

# FAIRFAX COUNTY LUNCH + LEARN

## Commercial Property Assessed Clean Energy Financing



**PETROS PACE**  
FINANCE



# AGENDA

- 12:00** | Lunch and Networking (sponsored by John Marshall Bank, Tysons Corner Region)
- 12:10** | Welcoming Remarks from Supervisor Penny Gross
- 12:15** | Introductions
- 12:20** | PACE Overview, Status in Virginia, and Value Proposition
- 12:45** | PACE Case Studies
- 12:52** | Development and Status of Arlington County's C-PACE program
- 1:05** | Q+A Session and Next Steps
- 1:25** | Closing remarks



# VIRGINIA ENERGY EFFICIENCY COUNCIL

The VAEEC is the voice for the energy efficiency industry in the Commonwealth. Our goal is to ensure energy efficiency is recognized as an integral part of Virginia's economy and clean energy future.



# SPEAKERS

Abby Johnson, Atlantic PACE

Cliff Kellogg, Petros PACE Finance

Richard Dooley, Arlington County



**PETROS** **PACE**  
FINANCE



# ABACUS PROPERTY SOLUTIONS



- Abacus **arranges financing with specialty in** developing and financing energy/renewable/water projects
  - Secure competitive PACE financing **through multiple lenders, private equity and tax equity investors.**
  - Structure PACE as part of project's capital stack – **debt, equity, tax credits, utility rebates, public incentives, etc.**
- Experienced national PACE consultant **in designing programs financing projects**
- Atlantic PACE **entity focused on PACE in VA,DC,MD**



