

Property Assessed Clean Energy Financing

*Developing an Effective PACE Program
for the City of Madison*

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What is PACE?

- Energy efficiency upgrades, renewable energy installments, and water efficiency measures
- Paid for through loans provided by or facilitated by a municipality or other political subdivision
- Paid back through special assessments on property tax bills



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Why PACE?

- Encourage building efficiency, and energy and water efficiency
- Reduce building costs
- Help owners of existing buildings remain competitive
- Maintain and improve the existing building stock



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Why PACE?

- Provides building owners with tools to address:
 - Deferred maintenance
 - Old equipment
 - Inefficient infrastructure
 - Infrastructure replacement



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Why PACE?

- Captures multiple benefits of energy and water efficiency improvements
- Saves building owners money
- Increases the value of properties
- Creates jobs and economic activity
- Provides low-risk financing options



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Types of Improvements

- Energy Efficiency: HVAC, lighting, boilers, chillers, furnaces, building controls, steam systems, windows, building envelope, roofing, insulation
- Water efficiency: fixtures, water recovery and reuse, control systems
- Renewable Energy: solar hot water, photovoltaics, geothermal



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PACE Components

- Public-private partnership
- Loan from a private lender or from a municipality
- Repayment through property tax
- Remit to lender (if private loan)
- Lien for past due installment payment receives same priority as tax lien



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PACE Components

- Traditional equipment loan has a term of 3-5 years
- PACE loan has a term of up to 20 years
- Allows for a wholesale building retrofit approach
- Loan attaches to property and survives a transfer of ownership



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PACE Components

- Long-term financing maintains cash flow for building owners
- Ability to partner with private lenders gives building owners loan options
- Loan repayment could be passed through to tenants as part of property tax payment



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PACE Authorization in Wisconsin

- First Authorized by 2009 Act 272
 - Modified Wis. Stat. 66.0627 to allow political subdivisions to add special charges to property tax bills for energy and water efficiency improvements and renewable resource applications
- Allows political subdivision to make direct loans or participate in owner-arranged or lessee-arranged financing



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PACE Authorization in Wisconsin

- Allows political subdivision to collect installment payments or authorize third party collection
- Lien for unpaid installment payment has same priority as special assessment lien



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PACE Authorization in Wisconsin

- Loan of \$250,000 or more must include performance guarantee from contractor that improvement will achieve annual savings-to-investment ratio greater than 1.0 and contractor must pay owner for shortfall
- Optional performance guarantee for loan of less than \$250,000



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Other Potential Requirements

- The term of the loan is less than the useful life of the equipment
- The loan is limited to 10-20% of the property value
- The available loan amount is reduced by tax credits and rebates
- The owner is current on property taxes and other assessments



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Milwaukee PACE Program

- Established through Milw. Ord. 304-26.5 with significant additional guidance developed by city staff
- Application materials, guidelines, and approved contractors on city website
- Administrative fee charged by city
- Insurance requirements



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Milwaukee PACE Program

- Minimum loan is \$20,000 / maximum loan is 20% of assessed property value
- Owner cannot be delinquent on taxes
- Primary mortgagee must consent
- Owner must use participating contractor pre-approved by city
- Contractor must provide a performance guarantee for three years



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Mortgagee Consent

- Why would the primary lender consent to a PACE loan?
 - Low risk
 - Increase in property value
 - Lower operating costs for building
 - Better cash flow for building owner
 - Option to pass through to tenants



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Mortgagee Consent

- Primary lender could pay unpaid PACE installment payments and add to the loan amount (similar to unpaid property taxes) to avoid foreclosure
- Primary lender can remove tax lien by paying unpaid annual installment
- Places lender in no worse position than unpaid property taxes



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Standard Loan Terms

- Construction loan agreement
- Supplemental loan agreement between owner, lender, and city
- Debt secured by special assessment
- Annual installments of principal and interest placed on tax bill



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Standard Loan Terms

- Lender must certify amount of annual installment for inclusion on tax bill
- Owner makes payment to city / city remits payment to lender
- Lien has same priority as special assessment, ahead of property taxes
- Late fees/penalties included



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Standard Loan Terms

- Remedy of tax foreclosure on past due installment payments (not full amount)
- Follows property tax foreclosure procedure under state statute
- Lender has first opportunity to purchase property in foreclosure
- Lender may be able to pursue additional recourse provisions



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Options for City

- Direct loans to property owners (e.g., revolving loan fund)
- Facilitate owner-arranged or lessee-arranged private loans
- Develop list of pre-approved lenders and contractors
- Draft forms and guidelines for successful program implementation



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Questions?



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