

# GreenFinanceSF

## Open Market Commercial PACE Financing Program

Statewide Energy Efficiency Best Practices Forum  
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# Outline

1. PACE: What is it?
2. The Open Market Model
3. GreenFinanceSF
  - History and Overview
  - Challenges and Solutions
  - Program Update
4. Questions and Discussion

# PACE Financing Basics

## Government Sponsor



  
Upfront Capital

  
Repaid on Tax  
Bill

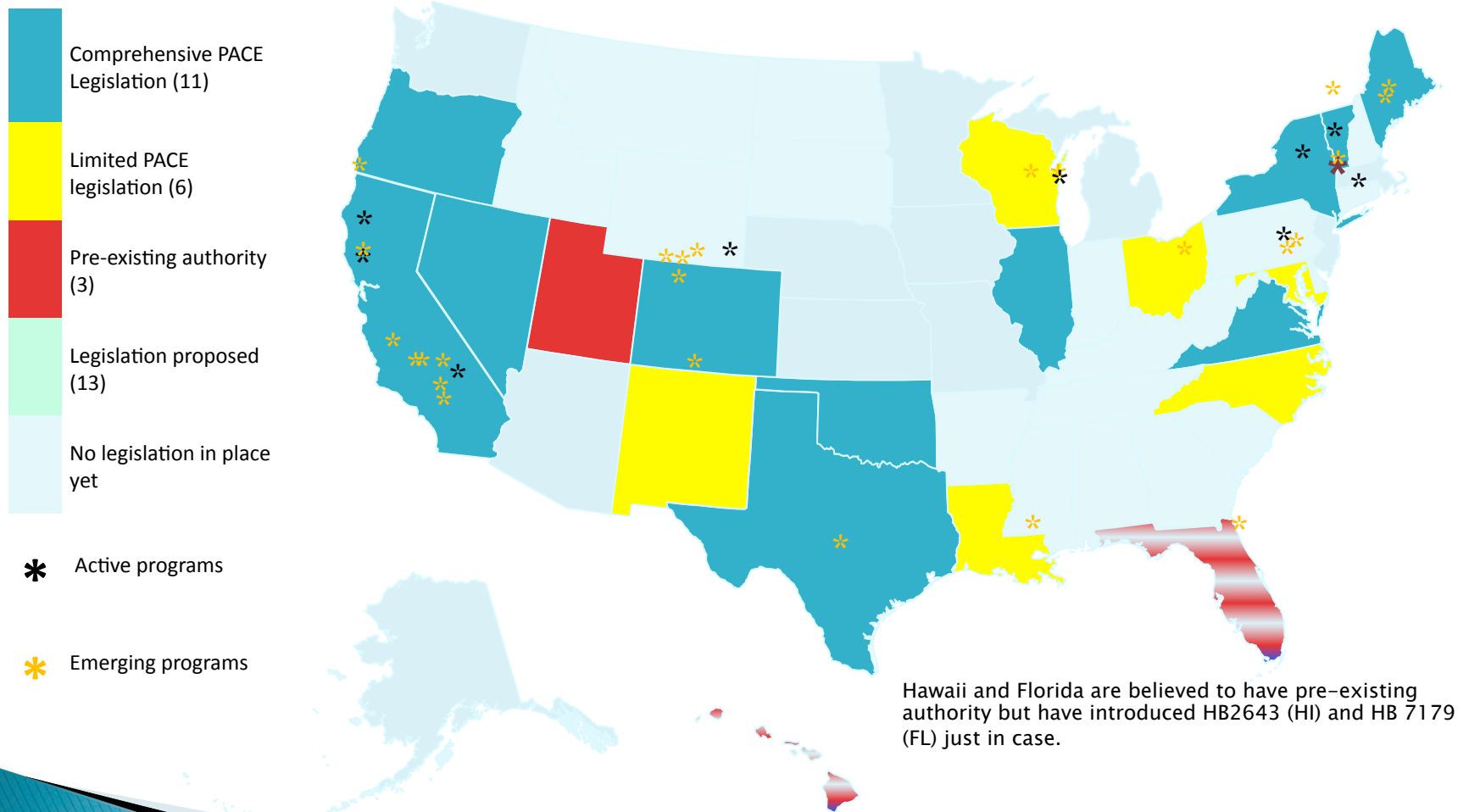
## Property Owner



- Creates financing district, authority to issue bonds, & approval process
- Attaches repayment obligation to the building via property taxes
- Private investors provide upfront capital

