How did DC answer these questions?

Is PACE the right solution? YES

What elements are necessary to design a successful PACE program?
Pros

- Scalable
  - Plenty of capital available to fund hundreds of billions of dollars of PACE projects
- Market based
  - No government $$ required to administer program
  - Program administrator is incentivized to deliver a program that is cost effective
- Affordable
  - Highly secure nature of PACE assessments should result in a competitive interest rate
  - Long amortization period reduces annual debt service cost
- Effective
  - PACE structure allows for deeper retrofits

Cons

- Complex
  - Much more involved than a traditional refund program
- Unproven
  - Very few privately funded commercial PACE projects to date
- Limited scope
  - Current underwriting environment only allows for financing most credit worth buildings
- Lender consent challenge
- Limited interest from capital providers
PACE addresses the top barrier to pursuing energy efficiency

What is the top barrier to pursuing energy efficiency at your company/organization?

- Awareness: 7%
- Technical expertise: 6%
- Certainty of savings: 10%
- Financial criteria: 21%
- Available capital: 38%

Source: Energy efficiency indicator 2011, Institute for Building Efficiency

Timeline of DC PACE

2008
- 1st PACE program launched in Berkeley, CA

2009
- DC develops initial PACE proposal
- DC hold meetings with key stakeholders to educate and obtain buy-in
- Initial DC PACE legislation drafted
- DC applies for $35m DOE EE CBG Grant
- White House issues PACE policy framework

2010
- RFP issued for PACE program design
- No DOE grant funding awarded to DC for PACE
- DDOE allocates ARRA SEP money for design of PACE program
- FHFA and OCC issue infamous PACE letters
- DOE issues PACE guidelines
- Contractor selected to design DC PACE program
- DC PACE Legislation enacted

2011
- Program design

2012
- Complete program design
- Issue first PACE assessments in DC?
1. **Money**
- Little ability to commit significant general fund dollars to energy efficiency (EE) programs
- Availability of grant funding to implement a market based EE program
- PACE structure was deemed to be the program best suited to attract a large amount of private capital
  - Estimate loan volume of $70m to $100+m per year

2. **Fit**
- PACE model is a good fit with DC real estate market
  - Most LEED-certified space per capita in US
  - Strong demand for EE space from federal tenants
  - Majority of commercial property is located in BIDs
  - Pressure to increase property values motivate owners to take action
  - Strong property market and low foreclosure rates
  - Strong credit rating
- PACE fits well with other EE initiatives
  - Green Building Act
  - Green building code upgrades
  - Energy benchmarking requirements
- PACE aligns with public policy goals
  - Energy security
  - Workforce development
  - Environmental health

3. **Leadership**
- PACE has the support of a number of vocal and influential cheerleaders
  - Government
  - Trade organizations
  - Business
    - Building owners and developers
    - Contractors
  - NGOs
Is Commercial PACE a good solution for your state?

Size
- Is your commercial real estate market large enough to support $50m to $100m in PACE assessments each year?

Support
- Is the legislation open to energy efficiency programs?
- Can you convince the skeptics that PACE is worth the effort?

Timing
- Is now the right time to pursue a PACE program?
## PACE Enabling Legislation

**PACE legislation should include language to:**
- Enable the creation of PACE districts
- Establish rules around how the financing mechanism will work
- Define what constitutes an eligible measure
  - Type of measure
  - Savings to investment ratio (debt coverage)
- Specify what happens in the case of a default
  - Lien seniority
  - Non-Acceleration of assessment payments

- Keep enabling legislation flexible where possible
- Get buy in from finance office on financing structure early
- Don’t reinvent the wheel – There are 27 states with enabling legislation
Designing a PACE program that has a solid business model and meets policy goals is challenging.

**Business Model**
- Scalable
  - Must adhere to stringent underwriting criteria in order to achieve scale
- Market-Based
  - Program administrator needs a financial incentive to run program

**Policy Goals**
- Energy and resource security
  - Consider other cash flows besides just energy (or other resource) savings when evaluating projects
    - Maintenance and repair costs
    - Capital expense savings
    - Forward capacity markets
- Workforce development
  - Work closely with workforce office to leverage (and improve on) programs already in place
- Environmental Performance
  - Should be closely tied with resource savings
  - Look for opportunities to monetize environmental attributes
1. In house vs contracted
   1. Most energy offices will not have the bandwidth or expertise to fully design a PACE program

2. Expertise (in order of importance)
   1. Real estate management
   2. Finance skills and relationships
      1. Fund management
      2. Lender relationships
   3. Project development
   4. Marketing
   5. Public private partnerships
   6. Workforce development

3. Design Cost options
   1. Pay from available funds vs No cost model
   2. Provide Option to become program administrator

4. Team size
   1. Smaller the better

Don’t expect:
- A huge number of RFP responses
- A perfect fit
Simplicity
- Application process
  - Underwriting standards
- Eligible measures
  - Energy
  - Water
  - Storm water retention
  - Other (e.g., hurricane retrofit)
- How are savings measured
  - Baseline calc
  - Ongoing M&V

Transparency
- Project and financing costs
- What are the risks of participating in PACE

Cost
- Competitive with internal cost of capital
- Credit enhancement to address credit risks
  - Loan loss reserve to address non-payment
  - Debt service coverage reserve to address late payments
  - Servicer advance to address late payments
In general keep program as quiet as possible until you have something real to share.
Thank You

Dave Good
dave.good@dc.gov
202.645.4519