NASEO Multifamily Task Force
August 22, 2013
1. PACE 101
2. Overview of DC PACE
PACE 101
**PACE Basics**

- City creates type of land-secured financing district or similar legal mechanism (a special assessment district)
- Property owners voluntarily sign-up for financing and make energy improvements
- Proceeds from revenue bond or other financing provided to property owner to pay for energy project
- Property owner pays assessment through property tax bill (usually up to 20 years)
PACE Financing Nationally

- Began in CA. Enabling legislation in 30 States and DC
  - MD, VA, and DC have enabling legislation
- ~27 active programs (10 in CA)
- Current focus is on Commercial & Multi Family
- Most programs are pursuing private capital
- Financing efficiency and renewable energy
- ~$15 million in privately financed PACE Assessments
Potential Advantages of PACE financing

**Property owners**
- Attractive loan terms
  - Up to 100% of project cost (both hard and soft costs)
  - Long repayment term
  - Competitive interest rate
- PACE Assessment stays with property on sale
- PACE Assessment payments can be treated as operating expense
- No acceleration in the event of default

**Investors**
- Very secure investment due to first lien position on property

**Municipality**
- Requires little to no government funding
### Key Design Considerations

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market focus</td>
<td>Commercial, multi-family, residential</td>
</tr>
<tr>
<td>Treatment of PACE Assessment</td>
<td>How similar to other property based assessments? (Billing process, Lien priority, Default process)</td>
</tr>
<tr>
<td>Position on lender consent</td>
<td>None, lender consent, lender acknowledgement</td>
</tr>
<tr>
<td>Project underwriting standards</td>
<td>What constitutes an eligible measure?</td>
</tr>
<tr>
<td></td>
<td>Credit considerations</td>
</tr>
<tr>
<td>Source of capital</td>
<td>Public or private</td>
</tr>
<tr>
<td>Financial Terms to property owners</td>
<td>Cost of capital (credit enhancement options)</td>
</tr>
<tr>
<td>Scalability</td>
<td>Takeout strategy (Attract institutional investors)</td>
</tr>
<tr>
<td>Program administration</td>
<td>Internal or external</td>
</tr>
<tr>
<td></td>
<td>How will program costs be covered?</td>
</tr>
</tbody>
</table>
# Potential sources of capital for PACE

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Investment Vehicle</th>
<th>Advantages</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public (Treasury)</td>
<td>None. Municipality holds assessment</td>
<td>• Relatively easy to implement</td>
<td>• Municipal debt cap</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Can offer customer very attractive rate and terms</td>
<td>• Lack of credit support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Eventual takeout may be possible if scale is achieved and municipality can provide credit enhancement</td>
<td>• Projects queue for funding</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Blended credits with one rate</td>
</tr>
<tr>
<td>Private (open market/owner arranged)</td>
<td>Revenue bonds, Promissory note</td>
<td>• Property owners can leverage existing relationships with capital providers</td>
<td>• High transaction costs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Capital providers have more flexibility in underwriting standards</td>
<td>• More difficult to bundle for takeout</td>
</tr>
<tr>
<td>Private (turnkey/funding on demand)</td>
<td>Revenue bonds, Warehouse LOC, ABS</td>
<td>• Lower transaction costs</td>
<td>• More complex structure to set up</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Standard underwriting procedures improves chances for takeout</td>
<td>• Standard underwriting may prove too restrictive for some projects</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Blended rates and credits</td>
</tr>
</tbody>
</table>
DC PACE OVERVIEW
Policy Drivers

Long-term goals

- Increase energy reliability
- Drive economic development and job creation
- Reduce GHG emission and environmental damage

Constraints

- Lack of municipal funds
- Lack of in-house expertise

Scalable

- Market-based
- Can help drive deeper retrofits
DC PACE Timeline

2009
- Initial PACE proposal developed
- Meetings with key stakeholders to educate and obtain buy-in
- Initial DC PACE enabling legislation drafted
- White House issues PACE policy framework

2010
- DC PACE Enabling Legislation enacted
- DDOE allocates ARRA SEP money for design of PACE program
- Contractor selected to design DC PACE program

2011
- Program design

2012
- Complete program design delivered
- Introduced amendment to DC PACE Enabling Legislation
- Receive foundation grant to fund 12 month ramp up period
- Receive $5 million commitment from regional bank

2013
- First DC PACE deal closed
DC Program Highlights

Basics

- Fully self-sufficient model requires no government funding to operate
- Open to Commercial and MF properties
- Assessment is senior to mortgage
- Lender consent required
- Eligible measures include energy (EE and renewables), water, and storm water mitigation
- Project size: $250k to $5 million
- Program designed to obtain investment grade rating for PACE ABS

Capital providers

- $5 million revolving LOC from regional bank
- Actively looking for additional capital providers

Current Assessment Terms

- Interest Rate: ~6% (including all fees)
- Term: 20 year amort with 10 year term
- LTV: max of 80% (PACE Assessment limited to 10% of assessed value)
400 M St SE
1st Use of PACE for Affordable MF Project

- 139 Unit Affordable Multi-Family Project
- LIHTC Tax Equity and DCHA financed
- Energy Savings: 20% (37KW Solar, H2O, & Lighting)
- Project Cost: $290k
- Savings: $45k per year
- Will be First Ever PACE Multi-Family, Affordable & HOPE IV
- Lender consent obtained from DCHA
Location: Southeast DC
Use:
• Affordable Housing Project.
• Part of Hope VI development.
• All units rented to tenants with incomes at or below 60% of AMI
Size: 140 units
Age: 7 years old
Financing:
   **Equity:**
     Tax Equity Investor (9% LIHTC)
     LLP – Operating owner
   **Debt:**
     Very low interest rate debt from DCHA
Project Description

Total project costs: $290,000

Measures:
- Common Area Lighting
  - LED fixtures and controls - $80k
- Low flow fixtures in units - $8k
- 37kw Solar Array - $200k
- Energy Control Training - $6k

Weighted Useful Life of Project: 16 yrs
Total energy use reduction: 15%
Percentage of energy produced by renewables: 3.5% (after improvements)

Duration: 1 year (began scoping project in May 2012)
Received Consent from Three Parties

- LIHTC syndicator
- LIHTC investor
- DC housing authority
Project Financials

Avoided Costs: $26k per yr
  Reduced energy use: $20k
  Maintenance savings: $6k
Energy Production: $4k
SREC Sales: $11k
Total Cash Flow Impact Before T or D: $41k per yr
PACE Assessment Details

Amort period: 20 yr
Term: 10 yr
Bank Interest Rate: 5.25%
Total Interest Rate: 6%

Other terms:
• Bank reserves right to force owner to purchase PACE note in event of non-monetary default
• Bank requires P&I prepayment to allow for monthly payments

Transaction costs:
3.5% in fees
Very large legal fees for initial setup (8% of project cost)
Key Lessons Learned

Market segmentation

• Demand from Class A multi-tenant office has been less than expected due to access to low cost capital
• Affordable housing, co-op housing, and institutional properties have shown better than expected demand

Capital providers

• Money center banks are interested in PACE but are unwilling to commit capital without substantial credit enhancement
• Regional banks are a great source of capital, but it takes time to fully educate them on the PACE structure

Project Development

• The first deal(s) will take longer and cost more (in time and money) than anticipated
• Obtaining lender consent takes persistence and flexibility
Questions?

Dave Good
District Department of the Environment
Government of the District of Columbia
dave.good@dc.gov
202.645.4519
dcpace.gov