

Monthly Municipal Forum

Marketing PACE to Commercial Property Owners

January 18, 2011





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Welcome!

Today's agenda:

1. **Welcome and Introductions**
2. **National PACE Updates** (David Gabrielson, PACENow)
3. **Marketing PACE to the Commercial Sector**
 - David Hodgins, Sustento Group, LA County
 - Rich Chien, Department of Environment, City and County of San Francisco

Discussion Items

- A. Overview of Programs
- B. Marketing and Outreach Activities
- C. Challenges and Lessons Learned
- D. Resource Needs

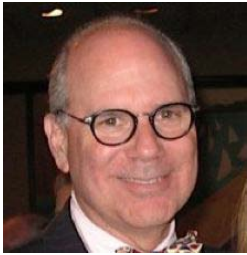


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Today's presenters:



David Gabrielson, Executive Director, PACENow

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Rich Chien, Dept. of Environment, City and County of San Francisco

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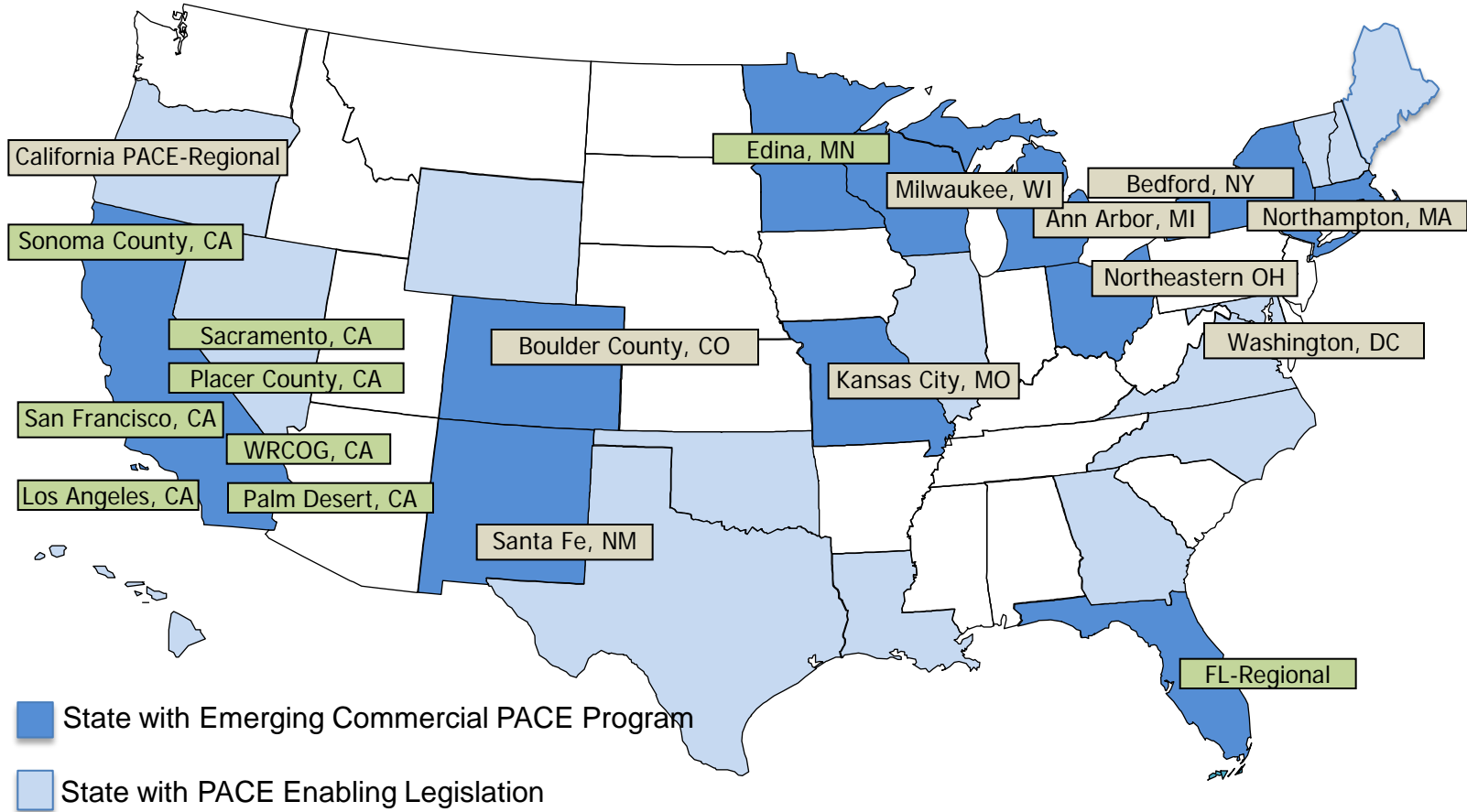


David Hodgins, President & CEO, Sustento Group, LA County

dmh@sustentogroup.com

PACE COMMERCIAL – EMERGING PROGRAMS

PACE Commercial Proceeding



PACE Residential – Update

- **Litigation** - FHFA ordered to conduct rulemaking procedure
- ✓ January 20 - Advance Notice of Proposed Rulemaking
 - 60 day public comment – details at www.PACENow.org
 - Address FHFA concerns: validity, safety, consumer protections
 - Suggested Rule – PACE residential should proceed with HR 2599 standards and guidelines
- ✓ Goal – broad and focused comment – volume⁵

Benefits of PACE

1. Collateral is property not owner credit
2. Up to 100% upfront financing
3. Preserve capital for core business investments
4. Long term – up to 20 years
5. Lower rates than other available products
6. Tax lien structure can mean minimal covenants
7. Obligation stays with property in event of sale
8. Improvement costs & benefits align under most lease structures (e.g. property tax pass-through)
9. Long financing term + moderate interest rates = cash flow positive energy improvements



