# Introduction to the Property Assessed Clean Energy (PACE) Programs

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# PACE Basics

- PACE programs create local financing districts and a loan application approval process to provide loans to homeowners and businesses to finance renewable energy and energy efficiency improvements
- Property owners voluntarily apply to PACE financing
- Realigns benefits of energy improvements to length of use and removes initial capital barrier
- Repayment of loan is attached to the property
  - Typically an assessment or special tax that is repaid along with property taxes
  - Loan repayments can be as long as 20 years
  - Senior lien position
    - Fannie Mae and Freddie Mac have indicated concerns of the lien
    - July 2010 guidance from FHFA cited “significant safety and soundness concerns,” resulting in a pause or suspension of most residential programs that were under development
- Since its origination 29 states have passed legislation concerning the program

# PACE Opportunities in Illinois

- Illinois authorized the program in 2009
  - However, original bill lacked proper lien language and has impeded implementation
  - HB67 reintroduced as a priority in 2013 will attempt to subordinate the lien to the existing mortgage and resolve Fannie Mae and Freddie Mac concerns
- Non-conforming loans
  - Loans that do not meet certain Freddie Mac or Fannie Mae requirements
  - Typically resold on secondary markets without Freddie Mac or Fannie Mae
  - Loans are nonconforming due to a range of reasons including:
    - Jumbo loans
    - Loan to value ratio is too high
    - Credit score and history challenges
- Commercial loans
  - Loans secured for multifamily or commercial properties
  - Depending on size of building, may be subject to floating rates
  - Available through Freddie and Fannie, or through other lenders

# Sample PACE Improvements

- Any Improvement which is permanently attached to the property to make the property more energy efficient or produce clean energy*
- Water efficiency improvements may also qualify depending upon local program establishment

| Building Envelope | Major Systems | Renewables |
| --- | --- | --- |
| **Insulation**<br>**Air Sealing**<br>**Duct Sealing**<br>**Windows**<br>**Doors**<br>**Roofs** | **Heating**<br>**Air Conditioning**<br>**Ventilation**<br>**Water Heating**<br>**Lighting**<br>**Management Systems**<br>**Pool Equipment**<br>**Greywater Systems**<br>**High Efficiency Toilets**<br>**Waterless Urinals** | **Solar PV**<br>**Solar Thermal**<br>**Wind**<br>**Geo-thermal**<br>**Water Catchment** |

*** Excludes appliances**

# Legal & Financing Considerations

- Legal
  - State legislation guides district establishment
  - Stand-alone or participation with other agencies
  - Program validation
  - Commercial lender acknowledgement
  - Inclusion of residential program
  - If third party contracted, is an exclusive period granted within City
  - Senior lien status
- Financial
  - How to Fund?
    - Defined funding partners
    - Open market funding
    - Local jurisdiction funded
    - Taxable Limited Obligation Bonds
  - Grants and Limiting Parameters
  - Evaluation and Selection
  - Program Administrations
  - Fees and Closing Costs
  - Underwriting Criteria
  - Evaluation and Selection of Funding Partner(s)

# PACE Program Structuring Options

- Defined funding partners
  - Program secured funding commitment from outside sources
  - Direct investors/ lenders
  - Warehouse lender or other short-term credit facility
  - Long term take-out
- Open market funding
  - Program funding subject to property owner arrangement
  - Direct lenders / relationship lenders
- Local jurisdiction funded
  - County or City provides funding from internal sources
- Taxable limited obligation bonds
  - Issuance of limited obligation bond to fund aggregated projects
  - Capital market investors

# Appendix A:
# Funding Options

# PACE Funding Options – Defined Funding

| | BENEFITS | CHALLENGES |
|---|---|---|
| Defined Funding | • Origination/Funding link aligns motivation for success<br>• City staff role is oversight instead of day-to-day management<br>• No credit/default risk borne by City<br>• Immediate funding without interest rate risk to City or property-owners<br>• Marketing services may be provided by third party or directly by funding partner | • Complex set-up requires significant investment by partners<br>• Some legal costs may be borne by agency to establish district<br>• Identification of valid funding is difficult |

# PACE Funding Options – Open Market

| | BENEFITS | CHALLENGES |
|---|---|---|
| Open Market Funding | • Property owner's lender relationship may smooth understanding<br>• Competitive playing field<br>• Local agency doesn't have to secure committed funding partners | • Burden is on property owner<br>• Lenders unlikely to participate without extensive credit and underwriting analysis<br>• Program administrative burden is on agency staff or separately engaged third party<br>• Program marketing burden is on agency staff or separately engaged third party<br>• Local agency costs may exceed benefits<br>• Benefit tracking is difficult<br>• Complex origination / bond documents make conformity among lenders difficult |