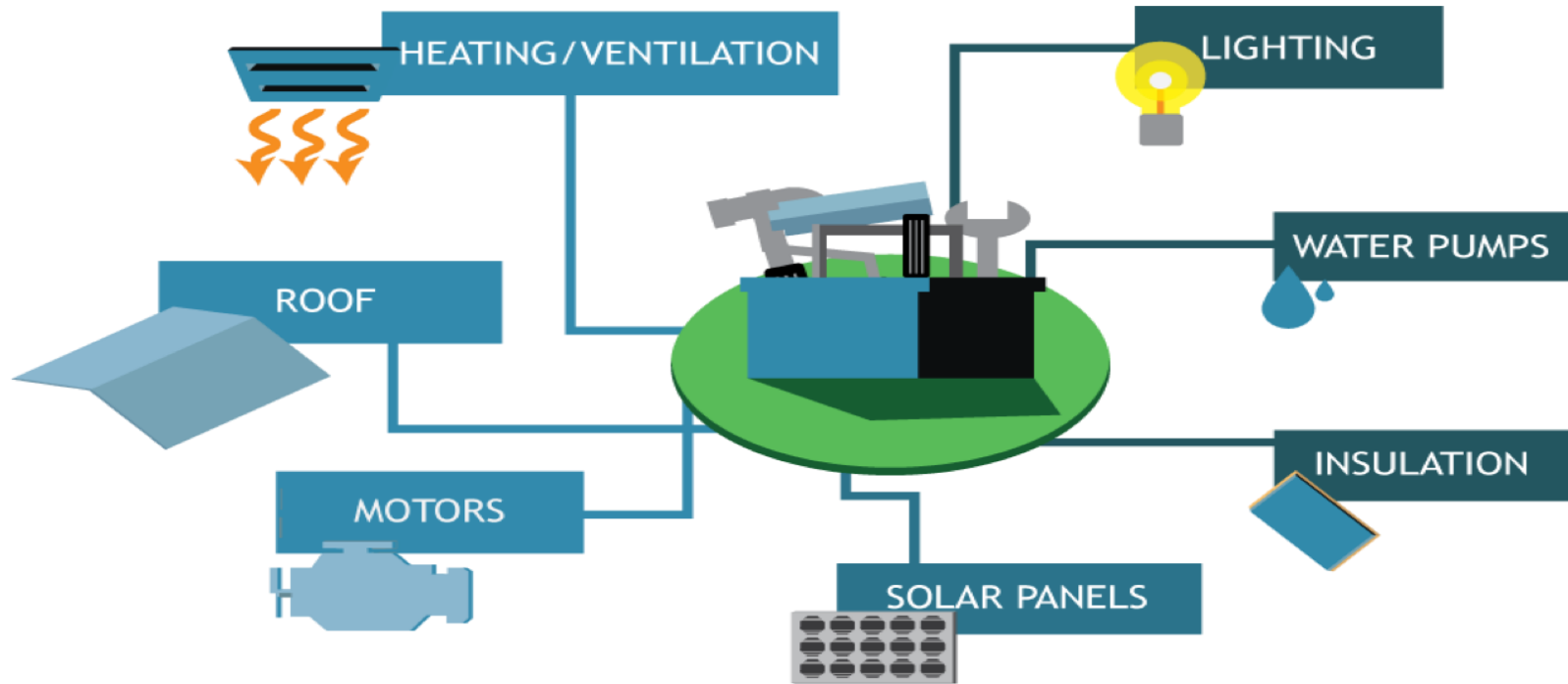
# FUNDAMENTALS: C - P A C E

- Innovative way to pay **for energy efficiency, renewable energy and water efficiency** upgrades for commercial, multifamily and non-profit properties.
- Owners can receive up to **100% project funding** and pay it back as a line item on their real property tax bill.
- Lien is **senior** to existing mortgage and typically equal status to property taxes.

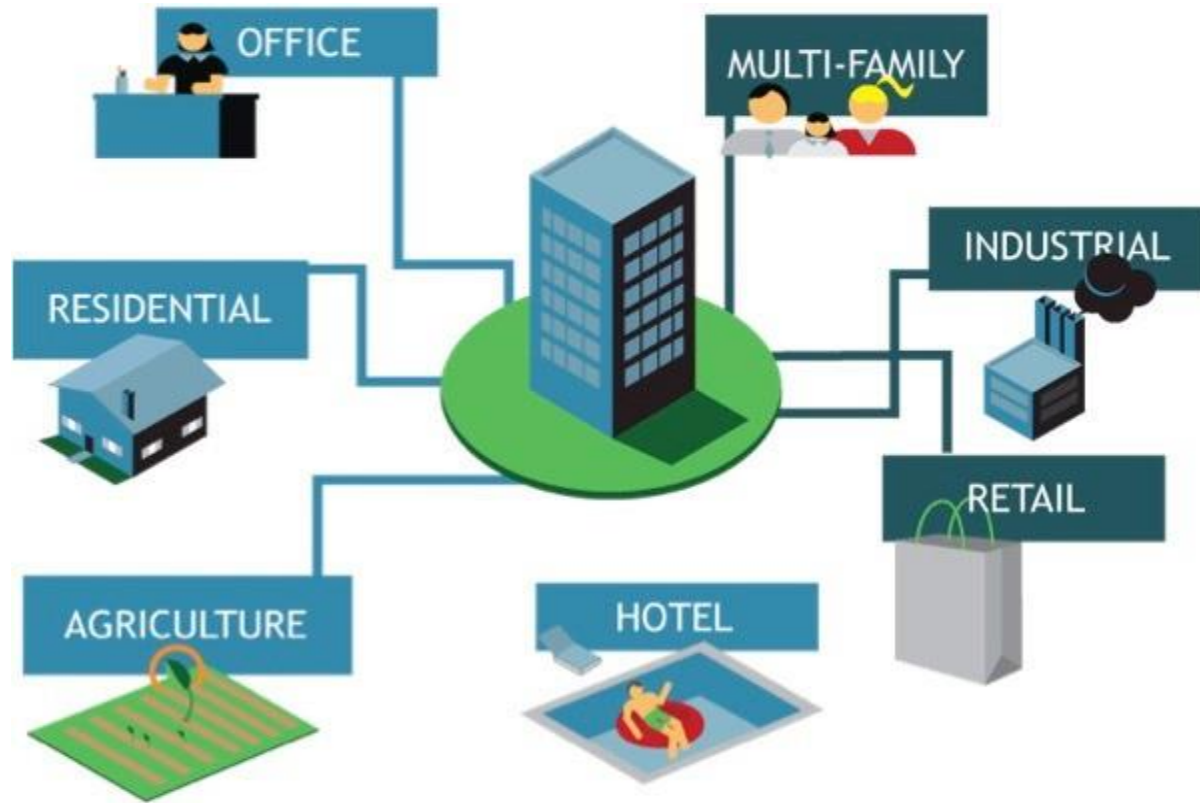
# FUNDAMENTALS: C - P A C E

- PACE assessment runs with the land so it transfers upon sale and does not accelerate.
- Owners receive funding principally through private capital providers.
- Set up by a local government and typically managed by a third party contractor.

