

PACE PROPERTY ASSESSED CLEAN ENERGY

Introduction to Commercial PACE
Potential for CHP

June 26, 2013

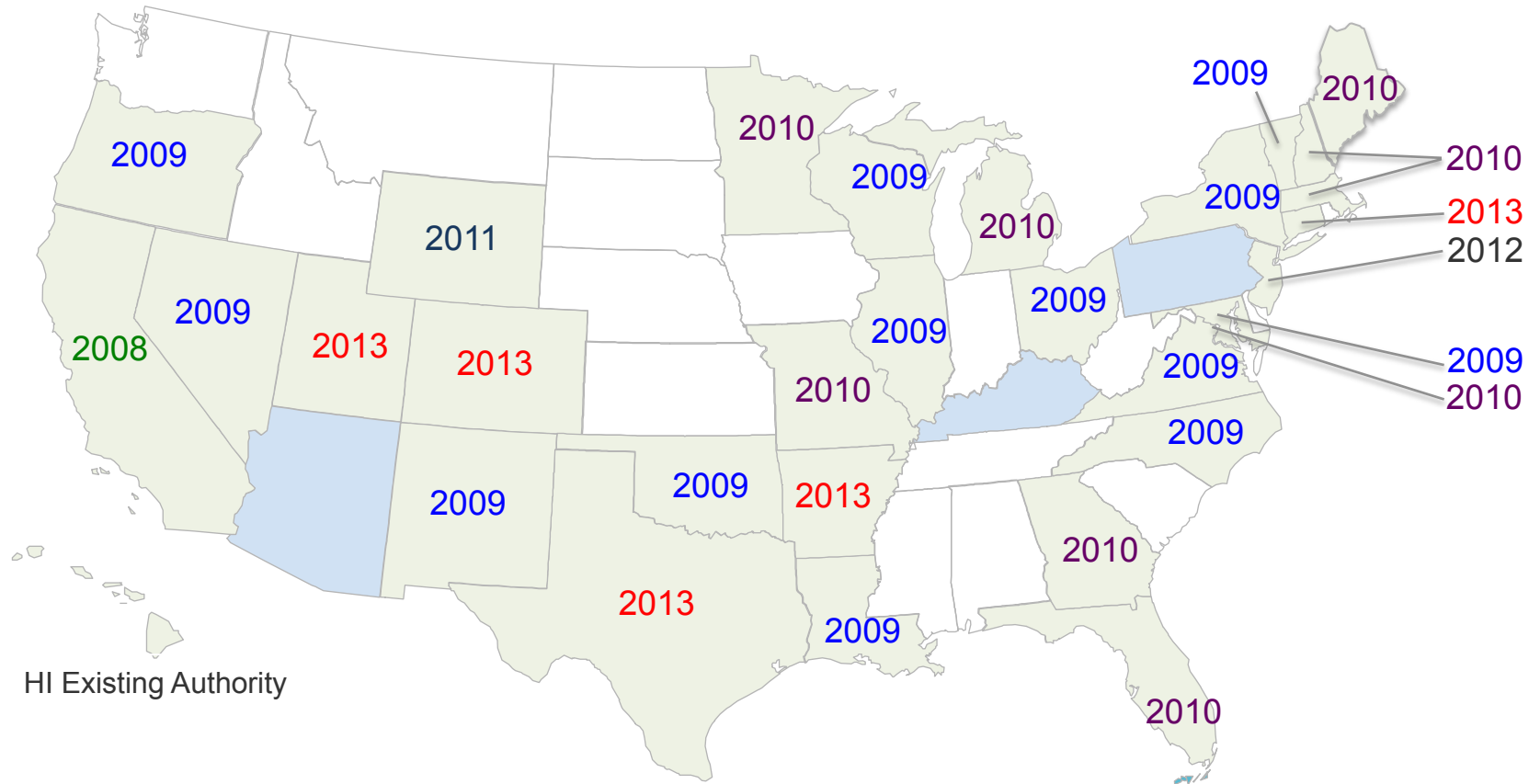
OLD CONCEPT



PHILADELPHIA OPT-IN FIRE DISTRICT
7 DECEMBER 1736

NEW APPLICATION – STATE LEGISLATION

Today – 30 states and DC account for nearly 80% of US population



HI Existing Authority

- PACE enabled
- 2013 legislative initiatives or planning to establish PACE legislation

