

Presentation of:

PROPERTY ASSESSED CLEAN ENERGY (PACE) FINANCING

March 2, 2018



abacus
PROPERTY SOLUTIONS

**WILLIAMS
MULLEN**
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AGENDA

- Overview
- Benefits
- Case Studies
- Model Ordinance and Guidelines

ABACUS PROPERTY SOLUTIONS

- Abacus **arranges financing**, with a specialty in developing and financing **energy/renewable/water** projects
- Secures competitive PACE financing through **multiple PACE lenders, private equity and tax equity investors**
- Structures PACE as part of project's capital stack – **debt, equity, tax credits, utility rebates, public incentives, etc.**
- Abby Johnson, President – PACE expert, **designing programs and financing projects** around the country
- Abacus - one of principal partners in MidAtlantic PACE Alliance (MAPA) initiative
-  **ATLANTIC PACE** - Mid-Atlantic focus



WILLIAMS MULLEN

- 230 **attorneys in 8 offices** across Virginia, North Carolina, South Carolina and Washington, D.C.
- As a full service law firm, we represent all kinds of businesses and handle all types of transactions
- In the Finance and Real Estate sector, we handle all types of **commercial real estate** matters, and also serve as bond counsel and in other roles in **municipal bond financings**
- Our interest and commitment as an **early leader in C-PACE financings** is consistent with our tradition of leadership in commercial real estate and municipal finance
- We were a **key stakeholder** in developing C-PACE financial underwriting guidelines with DMME & Abacus Property Solutions



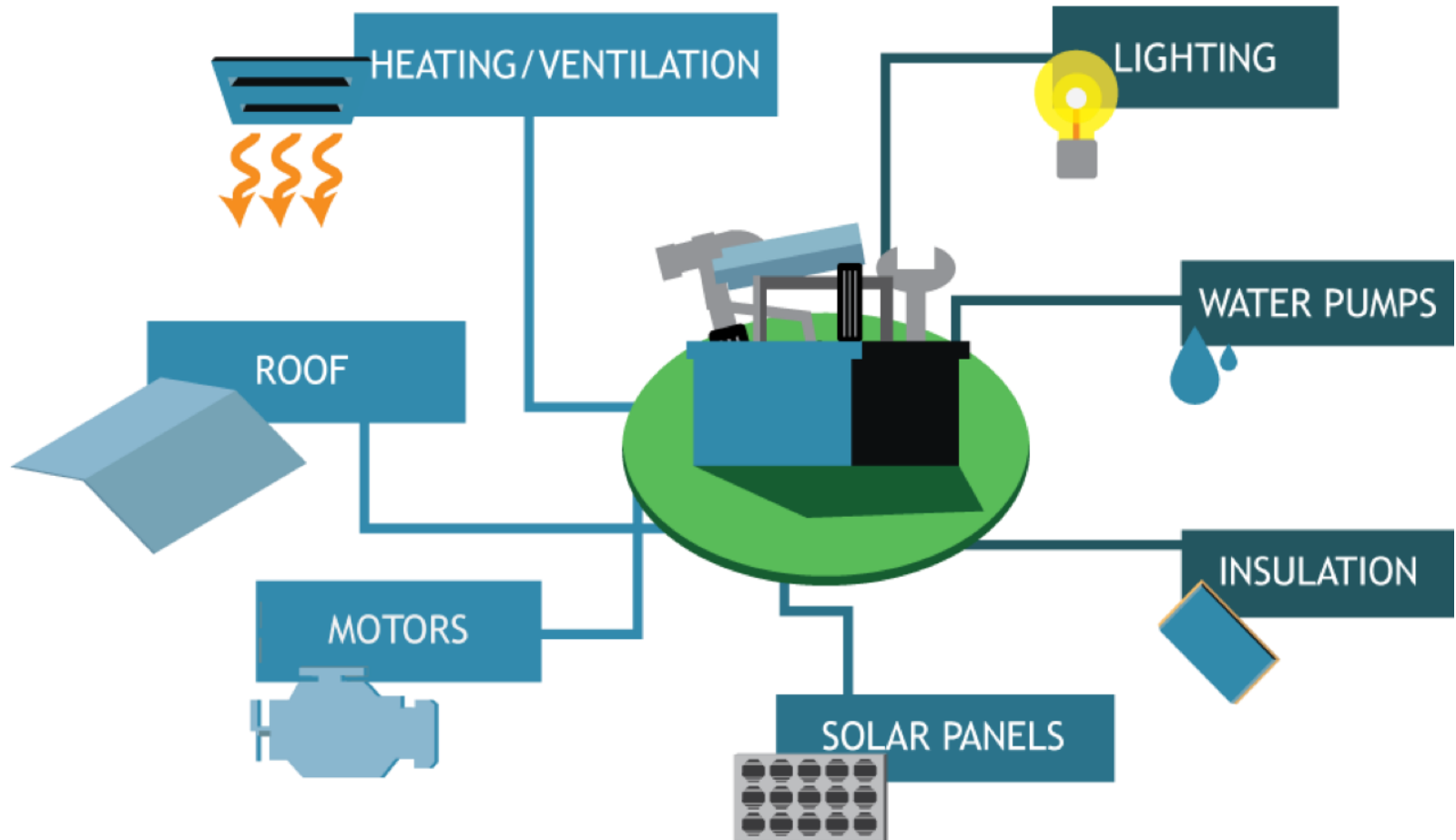
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FUNDAMENTALS OF C-PACE