GreenFinanceSF & LA Commercial History

- Program RFPs
 - SF: March 2009 – Program RFP (initial focus was residential, but allowed commercial)
 - LA: January 2010 – Program RFP (initial focus was residential, with commercial as pilot)
- Board of Supervisors approvals
 - SF: January 2010
 - LA: May 2010
- July 2010 FHFA, OCC Statements
 - Responses:
 - Pivot to commercial-only
 - Institute program design standards in collaboration with other programs and external stakeholders
 - Standardized & prudent underwriting and participation requirements
 - Require mortgage holder consent/acknowledgement
- October 2010 – CEC approves new SEP contract to support PACE
- 2011 – “Open Market” program development (legislative approvals, underwriting and technical standards, legal review, documentation, website, outreach)
- October 2011 – Launch; Marketing; Implementation

GreenFinanceSF & LA Commercial PACE Basics

- SF – Mello Roos Community Facilities District Act 1982 (“special tax bonds”)
- LA – AB 811 District (1915 Act bond, secured by a contractual assessment)
- Using “open market” PACE model for capital
 - Property owner finds project investor
 - Property owner negotiates rate, other terms directly with project lender
 - County issues bond, collects payments through property taxes, and remits to project lender
- 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, U.S. Department of Energy, programs in Los Angeles, Placer, and Sonoma counties

Open Market PACE Features

- Flexible (not one size fits all)
- Bonds purchased by Qualified Institutional Buyers, or Accredited Investors, as defined by SEC
- 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
 - Lender fees negotiated
 - Program fees listed
- Project specific underwriting criteria: vary widely by lender and by project

Property Eligibility

San Francisco

- Property located in financing district
- Improvements permanently affixed to property
- Currently pay (or be eligible to pay) property taxes
- Current on mortgage debt and property taxes
- No recent defaults, bankruptcies or late property taxes
- Title search to confirm eligibility and ownership
- Lien holder consent/acknowledgement
- No "underwater properties" (assessed value or appraisal)

Los Angeles

- Property located in financing district
- Improvements permanently affixed to property
- Currently pay (or be eligible to pay) property taxes
- Current on mortgage debt and property taxes
- No recent defaults, bankruptcies or late property taxes
- Title search to confirm eligibility and ownership
- Lien holder consent/acknowledgement
- GUIDELINE** - No "underwater properties" (assessed value or appraisal)

Marketing and Outreach Activities

- Website
- Press releases, social media, industry blogs/newsletters
- Direct mailers (S.F. Existing Commercial Buildings Energy Performance Ordinance, contractor lists)
- Meetings with certain individual owners
- Industry group presentations (BOMA, IFMA, Lodging Association, NAIOP, PACE Now, SPUR, USGBC)
- Program partners (capital providers, utilities, contractors/service providers/unions, mortgage lenders)
- City/County leaseholds
- Business Improvement Districts, CBDs, redevelopment areas, other relevant city agencies, etc.

Challenges and Lessons Learned

Situation/Challenge	Solution
2010 regulatory set-backs	Emphasize current program protections
Market is fragmented	
Class A owners have other options, but some do “get” PACE	Industry events, newsletters ,etc.
Less credit-worthy B/C owners that may not have other options	Explore going through existing relationships that serve these markets (e.g. mortgage lenders, BIDs, service contractors, property management firms)
Established Norms (no debt; challenges passing costs through to tenants)	Explain how unique features of PACE positively address these issues
Communication nuance (too much detail vs. need for brevity)	Tailor communications to specific audiences (e.g. owners vs. contractors vs. local government staff)
Limited resources (grant funds, staff, time, etc.)	Leverage existing resources (nonprofit industry groups, etc.), “train the trainers” and develop materials to provide guidance

Helpful Resource Needs

- Toolkit to facilitate conversations with existing Lenders
 - 1-2-pagers
 - Power Point
 - Webinars (recorded and live)
- Key discussion points to cover
 - Context and background on energy efficiency
 - Energy efficiency value proposition
 - How to address common objections and questions
 - What amount is actually sitting ahead of the mortgage?
 - What happens if there is a foreclosure?
 - What rights does the mortgage holder have?
 - What can the mortgage holder negotiate?



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Questions?

PACENow

www.pacenow.org

**Sonoma County
Energy Independence Program**

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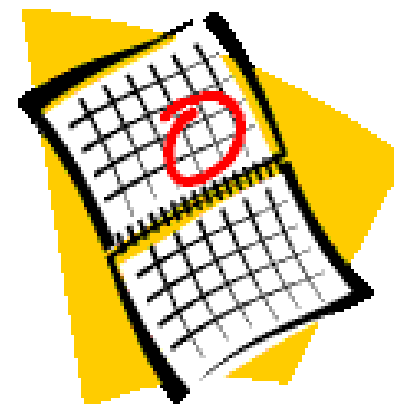
Future Forums

Mark your calendar for these upcoming webinars:

February 15, 2012: **Sonoma's Commercial PACE Story**

March 21, 2012: **Working with Lenders**

April 18, 2012: **Implementing Residential PACE**





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PACE Resources

Find resources and sign up for webinars at:

PACENow website: www.pacenow.org

SCEIP: www.sonomacountyenergy.org

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Action Plan Find Rebates Apply for Financing

Welcome to Sonoma County's Energy Independence.
Your one-stop-shop for efficiency and solar improvements for both home and business

1. Determine Eligibility
2. Select Measures
3. Determine Financing Amount
4. Upload Documents & Submit

● Apply for Financing
Simple steps to finance your energy projects

My Action Plan Find Rebates Search Contractors Apply For Financing

Program Activity Dashboard