How PACE WORKS



Local government creates PACE benefit district



Building owners choose cost saving projects

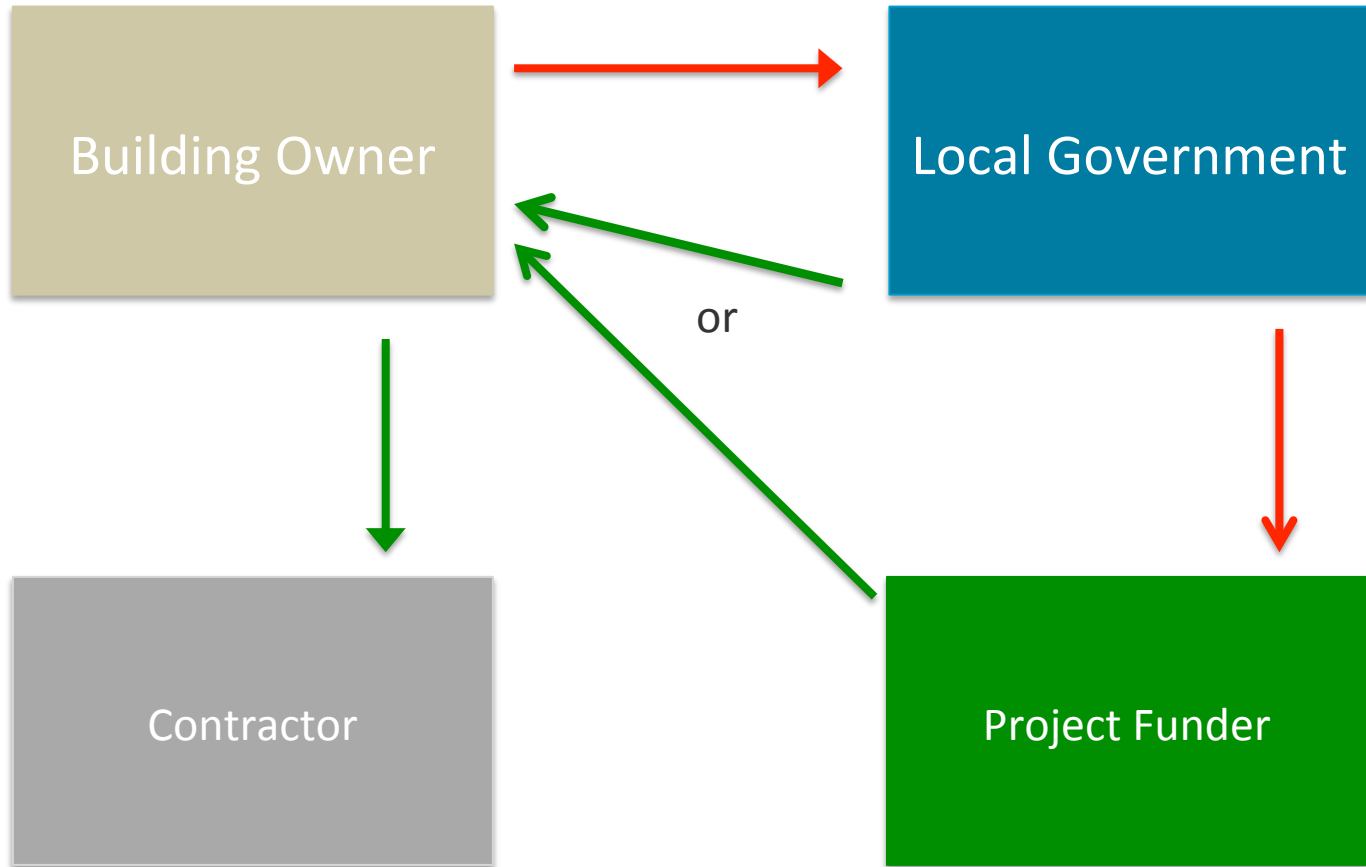


Local government arranges financing – adds PACE assessment to property tax roll



Building owner pays PACE assessment with other property taxes

PACE – SIMPLE CASH FLOWS



WHO & WHAT?

Who Can Use PACE?

- Large or small commercial
- Industrial
- Multi-family housing (5+)
- Agricultural
- Not-for-profits
- Government facilities

What Types of Projects?

