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PROPERTY ASSESSED CLEAN ENERGY (PACE)

Prepared By:
IMT INSTITUTE FOR MARKET TRANSFORMATION

Property Assessed Clean Energy (PACE) financing is a structure in which building owners take on debt for energy efficiency or renewable energy improvements that is repaid through an assessment on their property tax bill. The stability of the property tax bill allows building owners to make long-term investments in their buildings without being responsible for the outstanding debt if a building is sold. PACE is becoming a better-known financing mechanism for energy efficiency and renewable energy and has financed 750 commercial projects to date including upgrades valued at $250 million.

The retail sector has invested approximately $45.7 million using this model to date and represents the most frequent property type to use PACE financing. There is potential for PACE to grow in the retail sector, particularly as more states adopt enabling legislation.

Why should you use it?

- Your company owns stores, warehouses, distribution centers, and corporate offices and wants to make energy efficiency improvements, but you have limited access to capital.
- Your company prefers to pilot a project at a few locations before implementing more broadly.
- Your company does not hold its facilities long-term and wants to ensure that it can transfer obligations at the time of sale.

Who has used it in the past?

The retail sector has invested approximately $45.7 million using this model to date, and represents the most frequent property type to use PACE financing.

Since 2014, BrandsMart, a retailer based in Florida, has successfully arranged PACE deals in three of its stores. The deals ranged in size from $1.8 million to $3.1 million. At one location, BrandsMart is expecting to save 34% on its annual utility costs.

The largest PACE project to date worth $8.4 million was completed by CleanFund Commercial Pace Capital Inc. in December 2015. The $8.4 million enabled State House Square, a Class A office building in Hartford, CT, to significantly lower its energy and operating costs.

While more established programs like Sonoma County's Energy Independence Program or Connecticut's CPACE Program have financed millions of dollars of improvements, many others are still developing. PACE legislation for commercial properties has been adopted in 30 states and the District of Columbia.

What are the advantages?

- **Avoided Capital Outlay** – 100% financing with no upfront costs for the property owner (includes hard and soft costs).
- **Positive Cash Flow** – Positive cash flow and increased property value, even with long simple payback projects.
- **Transferability** – PACE assessments are linked to the property and automatically transfer to a new owner upon the sale of the property.
- **Favorable Terms** – Allows lenders the ability to offer better interest rates and longer repayment terms (up to 25 years) than is otherwise available. As PACE financing is repaid on the property tax bill, it offers strong security, which enables deeper energy efficiency and greater savings for projects.

Better Buildings® U.S. DEPARTMENT OF ENERGY

This resource was completed with support from the Department of Energy's Office of Energy Efficiency and Renewable Energy and the Better Buildings Initiative to highlight innovative proven energy solutions from market leaders in the Retail sector. Find more ideas at the Better Buildings Solution Center at betterbuildingssolutioncenter.energy.gov

- **Flexible Balance Sheet Treatment** – PACE may be structured to be off-balance sheet or on-balance sheet.

What are the downsides?

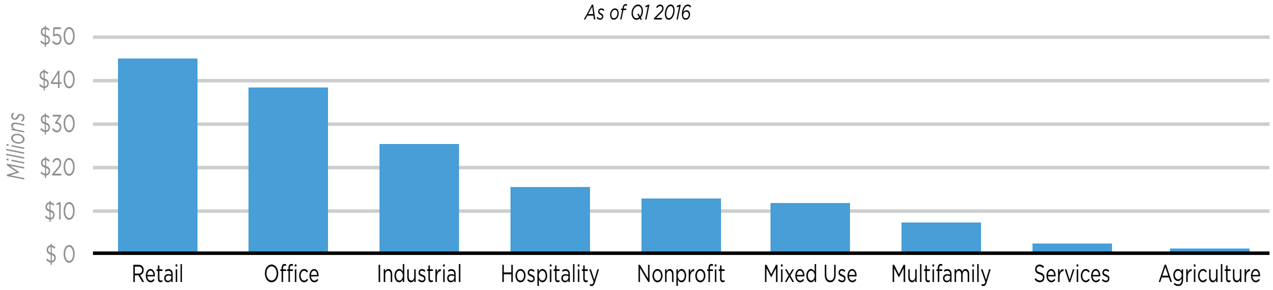
- PACE is best suited for building owners and mortgage holder approval is required.
- PACE is limited to jurisdictions with legislative PACE districts (currently more than [1,000 municipalities across the country]).
- PACE deals must be structured for individual properties, therefore it is necessary to go through a specialized lender to use PACE for large initiatives.
- There are legal and administrative expenses associated with the PACE financing process.

Who should you talk to next?

