Introduction to PACE Financing for City Officials

Unlocking Energy Efficiency Financing with Property Assessments

Property Assessed Clean Energy (PACE) is an innovative model for financing energy efficiency, renewable energy, or water conservation projects in commercial and residential properties. Since its inception in 2007, PACE has provided nearly $6 billion in project financing across the U.S. The program has the potential to overcome some of the major barriers to greater energy efficiency adoption, such as large up-front costs, difficulty obtaining financing, and split incentives between owners and tenants. In addition, there is enormous potential for cities to leverage policies like mandatory benchmarking and audit ordinances to support PACE uptake in the commercial sector.

How PACE Works...

PACE is a national initiative, but programs are established locally and tailored to meet regional market needs. PACE requires state legislation that authorizes municipalities to establish PACE programs. PACE is voluntary for all parties involved and programs can be set up to focus on the commercial (C-PACE) or residential markets (R-PACE).

<table>
<thead>
<tr>
<th>Financing</th>
<th>Loans Are Linked to Property</th>
<th>Municipal Role</th>
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<tbody>
<tr>
<td>• PACE can cover 100 percent of a project’s hard and soft costs</td>
<td>• Energy projects are permanently affixed to a property</td>
<td>• Many cities have chosen to outsource program set-up and administration to third party operators</td>
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<td>• Rigorous set of eligibility and underwriting requirements</td>
<td>• The PACE assessment is filed with the local municipality as a lien on the property, which is typically senior to other loans attached to the property</td>
<td>• Several states have sought to achieve greater economies of scale by promoting state-wide or multi-jurisdictional PACE programs</td>
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<td>• Financing terms up to 20 years</td>
<td>• Can be combined with utility, local and federal incentive programs</td>
<td>• Most programs use private sector capital to fund loans</td>
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BEST PRACTICES FOR CITY OFFICIALS

- Leverage expertise of an experienced third-party administrator
- Aim for economies of scale by partnering with other cities or adopting a region-wide approach
- Transition to using mainly private capital (instead of valuable city, grant, or foundation funds)
- Actively support program stakeholder engagement and education
- Piggyback off of other related energy efficiency or green energy programs (leveraging contacts, stakeholder outreach, additional financing, etc.)

ACCOMPLISHMENTS TO DATE

- PACE is growing with at least 33 states and the District of Columbia having passed PACE enabling legislation.
- Residential programs, the original focus of PACE, represent 5 times more activity than commercial programs.
- However, commercial activity has grown steadily in recent years, averaging 91% annual growth since 2011.
- Challenges to date include: administrative burden in program creation, competition from private sector financing options, lender consent requirement, and low program awareness among contractors.

COMMERCIAL PACE COMPARED TO RESIDENTIAL PACE

<table>
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<tr>
<th>SECTOR</th>
<th>TOTAL FINANCING</th>
<th>TOTAL CLOSED PROJECTS</th>
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<tr>
<td>C-PACE (commercial)</td>
<td>$728 million</td>
<td>1,714</td>
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<tr>
<td>R-PACE (residential)</td>
<td>$5,172 million</td>
<td>220,000</td>
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Source: http://pacenation.us/pace-market-data/

LEARN MORE

- MinnPACE Case Study

The City Energy Project Resource Library features the MinnPACE CASE STUDY, and Minnesota’s successful implementation of a PACE financing program.

- Connecticut C-PACE Program Administration and Transparency Case Study

The City Energy Project Resource Library features the CONNECTICUT C-PACE CASE STUDY, and Minnesota’s successful implementation of a PACE financing program.
RECOMMENDED PROCESS FOR CITY OFFICIALS CONSIDERING A PACE PROGRAM

1. ASSESS

WHAT DOES YOUR CITY NEED IN TERMS OF A PACE PROGRAM?

- Identify property sectors
- Determine what projects or measures are eligible

2. STATUS

IS PACE AUTHORIZED IN YOUR STATE?

IF YES, ARE ANY CHANGES NEEDED TO THE LAW?

3. APPROVAL

DOES YOUR CITY HAVE THE AUTHORITY TO OPT IN TO THE PACE PROGRAM?

IF NO, WHICH EXTERNAL AUTHORITIES MUST ALSO SIGN OFF?

4. ADMINISTRATION

HOW SHOULD YOU ORGANIZE AND ADMINISTER THE PROGRAM?

WHAT CAPITAL SOURCES SHOULD YOU USE?

- Local
- Statewide
- Multi-jurisdictional
- Utility ratepayer funds
- State budget
- Private capital
- Other

ADDITIONAL RESOURCES:

ASSESS:
- COMMERCIAL PACE FEASIBILITY STUDY FOR MULTNOMAH COUNTY, OR.

STATUS:
- PACENATION - PACE ENABLING LEGISLATION CHECKLIST
- U.S. DEPARTMENT OF ENERGY: COMMERCIAL PACE FACT SHEET
- U.S. DEPARTMENT OF ENERGY: BEST PRACTICE GUIDELINES FOR RESIDENTIAL PACE PROGRAMS

ADMINISTRATION:
- LOCAL: SONOMA COUNTY PACE REPLICATION GUIDANCE FOR LOCAL GOVERNMENTS
- STATEWIDE & MULTI-JURISDICTIONAL: NASEO: ACCELERATING THE COMMERCIAL PACE MARKET – STATEWIDE PROGRAMS IN PACE FINANCING