The Wisconsin PACE Statute

The PACE Program Design Framework

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Summary

• Wis. Stat. § 66.0627 amended in 2009

• “Political subdivisions” have authority to add special charges for energy and water efficiency improvements, and renewable resource applications

• Creates general framework for PACE programs for local implementation
Framework

- PACE Loans: Municipality or 3rd Party
- Repayment: Municipality or 3rd Party
- PACE Liens: Priming lien
- Large Projects: >$250,000 Certification
- Small Projects: >$250,000 Optional Certification
PACE Program Best Practices

• Expected Savings-to-Investment > 1
• Term of Assessment ≤ Useful Life
• Assessment LTV of 10-20%
• Financing Net of Rebates & Credits
• Property Owner Current on Obligations
• Available Property Equity
Joint Program Administration

• Local implementation may lead to variation

• Third-Party Administration
  - Uniform PACE Ordinances
  - Uniform Program Requirements

• Joint Exercise of Municipal Powers
  - PACE Assessment Collection
  - PACE Lien Enforcement
Milwaukee’s PACE Program
A national implementation model
• Energy efficiency makes buildings and cities more competitive

• Investing in energy efficiency means:
  • Lower operating costs
  • Higher profits
  • Better occupant experience
  • Local jobs
  • Better local air quality
  • Do our part to mitigate our impact on climate change which leads to costly flood risks.

• Cities need economic development tools to support existing buildings, not just new development.

• Reallocate budgets currently wasted on excess energy into building improvements that improve living conditions
Deferred Projects $\rightarrow$ Deferred Profits
Why Energy Efficient Equipment is Important to Building Owners

- Operational savings (energy costs and maintenance calls)
- Improved occupant comfort and satisfaction → less complaints
- Reduce risk of unexpected breakdowns

How Efficiency & Sustainability Support Profitability
Elements of Efficiency and Sustainability

- Setting goals to reduce energy usage
- Tracking energy use against yourself
- Identifying opportunities for savings
- Financing projects
- Improving operations for long-term savings
- Beyond energy efficiency
- Leading the market
• Cut energy use by 20% by the year 2020
• Gain public recognition for your efforts
• Attract tenants
• Free tools to track and manage your energy use
• PACE financing makes energy efficiency MAKE SENSE
11 pledges received, plus City government facilities

6.5 million square feet

city.milwaukee.gov/BBC
### Properties Trend Graphs

#### Source EUI Trend (kBtu/ft²)
- Graph from 2004 to 2014 showing a trend from 30k to 10k.

#### Total GHG Emissions Trend (Metric Tons CO2e)
- Graph indicating a trend from 10M.

### Properties Table

<table>
<thead>
<tr>
<th>Name</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd Plankington Parking 1174</td>
<td>I want to...</td>
</tr>
<tr>
<td>ANDERSON WATER TOWER 1004</td>
<td>I want to...</td>
</tr>
<tr>
<td>AREA HQ Cameron- DPW 1547</td>
<td>I want to...</td>
</tr>
<tr>
<td>ATKINSON LIBRARY 1086</td>
<td>I want to...</td>
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<tr>
<td>Americology Plant 1716</td>
<td>I want to...</td>
</tr>
<tr>
<td>Aux. Greenhouse (South) Nursery 1753</td>
<td>I want to...</td>
</tr>
</tbody>
</table>
Identifying Opportunities

Technologies
- Lighting
- New boilers
- New chiller
- Advanced building controls
- Steam trap maintenance
- Deep retrofits
- Retrocommissioning

Who Can Help
- Me² Participating Contractors (SmartEnergyPays.com)
- Your own building maintenance operators (Listen to them!)
- Energy audit from Focus on Energy registered contractor or engineering firm
How Do I Pay for It? PACE!