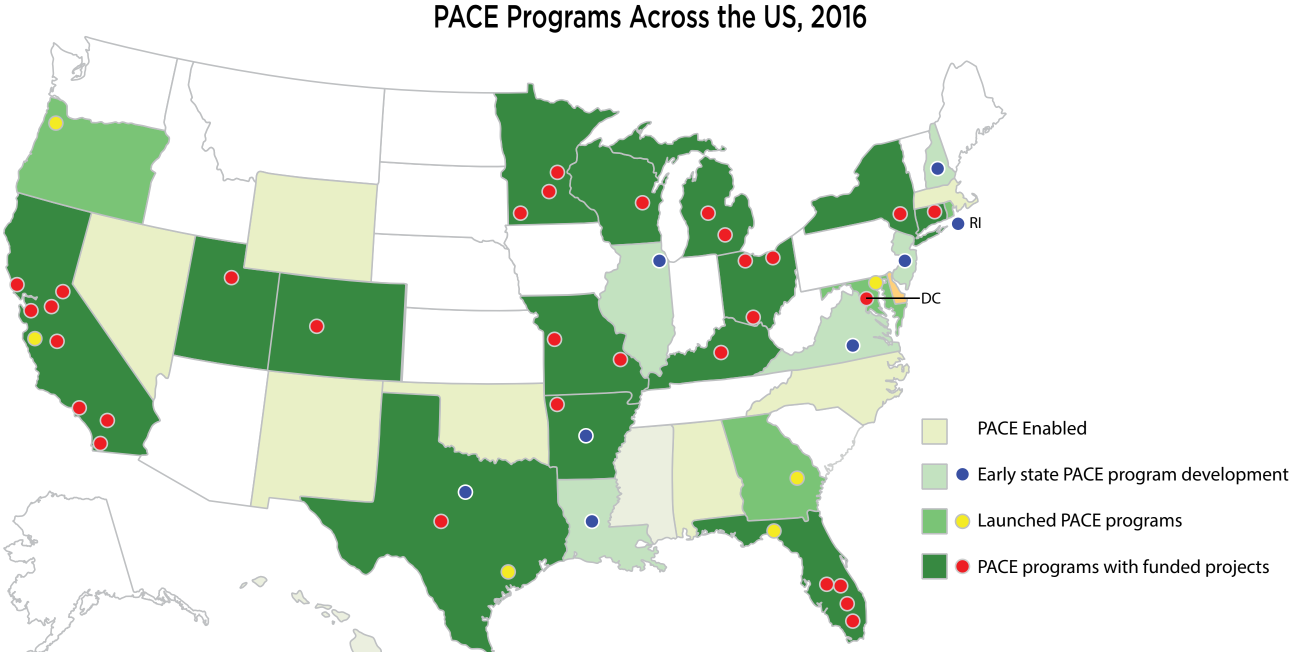
- Talk to your internal finance team to learn about the company's history and comfort using tax assessments as financing.
- Reach out to [your local PACE administrator] to learn more about the program in your area.
- Refer to [PACENation], as they maintain the most up to date information about PACE and have many resources to assist you.

Funding by Property Type (2009 - present)

As of Q1 2016



PACE Programs Across the US, 2016



Source: PACENation

PACE IN THE MARKET

The Property Assessed Clean Energy (PACE) model is an innovative mechanism for financing energy efficiency and renewable energy improvements. PACE programs allow local governments, state governments, or other inter-jurisdictional authorities, when authorized by state law, to fund the up-front cost of energy improvements on commercial and residential properties.

Property owners repay their improvement costs over a set time period—typically 10 to 20 years—through property assessments, which are secured by the property itself and paid as an addition to the owners' property tax bills. Nonpayment generally results in the same set of repercussions as the failure to pay any other portion of a property tax bill. A PACE assessment is a debt of property, meaning the debt is tied to the property as opposed to the property owner(s), so the repayment obligation may transfer with property ownership depending upon state legislation. This eliminates a key disincentive to investing in energy improvements, since many property owners are hesitant to make property improvements if they think they may not stay in the property long enough for the resulting savings to cover the upfront costs. PACE legislation for commercial properties has been adopted in 30 states and the District of Columbia.

The retail sector has been the most active user of commercial PACE, closing on $45.7 million in financing to date. Completed commercial PACE deals have ranged from $2,000 on the low-end to $8.4 million on the high end. Some PACE districts allow building owners to extend their Loan-to-Value ratio (LTV) beyond typical limits, which allows owners to get additional financing for energy efficiency or sustainability improvements beyond what a lender would typically allow.

BrandsMart, a retailer based in Florida, worked with the clean energy financer Ygrene Works and Florida Green Energy Works to successfully arrange PACE deals in three of its stores since 2014. The deals ranged in size from $1.8 million to $3.1 million, for a total of $7.1 million financed. The latest deal, worth $3.1 million in BrandMart's Miami Gardens store is expected to generate $310,000 in savings annually. The stability of property tax repayment, alongside lowered upfront costs, allows retailers to pursue energy efficiency projects that extend beyond the typical limits of their company's internal payback or hurdle rate.

A building owner is the greatest beneficiary of PACE financing, which makes it a viable option for retailers that own their buildings. For that same reason, the benefits of PACE for a retail tenant are significantly reduced and other options may better suit their energy efficiency needs. However, if any part of a retailer's portfolio is owned, including stores, warehouses, distribution centers, and corporate offices, PACE is an attractive option to pursue deep retrofits at low cost.

This material is based upon work supported by the Department of Energy, Office of Energy Efficiency and Renewable Energy (EERE), under Award Number DE-EE0007062.