

# **CESA Webinar: New Developments in PACE Programs**

**Hosted by  
Todd Olinsky-Paul, Project Director  
Clean Energy States Alliance**

**July 26, 2012**



# Housekeeping

- All participants will be in listen-only mode throughout the broadcast.
- You can connect to the audio portion of the webinar using your computer's speakers or a headset. You can also connect by telephone. If by phone, please enter the PIN number shown on the webinar console.
- You can enter questions for today's event by typing them into the "Question Box" on the webinar console. We will pose your questions, as time allows, following the presentation.
- This webinar is being recorded and will be made available after the call for CESA members on the CESA website members' page at [www.cleanenergystates.org](http://www.cleanenergystates.org) under the Events section.

# About CESA

Clean Energy States Alliance (CESA) is a national nonprofit organization that works with state leaders, federal agencies, industry players, and other stakeholders to promote renewable energy and energy efficiency. CESA's mission is to support state and local leadership to promote the use of existing and emerging clean energy technologies.



# Today's Guest Speakers

- David Gabrielson, PACENow
- Jessica Bailey, Clean Energy Finance and Investment Authority (CT)
- Dana Fischer, Efficiency Maine

## *Contact Information*

[www.cleanenergystates.org](http://www.cleanenergystates.org)

Todd Olinsky-Paul  
Project Director  
Clean Energy States Alliance

[Todd@cleanegroup.org](mailto:Todd@cleanegroup.org)

802-223-2554 x207

Cell: 845-625-8807



# PACE

PROPERTY ASSESSED CLEAN ENERGY

Clean Energy States Alliance

July 26, 2012

An Update on PACE: Opportunity and Challenges

# TOPICS

PACE 101

Commercial PACE

Energy Efficiency Makes Sense

Residential PACE

# WHAT IS PACE?

## “Property Assessed Clean Energy” Funding

- ✓ EE/RE upgrades to buildings
- ✓ Local government nexus
- ✓ Assessment mechanism
- ✓ EE/RE savings pay for assessment



# THE FATHER OF PACE



PHILADELPHIA OPT-IN FIRE DISTRICT  
7 DECEMBER 1736

# TYPICAL PACE MECHANISM

Local government  
creates assessment  
district



Building owner  
evaluates  
projects that  
reduce energy  
costs



Local government  
provides financing  
- adds assessment  
to tax roll



Property owner  
pays assessment on  
tax bill (for up to  
20 years)



# ENERGY EFFICIENCY MAKES SENSE

## Macro Level – 10 Year Energy Savings Exceed \$1 Trillion

Opportunity		Homes	Commercial	Institutional	Total
Economic					
Investment	\$ Billion	182	72	25	279
Energy Savings	Trillion Btu	1,892	848	293	3,033
Social					
Job Years	Total FTEs x 1,000	2,152	857	296	3,305
Environment					
GhG Reduction	CO <sup>2</sup> Million Metric Tons	382	175	59	616

Source: Rockefeller Foundation / DB Climate Change Advisors, March 2012, United States Building Energy Efficiency Retrofits

# C-PACE ELIGIBILITY CRITERIA EXAMPLE

## **Eligible upgrades must be:**

- ✓ Permanently affixed to the property
- ✓ Proven to save either energy or water, or generate clean power

## **Examples of eligible performance upgrades:**

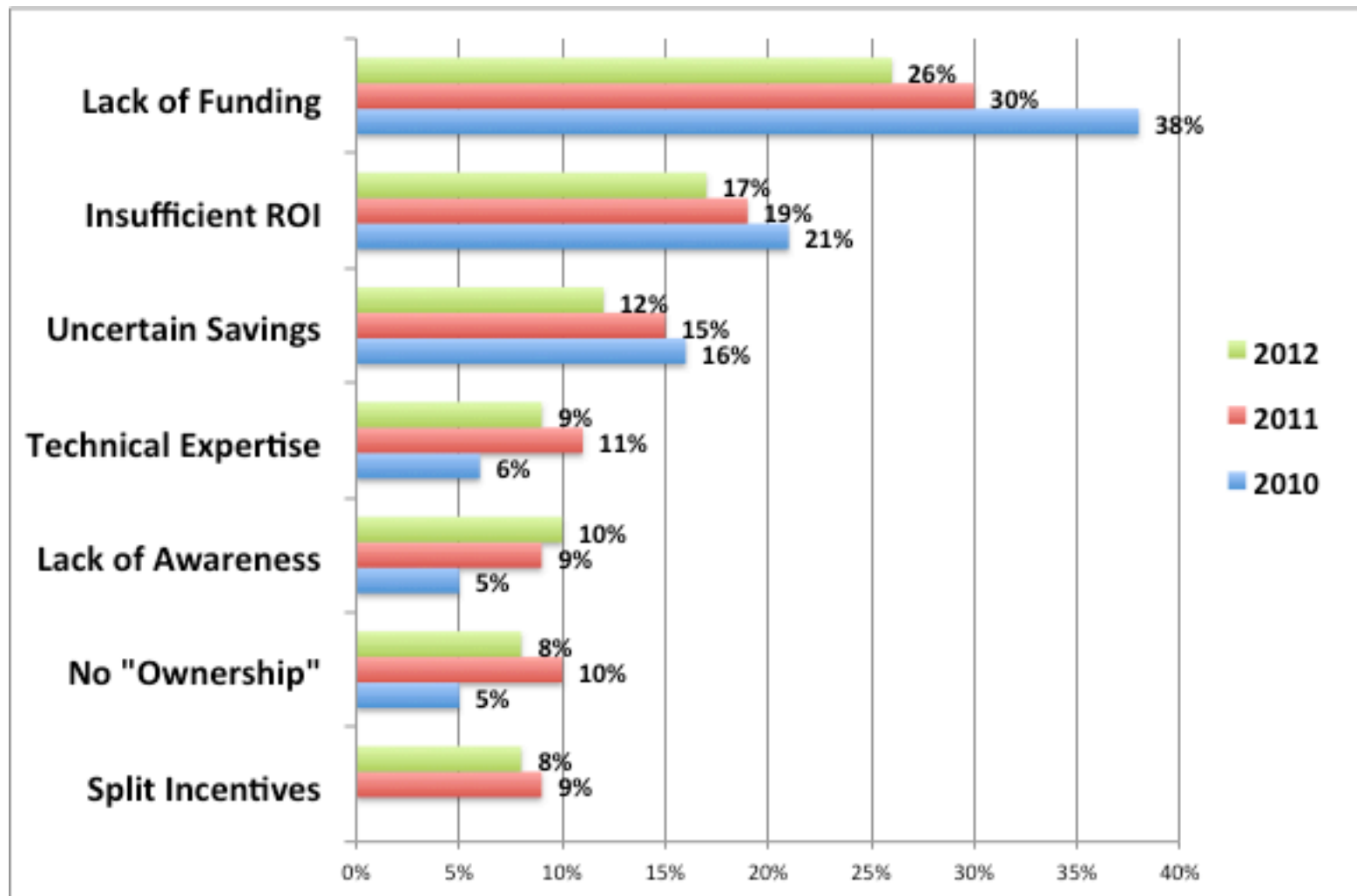
- ✓ High-efficiency lighting fixtures & lamps
- ✓ Occupancy & day-lighting sensors
- ✓ HVAC upgrades
- ✓ Building envelope upgrades (roof, windows)
- ✓ Elevator modernization
- ✓ Solar PV or Fuel Cells to generate electricity