# PACE Funding Options – Agency Funded

| | BENEFITS | CHALLENGES |
|---|---|---|
| City / County Funded | • Immediate funding<br>• Interest rate higher than current investment rates<br>• Local agency controls all underwriting decisions | • Local agency bears entire burden of origination, funding, marketing and administration – either internally of with separately engaged parties<br>• Local agency bears entire risk of default<br>• Local agency bears entire cost of upfront Program establishment<br>• Local agency costs may exceed benefits<br>• Local agency bears remarketing interest rate risk<br>• Existing investment policies may require additional governing board authorization to allow funding |

# PACE Funding Options – Taxable Limited Obligation Bonds

| | BENEFITS | CHALLENGES |
|---|---|---|
| Taxable Limited Obligation Bonds | • Funding directly aligned to project needs<br>• More familiar structure for municipal agencies | • Project aggregation requires property owners to submit projects and wait for funding<br>• Contractors experience boom and bust workflow around funding cycles<br>• Capital market access is expensive making small aggregations cost prohibitive<br>• Limited motivation from contractors and property-owners given uncertainty<br>• Marketing burden likely to fall on agency staff or separately engaged third party |

# Appendix B:
# Western Riverside, CA Case Study

# Western Riverside, CA Program Overview

- Fastest growing PACE program in the nation
- Funding Mechanism
  - Municipal bonds are issued
  - Select loans are made from qualified banks
- Operation Structure
  - Homeowners voluntarily apply online or over the phone
  - Extensive marketing network including contractors
  - Application evaluation and approval
  - Proof of project completion is submitted
  - Upon verification of project completion, payment will be issued to the contractor
  - Stepped program launch (residential then commercial)
  - Team of advisors, financing partners, and marketing network
- Repayment Structure
  - Repayment is a special assessment, paid in conjunction with property taxes
  - Terms vary from 5 to 20 years
  - Debt is transferable if the home is sold prior to full repayment

| | | |
|---|---|---|
| **Geographic Region** | 17 Cities and Unincorporated County in Western Riverside County, CA | |
| **Housing Units** | 540,000 | |
| **Commercial Units** | 16,000 | |
| **Scope of Services** | Residential and Commercial Program Administration and Funding | |
| **Program Launch** | December 2011 – Residential<br>December 2012 – Commercial | |
| **Results** (as of 2/14/13) | 50,000 | Inbound Calls |
| | 7,100 | Applications |
| | 4,600 | Approved Applicants |
| | $130 million | Approved Projects |
| | 1,763 | Completed projects |
| | $31 million | Completed Fundings |
| **Impact** (as of 2/14/13) | 2,000 | Jobs |
| | 193,049,00 | Saved kWh |
| | 5,143 Tons/Yr | Carbon Emission Reduction |
| | $68 million | Economic Stimulus to Region |

**Source: Western Riverside County's Pace Program Hits $50M in Approvals**
**http://pacenow.org/wrcog-program-hits-50mil/**

# Western Riverside, CA Team Structure

**Program Manager / Financial Advisor**

Public Financial Management, Inc.
Los Angeles, CA

**Legal Bond Counsel**

Best Best & Krieger LLP
San Diego, CA

**Residential Admin and Funding**

Renovate America
San Diego, CA

**Commercial Admin and Funding**

Samas Capital
Irvine, CA

**Assessment Administration**

David Taussig & Associates
Newport Beach, CA

**Placement Agent**

Westhoff, Cone & Holmstedt
Walnut Creek, CA

# Appendix C:
# Florida PACE Case Study

# Florida PACE Program Overview

- Florida PACE Funding Agency (“Agency”) was established as a special purpose local government unit
- Funding Mechanism
  - Agency has legal authority to issue $2 billion in bonds for retrofit projects and limits liability of counties and cities
  - 2/5/2013 announced that it has secured up to $500M in funding through Samas Capital
  - Samas Capital selected through year long public procurement process
  - Goal is to select several private financial partners to form a financing pool
- Operation Structure
  - Individual cities or counties can subscribe to the Agency’s services in three year terms
  - Counties and cities do not undertake any administrative burden
  - Agency markets and funds only those homeowners who live within subscribing areas
  - Qualified homeowners can submit applications online or by phone
  - Program administered by Science Applications International Corporations,  a third party selected through public procurement process
  - Standardized application and approval process
  - Team of legal and financial advisors in place  that include Public Financial Management and Bryant Miller & Oliver
- Repayment Structure
  - Repayment is a special assessment, paid in conjunction with property taxes
  - Debt is transferable if the home is sold prior to full repayment

**Source: Florida Pace Funding Agency**
**http://www.floridapace.gov/**