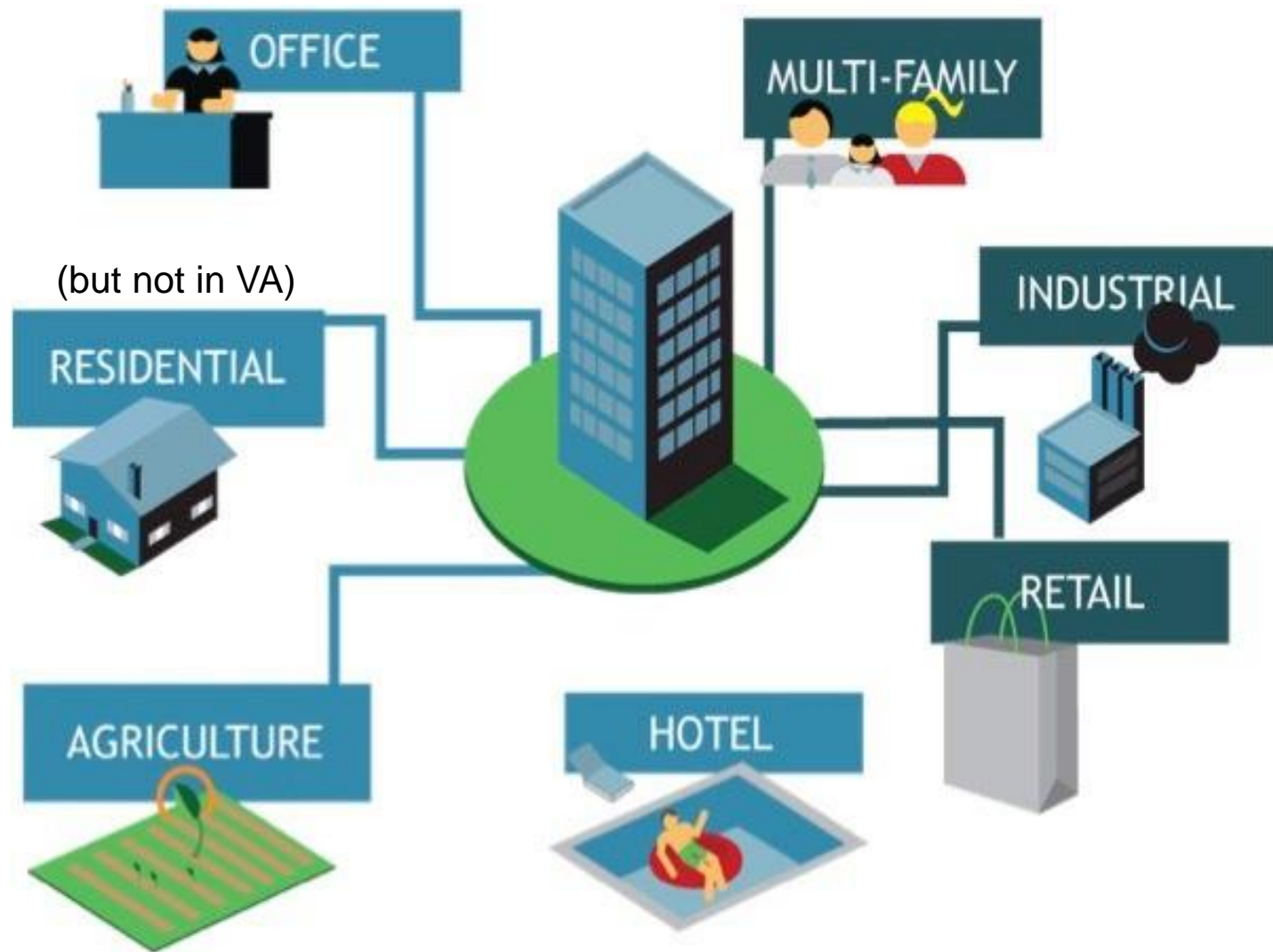
- Innovative way to pay for energy efficiency, renewable energy and water efficiency upgrades for commercial, industrial, multifamily and non-profit properties.
- Owners can receive up to 100% project funding and pay it back as a line item on their real property tax bill.
- Lien securing current and delinquent installments senior to any existing mortgages and typically has equal status to property taxes.
- C-PACE special assessment runs with the land, so it transfers upon sale and does not accelerate.
- Owners receive funding principally from private capital
- C-PACE program is set up by a local government, typically managed by a third party Program Administrator.