# PACE PROJECT EXAMPLE

## 30 Year Old , 200,000 ft<sup>2</sup> Office Building in Washington, D.C \$500,000 Project – Lighting and Heating System

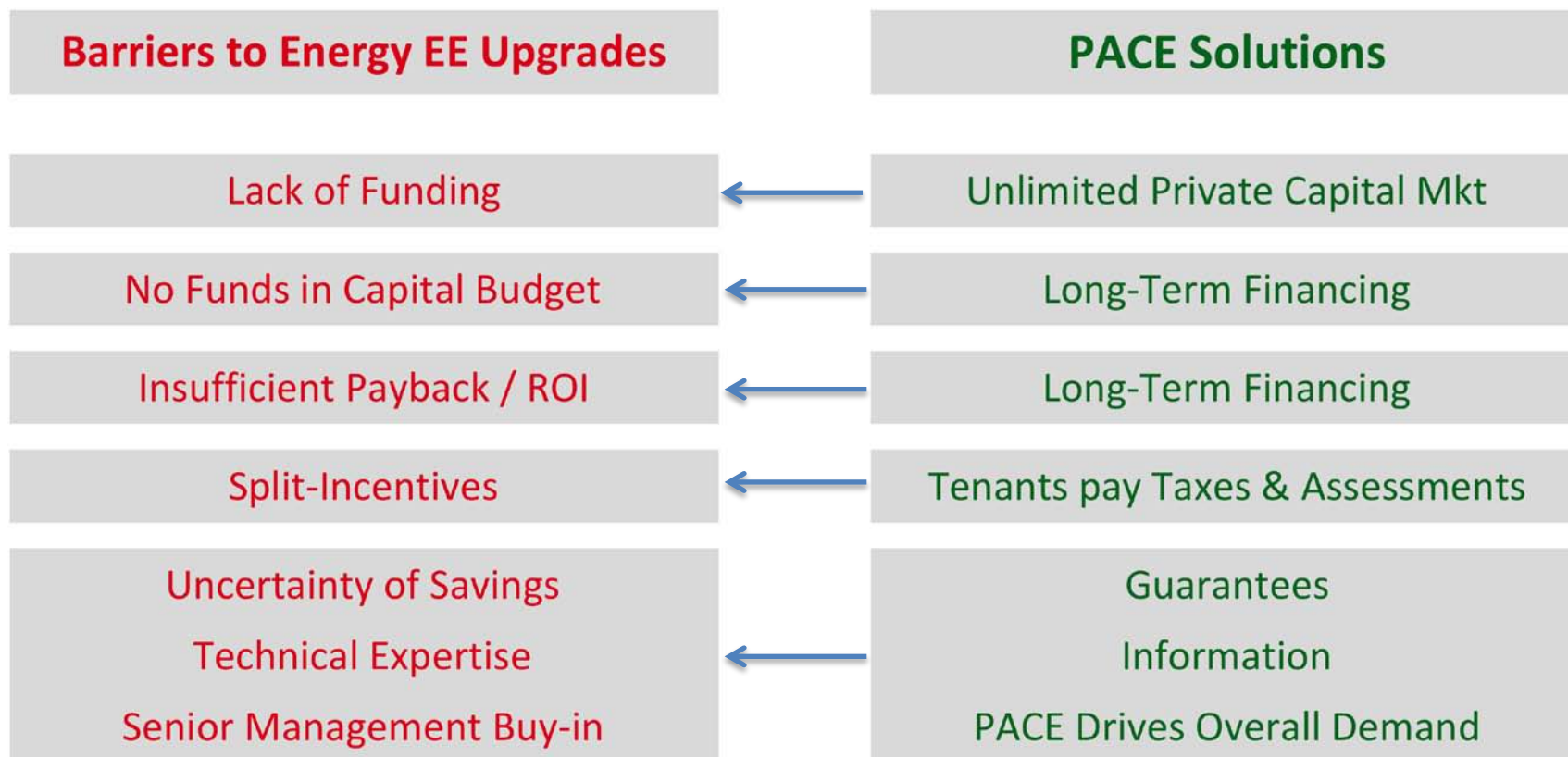
2000 Main Street Property	Before	After
<b>Revenue</b>		
Rental Income	2,735,000	2,735,000
<b>Expenses</b>		
Property Tax & Assessments	515,000	515,000
PACE Assessment		51,250
Energy Costs	330,000	225,000
Other Expenses	705,000	705,000
<b>Net Operating Income</b>	1,185,000	1,238,750
Assumed Cap Rate = 7%	16,900,000	17,700,000
Increase in Net Operating Income:		53,750
Increase in Building Value:		800,000