- Projects that demonstrate savings
- Permanently affixed
 - ✓ CHP Installation
 - ✓ Lighting fixtures & controls
 - ✓ HVAC upgrades
 - ✓ Roofing
 - ✓ Envelope upgrades
 - ✓ Elevator modernization
 - ✓ Solar PV or fuel cells
 - PACE PPA

WHY PACE?

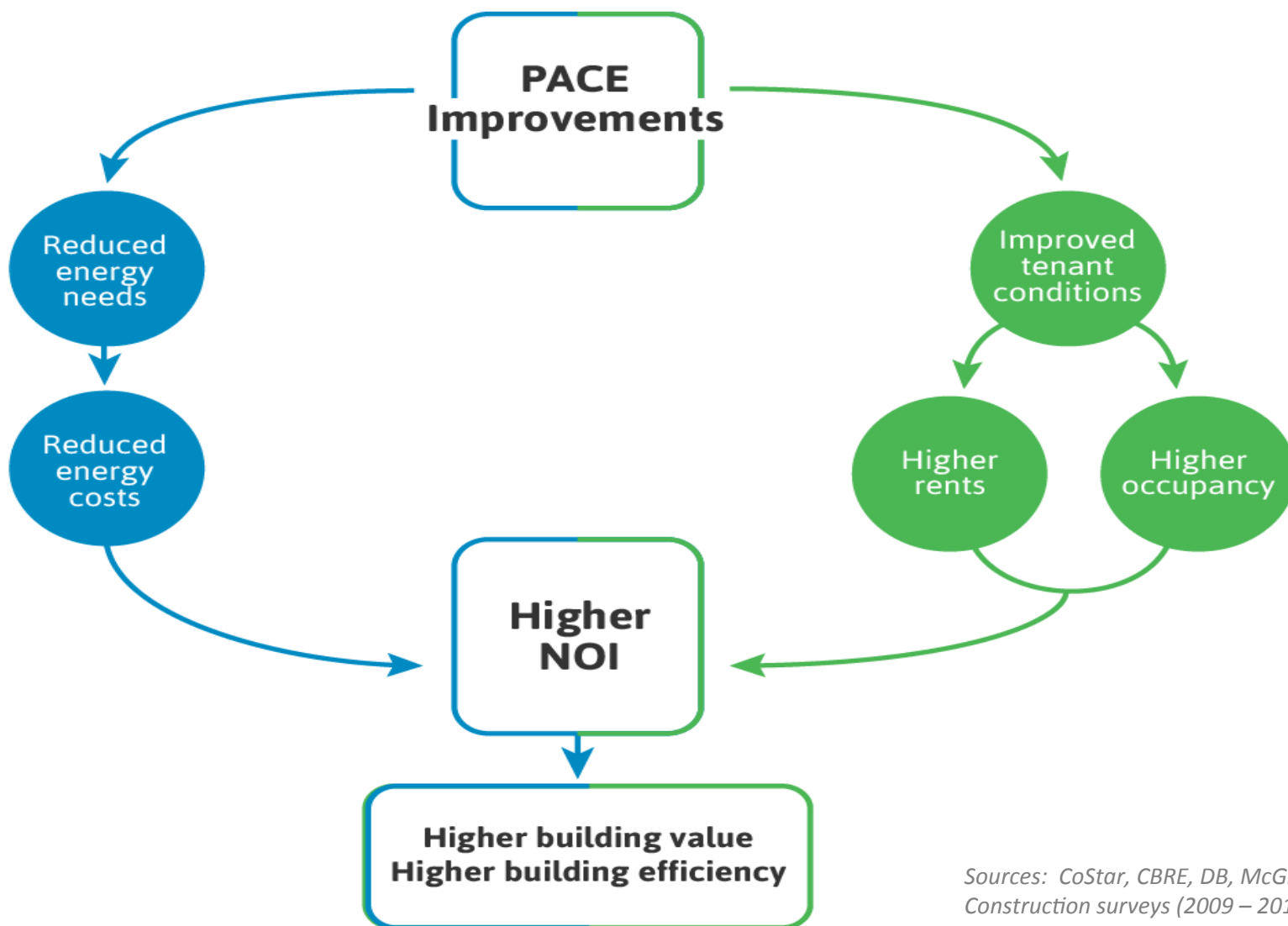
Barriers to EE Upgrades

1. Lack of funds
2. No lenders
3. Poor ROI – Short term funding
4. Might sell property
5. Split incentives
6. Information gaps