# ELIGIBLE IMPROVEMENTS

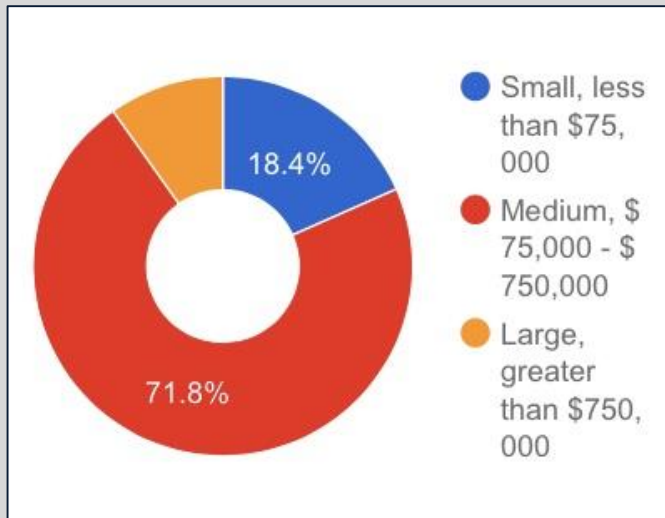


# BUILDING TYPES

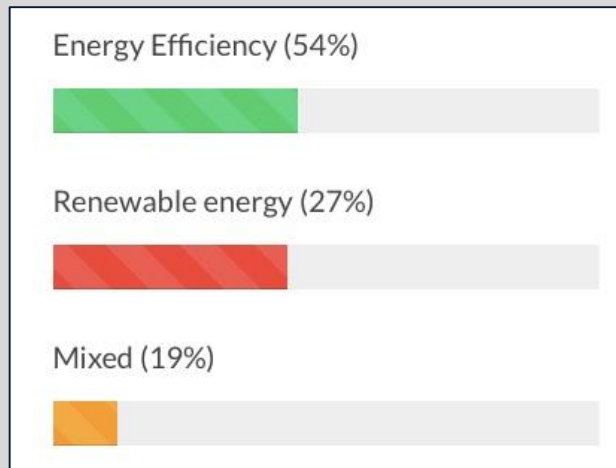


# PROJECT CHARACTERISTICS

## Project size



## Project Type



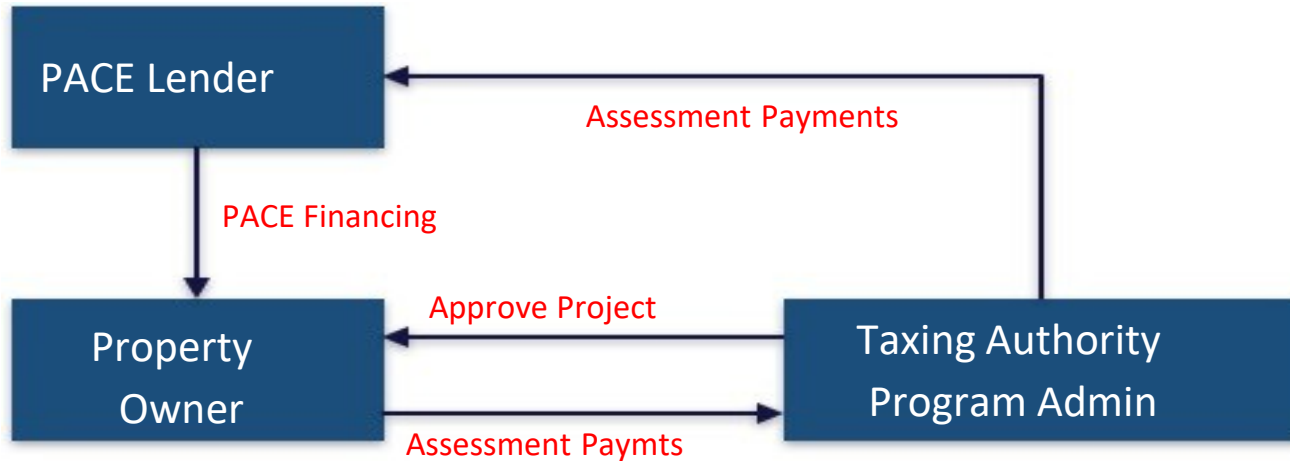
# PACE TEAM



# PACE STRUCTURE

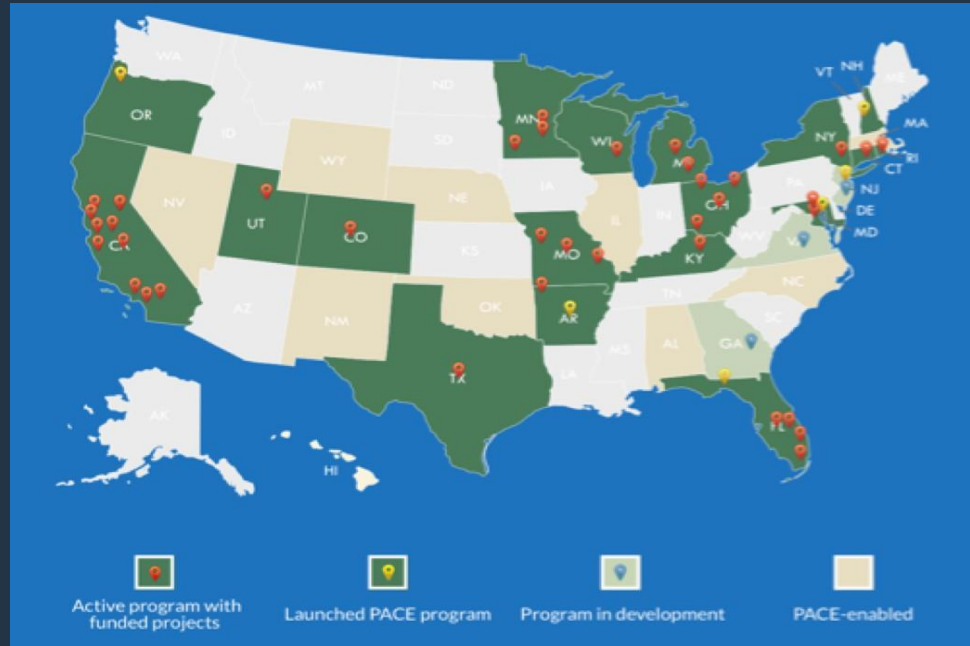
## Primary Parties :

- PACE Lender
- Property Owner
- Taxing Authority (or Program Administrator)



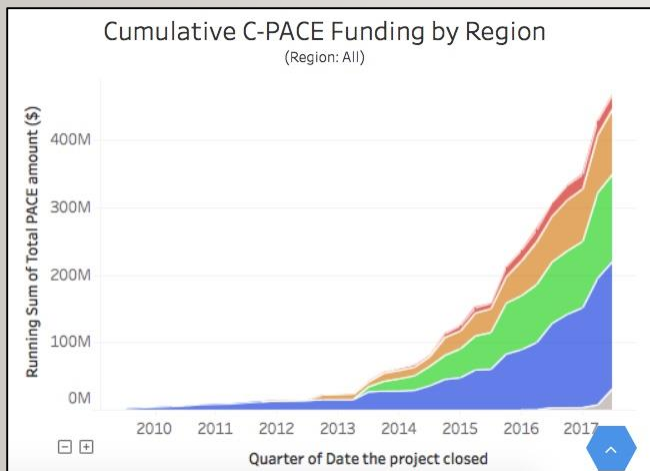
# PACE AROUND THE COUNTRY

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SOURCE: PACENATION

# GROWTH



...\$493MM as of  
October 2017

1097 projects

...7,395 jobs  
created

# BENEFITS: BUILDING OWNERS

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## VALUE PROPOSITION

- No Money Out of Pocket: 100% financing + soft costs
- Immediate Savings: Cash-flow positive on day one
- Capital Budget: Paid with operating savings
  - Longer Term (20+ Yr): Lower annual payments
- Comprehensive Financing: Fills Capital Gaps
- Replaces Equity or "Mezz" Debt: Frees Up Cash
- Non recourse: Limits owner personal liability

# BENEFITS: CONTRACTORS

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- Increase sales volume, improve profit margin
- Add staff, partner with other aligned companies like energy engineers
- Help customers reduce costs and improve value of their properties, allowing them to spend more money on even more building improvements

# BENEFITS: LOCAL GOVERNMENTS

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- **Office building**
- **8000-8080 Granger Ct.,  
Springfield, VA**
- **88,775 SF**
- **Built 1984**
- **38% vacant**