# BARRIERS TO COMMERCIAL PROJECTS

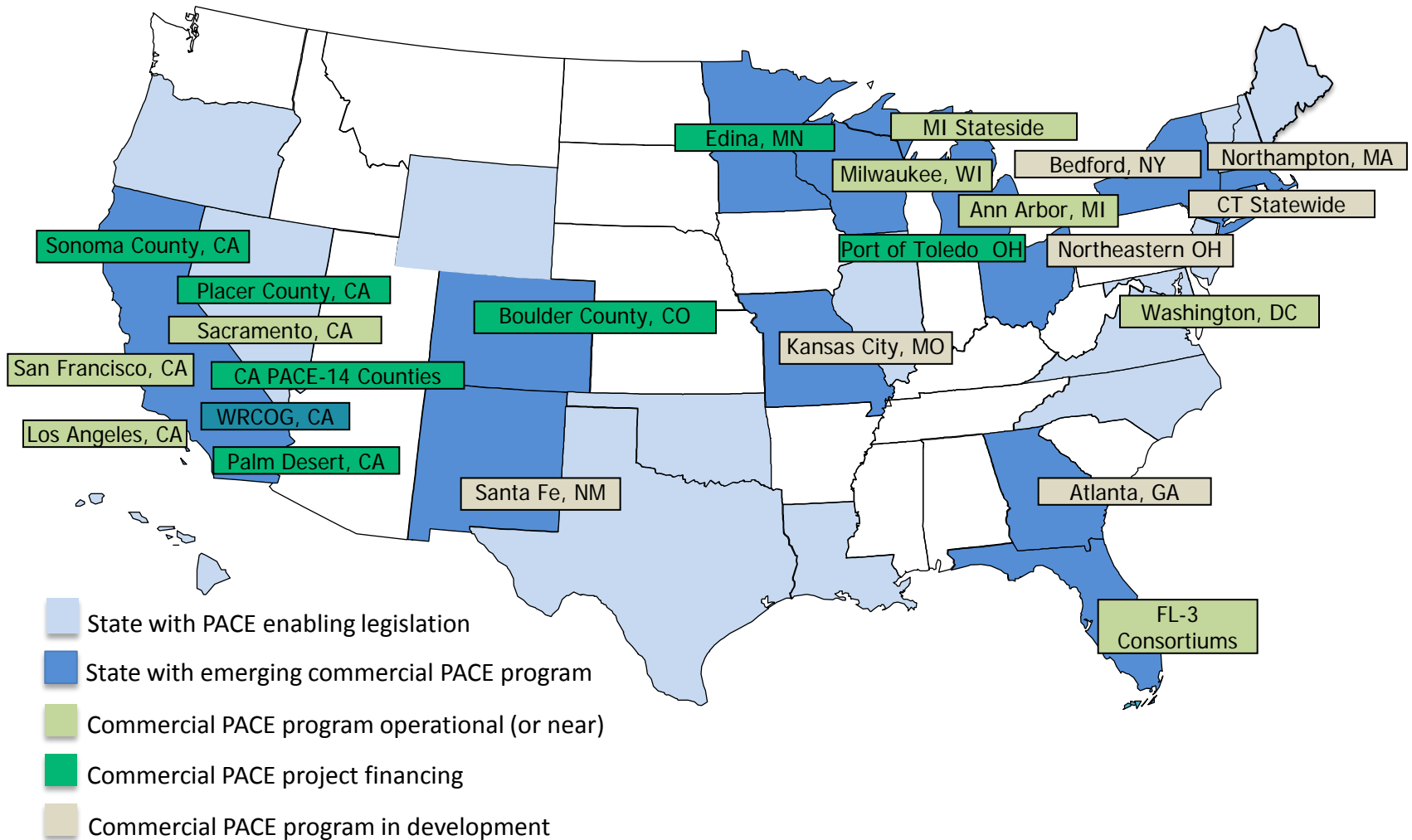


Source: Institute for Building Efficiency: JCI/IFMA 2012 Energy Efficiency Indicator