PACE makes private loan capital available to Milwaukee building owners via public/private partnership

- Loans are provided by private investors
- Payments for the improvements are collected from participating buildings by the City through a voluntarily-assumed municipal special charge
- Special Charge is collected on the annual property tax bill

Benefits to Building Owner, Tenants, and the Community
**PACE FINANCING**

- **City of Milwaukee**
- **Building Owner**
- **PACE Lender (PACE Equity, others)**
- **Me² Participating Contractor**

**Payment via Property Tax bill**

- City remits payment to lender
- $$$ to Owner
- Energy Upgrades
- Performance Contract (Projects $250k+)

**PACE FINANCING - Square Dance**
PACE legal docs

- City of Milwaukee
- Building Owner
- PACE Lender
- PACE Supplemental Loan Agreement (Long term finance)
- Construction Loan (Short term finance)
- Performance Contract (if project > $250,000)
- Escrow Agent (optional)
• **Traditional Capital Project Finance**
  • Financed by loan, budget
  • 3-7 year terms
  • Cash flow negative
  • Payback required, 3-6 years
  • Upgrade over 5+ years
  • Capital expense

• **PACE Project**
  • Financed special charge on property tax bill
  • Up to 20 year terms
  • Cash flow positive
  • Payback, life of equipment
  • Upgrade whole building at once
  • **Operating expense**
    (check with your accounting)
  • **Pass through to tenants**
    (check your lease terms)
Example Project

- $500,000 project (HVAC and lighting)
- Guaranteed annual savings: $42,000 (12 year payback)
- Owner may want to sell property in 8 years
- Tenants pay energy bills for their spaces, and pro-rated property taxes

Would you do this project with traditional financing?

With PACE?
ELIGIBILITY

- Existing commercial building located in the City of Milwaukee
- No property tax delinquencies in the past three years
- No bankruptcy or administrative judgments
- Min project size (based on current lenders): $150,000
- Max PACE project size: 20% of Property Value
- Must use Participating Me2 Commercial Contractor → support of local jobs
- Energy Savings Performance contract for projects $250,000+
- Existing Lien Holder Acknowledgement
- Participate in the Better Buildings Challenge
Application

1. Visit SmartEnergyPays.com
2. Submit PACE Interest Form
3. Develop your project with Participating Me² Contractor
4. Submit PACE Application with defined project
5. Get lien holder(s) acknowledgement/consent
6. Close loan with City and Lender
Me2 Commercial PACE: Clean Energy Financing

New financing from Me2 helps you make a more profitable and better building!

Me2 Property Assessed Clean Energy (PACE) Financing helps commercial property owners affordably finance building upgrades like heating and cooling systems, lighting, controls, and solar.

Pay for improvements over time as you reap the benefits of lower energy and maintenance bills. Payments for the improvement are collected through a voluntary municipal special charge (City Ordinance 304-265). The special charge is attached to the property, not the owner, and is paid back through the property tax system over time. Projects should be designed so the annual energy and other savings pay for the special charge for a net positive cash flow. PACE Financing is good for building owners and the community. It creates local jobs, better buildings, and a better environment. With this public-private partnership, private capital is used to supply upfront funding for the work, so that local government budgets are not burdened.

Why You Should Participate Now!

- Improve your net operating income
- Improve the value of your property
- Longer term financing (up to 20 years) makes compelling economic sense
Case Study: University Club

- Lender: Milwaukee Economic Development Corp.
- PACE Equity was project developer, using 5 installation contractors
- Scope: HVAC, Windows, Lighting, Steam Traps
- Project Size $662,000
- Amortization: 18 years
- Annual payment: $62,000
- Annual Guaranteed Savings (Year 1): $56,000
- Average Annual Savings: $75,000
An Open Door

Office of Environmental Sustainability
(414) 286-8556
eshamb@Milwaukee.gov

SmartEnergyPays.com/businesses
PACE Loan Documents

“Special Charge” Lien and Enforcement and the Existing Mortgage Lender’s Role

Dawn Lindsey
dlindsey@vonbriesen.com
PACE Financing
Documentation (Me²)
PACE Financing (Me²)

Documentation (Me²)

Source: Me² PACE
RFQ: PACE
Lenders
### List of Consenting Financial Institutions, March 2014

*Indicates multiple consents

#### National Banks:
- Bank of America*
- Bank of New York Mellon (as Trustee)
- Citibank
- JP Morgan Chase*
- US Bank*
- Wells Fargo*

#### Regional Banks:
- Bank of the West*
- BMO Harris Bank
- Bremer Bank
- California Bank and Trust*
- Citizens Bank
- Fifth Third Bank*
- First Bank of Boulder*
- First Community Bank
- FirstMerit Bank
- First Republic Bank*
- Five Star Bank
- Great Western Bank
- Guaranty Bank and Trust
- Mechanics Bank
- M&T Bank
- Preferred Bank
- Sterling Savings Bank*
- Umpqua Bank*
- Union Bank of California
- WestAmerica Bank*