ELIGIBLE IMPROVEMENTS



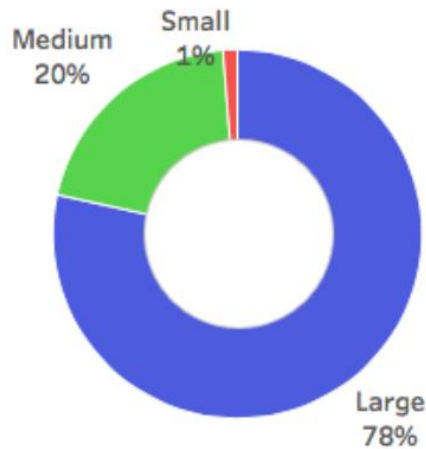
BUILDING TYPES



PROJECT CHARACTERISTICS

Funding by project size

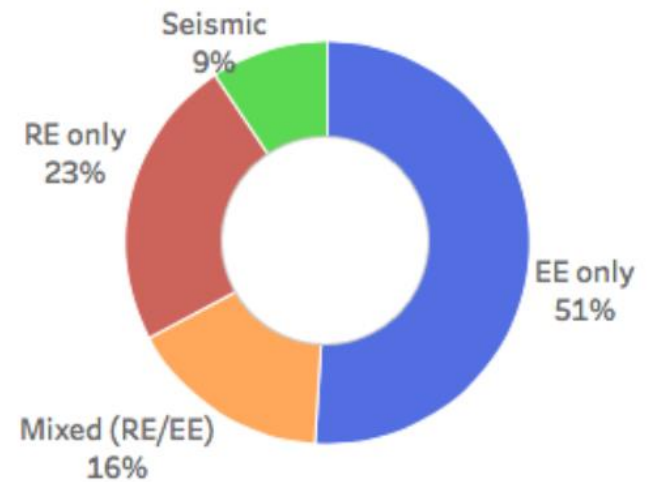
(Region: All)