# PACE REMOVES COMMERCIAL BARRIERS



# PACE COMMERCIAL – EMERGING PROGRAMS





## PACENow focus on 4 key challenges

### 1. Program Support

- ✓ Legislation
- ✓ Local, regional, statewide
- ✓ Open market vs Sole source

### 2. Driving CRE Demand

### 3. Support from Existing Lenders

- ✓ Track record - optimistic

### 4. Financing Strategies

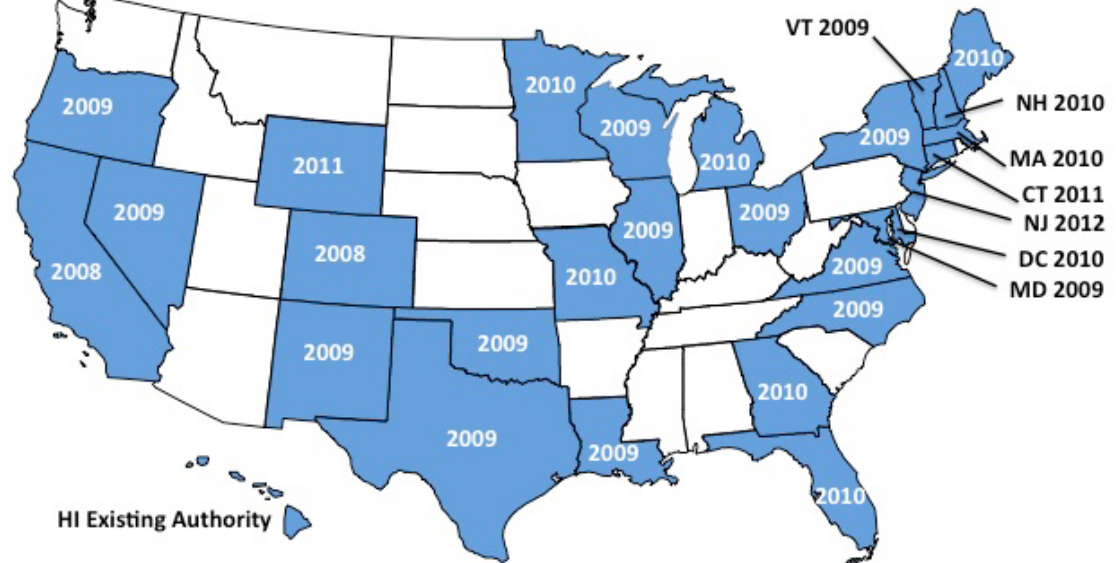
- ✓ Short-term: owner arranged
- ✓ Long-term: aggregation of assessments and securitization

# RESIDENTIAL PACE 2008 - 2012

**PACE is a World Changing Idea.....** *Scientific American, 2009*

2008 to 2012

- ✓ PACE pilots in CA
- ✓ 28 States
- ✓ FHFA
- ✓ Sonoma, Babylon, Boulder, Palm Desert
  - Nearly 3,000 EE/RE Projects
  - \$65+ million
- ✓ WRCOG – Since Jan 2012
  - Over 1,200 applicants
  - \$25+ million



## LEGISLATION – HR 2599

### FHFA, OCC, Fannie Mae, and Freddie Mac must:

- ✓ Adopt underwriting standards for mortgages with PACE assessments
- ✓ Rescind 2010 edicts and affirm validity of assessments
- ✓ Not penalize communities with PACE programs

### PACE Programs Required Underwriting standards:

- ✓ DOE Guidelines
- ✓ Commercial PACE programs require existing lender “Authorization”

### Current Bill Status

- ✓ 53 Co-Sponsors
- ✓ House Leadership has not embraced PACE

## FHFA Ignored Administrative Procedures Act

- ✓ Required to solicit and weigh public comment
- ✓ ANPR
  - Over 30,000 comments provided
- ✓ NPR published on June 15
  - Fannie and Freddie cannot buy or hold PACE mortgages
  - FHFA suggests it may consider 3 alternatives
    1. Insurance
    2. “Draconian” credit based underwriting standards
    3. Refinement to HR 2599 standards
  - Public comment period ends September 13<sup>th</sup>
- ✓ PACENow recommendation – Making the best of a bad situation
  - Adopt rule that combines alternatives 1 & 3



**CLEAN ENERGY**  
FINANCE AND INVESTMENT AUTHORITY

# **C-PACE:** **Commercial & Industrial Property Assessed** **Clean Energy**

**Municipal Working Group Meeting**  
**July 16, 2012**

# Who is CEFIA?

## Strategic Focus – Vision and Mission



**CLEAN ENERGY**  
FINANCE AND INVESTMENT AUTHORITY



**Help ensure Connecticut's energy security and community prosperity by realizing its environmental and economic opportunities through clean energy finance and investments.**



**Support the Governor's and legislature's energy strategy to achieve cleaner, cheaper and more reliable sources of energy while creating jobs and supporting local economic development**



**Attract and deploy capital to finance the clean energy goals for Connecticut**



**Develop and implement strategies that bring down the cost of clean energy in order to make it more accessible and affordable to consumers**

**Reduce reliance on grants, rebates and other subsidies and move towards innovative low-cost financing of clean energy deployment**





# Opportunity for Commercial Building Efficiency



CLEAN ENERGY  
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- ▶ 36,000 commercial buildings
- ▶ 20% energy savings in 10% of buildings = \$43 million/year in energy savings
- ▶ Upfront cost = \$164 million
- ▶ Avg. payback under 4 years
- ▶ Savings continue after that
- ▶ Local job creation
- ▶ Business competitiveness





## C-PACE: Commercial and Industrial Property Assessed Clean Energy

- ▶ Enables commercial and industrial property owners to access low-cost, long-term upfront financing for qualified building energy upgrades and repay the loan through a benefit assessment on their property tax
- ▶ Enables municipalities to opt-in through approval of their legislative body through **“written agreement, as approved by its legislative body, with the authority”**
- ▶ Enables CEFIA to administer a statewide program and to aggregate demand for this financing tool from around the state to further drive down cost of capital for building owners

