



NASEO Multifamily Task Force  
August 22, 2013

# Agenda

1. PACE 101
2. Overview of DC PACE

# PACE 101

# PACE Basics

City creates type of land-secured financing district or similar legal mechanism (a special assessment district)



Property owners voluntarily sign-up for financing and make energy improvements



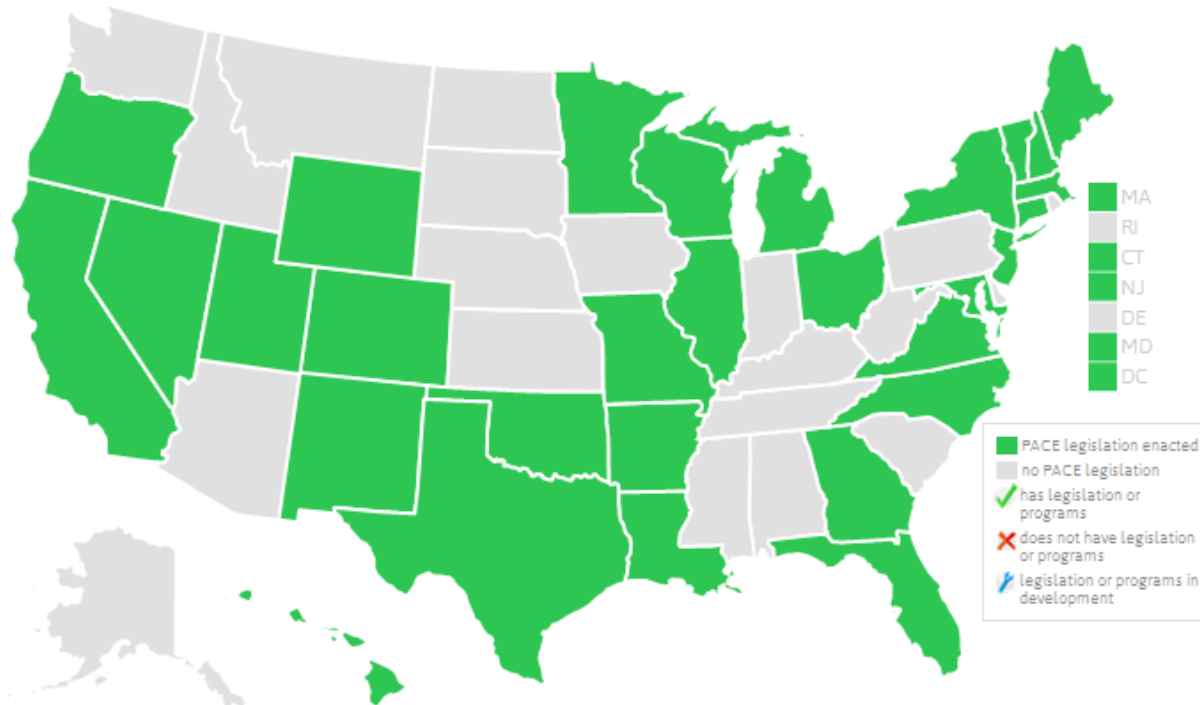
Proceeds from revenue bond or other financing provided to property owner to pay for energy project



Property owner pays assessment through property tax bill (usually up to 20 years)



# PACE Financing Nationally



- Began in CA. Enabling legislation in 30 States and DC
  - MD, VA, and DC have enabling legislation
- ~27 active programs (10 in CA)
- Current focus is on Commercial & Multi Family
- Most programs are pursuing private capital
- Financing efficiency and renewable energy
- ~ \$15 million in privately financed PACE Assessments



# Potential Advantages of PACE financing

## Property owners

- **Attractive loan terms**
  - Up to 100% of project cost (both hard and soft costs)
  - Long repayment term
  - Competitive interest rate
- **PACE Assessment stays with property on sale**
- **PACE Assessment payments can be treated as operating expense**
- **No acceleration in the event of default**

## Investors

- **Very secure investment due to first lien position on property**

## Municipality

- **Requires little to no government funding**



# Key Design considerations

## Market focus

- Commercial, multi-family, residential

## Treatment of PACE Assessment

- How similar to other property based assessments? (Billing process, Lien priority, Default process)

## Position on lender consent

- None, lender consent, lender acknowledgement

## Project underwriting standards

- What constitutes an eligible measure?
- Credit considerations

## Source of capital

- Public or private

## Financial Terms to property owners

- Cost of capital (credit enhancement options)

## Scalability

- Takeout strategy (Attract institutional investors)

## Program administration

- Internal or external
- How will program costs be covered?



