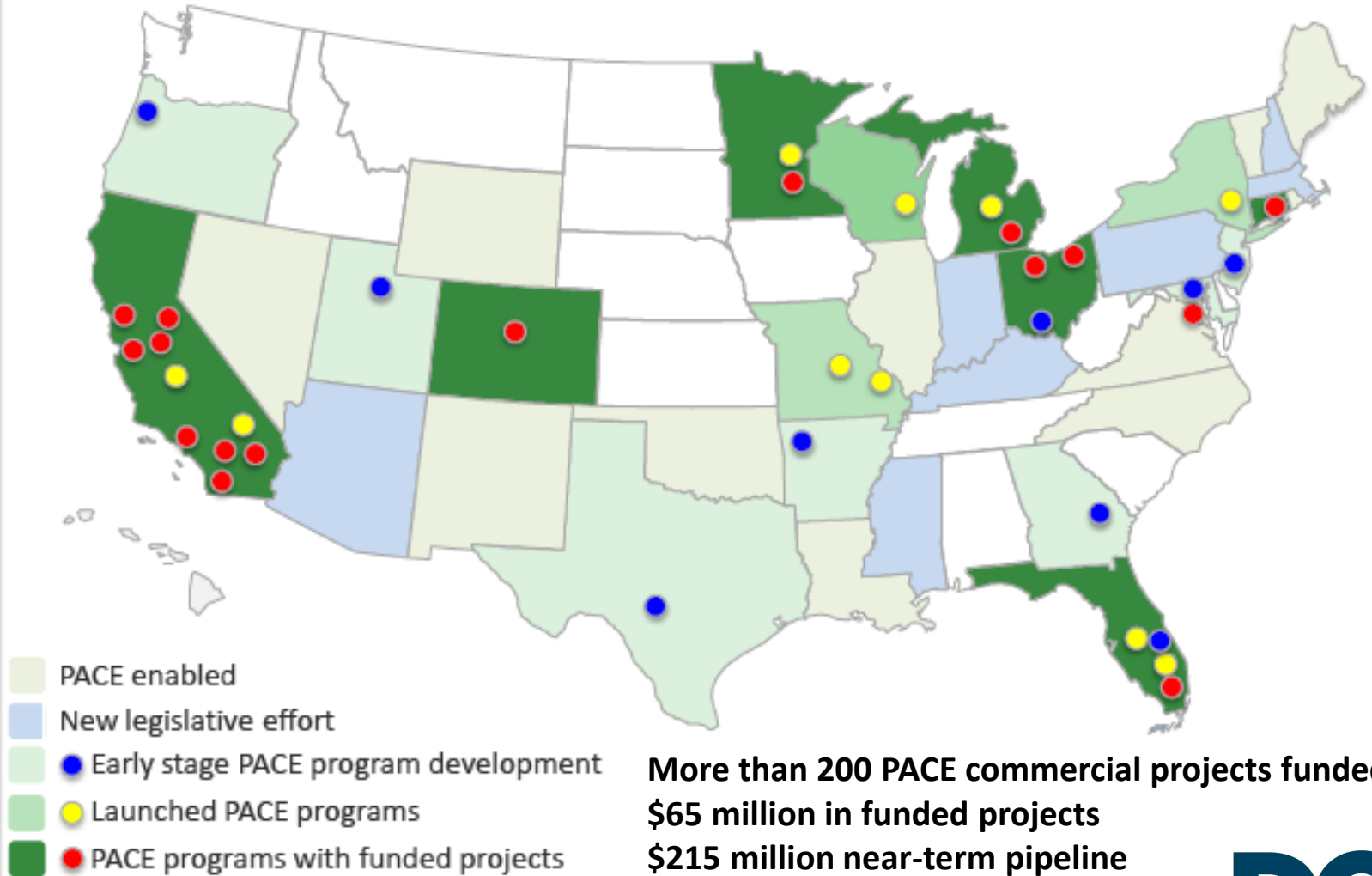
PACE is an acronym for “Property Assessed Clean Energy,” a financing structure that uses the District’s ability to fund improvements in the public interest by attaching special tax assessments to properties. This is the same mechanism used by countless other cities across the country, to fund infrastructure projects such as water and sewer or road improvements. However, unlike most special assessment districts, PACE assessments are completely voluntary.

PACE Basics



Qualified property owners can opt-in to receive project financing that is repaid through an assessment on their property taxes. Since the assessment is attached to the property, the term of the repayment can be much longer than conventional financing (up to 20 years for DC PACE Commercial). And, as with other special assessments, the PACE note stays with the title (not the borrower) if the property is sold.

PACE Market 2014



Source: PaceNow

C-PACE Addresses Key Barriers

Near term plan to sell?

Lack of funding?

Insufficient payback/ROI?

Split incentives?

Uncertain savings/technical expertise?

Tax obligation fixed to property

100% upfront, 20 year financing

Positive cash flow in year 1

Assessment/savings pass to tenants

Technical underwriting / SIR>1

PACE Benefits:

- **100% financing:** No out-of-pocket payments required, including engineering, legal, and design
- **Cash-flow Positive:** Project savings can exceed debt service, improving operating income on day one
- **Long Term Financing:** Amortization of up to 20 years or longer, greatly improves cash flow
- **Stable Fixed Rate Terms:** Assessment is tied to the building and transfers with ownership.
- **Off-balance-sheet accounting:** Tax assessments often treated off balance sheet, not traditional debt
- **Performance guarantee:** Utility bill savings can be guaranteed, insuring financial performance

DC PACE PROGRAM OVERVIEW

Eligible Project

Buildings Types

- **Commercial:** Including Office, Retail, and Industrial Property types
- **Multi-family:** Including Market-Rate, Affordable Housing & Coops
- **Institutional:** Non-Profit institutions that don't pay real estate taxes are also eligible, as well as larger campus projects and deep renovations