PACE Solutions

1. 100% external source
2. Unlimited private capital
3. Positive cash flow – Long term funding
4. Transfers to new owner
5. Tenants share cost & savings
6. Local awareness

ENERGY EFFICIENCY MAKES SENSE



Sources: CoStar, CBRE, DB, McGraw Hill
Construction surveys (2009 – 2012)

PACE PROJECT EXAMPLE

\$1,500,000 add to Building Value (8.9%)

Estimated Project cost \$550,000

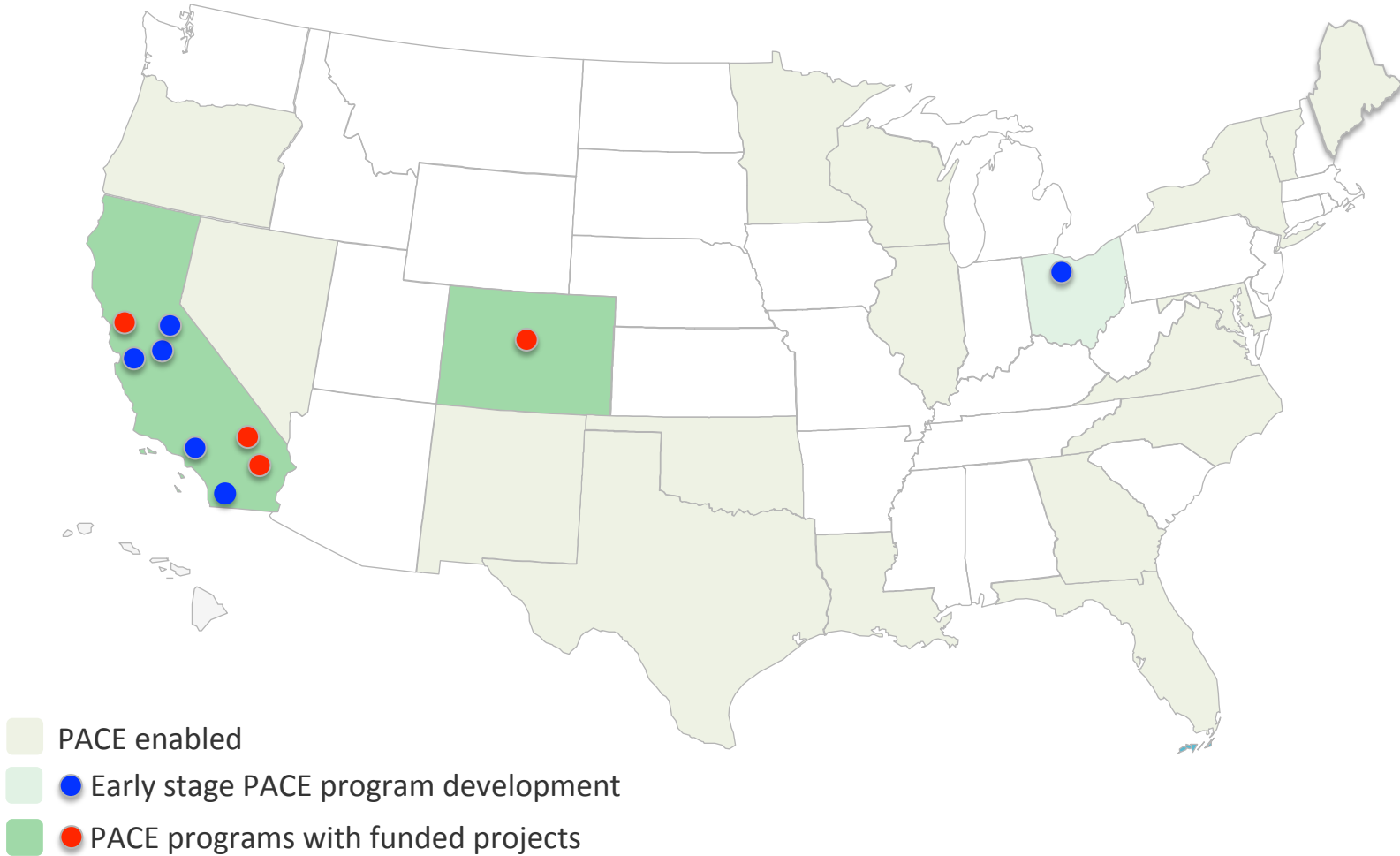
30 Year Old,
200,000 ft²
office
building in
Washington
, D.C



