

ABOUT PROPERTY ASSESSED CLEAN ENERGY FINANCING

Prepared by Ryan O'Connor (AMC)

Presented by Janet Streff (OES)

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**The following information was excerpted
from three presentations to the
Metropolitan Energy Policy Coalition on
June 3, 2010**

The presenters to the MEPC were:

- State Senator John Doll (PACE bill author)**
- Mark Zimring (U.S. Dept. of Energy Lawrence Berkley Labs)**
- Stefanie Galey (MN Institute of Public Finance)**

BACKGROUND ABOUT MINNESOTA'S NEW PACE LAW

Presented by Sen. John Doll

6/3/2010



35% OF U.S. ENERGY USE

and carbon emissions comes from our buildings

Doll 6/3/10 Presentation

22% Unemployment

U.S. construction industry, 04/2010



Doll 6/3/10 Presentation

THE BARRIER: UPFRONT COSTS



How do we get to the on-going monthly operational energy savings when the upfront costs are in the thousands and credit is ultra-tight?

Doll 6/3/10 Presentation

GENERAL COMPONENTS OF A PACE PROGRAM

- Allow property owners to install RE and EE paying for the cost over functional it's life through a Property Tax assessment
- No up-front cost to property owner, funding provided through municipal revenue bond issuance
- Participants pay only for cost of project and nominal fees to administer program
- Debt obligation is attached to property allowing for transferability upon change in property ownership
- 100% Voluntary
- It PAYS! – Pay As You Save!

HOW PACE WORKS

City or county
creates a
property-
secured
financing
district or
similar legal
mechanism

Property
owners
voluntarily
apply to
qualify for
financing and
secure energy
audit

Qualifying
projects include
solar PV and
Thermal, Geo-
thermal, EV
upgrades,
energy
conservation
improvements

Owner must
demonstrate
ability to
repay, be
current on
mortgage and
PT.

HOW PACE WORKS

Principal amount not to exceed 10% of assessed value of property

Licensed contractor performs installation, city inspects

Proceeds from revenue bond provided to property owner to pay for project

Property owner repays bond through property tax bill (up to 20 years)

KEY BENEFITS TO COUNTIES & CITIES

**Helps meet
energy
efficiency goals**

**Improves
property
values**

**Promotes
local jobs**

KEY BENEFITS TO PROPERTY OWNERS

**Saves money
on utility bills**

**Does not draw
down owners
available
credit**

**Repayment
obligation can
be transferred
to new owner**

KEY COMPONENTS OF MN LEGISLATION

Legal Authority/ Structure

- Permits cities, counties, towns to est. program
- Revenue bond authority, secured by senior lien
- Qualifying projects can EE, RE, HV elec. Upgrades

Program Requirements

- Energy Audits and/or RE feasibility study
- Qualified contractors perform work, 100% inspected, 10% performance verification
- Max. 10% loan to assessed value of property, Max. 20 yr term
- Owners must be current on mortgage and taxes, demonstrate ability to pay assessment

Financing

- On-demand bond financing for small projects
- Pooled or interim financing structures

PACE AND ENERGY EFFICIENCY PROGRAMS THROUGHOUT THE U.S.

Presented by Mark Zimring

6/3/2010

150+ Residential Energy Efficiency Financing Programs in the US...



