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property assessed clean energy financing

The Wisconsin PACE Statute

The PACE Program Design Framework

R. Lynn Parins Iparins@vonbriesen.com



Summary

- Wis. Stat. § 66.0627 amended in 2009
- "Political subdivisions" have authority to add special charges for <u>energy</u> and <u>water</u> efficiency improvements, and <u>renewable</u> 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



How Efficiency & Sustainability Support Profitability

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





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



Better Buildings CHALLENGE U.S. DEPARTMENT OF ENERGY MILWAUKEE

11 pledges received, plus City government facilities

6.5 million square feet

city.milwaukee.gov/BBC





City government Buildings US Bank Building City Center at 735 A.H. Wells Building BMO Harris Bank Headquarters One Park Plaza 100 E Wisconsin Ave MGIC Building Columbia Property Trust The Blue Milwaukee Athletic Club

Welcome CITY-OF-MILWAUKEE: Account Settings | Contacts | Help | Sig





Aux. Greenhouse (South) Nursery 1753

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



PACE FINANCING- Square Dance

PACE legal docs

City of Milwaukee

PACE Supplemental Loan Agreement (Long term finance)

PACE

Construction Loan (Short term finance)

Building



PACE FINANCING

- <u>Traditional Capital Project</u> <u>Finance</u>
- 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

http://www.smartenergypays.com/businesses	P - ⊠ (
Official Website of the City of Milwaukee	CALL for Action (414) 286-CITY Click for Action
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Milwaukee Energy Efficiency - Me2	
Milwaukee Energy Efficiency - Me2	



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 304-26.5). 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



SmartEnergyPays.com

Commercial PACE Financing Erick Shambarger (414) 286-8556

PACE Quick Links

- · Eligible Improvements
- Find an Energy Auditor
- Interest Form
- Participating Lenders
- Lien Holder Consent Form
- Full Application
- Program Manual
- Find a Contractor

Learn More

PACE FINANCING

- 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



Case Study: University Club



Office of Environmental Sustainability (414) 286-8556 <u>eshamb@Milwaukee.gov</u>

SmartEnergyPays.com/businesses

PACE Loan Documents

"Special Charge" Lien and Enforcement and the Existing Mortgage Lender's Role

Dawn Lindsey

dlindsey@vonbriesen.com











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* Hanmi 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 Bershire 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

Specialized Lenders:

Ally Capital American Agricultural Bank Ameriprise Financial Farm Credit East Eagle Bank Lehman Brothers New Resource Bank* Pacific Union 7th Day Adventists (Parker Mortgage & Investment Co.) Thrivent Financial

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*

Financing

Source: PACENow "Lender Support Update" March 2014



Beau Engman 825 North Jefferson, Suite 300 Milwaukee, WI 53202 beau@pace-equity.com 414-301-2328 @BeauEngman www.pace-equity.com

von Briesen & Roper – April 2015







PACE Equity Solution Financing Solutions



PACE Financing

100% financing of installed equipment



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%

Confidential - PACE Equity





Common PACE Scenarios



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





- Measures: Lighting, Refrigeration, Controls, Solar
- Value Proposition:
 - Reduction of Equity
 - Funding of incremental investment for Energy Efficient equipment

Common PACE Scenarios Aging Infrastructure





- 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





the money you now spend on energy can be redirected into improvements that add to your building's value. Beau Engman 825 North Jefferson, Suite 300 Milwaukee, WI 53202 beau@pace-equity.com 414-301-2328 @BeauEngman www.pace-equity.com

Perspectives from a Building Owner and Current ME² Participant

> Josh Jeffers joshua@jjeffers.com



Mackie Building / Grain Exchange SOURCES & USES

SOURCES			
Loan 1		Total \$	Total%
LTV	75.00%		
Appraised Value (forecast)	\$8,700,000		
Loan Amount		\$6,525,000	54%
Interest Rate	4.25%		
Interest Only Period	12 months		
Amortization	20		
Term	5		
Tax Incremental Financing		\$900,000	8%
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 Contibution		\$311,500	3%
Focus on Energy Grant		\$40,000	0%
Total		\$12,000,000	100%

USES		
	Total \$	Total%
Existing Loan Refi Subtotal	\$965,740	8%
Hard Cost Subtotal	\$9,523,548	79%
Soft Cost Subtotal	\$1,392,713	12%
Financing Subtotal	\$117,999	1%
Total	\$12,000,000	100%

PACE Financing on the National Scene

James Hamill

james.hamill@cleanfund.com



PACE Market Dashboard

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

Estimated Commercial Market

25000

Number of Projects

500 \$, millions

Jobs Created

К Number of Projects 108

Energy Efficiency Renewable Energy \$. millions

Jobs Created

rgy Efficiency		
	72%	
ewable Energy		



Other

Government

Mixed Use

NUMBER OF PROJECTS BY SIZE, EXCLUDING GOVERNMENT BUILDINGS

11.7%





20.4%

Other

Government

Mixed Use



Thank you for coming!

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Green Building Alliance



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