#### International Banks:
- Deutsche Bank*
- Harni Bank
- Helaba Landesbank Hessen-Thüringen
- HSH Nordbank
- Royal Bank of Canada (as LIHTC Syndicator)
- TD Bank
- Local Banks:
  - American River Bank*
  - Bank of Ann Arbor
  - Berkshire Bank
  - Chelsea State Bank
  - Circle Bank
  - Exchange Bank*
  - First Community Bank
- First National Bank of Boulder*
- Flatirons Bank of Boulder
- Guaranty Bank and Trust
- Rockville Bank
- Santa Cruz County Bank
- Security Bank of Kansas City
- Sonoma Bank*
- State Bank of Delano
- Summit State Bank
- Union Savings Bank*
- United Bank and Trust
- Vectra Bank
- Whittier Trust Company of Nevada

#### Government Entities:
- District of Columbia Housing Authority
- Greater Sacramento Development Corp.
- US Department of Agriculture
- US Small Business Administration (SBA)*
- Washington D.C. Housing Authority

#### Insurance Companies:
- Mutual of Omaha
- Metropolitan Life Insurance (and as LIHTC Investor)*
- Northwest Mutual Insurance
- Pacific Life Insurance
- Protective Life Insurance
- Prudential Insurance
- Riversource Life Insurance Company
- Standard Life Insurance
- The Standard – Stancorp Mortgage Investors

#### Private Lenders:
- A2B2 LLC
- Michigan Business Connection LLC
- Business Lenders LLC
- Cen-Cal Business Finance Group
- Chestnutz
- Marion Haddad

#### Credit Unions:
- Royal Credit Union
- Redwood Credit Union*

#### Specialized Lenders:
- Ally Capital
- American Agricultural Bank
- Ameriprise Financial
- Farm Credit East
- Eagle Bank
- Lehman Brothers
- New Resource Bank*

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Source: PACENow “Lender Support Update” March 2014
PACE Equity

Gives You the Choice

SPEND IT

Through PACE financing, the money you now spend on energy can be redirected into improvements that add to your building's value.

INVEST IT
PACE Financing
100% financing of installed equipment

1. 100% Project funding

2. Customer authorizes disbursements to contractors

3. Customer pays city/district annual assessment

4. City remits payment to finance provider

Customer

PACE Equity / Finance Provider

District

Contractor
Contractor
Contractor
Contractor
PACE Equity Solution
Enabling building owners to take advantage

Project Governance
- Experience & Knowledge of PACE
- Expertise on rebates and incentives
- Construction Management

Energy Engineering
- Bundling of multiple measures
- Development of energy models
- Guarantee of energy savings
- M&V / Performance Assurance

Financing
- Project Development Funding
- Construction Financing
- PACE Financing
PACE Value Proposition
Tool in the capital stack

- **Value Proposition:**
  - Cheaper capital than equity
  - Enables projects that do not meet internal project return requirements
  - Non Recourse
  - Tax treatment as an operating expense
  - Long tenor – 20 years

- **Project Capital:** 20%+
- **Equity:** 15% - 18%
- **PACE:** 6%-7% (2% after tax)
- **Debt:** 4%-6%
Common PACE Scenarios

- Adaptive re-use
- New Construction
- Aging Infrastructure
- Non-profit
- Distributed Generation
**Common PACE Scenarios**

**Adaptive re-use**

- **Example:**
  - **Investment:** $2.5m
  - **% of value:** 15%
  - **Energy baseline:** existing building condition or code
  - **Measures:** Windows, HVAC, Elevator, domestic hot water
  - **Value Proposition:**
    - Reduction of Equity
    - Passing of costs to tenants
    - Sustainable design
Common PACE Scenarios
New Construction

Example:
- New Grocery Store
- Investment: $1.5m
- % of value: 10%
- Energy baseline: code – ASHRAE 90.1
- Measures: Lighting, Refrigeration, Controls, Solar
- Value Proposition:
  - Reduction of Equity
  - Funding of incremental investment for Energy Efficient equipment
Common PACE Scenarios
Aging Infrastructure