Small: <\$75,000, Medium: \$75,000 to \$750,000, Large: >\$750,000

Funding by improvement type

(Region: All)



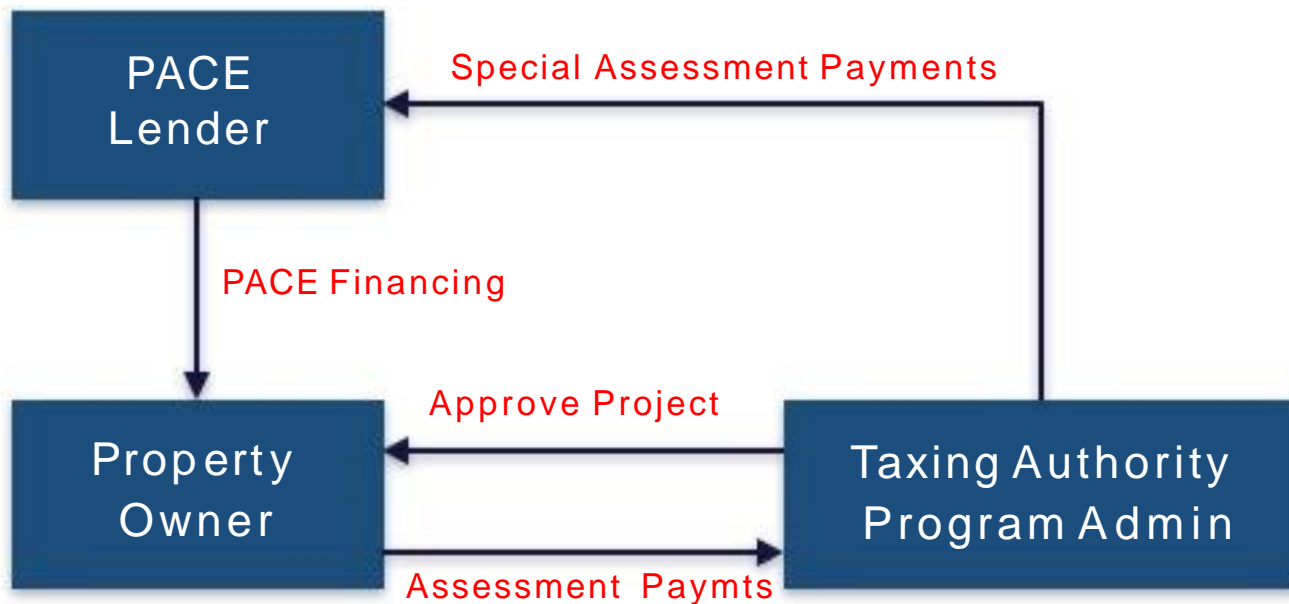
PACE TEAM



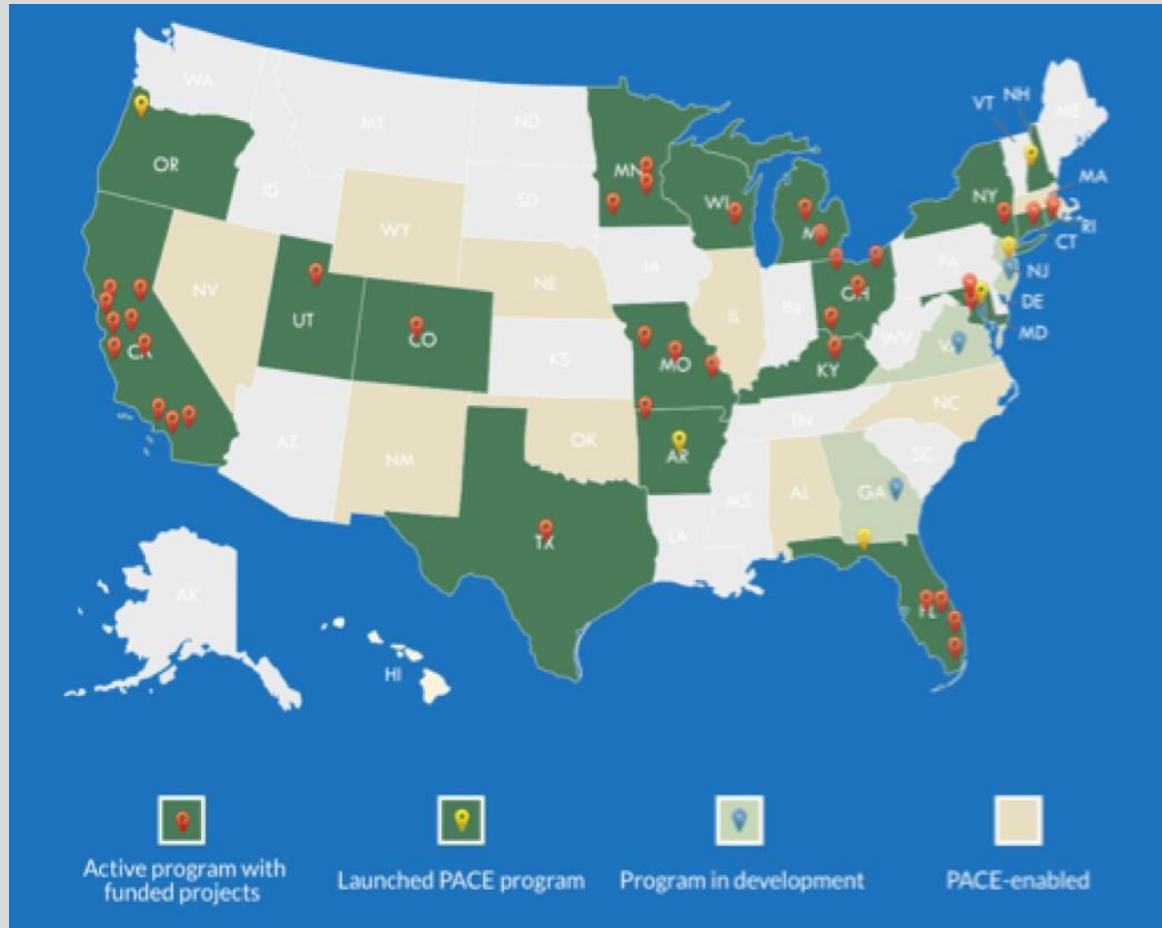
PACE STRUCTURE

Primary Parties:

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



PACE AROUND THE COUNTRY



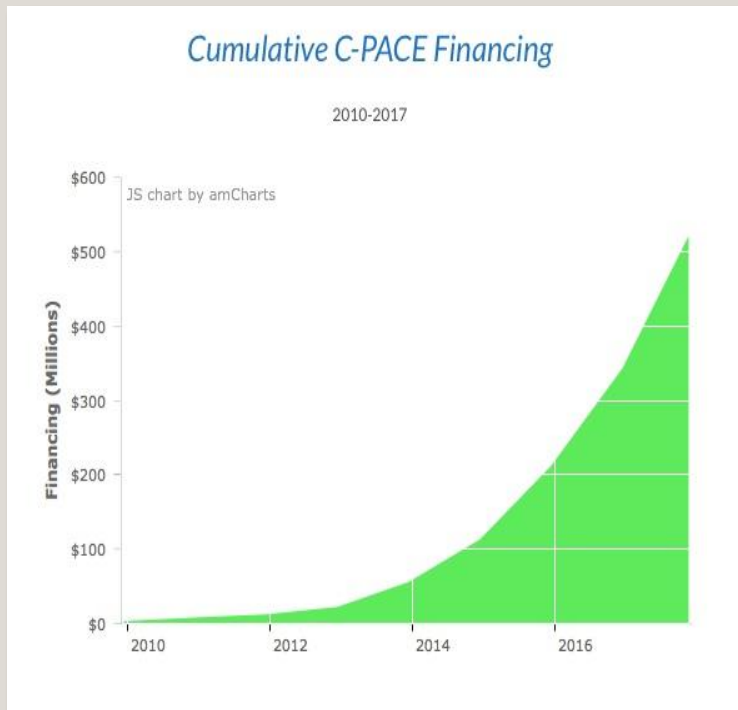
**SOURCE:
PACENATION**

C-PACE GROWTH

...\$540MM total

1,170
projects

...8,100 jobs created



BENEFITS: BUILDING OWNERS



VALUE PROPOSITION

- No Money Out of Pocket: 100% financing of hard + soft costs
- Typically fixed rate financing
- Long Terms (20+ Yr): Lowers annual payments
- Off-balance sheet financing
- Immediate Savings: Cash-flow positive on day one
- Gap Financing, freeing up equity for other projects
- Pass PACE special assessment through to tenants
- Non-recourse financing: Limits personal liability

BENEFITS: CONTRACTORS



- Increase sales volume, improve profit margin
- Add staff, partner with other aligned companies, such as 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



Example

- Office building
- Springfield, VA
- 88,775 SF
- Built 1984
- 38% vacant

- Provides financing for critical capital improvements and facilitates redevelopment of “tired” buildings
- Creates local employment opportunities for general contractors, specialty trades, engineers, vendors, etc. and yields revenue for jurisdictions through permitting fees
- Supplements existing economic development tools (e.g., TIF).
- Reduces carbon footprint of locality → green leader
- Minimal municipal burden - third party providers carry cost of starting and running program

Bank Financing

Project: Solar PV and Lighting

Project Cost: \$750,000

Loan: \$562,500 (75% LTV)

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
- Energy Cost Savings
>\$200K/year
- Energy Generated
>1.3MM KWh/ year

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

THE RIVER AT 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 makes the difference in getting a new project funded and approved
- Green building and/or energy efficient certifications included in financing
- More programs now allow for new construction including Wisconsin, Arkansas, and Colorado
- Virginia statute allows for new construction



Sloan's Lake Multifamily:

- 56% Savings
- \$2.8m Investment
- Pace Equity funded



Westin Hotel:

- 44% Savings
- \$6.8m Investment
- Pace Equity funded

STATUS OF C-PACE IN VIRGINIA

- Law originally enacted in 2009 and amended in 2015 to make C-PACE attractive to investors (**amendment fixed the special assessment's lien priority**)
- Loan secured by **voluntary** special assessment lien, equal in priority to real estate taxes and senior to pre-existing mortgages
- **Lender consent required** by all deed of trust holders
- C-PACE includes all commercial, industrial, non-profit and multifamily residential (> 4 units), **no condos of any sort**
- PACE allowed for both **existing** and **new construction**
- Arlington enacted its first-in-Virginia C-PACE Ordinance on **November 18, 2017**
- Virginia-**ready suite of documents** including model ordinance and program guidelines available in Spring 2018



VIRGINIA DMME GUIDELINES

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

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

MODEL ORDINANCE

- Roles of the key parties that make PACE unique
 - **Jurisdiction/program administrator**: qualify, record, **enforce lien**
 - **Property owner/borrower**: bring qualified project
 - **PACE lender**: provides financing, 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 (P. A.)**
- **Cooperative Procurement Rider** -Multiple P.A.s interested in VA
- Jurisdiction – **limited role and liability**
- 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.
- Compatibility with other programs in VA/DC/MD marketplace



PROGRAM GUIDELINES: BEST PRACTICES

- Open market program administration
 - Similar to commercial real estate – financing, contractors, energy analysis competitively bid
- PACE stakeholders have “skin in the game”
- Total transparency of costs and process
 - Predictable, transparent and efficient closing process is key
- Consistency of design, administration and documents
- 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
- Program Administration models that encourage standardization





Questions?



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