- Provides local business owners with 100% upfront financing for critical capital improvements – tangible retention strategy
- Creates local employment opportunities for G.C.s, trades, engineers, vendors, etc.
- Serves as redevelopment tool for “tired” buildings with obsolescent and inefficient systems.
- Construction fees yield revenues for jurisdictions

# BENEFITS: LOCAL GOVERNMENTS

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- **Industrial building**
- **7951 Arlington Ct., Lorton, VA**
- **118,622 SF**
- **Built 1986**
- **48% vacant**

- Substitutes or supplements existing economic development tools (TIF).
- Reduces County carbon footprint through energy efficiency & renewable energy measures → green leader
- Minimal municipal burden - third party providers carry cost of starting and running program

# PACE vs. TRADITIONAL FINANCING

## Bank Financing

Project: Solar PV and Lighting

Project Cost: \$750,000

Loan: \$562,500

Annual Savings: \$75,000

Interest Rate: 5.00%

Term: 5 years, fully amortizing

Hold Period: 5 years

Monthly Payment: \$ 10,615.07

Annual Payment: \$ 127,380.83

NPV: \$ -\$421,927.69

## PACE Financing

Project: Solar PV and Lighting

Project Cost: \$750,000    Loan: \$750,000

Annual Savings: \$75,000

Interest Rate: 6.25%

Term: 20 years, fully amortizing

Hold Period: 5 years

Monthly Payment: \$ 5,622.64    Annual Payment: \$  
67,471.70

NPV: \$ 24,089.05

# THE RIVER AT RANCHO MIRAGE



- PACE Term: 25 years
- Annual Energy Cost Savings >\$200K
- Annual Energy Generated >1.3MM KWh

- Combination of PACE and tax equity funding financed a \$2.5M energy upgrade
- The River is the dining, shopping, and entertainment center of Rancho Mirage
- The project offset >95% of the common area utility costs for the property
- Energy cost savings achieved through energy efficiency upgrades on the water pumping and control systems and 667 Kw DC solar photovoltaic (PV) carport system
- K2 Clean Energy Capital – project developer