**Success!!
Our work is
already done.**

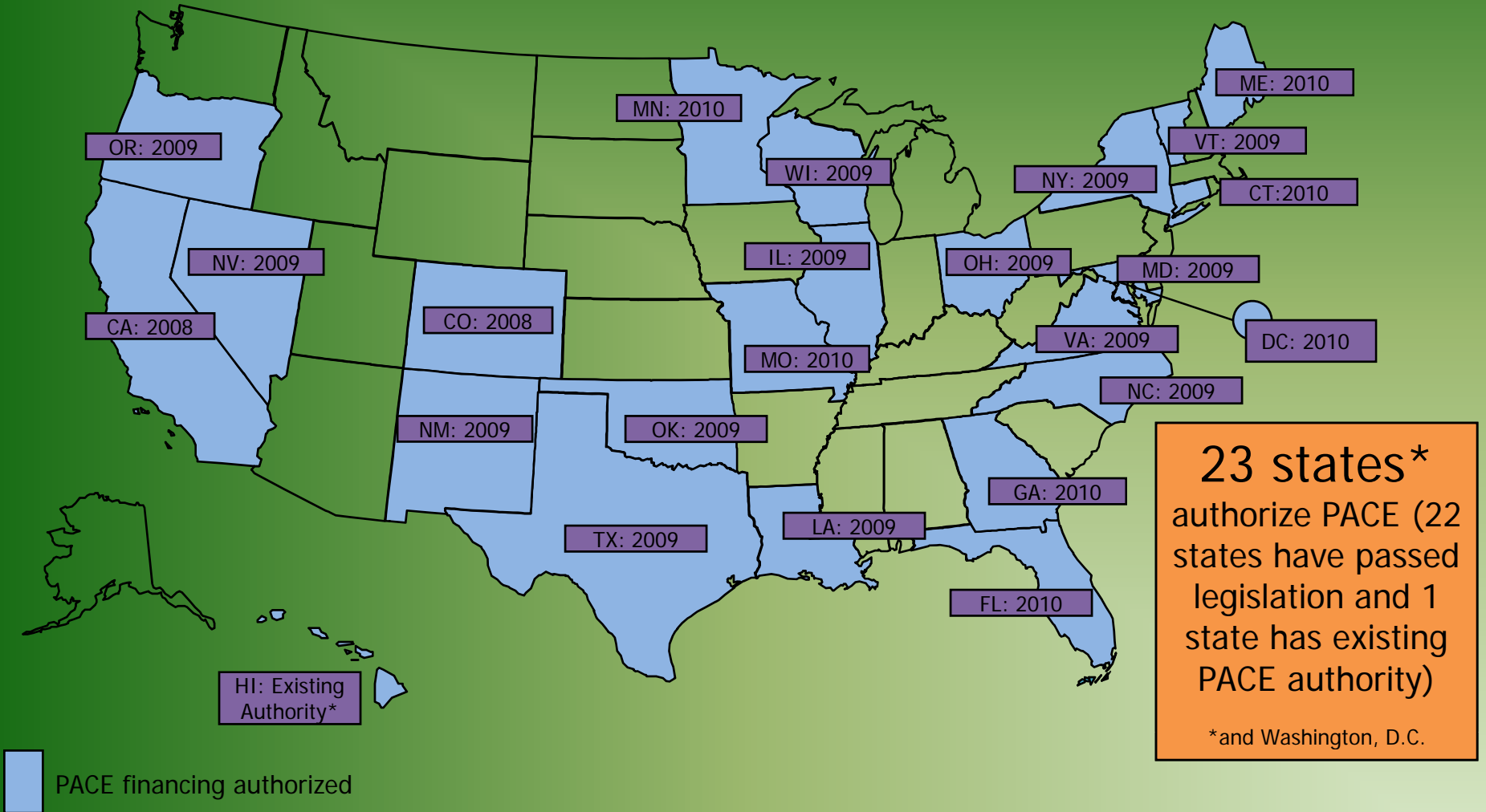
ISSUES WITH EXISTING FINANCING OPTIONS

- Low Participation Rates
- Limited Applicability to Households Most in Need
- Limited Support for Comprehensive Retrofits
- Inability of Programs to Recoup Their Costs