- Identifies work & chooses contractor
- Repays financing as a line item on the property tax bill (up to 20 years)
- Repayment obligation transfers with ownership

# 28 States Now Have Enabling Legislation



\*Note: list of emerging programs is not exhaustive

# PACE Solves Commercial Barriers

## Barriers to Energy EE Upgrades

Lack of Funding

No Funds in Capital Budget

Insufficient Payback / ROI

Split-Incentives

Uncertainty of Savings

Technical Expertise

Senior Management Buy-in

## PACE Solutions

Unlimited Private Capital Mkt

Long-Term Financing

Long-Term Financing

Tenants pay Taxes & Assessments

Guarantees

Information

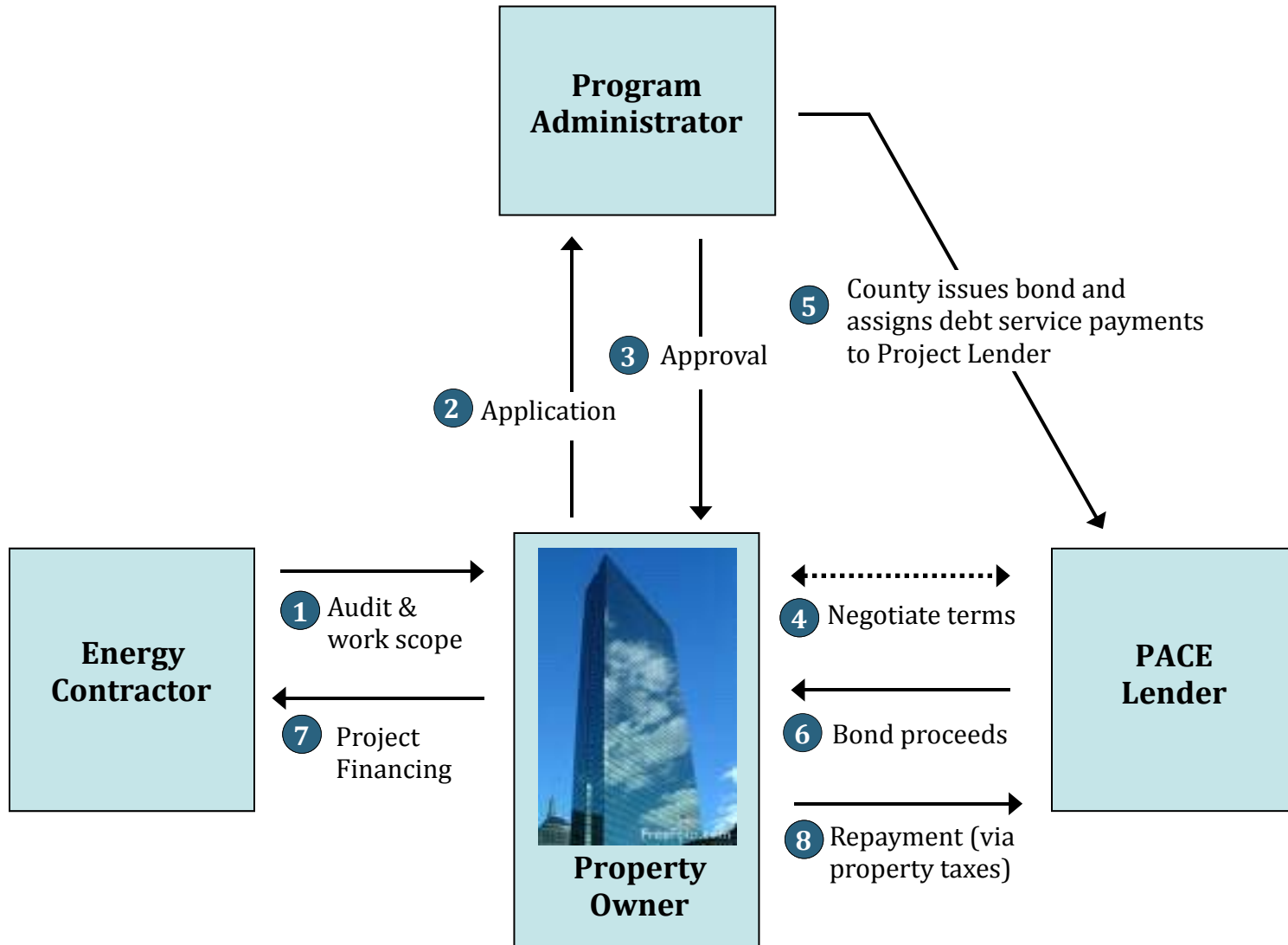
PACE Drives Overall Demand

[www.pacenow.org](http://www.pacenow.org)

# Open Market PACE Features

- Flexible (not one size fits all)
- Bonds purchased by Qualified Institutional Buyers, Accredited Investors
  - Each building/project consists of an individual “improvement area,” backed by single privately-placed special tax bond
- Tenor: negotiated
  - Maximum term determined by program
  - Shorter of equipment working life or 20 years
- Rate: negotiated
  - Illiquid nature of PACE securities mean rates in the 6-9% range
- Fees
  - Program fees listed
  - PACE Lender fees negotiated
- Project specific underwriting criteria: vary widely by lender and by project

# Open Market PACE Process



# GreenFinanceSF Overview

- Mello Roos Community Facilities District Act 1982 (“special tax bonds”)
- Using “open market” PACE model for capital
- ARRA grant funds for debt service reserve fund (DSRF)
  - Helps cover payments to project investor in the case of late payments or default by property owner
- Program design outreach with property owners, energy service providers, capital providers/banks, mortgage lenders