2000 Main Street Property		Before PACE	After PACE
Revenue			
Rental Income		2,735,000	2,735,000
Expense Reimbursement (PACE)			50,000
Total Revenue		2,735,000	2,785,000
Expenses			
Property Taxes & Assessments		515,000	515,000
PACE Assessment			50,000
Energy Costs		330,000	225,000
Other Expenses		705,000	705,000
Total Expenses		1,550,000	1,495,000
Net Operating Income (NOI)		1,185,000	1,240,000
Building Value (7% Cap Rate)		16,930,000	18,430,000

JUNE 2010

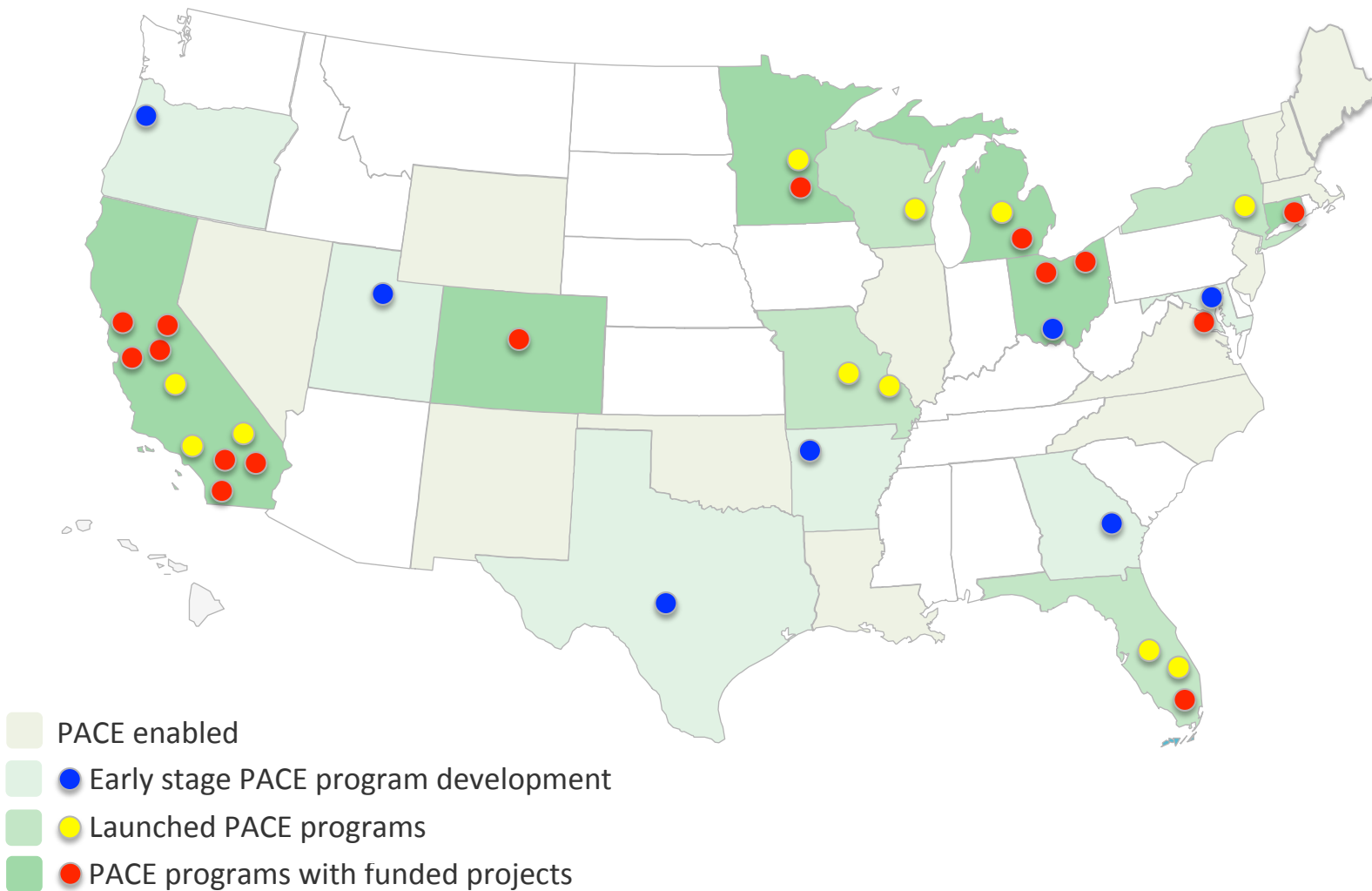
27 Projects completed - \$5 million



TODAY

168 Projects completed - \$33 million

145 Pipeline Projects - \$71 million



SIMON PROPERTY GROUP – SANTA ROSA, CA



Simon used PACE to finance a \$463 thousand cool roof project at its Santa Rosa Plaza Mall in Sonoma County, CA

“It is our hope that we will serve as pioneers in this arena, encouraging others to explore the many ways to reduce energy use now, rather than delaying sound financial and environmental decisions.”

George Caraghiaur, SVP Energy and Procurement at Simon Property Group

GRANDVIEW TIRE & AUTO – EDINA, MN



Family owned Grandview Tire & Auto used PACE to finance solar panels on its roof. The PACE portion of the project was \$34,000 and Edina's program cost the city just \$12,000 to implement.

“PACE preserves capital, makes good financial sense for property owners due to the fact that the assessment stays with the property. Most importantly, it is the right thing to do.”

Brad Hansen, Blue Horizon Energy

PROLOGIS, INC. – SAN FRANCISCO, CA



Prologis used PACE to finance a \$1.4 million energy efficiency and solar energy project at its San Francisco headquarters

“Prologis is optimistic about the future of PACE,. There are a number of opportunities over a long term in other property sectors too.”

Aaron Binkley, Director of Sustainability Programs

MOUNTAIN VILLAGE – SONOMA COUNTY, CA



Sonoma Mountain Village used PACE to finance a 1 MW solar electric system in Rohnert Park (CA) that combined with an older system allowed SMV to cover 100% of its electric needs from on-site renewable power.