# Connecticut's new legislation

## How Does C-PACE Work?

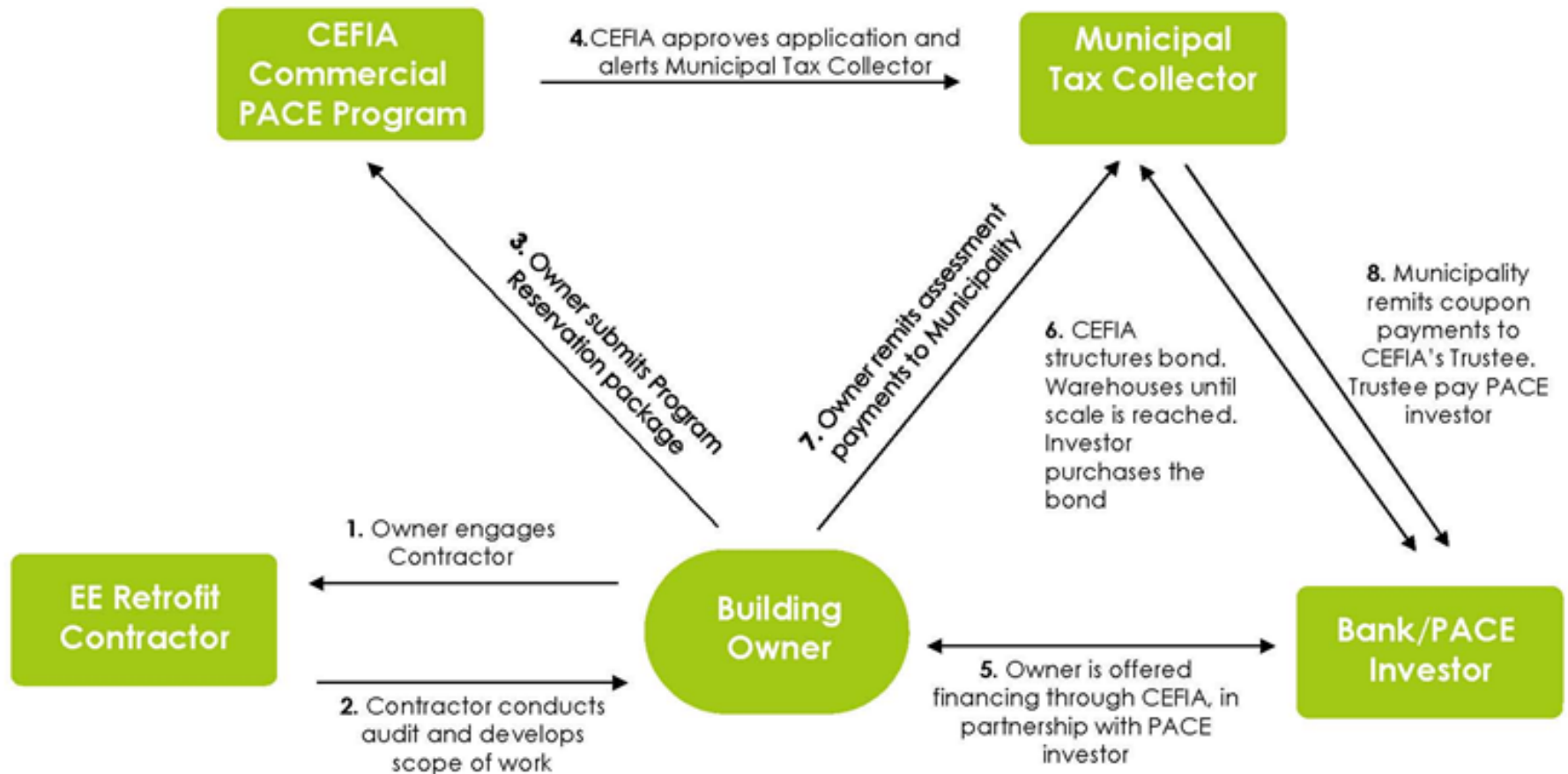


1. **CEFIA** – designs guidelines to govern program
2. **Municipality** – opts-in to establish a C-PACE district, enters MOU with CEFIA and seeks approval from its legislative body
3. **Businesses** – local commercial and industrial companies engage contractors who would recommend energy upgrades
4. **CEFIA** – interested property owner seeks approval for energy upgrades from CEFIA, the PACE program administrator
5. **Financing** – using its tools of project aggregation and credit enhancement, CEFIA arranges low cost financing for the energy upgrades
6. **Repayment** – payment of the upgrades through benefit assessment on property tax that stays with the property

# C-PACE Financing Mechanics



**CLEAN ENERGY**  
FINANCE AND INVESTMENT AUTHORITY



# Why Create a C-PACE district?

## Benefits to Key Stakeholders



- ▶ **A successful program is one that works for all parties and key stakeholders:**
  - ❑ **Municipality** – creates local jobs, reduces energy costs for businesses, reduces pollution
  - ❑ **Property owner** – give access to low cost, long term financing to improve building energy use; loan stays with building, not owner
  - ❑ **Existing lenders** – lowers operating costs for building and created a more attractive building for occupants
  - ❑ **Project lenders** – provides low risk investment due to the senior lien status of the PACE lien and its link to property tax