- Information sharing with Clinton Climate Initiative/C40, PACENow, U.S. Department of Energy, programs in Los Angeles, Placer, and Sonoma counties

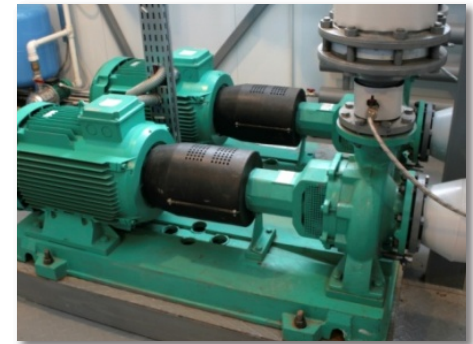


# ARRA/SEP Program Support

- \$1.3M debt service reserve fund (DSRF)
  - DSRF is a traditional element in land secured bonds
  - DSRF funds reside in an escrow account and sized to cover payment shortfalls (e.g. 10% of the principal amount of the bond)
  - DSRF funds are not expected to cover capital losses (i.e. delinquent amounts will be recovered)
- Process
  - Automatic allocation of 10% of the total requested financing amount per project, maximum \$100,000 for any single project
  - Program will consider requests that exceed maximum (10%/ \$100,000)
  - PACE investors may decline

# Eligible Projects

- Permanently affixed to the property
- Common and custom EE, RE, WC measures\*
- Requires professional energy audit
- RE projects to be paired with EE
- No effect on ability to take advantage of applicable incentive/rebate programs
- Use of ENERGY STAR Portfolio Manager
  - Free service to track and benchmark energy usage
  - Comply with Existing Commercial Buildings Energy Performance Ordinance



*\*EE=Energy Efficiency, RE=Renewable Energy, WC=Water Conservation*

# Types of Projects

- Big-ticket measures with longer paybacks
- Examples of eligible upgrades:
  - HVAC upgrades
  - BAS / BMS / EMS installation / upgrade
  - High-efficiency lighting fixtures & lamps
  - Occupancy & day-lighting sensors
  - Building envelope upgrades (roof, windows, insulation)
  - Elevator modernization
  - Solar PV or Fuel Cells to generate electricity
  - Water conservation upgrades (fixtures, etc.)