Project Economics

Amount - \$1,600,000

Term – 20 years

Rate – 7% fixed

Building Value - \$50,000,000

PACE Assessment to Value – 3.2%

KEY ISSUES: PROGRAM DESIGN & ADMINISTRATION

A Range of Models

1. Sole Municipality
 - ✓ Edina (MN), San Francisco (CA), Ann Arbor (MI)
2. Multiple Municipalities can create economies of scale
 - ✓ Connecticut Model – State Authority
 - ✓ Counties
 - ✓ Consortia
 - California
 - Florida

KEY ISSUES: PROGRAM DESIGN

More is better

1. Support from elected and other community leaders
2. Administration – more people do more things
3. Marketing effort
 - ✓ Segmentation – identifying early adopters
 - ✓ Contractors – PACE helps them make their sale
 - ✓ Natural allies – economic development and sustainability groups
 - ✓ R/E and business organizations – help spread the word
 - ✓ Materials – print, online, and other media
 - ✓ Challenges – create competitive environment

KEY ISSUES: FUNDING PROJECTS

PACE is a strong credit

1. Funding sources to date:

- Government (Sonoma, Connecticut)
- Private Placement Bond issues (Toledo, Ann Arbor)
- Private investment pools (Sonoma, SF)
- Banks
- Turn-key (Sacramento, Florida)

2. Interest rates thus far - \$30 million market:

- 4% (subsidized) - 7% (lack of liquidity)
 - ✓ 4.75% 10 year bond in Ann Arbor

3. PACE financing at scale:

- 3.5 to 5.5% - AA / AAA rated bonds

PACENow

- Staff backgrounds in government, municipal finance, corporate lending, public policy
 - David Gabrielson, Executive Director
 - david@pacenow.org
 - Natalie Trojan, Senior Director
 - natalie@pacenow.org
 - Kristina Klimovich, Associate
 - kristina@pacenow.org
- Provide information, resources, networking services and solutions to challenges
 - Support for legislative efforts and program design
 - Outreach to commercial real estate organizations and companies
 - Outreach to existing lenders
 - Development of financing solutions