Commercial PACE and Potential for CHP Webinar Questions Log

Note: The following log contains answers to only those questions that were not answered during the webinar. Answers to the other questions can be accessed on the video of the webinar.

Q1: Does PACE work for thermal, too? Or must the system have electric gen component?

David: PACE financing can be available for a variety of project types, including HVAC upgrades and boiler projects. PACE would not be specific to electric generating units unless the governing policy and PACE program stated such.

Q2: Is PACE viewed as debt on the end user's balance sheet?

(Answered during webinar)

Q3: Do you have an idea of average time from application to approval?

(Answered during webinar)

Q4: Do you see the benefits of PACE applicable to large CHP installations? Or would smaller CHP in small commercial sites also be good candidates?

(Answered during webinar)

Q5: Does the city need to supply initial capital or are private lenders getting involved in providing capital?

(Answered during webinar)

Q6: What is the level of M&V that is done on the installed systems ? Does it involve logging and measurement?

(Answered during webinar)

Q7: Can customers still get incentives from utilities, or is that double dipping on the money?

(Answered during webinar)

Q8: Is there recourse in the event of default other than a tax lien? In other words, are corporate or personal guarantees required in addition to the tax lien? If the building owner doesn't pay the tax bill, how would the lenders/investors recoup their money?

David: The PACE project lender has a claim against the building (and, depending on the rights of the existing mortgage lender, in some cases, the specific equipment funded by the project, e.g. a boiler), and so corporate or personal guarantees are not part of the picture. In the event of a default, the PACE project lender will be parri passu with any other property taxes or assessments in arrears. PACE assessments do not accelerate on a default, so the PACE project lender will only receive PACE assessments in arrears. The subsequent owner of the building is responsible for paying future assessments.

Q9: Should the customer wait to make the energy changes until he signs up for PACE? Or someone who is in the middle of a process sign up with PACE?

Genevieve: In Connecticut, the customer must apply for C-PACE financing before construction begins. CEFIA (the program administrator) is required to verify the energy savings in advance of financing a project.

Q10: How does size of municipalities come into play? Are there any Cities too large to consider for PACE financing?

David: The larger the better… more buildings and variety of building stock means more opportunity and economies of scale. Smaller municipalities would do better to ally themselves with others to create that scale, though in CT, all municipalities have access to CEFIA's statewide program… an ideal solution we'd like to see other states copy.

Q11: How much oversight is there for the numbers? (Often it seems like EE programs numbers seem trumped up just to get projects done.)

Genevieve: Connecticut's C-PACE program requires that all projects meet a savings-to-investment ratio of greater than 1. CEFIA (the program administrator) has designed a robust technical review process that consists of benchmarking and setting an energy use baseline for each building that applies into the program, and then conducting an independent engineering review of the projected savings against that baseline. The C-PACE program also requires that each project have an M&V component.

Q12: If MA is PACE enabled, how do CHP installers get a PACE project started in MA?

David: MA has a PACE statute, but there are efforts underway to amend it in a way that would give a state agency a more central role in forming an operational PACE program… moving the state somewhat in the direction of CT… CHP installers can play a helpful role in supporting that legislative effort by letting their members of the House and Senate know that they support PACE. To our knowledge, there are no PACE programs operating in MA, YET….

Q13: How do CHP installers move from PACE enabled to the project stage?

David: It takes an operational PACE program to get things going. Of the 30 states that have passed some form of PACE enabling legislation, at least half have no operational PACE programs. Examples include Virginia, North Carolina, New Mexico, Wyoming, and Massachusetts. Getting the legislation passed is one thing…. Starting programs is another… Take a look at the Edina, MN (Grandview Tire and Auto) story on our website, which was recently the subject of a NY Times story (http://www.nytimes.com/2013/06/22/business/energy-environment/tax-programs-to-finance-clean-energy-catch-on.html?smid=fb-share) It's a good example of contractor and building owner coming together to encourage their local government (Edina) to adopt the PACE mechanism so they could do a business transaction that was made possible by using PACE. We call this the Edina model, and a CHP installer could explore that in a community where there is no PACE program.

Q14: Would on site energy storage used as Demand Response be considered eligible for PACE funding?