Eligible Improvements

- **Energy efficiency:** Both single measures and deep retrofits are eligible including replacement of Boilers, Chillers, Building Management Systems, Lighting, etc.
- **Clean energy:** Solar, Co-generation of Combined Heat and Power, and Geothermal. Including Power Purchase Agreements (PPAs)
- **Water Conservation:** Both water efficiency and storm-water mitigation measures are eligible for PACE, improving compliance with new storm water laws

DC PACE Financial Product

Financing Terms

- Up to 20 Year Term & 20 Year amort.
- Fixed and adjustable interest rate options ranging from 5 – 7%
- Sourced from Private Capital Providers

Additional Opportunities

- Bring PPA Financing to Reduce CapEx
- Develop Integrated Mortgage & PACE financing to reduce rates & cover capital improvements

Underwriting Standards

Financial Underwriting

- Debt Service Coverage: 1.2 or better
- Loan To Value Target: 80% or better
- Project Size: <10% of property value
- Lender Consent Required

Technical Underwriting

- Energy Baseline & Modeling to demonstrate that **Benefits > Cost**
- Measurement and Verification ensures performance over time

DC PACE Case Study: 400 M St SE

1st Use of PACE for Affordable Multifamily Project

Property:

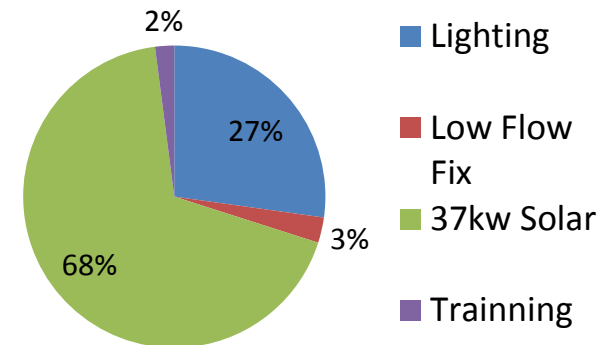
- 139 Unit Affordable Multi-Family Affordable Housing
- All tenants income at or below 60% AMI
- HOPE VI project lead by Forest City
- 7 year old property

Project:

- \$340,000 PACE Assessment
- Installed Measures:
 - Common area lighting and controls
 - water fixtures
 - 37kw PV installation
- Energy Savings:
 - >15% reduction in energy use
 - + 3.5% of energy sourced from solar
- Total annual benefits: \$41,000
- Annual assessment payment: \$30,000
- PACE bond underwritten by regional bank



Measure Cost



Opportunities in Affordable:

- PACE offers useful gap financing for rehab and retrofit projects in private or non-profit affordable
- Key opportunity: Affordable Housing Preservation
- Well aligned with LIHTC structures to provide a new capital source for improvements
- Lender Consent: CT HFA Trustee Precedent
- Working to coordinate single underwriting for Housing Trust Fund: DHCD, DC HFA & DDOE

Process Overview



DC PACE Services

DC PACE can assist property owners and managers with the following services:

- Screen for energy investment opportunities;
- Building energy benchmarking and analysis;
- Project refinement & assistance with RFPs;
- Procurement of approved contractors;
- Apply for financial incentives where eligible
- Secure lender consent; and,
- Select financing, develop the PACE note, performance guarantees, and PPAs

DC PACE Financing Services

DC PACE helps multifamily owners through the PACE process and structures PACE and affiliated financing, including:

- Placement of the PACE note;
- Performance guarantees and insurance products;
- Power Purchase Agreements (PPA);
- Securing lender consent; and,
- Application for financial incentives where eligible.

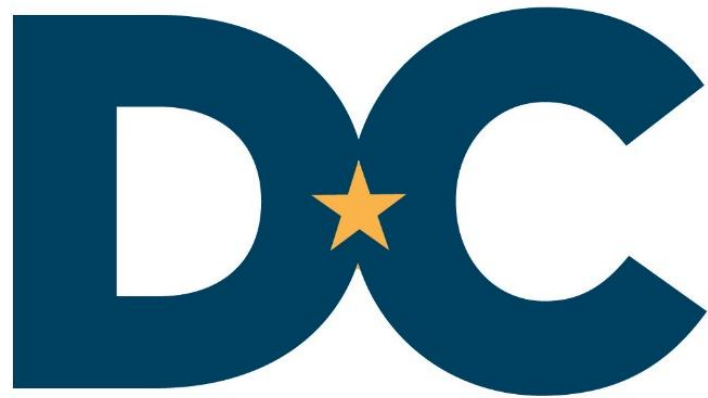
Project Development & Technical Services

DC PACE can help owners develop projects with the following services:

- Portfolio Screening for energy investment opportunities;
- Building energy benchmarking and analysis;
- Project refinement & assistance with RFPs;
- Procurement of approved contractors;
- Construction contract negotiation; and,
- Owner's agent services

Example Project Financial Analysis

	Light Touch (Minimal Cost, low savings)	Cash Flow Positive (Optimize Savings)	Deep Retrofit (Maximize Energy Savings, infrastructure upgrades)
Project Cost	\$1,494,409	\$2,857,983	\$8,000,000
Annual Cost of PACE Assessment (Rate, Term)	\$119,915 (6%, 20 years)	\$249,172 (6%, 20 years)	\$641,941 (5%, 20 years)
Annual Savings	\$89,373	\$263,974	\$350,000
% of utility bill	8%	23%	30%
Net Annual Benefit	\$(30,542)	\$14,802	\$(341,941)
Net Monthly Benefit (Cost) / Unit	\$(5)	\$2	\$(47)



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