Example:
- 100+ year old building
- Investment: $500K
- % of value: 20%
- Energy baseline: existing building
- Measures: Elevators, Lighting, HVAC, steam retrofit
- Value Proposition:
  - Accelerated capex investment
  - Better able to attract & retain tenants
Common PACE Scenarios
Non-profit

Example:
- University Club
- Investment: $660K
- % of Value: 20%
- Energy baseline: existing building
- Measures: Windows, make up air, Lighting, HVAC, steam retrofit
- Value Proposition
  - Utility savings
  - Funding of renovation costs
Common PACE Scenarios
Distributed Generation

Example:
- Solar in California
- Investment: $275K
- % of Value: 20%
- Energy baseline: existing energy consumption
- Measures: solar
- Value Proposition:
  - Immediate boost in NOI
Perspectives from a Building Owner and Current ME² Participant

Josh Jeffers
joshua@jjeffers.com
## SOURCES

<table>
<thead>
<tr>
<th>Loan 1</th>
<th>Total $</th>
<th>Total%</th>
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<tbody>
<tr>
<td>LTV</td>
<td>75.00%</td>
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<tr>
<td>Appraised Value (forecast)</td>
<td><strong>$8,700,000</strong></td>
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<tr>
<td>Loan Amount</td>
<td><strong>$6,525,000</strong></td>
<td>54%</td>
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<td>Interest Rate</td>
<td>4.25%</td>
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<td>Interest Only Period</td>
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<td>Amortization</td>
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<tr>
<td>Term</td>
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**Tax Incremental Financing**

Equity 1 - PACE Equity

| Equity Amount | **$1,093,500** | 9% |

**Equity 2 - Federal HTC Equity Investor**

| Est. Qualified Rehabilitation Expenditures (Basis) | **$10,000,000** |        |
| Tax Credit Rate | 20.00% |        |
| Est. Federal Tax Credits | **$2,000,000** |        |
| Projected Sale Price per Credit | **$0.900** |        |

**subtotal Equity 2**

| **$1,800,000** | 15% |

**Equity 3 - Owner Contribution of State HTC Proceeds**

| **$1,330,000** | 11% |

**Equity 4 - Existing Owner Equity Contribution**

| **$311,500** | 3% |

**Focus on Energy Grant**

| **$40,000** | 0% |

**Total**

| **$12,000,000** | 100% |

## USES

<table>
<thead>
<tr>
<th>Total $</th>
<th>Total%</th>
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<tr>
<td>Existing Loan Refi Subtotal</td>
<td><strong>$965,740</strong></td>
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<tr>
<td>Hard Cost Subtotal</td>
<td><strong>$9,523,548</strong></td>
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<tr>
<td>Soft Cost Subtotal</td>
<td><strong>$1,392,713</strong></td>
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<tr>
<td>Financing Subtotal</td>
<td><strong>$117,999</strong></td>
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</table>

**Total**

| **$12,000,000** | 100% |
PACE Financing on the National Scene

James Hamill
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PACE Market Dashboard

PACE financing is versatile and virtually every asset class can be eligible. The graphs below demonstrate that PACE was used by a variety of buildings, from office to multifamily and industrial properties. The following graphs are based on aggregate data and demonstrating the growth of the commercial PACE market.

PACE Market in 2010

PACE Market Today

- There are 13 states with active commercial programs: AR, CA, CT, DC, FL, GA, MI, MN, MO, NY, OH, UT, TX, and WI.
- Residential PACE is flourishing in CA and is offered in GA, FL, MO, and NY.

Estimated Residential Market

<table>
<thead>
<tr>
<th>Energy Efficiency</th>
<th>Number of Projects</th>
<th>$ millions</th>
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<tbody>
<tr>
<td>Energy Efficiency</td>
<td>72%</td>
<td>25000</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>14%</td>
<td>7500</td>
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Estimated Commercial Market

<table>
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<th>Energy Efficiency</th>
<th>Number of Projects</th>
<th>$ millions</th>
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<tr>
<td>Energy Efficiency</td>
<td>62%</td>
<td>327</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>26%</td>
<td>108</td>
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Jobs Created

<table>
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<tr>
<th>Energy Efficiency</th>
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Thank you for coming!