Genevieve: Energy storage used for demand response alone would likely not carry the cost, which is critical for several PACE programs, including C-PACE. DR payments however, would be considered eligible as "energy savings" for purposes of C-PACE criteria.

Q15: What lenders are participating and are there any lenders who hold the first trust on a property that have refused to participate?

Genevieve: There are several lenders participating in PACE programs across the country. There are 11 pre-qualified capital providers in Connecticut that have expressed an interest in investing in C-PACE assessments. Other lenders, such as those holding an existing mortgage, may elect to consent to a PACE assessment only if they are the lender for the PACE transaction, thus maintaining their senior position on the property. Connecticut has had great success with lenders consenting so far.

Q16: While calculating SIR (greater than 1), can we also take into account operational savings or is it just energy savings?

Genevieve: The Connecticut PACE program does not count operational savings in its SIR calculation, however these are real savings and form a part of CEFIA's underwriting of a project.

Q17: Can a utility escalator factor be applied to the savings over the term of the financing period?

Genevieve: Yes.

Q18: Why would a municipality use PACE rather than TIF?

David: Tax Increment Financing would affect all property owners within a specific improvement district, as I understand it. Improvements made within the district would be found to benefit all properties, and their overall increase in assessments or property taxes above what they had been would be pledged to whoever provided the financing. PACE financing only affects the individual property owner, who only pays for his or her specific improvements. So, PACE is kind of like a TIF for a single property.

Q19: Are there currently PACE programs in development that more focused on single-family housing? If so, is there potential?

David: The Federal Housing Finance Agency, which is the regulator and conservator to Fannie Mae, Freddie Mac, and other "government sponsored entities (GSEs), such as the Federal Home Loan Banks, has told all GSEs that they cannot buy, consent to, or hold a mortgage with a PACE assessment. That's had a chilling effect on senior lien PACE program development. Some companies providing advice and administration services are continuing to promote senior lien PACE, and some municipalities around the US are determined to offer senior lien PACE. One way is to provide funding only to residences that either have no mortgage (approximately 32%, as far as we know) or mortgages that would not qualify for purchase by a GSE. Other programs are offering funding to any homeowner, in effect, challenging the FHFA's position. It is not clear yet how FHFA will react to a recent US Appellate Court ruling that found FHFA is acting in its conservator role relative to PACE, and is therefore almost entirely immune to legal challenges to it actions "conserving" or protecting the assets of its charges. PACE*Now* advises that municipal governments and homeowners who choose to offer programs or accept financing do so only after carefully weighing the potential risks of doing so. Those could include a demand by the holder of their mortgage that the PACE assessment be paid off in its entirety, immediately.

Vermont has chosen to move forward with a subordinate lien PACE program. There, the risk loss is borne by the PACE project funder and not the existing mortgage lender, because if a property falls into default and is sold in foreclosure, the subordinate PACE project lender will be paid <u>after</u> the existing mortgage lender, if there are sufficient sale proceeds. Vermont's program has just launched, and the PACE project lenders have a substantial state funded reserve to protect them from losses. It's not clear yet how well this program will work, or how easily it can be replicated elsewhere, given the need for those credit reserves

Q20: Current Midwest US energy market sees rather substantial reductions in electricity and natural gas energy prices, also huge drops in REC valuations. How are those kinds of normally detrimental payback factors assessed by PACE?

David: Leaving RECs out of it… any energy efficiency or renewable energy project will make more sense the higher energy prices are, so, the lower they are, the higher the bar for any project, funded any way. PACE will likely fare better than many funding alternatives in a low energy cost environment because it offers a longer payback term.

Q21: Is there a way that public agencies can monetize the advantage of PACE in the fashion that Tax Credits can be monetized to finance renewables?

David: It can be a problem if the building owner does not qualify for tax credits or, in some cases, utility based rebates, for whatever reason.   For renewables, it may be possible to use PACE for various forms of power purchase agreements (PPAs).   One should check with a local PACE program to determine, given the specific circumstances, whether there are any available incentives if tax credits or other ways of offsetting costs are not available. San Francisco was able to use an interest rate subsidy by using some of its "Qualified Energy Conservation Bond" allocation to buy down the interest rate on the Prologis headquarters project. Use of a QECB allows Prologis to receive a direct payment from the US Treasury for a portion of its interest costs.