# Designing the Program

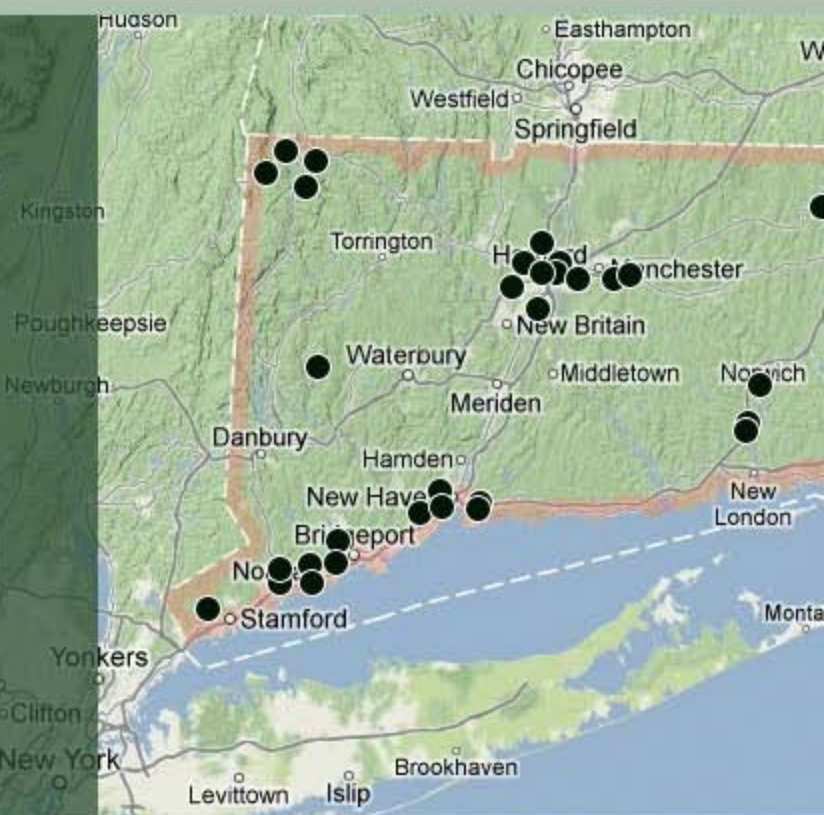


- ▶ **Municipal Working Group:** (1.) streamline and secure participation from municipalities in the CPACE program; (2.) understand tax collection process system
- ▶ **Program Guidelines Working Group:**
  - ▶ Eligible Measures Subgroup: review and recommend technical standards (ex: qualified upgrades, audits and auditors)
  - ▶ Financial Standards Subgroup: develop standards to secure lender consent (ex LTV requirements, SIR > 1, upgrades limited to % of property value, clear title, no liens, good credit)
- ▶ **Capital Sourcing Working Group:** to use the power of CEFIA as aggregator of PACE deals and state “green bank” to attract lowest cost capital to program
- ▶ **Marketing, Education, and Outreach Working Group:** to build pipeline of demand for CPACE funded upgrades throughout CT





**Connecticut is leading the way with the nation's first full-scale clean energy finance authority leveraging public and private funds to drive investment and scale up deployment of smart building initiatives. We offer incentives and innovative low-cost financing to encourage homeowners, companies, municipalities, and other institutions to support building projects, renewable energy and energy efficiency.**



### NEW PROJECTS

### NEW BUILDINGS



**Pace Financing for  
Commercial Buildings**  
ENERGY REDUCTION



**Connecticut State  
Capitol**  
ENERGY SERVICE



**Upstate HVAC Duct Demo**  
ON BILL FINANCING



**Title of Building**  
LIGHTING PROJECT



**Office Tower**  
ENERGY REDUCTION



**Newspaper Building**  
ENERGY REDUCTION  
PROJECT





# ROYAL BANK OF SCOTLAND AMERICAS



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## PROJECT SUMMARY

**TOTAL COST**  
\$4,862,287.27

**ANNUAL BILL SAVINGS**  
\$862,287.27

**ANNUAL ENGERGY SAVINGS**  
12,081 MWH



# Program Design Timeline

- ▶ **Develop guidelines: Sept 2012**
- ▶ **Secure MOUs with municipalities: August-October 2012 (ongoing)**
- ▶ **Developing a pipeline of projects: Sept – Dec 2012 (ongoing)**
- ▶ **Establish program procedures and application process: Dec 2012 – Feb 2013**
- ▶ **Raise capital: Nov – Jan 2013**
- ▶ **Launch program: early 2013**



# Maine PACE

## Residential Energy Efficiency Financing

- simple
- low cost
- long term
- assumable
- secured
- municipally authorized
- uniformly administered
- FHFA approved
- scalable



# Efficiency Maine Trust

## Introduction



- Manages Maine's energy efficiency and renewable energy programs.
- Established by the Maine Legislature in 2002 with mandate to reduce energy costs, help the environment, and promote sustainable economic development
- Funded by:
  - electric rate payers (~\$9/yr/home)
  - large fossil fuel power plants pollution "allowances"
  - ISO-NE power grid for "negawatts"
  - Federal grants