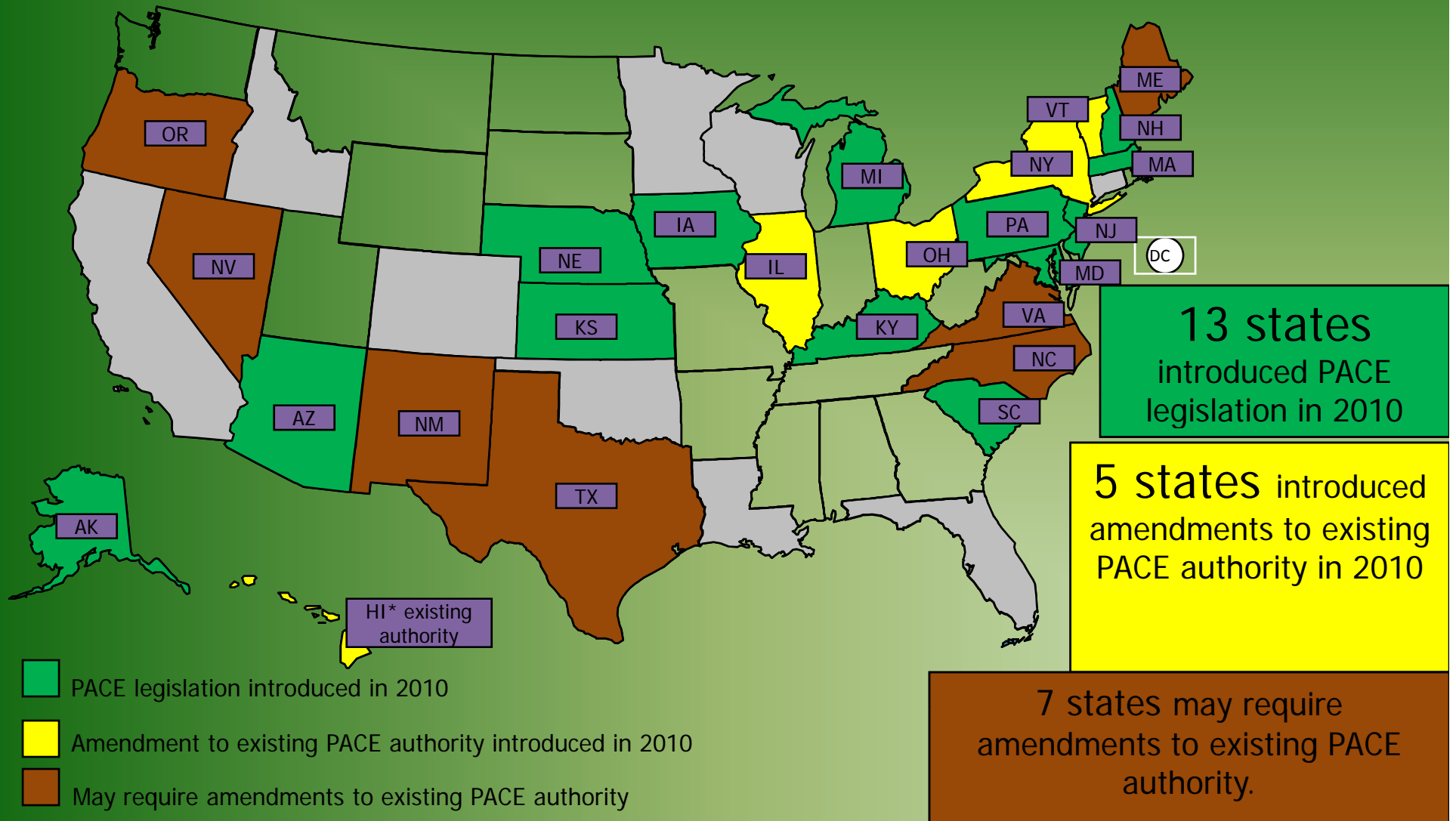


Zimring 6/3/10 Presentation

STATES THAT HAVE AUTHORIZED PACE



ONGOING PACE LEGISLATIVE ACTIVITY



EXAMPLES: EXISTING PACE PROGRAMS

These 5 programs have approved almost \$50 million in funding for >2,000 EE/RE projects to date.

Location	Program Name	# Participants	Total Financing	Avg. Assessment Size	Funding Mechanism
Babylon, NY	Long Island Green Homes	366	\$3,190,000	\$8,700	Town Waste Reserve Fund
Berkeley, CA	Berkeley FIRST	13	\$379,000	\$29,000	Micro-Bonding
Boulder County, CO	Climate Smart Loan Program	612	\$9,750,000	\$16,000	Bonding
Palm Desert, CA	Energy Independence Program	~200	\$8,500,000	~\$30,000	County Treasury & Dev. Agency
Sonoma County, CA	Energy Independence Program	~700	~\$25,000,000	~\$30,000	County Treasury

EXAMPLES: WHO RUNS THE PROGRAM?

- **Berkeley and San Francisco**
 - Both administrative and funding functions run by a third party (Renewable Funding)
- **Boulder County**
 - Many functions run by county staff; processing applications and some parts of the funding run by third parties
- **Town of Babylon, Palm Desert and Sonoma County**
 - Most program functions run in-house.



EXAMPLES: UNDERWRITING CRITERIA?

- **Existing programs to date**
 - Clear title, no involuntary liens, good property tax payment history for 2-3 years; often max assessment to property value ratio (~10%)
- **San Francisco & other emerging programs**
 - Will look at property value and outstanding mortgage to make sure the property is not currently under water



EXAMPLES: SOURCE OF FUNDS?

- **Berkeley and San Francisco**
 - “Mini-bonds” purchased immediately by a pre-determined investor (~7.5% interest)
- **Boulder County**
 - Aggregates demand THEN issues a bond (5.2% - 6.8%)
- **Town of Babylon**
 - Existing solid waste fund repurposed for EE/RE loans (3%)
- **Palm Desert & Sonoma County**
 - Bonds are currently held by the local govt (7%)



EXAMPLES: ELIGIBLE MEASURES?

- **Berkeley**
 - Pilot was solar-only
- **Boulder County**
 - Long list of measures including efficiency, solar, other renewables.
- **Town of Babylon**
 - Energy efficiency primarily with high bar to get solar.
- **Sonoma**
 - Range of efficiency, renewable energy, and water conservation measures
- **San Francisco**
 - Energy and water efficiency, plus renewables if EE is also done.



EXAMPLES: Quality Control?