# RANCHO MIRAGE: FINANCIAL IMPACT

| No. | Tenant     | Net Cash Impact to Tenants |                |                | Net Impact to CAM Charges \$/ft2 |           |           |
|-----|------------|----------------------------|----------------|----------------|----------------------------------|-----------|-----------|
|     |            | Year 1                     | Year 2         | Year 3         | Year 1                           | Year 2    | Year 3    |
| 1   | Retail     | \$ (985.59)                | \$ (2,082.52)  | \$ (2,402.39)  | \$ (0.18)                        | \$ (0.37) | \$ (0.43) |
| 2   | Services   | \$ (440.68)                | \$ (931.15)    | \$ (1,074.17)  | \$ (0.39)                        | \$ (0.82) | \$ (0.94) |
| 3   | Retail     | \$ (540.80)                | \$ (1,142.68)  | \$ (1,318.20)  | \$ (0.29)                        | \$ (0.61) | \$ (0.70) |
| 4   | Financial  | \$ (566.61)                | \$ (1,197.22)  | \$ (1,381.11)  | \$ (0.23)                        | \$ (0.49) | \$ (0.57) |
| 5   | Retail     | \$ (249.86)                | \$ (527.94)    | \$ (609.03)    | \$ (0.09)                        | \$ (0.19) | \$ (0.22) |
| 6   | Restaurant | \$ (539.68)                | \$ (1,140.31)  | \$ (1,315.47)  | \$ (0.38)                        | \$ (0.81) | \$ (0.93) |
| 7   | Restaurant | \$ (419.42)                | \$ (886.22)    | \$ (1,022.35)  | \$ (0.16)                        | \$ (0.34) | \$ (0.40) |
| 8   | Restaurant | \$ (284.64)                | \$ (601.43)    | \$ (693.81)    | \$ (0.14)                        | \$ (0.30) | \$ (0.35) |
| 9   | Restaurant | \$ (194.99)                | \$ (412.01)    | \$ (475.30)    | \$ (0.12)                        | \$ (0.26) | \$ (0.30) |
| 10  | Restaurant | \$ (286.77)                | \$ (605.93)    | \$ (699.00)    | \$ (0.31)                        | \$ (0.65) | \$ (0.75) |
| 11  | Retail     | \$ (474.79)                | \$ (1,003.22)  | \$ (1,157.32)  | \$ (0.29)                        | \$ (0.62) | \$ (0.72) |
| 12  | Retail     | \$ (508.77)                | \$ (1,075.00)  | \$ (1,240.13)  | \$ (0.21)                        | \$ (0.45) | \$ (0.52) |
| 13  | Retail     | \$ (656.83)                | \$ (1,387.85)  | \$ (1,601.02)  | \$ (0.23)                        | \$ (0.48) | \$ (0.56) |
| 14  | Retail     | \$ (315.11)                | \$ (665.81)    | \$ (768.08)    | \$ (0.23)                        | \$ (0.49) | \$ (0.57) |
| 15  | Retail     | \$ (324.04)                | \$ (684.67)    | \$ (789.84)    | \$ (0.12)                        | \$ (0.24) | \$ (0.28) |
| 16  | Retail     | \$ (137.40)                | \$ (290.31)    | \$ (334.90)    | \$ (0.16)                        | \$ (0.34) | \$ (0.40) |
| 17  | Retail     | \$ (199.64)                | \$ (421.83)    | \$ (486.62)    | \$ (0.11)                        | \$ (0.23) | \$ (0.27) |
| 18  | Retail     | \$ (372.53)                | \$ (787.14)    | \$ (908.04)    | \$ (0.40)                        | \$ (0.84) | \$ (0.97) |
| 19  | Retail     | \$ (339.65)                | \$ (717.67)    | \$ (827.90)    | \$ (0.30)                        | \$ (0.64) | \$ (0.74) |
| 20  | Retail     | \$ (371.06)                | \$ (784.04)    | \$ (904.47)    | \$ (0.23)                        | \$ (0.49) | \$ (0.57) |
| 21  | Restaurant | \$ (1,160.75)              | \$ (2,452.61)  | \$ (2,829.34)  | \$ (0.15)                        | \$ (0.31) | \$ (0.36) |
| 22  | Retail     | \$ (775.48)                | \$ (1,638.57)  | \$ (1,890.25)  | \$ (0.18)                        | \$ (0.37) | \$ (0.43) |
| 23  | Retail     | \$ (2,334.13)              | \$ (4,931.93)  | \$ (5,689.48)  | \$ (0.23)                        | \$ (0.49) | \$ (0.57) |
| 24  | Retail     | \$ (1,710.15)              | \$ (3,613.47)  | \$ (4,168.50)  | \$ (0.18)                        | \$ (0.37) | \$ (0.43) |
| 25  | Retail     | \$ (4,450.96)              | \$ (9,404.70)  | \$ (10,849.27) | \$ (0.18)                        | \$ (0.37) | \$ (0.43) |
| 26  | Restaurant | \$ (1,504.83)              | \$ (3,179.64)  | \$ (3,668.04)  | \$ (0.20)                        | \$ (0.42) | \$ (0.48) |
| 27  | Restaurant | \$ (1,393.23)              | \$ (2,943.84)  | \$ (3,396.01)  | \$ (0.20)                        | \$ (0.42) | \$ (0.48) |
| 28  | Restaurant | \$ (2,229.48)              | \$ (4,710.80)  | \$ (5,434.38)  | \$ (0.21)                        | \$ (0.44) | \$ (0.51) |
| 29  | Restaurant | \$ (1,659.86)              | \$ (3,507.22)  | \$ (4,045.94)  | \$ (0.14)                        | \$ (0.29) | \$ (0.33) |
|     |            | \$ (25,427.73)             | \$ (53,727.75) | \$ (61,980.37) | \$ (0.21)                        | \$ (0.45) | \$ (0.52) |
|     |            |                            |                |                | Average CAM Reduction (\$/ft2)   |           |           |

Net benefit to Owner  
and tenants



# PACE FOR NEW CONSTRUCTION: Benefits

- Reduce operating expenses over baseline from outset
- PACE reduces equity and conventional debt requirements
- PACE can make the difference in getting a new project funded and approved
- Green building and/or energy efficient certifications can be included in financing
- More programs now allow for new construction including Wisconsin, Arkansas, and Colorado
- Virginia allows for new construction in statute