# Building a weatherization marketplace with incentives



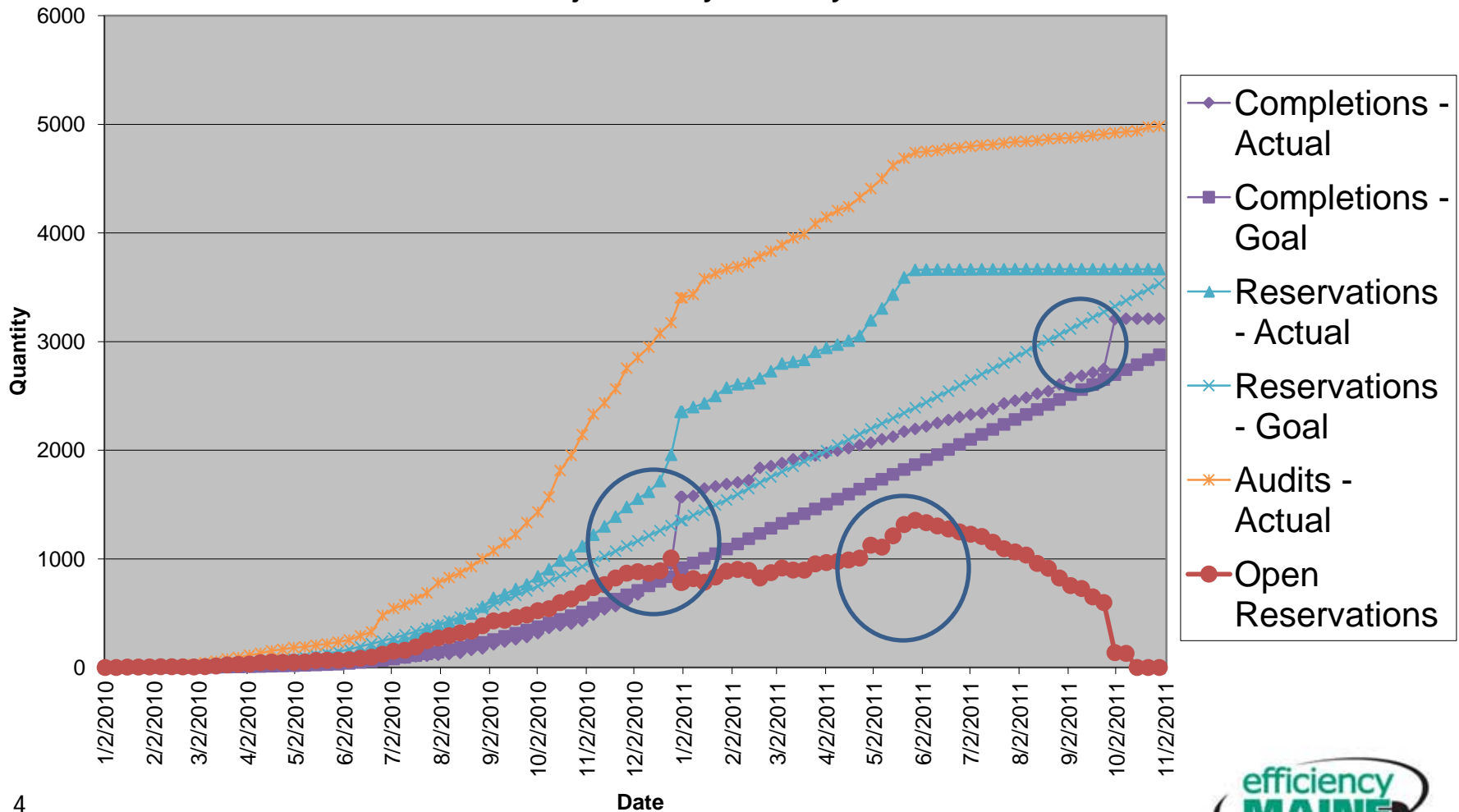
- \$9M SEP Grant supported program awarded Fall 2009 with additional funds provided by BetterBuildings
  - \$1500 for 25% projected whole house energy saving
  - \$3000 for 50% projected whole house energy saving
  - \$1000 bonus for exceeding 25% offered June 2010 – Dec 2010
  
- Result: After slow start, huge rush late 2010. Activity continued to full use of rebate grant dollars by September 2011.
  - 3212 homes upgrades under rebate program
  - Average project cost \$8350
  - Average Rebate \$2650 (32% of project cost)
  - Average projected savings 40% (\$1500 per year)
  - Over 1.3 million gallons of heating oil saved per year.

# Home Energy Savings Program Rebates

Deadlines : Dec 2010 for bonus, May 2011 reservations filled, Sep 2011 all work complete



Project Activity Summary



# Transition to Weatherization Financing

## Maine PACE Loan Program



- No rebates available. One month overlap only.
- Secured to property value with junior mortgage. (2<sup>nd</sup>, 3<sup>rd</sup>...)
- Maximum Loan to Value of 100% (municipal valuation acceptable)
- Maximum Debt to Income Ratio of 45%
- Loan values \$6,500 to \$15,000
- Up to 15 year term
- 4.99% fixed interest rate with fixed monthly payment.
- No pre-payment penalty
- No application, closing or origination fees.
- Mortgage is assumable.
- \$10,000 = roughly \$80 per month. (frequently cash positive)
- Cost of audit can be incorporated into the loan amount.

# Transition to Weatherization Financing

## Maine PACE Loan Program



“We now hope to save at least 50%  
on our energy costs.”

Sheila & John Bacon  
Homeowners – Winslow, ME



### It's Never Been Easier to *Save Like A Mainer*

Slash your energy costs by at least 25% – even up to 50% or more!

Upgrade your heating system, weatherize your home, or make other improvements to lower your energy bills.

- Receive up to \$25,000 with 4.99% financing and no closing fees
- Make low monthly payments
- Offset the cost of your loan through your energy savings

[Apply for Your Loan ▶](#)

[Find an Energy Advisor  
to Schedule Your Energy Assessment ▶](#)

# Maine PACE loan Program

(AFC First – Loan Service Provider)



- 136 Towns participating (and growing)
- 65% of the state population

As of:

# PACE Municipalities

Cummative Applications

Cumulative Declined Loans

Inactive Applications

Applications In Process

In Process Application \$\$\$

Cummulative # Closed Loans

Cummulative \$\$\$ Closed Loans

Average PACE Loan Amount

Applications received 4 weeks

Applications declined last 4 weeks

<sup>7</sup> Loans Closed last 4 weeks

	7/15/2012
# PACE Municipalities	136
Cummative Applications	1218
Cumulative Declined Loans	557
Inactive Applications	296
Applications In Process	126
In Process Application \$\$\$	\$ 1,797,038
Cummulative # Closed Loans	239
Cummulative \$\$\$ Closed Loans	\$ 3,050,881
Average PACE Loan Amount	\$ 12,765
Applications received 4 weeks	67
Applications declined last 4 weeks	25
<sup>7</sup> Loans Closed last 4 weeks	17