# Potential sources of capital for PACE

Funding Source	Investment Vehicle	Advantages	Challenges
Public (Treasury)	None. Municipality holds assessment	<ul style="list-style-type: none"> <li>• Relatively easy to implement</li> <li>• Can offer customer very attractive rate and terms</li> <li>• Eventual takeout may be possible if scale is achieved and municipality can provide credit enhancement</li> </ul>	<ul style="list-style-type: none"> <li>• Municipal debt cap</li> <li>• Lack of credit support</li> <li>• Projects queue for funding</li> <li>• Blended credits with one rate</li> </ul>
Private (open market/ owner arranged)	Revenue bonds, Promissory note	<ul style="list-style-type: none"> <li>• Property owners can leverage existing relationships with capital providers</li> <li>• Capital providers have more flexibility in underwriting standards</li> </ul>	<ul style="list-style-type: none"> <li>• High transaction costs</li> <li>• More difficult to bundle for takeout</li> </ul>
Private (turnkey/ funding on demand)	Revenue bonds, Warehouse LOC, ABS	<ul style="list-style-type: none"> <li>• Lower transaction costs</li> <li>• Standard underwriting procedures improves chances for takeout</li> </ul>	<ul style="list-style-type: none"> <li>• More complex structure to set up</li> <li>• Standard underwriting may prove too restrictive for some projects</li> <li>• Blended rates and credits</li> </ul>



# DC PACE OVERVIEW

# Policy Drivers

## Long-term goals

- Increase energy reliability
- Drive economic development and job creation
- Reduce GHG emission and environmental damage

## Constraints

- Lack of municipal funds
- Lack of in-house expertise

## Scalable

- Market-based
- Can help drive deeper retrofits



# DC PACE Timeline

## 2009

- 👍 Initial PACE proposal developed
- 👍 Meetings with key stakeholders to educate and obtain buy-in
- 👍 Initial DC PACE enabling legislation drafted
- 👍 White House issues PACE policy framework

## 2010

- 👍 DC PACE Enabling Legislation enacted
- 👍 DDOE allocates ARRA SEP money for design of PACE program
- 👍 Contractor selected to design DC PACE program

## 2011

- 👍 Program design

## 2012

- 👍 Complete program design delivered
- 👍 Introduced amendment to DC PACE Enabling Legislation
- 👍 Receive foundation grant to fund 12 month ramp up period
- 👍 Receive \$5 million commitment from regional bank

## 2013

- 👍 **First DC PACE deal closed**



# DC Program Highlights

## Basics

- Fully self-sufficient model requires no government funding to operate
- Open to Commercial and MF properties
- Assessment is senior to mortgage
- Lender consent required
- Eligible measures include energy (EE and renewables), water, and storm water mitigation
- Project size: \$250k to \$5 million
- Program designed to obtain investment grade rating for PACE ABS

## Capital providers

- \$5 million revolving LOC from regional bank
- Actively looking for additional capital providers

## Current Assessment Terms

- Interest Rate: ~6% (including all fees)
- Term: 20 year amort with 10 year term
- LTV: max of 80% (PACE Assessment limited to 10% of assessed value)



# 400 M St SE

## 1<sup>st</sup> Use of PACE for Affordable MF Project



- 139 Unit Affordable Multi-Family Project
- LIHTC Tax Equity and DCHA financed
- Energy Savings: 20% (37KW Solar, H2O, & Lighting)
- Project Cost: \$290k
- Savings: \$45k per year
- Will be First Ever PACE Multi-Family, Affordable & HOPE IV
- Lender consent obtained from DCHA



# Property Description

Location: Southeast DC

Use:

- Affordable Housing Project.
- Part of Hope VI development.
- All units rented to tenants with incomes at or below 60% of AMI

Size: 140 units

Age: 7 years old

Financing:

- ***Equity:***
  - Tax Equity Investor (9% LIHTC)
  - LLP – Operating owner
- ***Debt:***
  - Very low interest rate debt from DCHA



# Project Description

Total project costs: \$290,000

Measures:

Common Area Lighting

LED fixtures and controls - \$80k

Low flow fixtures in units - \$8k

37kw Solar Array - \$200k

Energy Control Training - \$6k

Weighted Useful Life of Project: 16 yrs

Total energy use reduction: 15%

Percentage of energy produced by renewables: 3.5%  
(after improvements)

Duration: 1 year (began scoping project in May 2012)



# Received Consent from Three Parties

LIHTC syndicator

LIHTC investor

DC housing authority





# Project Financials

Avoided Costs:	\$26k per yr
Reduced energy use:	\$20k
Maintenance savings:	\$6k
Energy Production:	\$4k
SREC Sales:	\$11k
Total Cash Flow Impact Before T or D:	\$41k per yr



# PACE Assessment Details

Amort period: 20 yr

Term: 10 yr

Bank Interest Rate: 5.25%

Total Interest Rate: 6%

Other terms:

- Bank reserves right to force owner to purchase PACE note in event of non-monetary default
- Bank requires P&I prepayment to allow for monthly payments

Transaction costs:

3.5% in fees

Very large legal fees for initial setup (8% of project cost)



# Key Lessons Learned

## Market segmentation

- Demand from Class A multi-tenant office has been less than expected due to access to low cost capital
- Affordable housing, co-op housing, and institutional properties have shown better than expected demand

## Capital providers

- Money center banks are interested in PACE but are unwilling to commit capital without substantial credit enhancement
- Regional banks are a great source of capital, but it takes time to fully educate them on the PACE structure

## Project Development

- The first deal(s) will take longer and cost more (in time and money) than anticipated
- Obtaining lender consent takes persistence and flexibility



# Questions?

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