# Property Eligibility

- Program underwriting requirements
  - Property located in City/County of San Francisco
  - Equipment/materials permanently affixed to property
  - Currently pay (or be eligible to pay) property taxes
  - Lien holder consent/acknowledgement
  - Current on mortgage debt and property taxes
  - No recent defaults, bankruptcies or late property taxes
  - Property can't currently be “underwater” on debt
    - Assessed or recently appraised value of property
  - Title search to confirm eligibility and ownership
- PACE investor may have additional underwriting requirements

# Why Do We Need Affirmative Acknowledgement from the Mortgage Lender?

- Mortgage banks know their customers, and do/have already done credit analysis for the owner and property
  - Right to negotiate
- Assessment/tax may be valid, but could still trigger mortgage default if lender doesn't affirm
  - "Due on encumbrance" clause in mortgage documents
- If there is a lawsuit, regulators may take action



# Lender Talking Points

- No Acceleration
  - In default scenario, amount of lien restricted to outstanding unpaid annual special taxes
  - Therefore, PACE special taxes are *de minimis* relative to value
- Mortgage lender has right to cure delinquency
- Reserve funds can provide liquidity support
- Enhance property value, higher NOI, improve LTV
- Opportunity to co-invest with a third-party PACE investor
  - Maintain partial first position lien
- Mortgagee may underwrite and purchase the PACE bond itself
  - Value-add product for existing customers
- Opportunity for recognition and positive PR

# SF Project Pipeline (July 2012)

(received applications and/or projects under development)

Multitenant commercial office building: \$1.3M lighting, retrocommissioning, PV

Community food bank: \$400,000 refrigeration upgrade project

60 unit MF apartment building: \$100,000 solar hot water project

Hotel: \$500,000 air conditioning system upgrade

Hotel: >\$1M envelope, windows, HVAC, PV

Senior Center: \$1.5M HVAC, lighting, boiler, controls, heating distribution, solar hot water



# Get Started @ [www.greenfinancesf.org](http://www.greenfinancesf.org)

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energy  
**upgrade**<sup>™</sup>  
CALIFORNIA

in San Francisco County

Commercial PACE

About PACE

Apply Now!

Additional Resources



## Why PACE?

- Funding for up to 100% of installed project costs
- Lower financing rates than other products in the market
- Longer financing terms than would otherwise be possible
- Enables projects to be cash flow positive in Year 1
- May allow for favorable accounting treatment
- Allows for equitable sharing of costs and savings with current tenants and future owners

Investment in energy and water efficiency is an intelligent business decision. Building performance upgrades bring multiple benefits:

- Lower operating costs
- Improve occupants' comfort
- Hedge against utility price increases
- Reduce negative exposure to possible regulation
- Help the environment
- Boost property values

As part of Energy Upgrade California, owners of commercial properties (including nonprofit-owned and multifamily rental properties with five or more units) in San Francisco have access to GreenFinanceSF, an innovative financing program that uses Property Assessed Clean Energy (or PACE) to provide funding up to 100% of the cost of building performance upgrades.

### About PACE

**What is PACE Financing?**  
**For Property Owners**  
**For Mortgage Lenders**  
**For PACE Lenders**  
**For Energy Contractors**

### Apply Now

**Documentation Overview**  
**Application Materials**

### Additional Resources

**Performance Tracking**  
**Energy Aligned Leases**  
**Tenant Involvement**  
**Tax Incentives**