- **Berkeley**
 - State reviews the solar projects and provides a rebate reservation letter. Berkeley's administrator checks the documentation.
- **Palm Desert**
 - Program staff reviews the project scope to check for eligibility and reasonable cost. Site inspection of projects to ensure quality and compliance.
- **Boulder County**
 - Program staff reviews the project scope to check for eligibility. Spot checks of some projects to ensure quality, though many projects already require a building permit and inspection.
- **Town of Babylon**
 - Program staff reviews the project scope to check for eligibility compliance and reasonable cost. Performance testing is required. Must be a Building Performance Institute (BPI) accredited contractor.



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PACE BENEFITS FROM REGIONALIZATION

- **Reduces Administrative Costs**
 - Reduces administrative burden for local governments and eliminates redundancy
- **More Attractive Financing**
 - Large, diversified assessment pools are likely to deliver low interest-rate financing
- **Flexibility of Local Government Involvement**
 - Local governments may choose to operate strictly as assessment pass through agents or be involved more robustly in program operations

POTENTIAL PACE ISSUES

- **Limits on What Can Be Funded**
 - Must be fixed to property and last at least as long at the financing term; potential limitations if required to be “cash flow positive”.
- **Cost of Setup**
 - Often administratively difficult to set up, especially for limited local government staff; however it is easier/cheaper as trail blazers develop templates.
- **Scale**
 - A city, town, or small county is probably too small to bring down costs; fix costs need to be spread over hundreds or thousands of assessments each year.
- **Access to Cheap \$**
 - Need volume and standardization to bring down cost of capital; “on demand” funding important but more expensive.
- **Lender Opposition**
 - Resistance by some lenders whose priority in bankruptcy may be reduced

PACE BEST PRACTICES

Two Core Elements

- Savings-to-Investment Ratio Greater than 1; expected energy savings should exceed investment costs
- Property Equity Evaluation –There should be sufficient equity in a property to justify debt placement

DOE Resources Available Here:

http://www1.eere.energy.gov/wip/pdfs/arra_guidelines_for_pilot_pace_programs.pdf

****Watch For Updated Guidance in Coming Weeks****

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ADDITIONAL DOE RESOURCES

To request specific Technical Assistance go to the TAC website at:

<https://tac.eecleanenergy.org/Default.aspx>

DOE Resource website on financing, including PACE programs:

<http://www.eecbg.energy.gov/solutioncenter/financialproducts/>

How to Guide for PACE Programs

<http://rael.berkeley.edu/files/berkeleysolar/HowTo.pdf>

Webinars, including 3 on aspects of PACE programs:

<http://www.eecbg.energy.gov/solutioncenter/webcasts/>

Federal Government's Policy Framework for PACE Financing Programs

http://www.whitehouse.gov/assets/documents/PACE_Principles.pdf

DOE's Guidelines for Pilot PACE Financing Programs

http://www1.eere.energy.gov/wip/pdfs/arra_guidelines_for_pilot_pace_programs.pdf

PACE FINANCING CONSIDERATIONS

Presented by Stefanie Galey

6/3/2010

POTENTIAL CHALLENGES

- **Costs of the Program**
 - Taxable rates
 - Non-origination risk (blind pool vs. pre-identify)
 - Negative arbitrage
 - Costs of issuance
 - Delinquencies

POTENTIAL SOLUTIONS

- **Larger pools with greater loan diversity**
- **Contributions/grants to fund costs, create reserves, etc. (may require legislation)**
- **Funding on draw down basis**
- **Credit enhancement to lower interest costs**

NEXT STEPS FOR:

- INDIVIDUAL COUNTIES**
- AMC**
- ALL PACE STAKEHOLDERS**

NEXT STEPS: INDIVIDUAL COUNTIES

- **Begin conversations with your Board so as to understand the fundamentals of PACE financing. The program will take time to setup for implementation, so now is the time to learn about and discuss the general concept.**
- **Consider regionalized PACE programs that encompass multiple local government jurisdictions (i.e. RMEB; North-West Central MN Draft Proposal)**
- **Ask questions and share your program ideas with AMC so that information can be shared statewide.**

NEXT STEPS: AMC

- **A multi-stakeholder PACE coalition recently began meeting to work through the various PACE issues in need of resolution. AMC (along with OES) will be an integral part of those developments.**
- **PACE financing has been tentatively scheduled as a workshop topic for AMC's annual conference in December. It is hoped that the efforts of the PACE coalition will have developed the framework of a model program to present to counties at that time.**

NEXT STEPS: ALL PACE STAKEHOLDERS

- **Other entities will participate in the PACE coalition to provide expertise in the areas of national PACE programming, financing, program administration, marketing etc.**
- **Ultimately, successful PACE programs require broad-based coalitions of support so as to maximize their impact in communities. It is therefore important to identify potential partners in your region and then engage them in PACE conversations.**

THANK YOU FOR LISTENING!

If you have additional questions about PACE and/or how it relates to counties, please contact:

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