



Available Credit Enhancement for PACE Financings in the City of Los Angeles

As part of its LA Commercial Buildings Performance Partnership, the Community Redevelopment Agency of Los Angeles (CRA/LA) has budgeted \$2.5 million in grant funds to be used as a debt service reserve fund ("DSRF") backing PACE bond financings for projects within the City of Los Angeles' boundaries (not available outside of LADWP service territory).

DSRF monies will be held by the County as Trustee and Paying Agent. DSRF monies will be available to meet bond debt service payments in event of the Owner's failure to pay its regular principal and interest assessment payments. DSRF funds can be drawn when late payments occur, allowing the bond payments to stay current while the Investor works out arrangements with the Owner. When the Owner becomes current on payments, then funds can be returned to the DSRF.

The Investor benefits from the credit enhancement effect and the Owner benefits from the use of grant funds as a DSRF in terms of lower financing costs, basic access to financing and avoided need to raise reserve funds from other sources. Use of the DSRF may also be addressed in the Inter-creditor Agreement between the Investor and first mortgagor, if applicable.

CRA/LA DSRF monies will be allocated to eligible projects case-by-case as the PACE financings are developed and per the discretion of CRA/LA. DSRF monies will be allocated to specific transactions for the benefit of the Investor. The DSRF can also be leveraged to support a portfolio of financings which a given Investor makes under the Initiative. This provides an important additional credit enhancement effect for Investors funding multiple projects.

The sizing of the DSRF will be subject to negotiation. The DSRF will typically be sized to equal 10% of total bond proceeds; higher percentages, up to 20% will be considered. Further, as the project is completed and commissioned and the Owner demonstrates payment performance, the amount of the CRA/LA funds in the DSRF may be diminished over time, e.g., with the second anniversary of the bond closing date, with funds returned to CRA/LA.

In this case, the Owner could be required to replenish the DSRF as the project proves out with both energy savings and timely assessment payment performance. The objective of this arrangement is to allow CRA/LA to support further transactions. The formula for releasing the CRA/LA DSRF monies will be negotiated with Investors as transactions are prepared.

Further, it enables the PACE bonds to be aggregated and securitized at a future date without any restrictions associated with the ARRA funds because PACE bonds utilizing ARRA money for debt reserve purposes cannot allow Investors to pool PACE bonds across jurisdictions, e.g., for securitization or access to the secondary market.