## **Sloan's Lake MF:**

- 56% Savings
- \$2.8m Investment



## **Westin Hotel:**

- 44% Savings
- \$6.8m Investment

# STATUS OF C-PACE IN VIRGINIA

- Law originally enacted in 2009 and amended in 2015 to make C-PACE attractive to investors (lien priority)
- Loan secured by voluntary special assessment lien, equal in priority to real estate taxes and senior to pre-existing mortgages
- Lender consent of all lien holders required
- C-PACE includes all commercial, industrial, and multifamily residential over 4 units, no condos
- PACE allowed for both existing and new construction projects
- Arlington enacted Ordinance **November 18, 2017**
- Virginia-ready suite of documents including ordinance and program guidelines will be available for lenders, owners and governments in **January 2018**



# MODEL ORDINANCE

- Roles of key parties that make PACE “PACE”
  - Jurisdiction/program administrator: qualify, record, **enforce lien**
  - Property owner/borrower: bring qualified project
  - PACE lender: negotiate financing with borrower, potentially collect payments
- **Qualifying improvements** and associated costs
- PACE “loan terms”
- **Defines how PACE special assessment** qualifies as lien, recordation, payment, billing/collection, enforcement
- **Role of Program Administrator**
- **Cooperative Procurement Rider** -Multiple P.As. interested in VA market
- Jurisdiction – **limited role and duties**
- Reviewing ability to incorporate some aspects of Arlington ordinance



# PROGRAM GUIDELINES: OVERVIEW

- Program Administrator Offering
- Project Eligibility Standards
  - Technical
  - Financial
- Process for a Typical PACE Project
- Suite of documents in addition to ordinance
- Application requirements: underwriting guidelines, property owner requirements
- Transparency of fees – P.A., recording, jurisdiction, lender fees, origination fees, etc.
- Virginia Statutory Requirements will be referenced
- Compatibility with other programs in VA/DC/MD marketplace



# PROGRAM GUIDELINES: Best Practices

- **Open, free market competition**— similar to commercial real estate (CRE) - third party financing and energy/appraisal reports competitively bid
- Owner, lender and program administrator have **“skin in the game”**
- **Total transparency of costs and roles** – particularly for lenders where predictable, transparent, and efficient closing process is key (e.g. secondary market securitization)
- **Consistency** of design, administration and documents across jurisdictions



# PROGRAM GUIDELINES: Best Practices

- **Clarity and visibility** of lien collection and foreclosure process – **security and enforcement** critical
- **Low program fees** generate greater owner interest and increase project eligibility for markets with low energy costs
- **Models that encourage standardization and transparency**– this could be statewide, non-profit model (e.g. Greater Cincinnati Energy Alliance, Texas PACE Authority) or cohesive statewide model with third-party P.A. (e.g. Connecticut)
- **Educate, Educate, Educate and EDUCATE!**



# DMME GUIDELINES

**Table ES-1: Summary of Uniform Statewide Financial Underwriting Guidelines for PACE Loans**

| <b>Underwriting Criteria</b>                      | <b>Guideline</b>                                                                                                                                             |
|---------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Total Loan to Value Ratio (LTV)</b>            | ≤90% of the assessed or appraised property value (including the PACE loan). Debt-Service Coverage Ratio ≥ 1.0. Exceptions evaluated on a case-by-case basis. |
| <b>Special Assessment to Assessed Value Ratio</b> | ≤20% of the assessed or appraised property value. Exceptions evaluated on a case-by-case basis.                                                              |
| <b>Savings to Investment Ratio (SIR)</b>          | ≥1.0. Exceptions evaluated on a case-by-case basis. Localities and administrators to determine how to characterize “savings.”                                |
| <b>Technical Assessment</b>                       | Requirements based on the size and scope of the project as well as the requirements of the lender and administrator.                                         |
| <b>Disclosure to Future Owners</b>                | Localities to record the special assessments in a way that makes them discoverable in a title search.                                                        |

## EVENT SPONSOR

Cliff Kellogg



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# Value of C-PACE to Building Owners

## No Up-front Cost

- 100% financed (including soft costs) => **no out-of-pocket expenses**

## Favorable Loan Terms

- **Fixed interest rates** for up to 30-year term
- No personal guarantees

## Reduced Operating Expenses

- Lower utility bills & reduced maintenance expenses
- **Increases net operating income**

## Cash Flow Positive

- **Energy savings > project costs**

## Improved Property Value

- Improves building quality, which creates additional tenant demand
- NOI / Cap Rate = Property Value

## Aligned Owner & Tenant Interests

- **Assessment paid with property taxes *pro rata* by commercial tenants**

## Transferrable Payment Obligation

- Assessment conveys to new owners

# Petros PACE Success Stories



## Cambridge Court

*32-unit apartment complex in  
Greenville, Michigan*

The first project considered by management company with a substantial multi-state property portfolio.