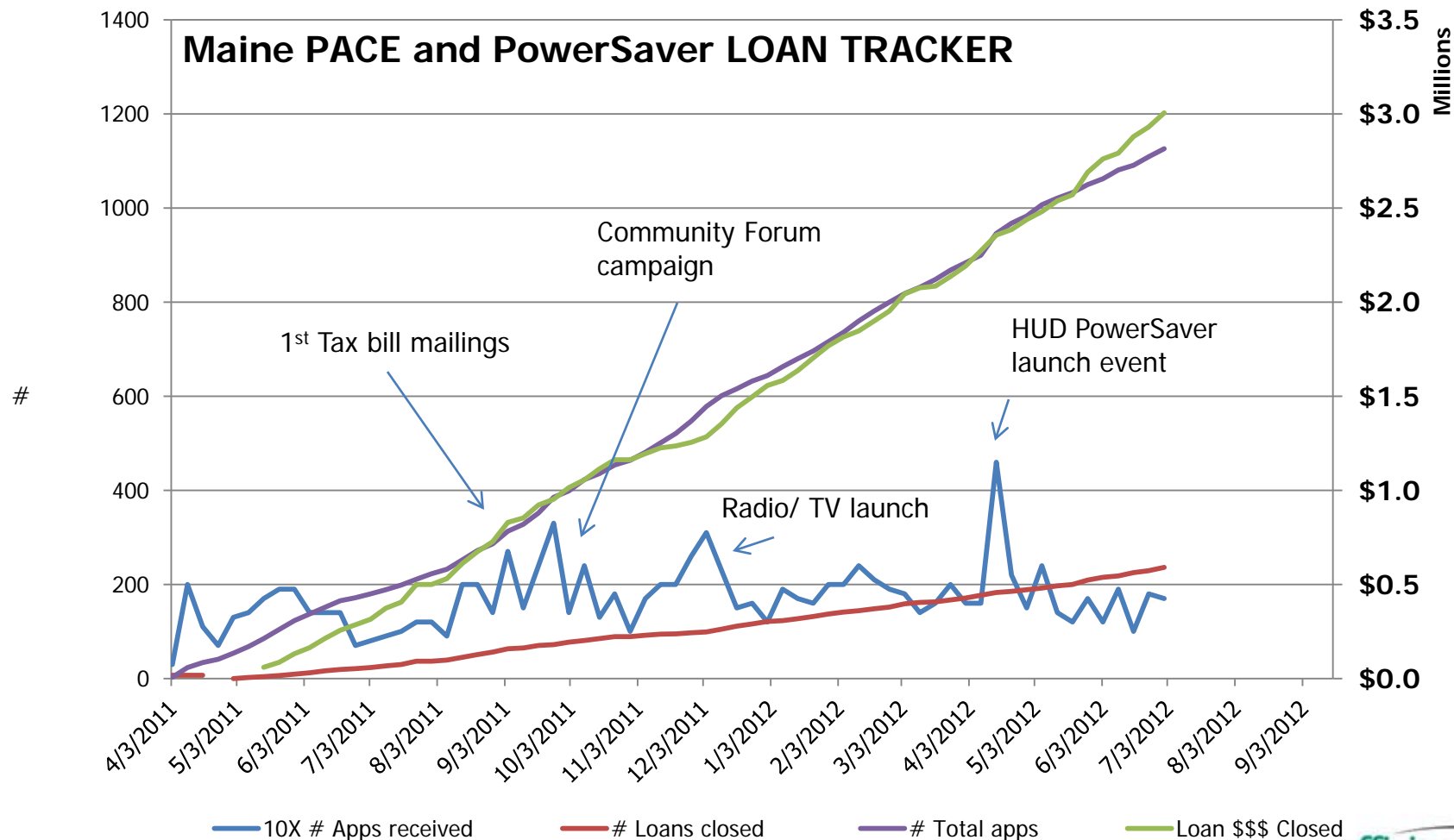
45% DTI  
biggest  
blocker

recent  
milestone



# Maine Loan Program Activity

ONE month overlap with rebate reservation availability.  
Drop in known audit activity to average 50 from 67 per month.  
( Has since increased to 75 per month.)  
Loan closings 20 to 25 per month.





# PowerSaver - launched April 11th.



- Single Family Detached Dwelling ONLY
- Loan values \$7,500 to \$25,000 Secured
- Secured to property value with minimum 2<sup>nd</sup> position mortgage.
- Maximum Loan to Value of 100% (exterior assessment req.)
- Maximum Debt to Income Ratio of 45%
- 15 year term (20 if project includes Renewable Energy)
- 4.99% fixed interest rate with fixed monthly payment.
- No pre-payment penalty
- No application, closing or origination fees.
- Mortgage is NOT assumable.
- Loan values up to \$7,500 Unsecured (no LTV calc.)
- Available to all Mainers in all towns and territories.
- Can combine with PACE for up to \$40,000 total project.

# Vermont due to launch similar PACE program in August!



Please contact me for any questions or documentation:

Dana Fischer

Residential Program Manager

[Dana.Fischer@efficiencymaine.com](mailto:Dana.Fischer@efficiencymaine.com)

(207) 650-8774

<http://www.efficiencymaine.com/pace>