First project with USDA Rural Development loan.

Upgrades: LED lamps and fixtures, efficient boilers, 20 kW Solar PV, programmable thermostats, low-flow water fixtures.

## MADISON EQUITIES

*The historic First National Bank Building, US Bank Center and 375 Jackson in St. Paul, Minnesota*

|                   |        |
|-------------------|--------|
| C-PACE Funding:   | \$10.2 |
| million           |        |
| Lifetime Savings: | \$27.6 |
| million           |        |
| Annual Savings:   | \$1.4  |
| million           |        |

Owners to install much-needed EE upgrades and align efficiency incentives with tenants.

Upgrades: LED lighting, building controls, HVAC, reducing energy costs by 40%.



# Scenarios for C-PACE

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**When it's advantageous to upgrade the property and lock-in long-term financing that is non-recourse and transfers when the property is sold.**



**When cash should be conserved for more profitable projects.**  
(e.g. re-investing in core business rather than in real estate.)



**When the property tax assessment (and savings) are allocated to tenants.**  
(e.g., in a “triple net” lease.)



**When cash or a bank loan is not available at the corporate level.**



# **Commercial Property Assessed Clean Energy (C-PACE) Program**

**Richard Dooley**

**Fairfax C-PACE Lunch and Learn  
November 29, 2017**

# C-PACE Milestones

- **2009:** VA “Financing clean energy programs” enabling legislation approved
- **2015:** VA enabling legislation updated
- **January 2017:** SRS selected via RFP as Program Administrator
- **Nov. 2017:** County Board adopts ordinance
- **Dec. 2017 (est):** Public launch of C-PACE program

# Program Structure

- **3<sup>rd</sup> party program administration (SRS)**
- **Assessment recording, assignment & servicing by qualified lenders**
- **Open source funding model**
  - No public funds are used to finance projects
  - Owner options:
    - Choose a preferred lender up-front, or
    - Program Administrator can review pre-approved projects with pre-qualified lenders for lender determination of financing interest

# Program Structure (cont.)

- **Design minimizes staff involvement and risk to Arlington County**
- **Program Administration fee associated with successful transactions, aligning all stakeholder interests**
- **VA law requires owners to receive written consent of their mortgage holder**
  - (C-PACE lien is a priority lien, akin to sewer assessment)

# Program Administrator Support to Stakeholders

## SRS Statement of Work from Arlington County-SRS Contract

- Program Design

- Program Administration

- Project economic analysis tools to optimize projects for C-PACE financing
- Independent project technical review
- Assist with mortgage holder consent
- Sourcing “best-fit” financing
- Capital provider support through project financial underwriting & closing



# Program Administrator Support to Stakeholders (cont.)

## SRS Statement of Work from Arlington County-SRS Contract

- Program Marketing and Outreach
- Program Training and Registration
  - Contractor education & ongoing support services
- Program Reporting and Quality Assurance



# QUESTIONS?

Abby Johnson

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# OPPORTUNITIES TO ADVANCE C-PACE

## PACE Letter of Support

- Add your name to the VAEEC's Letter of Support

## Spread the word

- Educate stakeholders

## Contact Jessica Greene for more details

- [jessica@vaeec.org](mailto:jessica@vaeec.org)



### Letter of Support: Commercial PACE Financing

Commercial Property Assessed Clean Energy, or C-PACE, financing provides building owners with 100% funding for energy efficiency, renewable energy, and water efficient projects. C-PACE is used to close the capital gap for both new construction and building renovations and fund deferred capital projects such as roofs, HVAC equipment, and antiquated lighting. It can be used on all types of commercial and industrial buildings, multifamily (above four units), and even single measures like ground-mounted solar.

I believe that C-PACE financing is a lucrative tool for businesses in Virginia that can increase deal flow and spur economic development. Therefore, I encourage Virginia localities to implement C-PACE programs.



# THANK YOU!

Abby Johnson

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Atlantic PACE

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