GreenFinanceSF
Open Market Commercial PACE Financing Program

Statewide Energy Efficiency Best Practices Forum
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Outline

1. PACE: What is it?
2. The Open Market Model
3. GreenFinanceSF
    - History and Overview
    - Challenges and Solutions
    - Program Update
4. Questions and Discussion

PACE Financing Basics

Government Sponsor

Upfront Capital

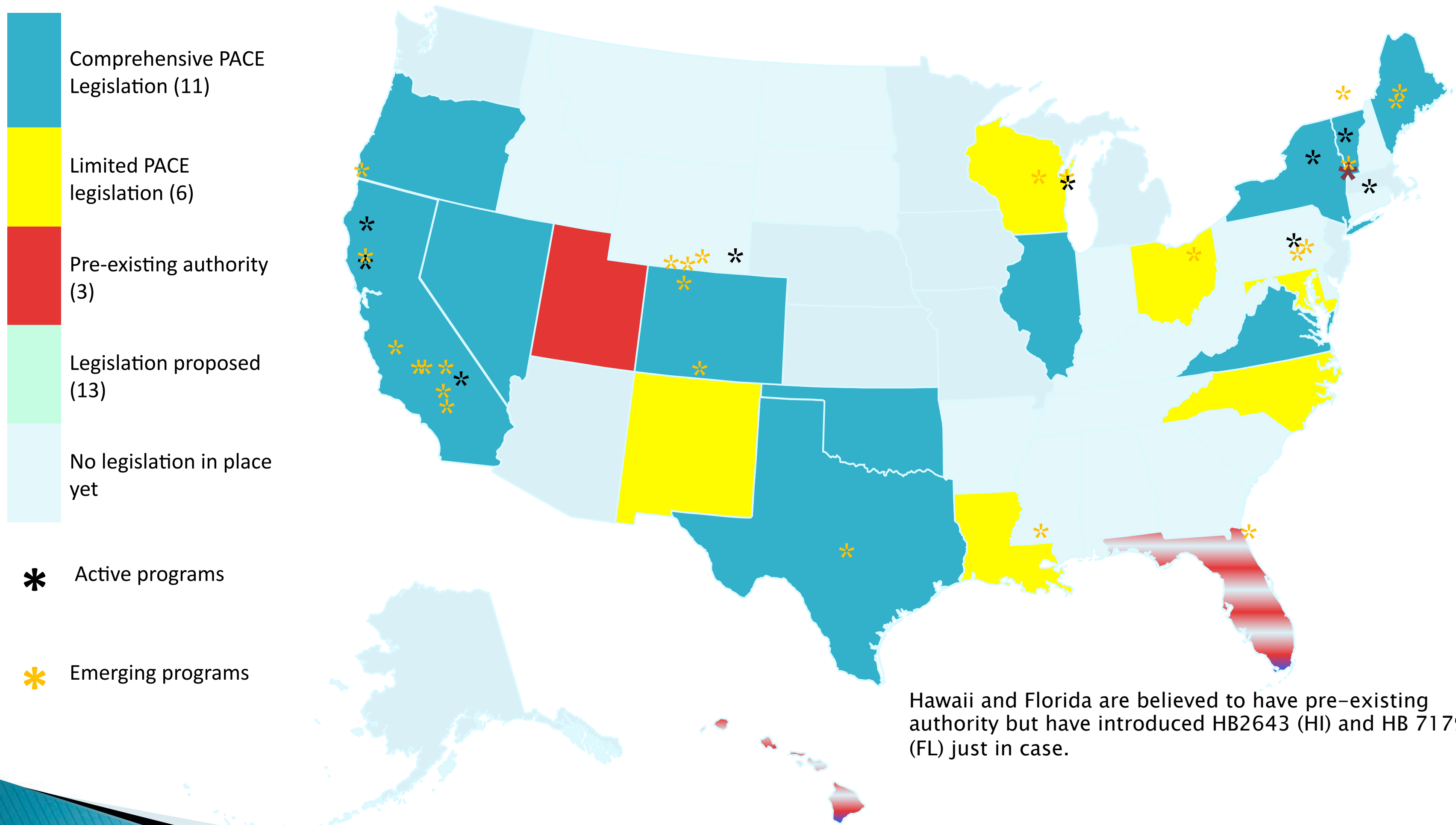
Repaid on Tax Bill

Property Owner

- Creates financing district, authority to issue bonds, & approval process
- Attaches repayment obligation to the building via property taxes
- Private investors provide upfront capital

- Identifies work & chooses contractor
- Repays financing as a line item on the property tax bill (up to 20 years)
- Repayment obligation transfers with ownership

28 States Now Have Enabling Legislation



Hawaii and Florida are believed to have pre-existing authority but have introduced HB2643 (HI) and HB 7179 (FL) just in case.

*Note: list of emerging programs is not exhaustive

PACE Solves Commercial Barriers

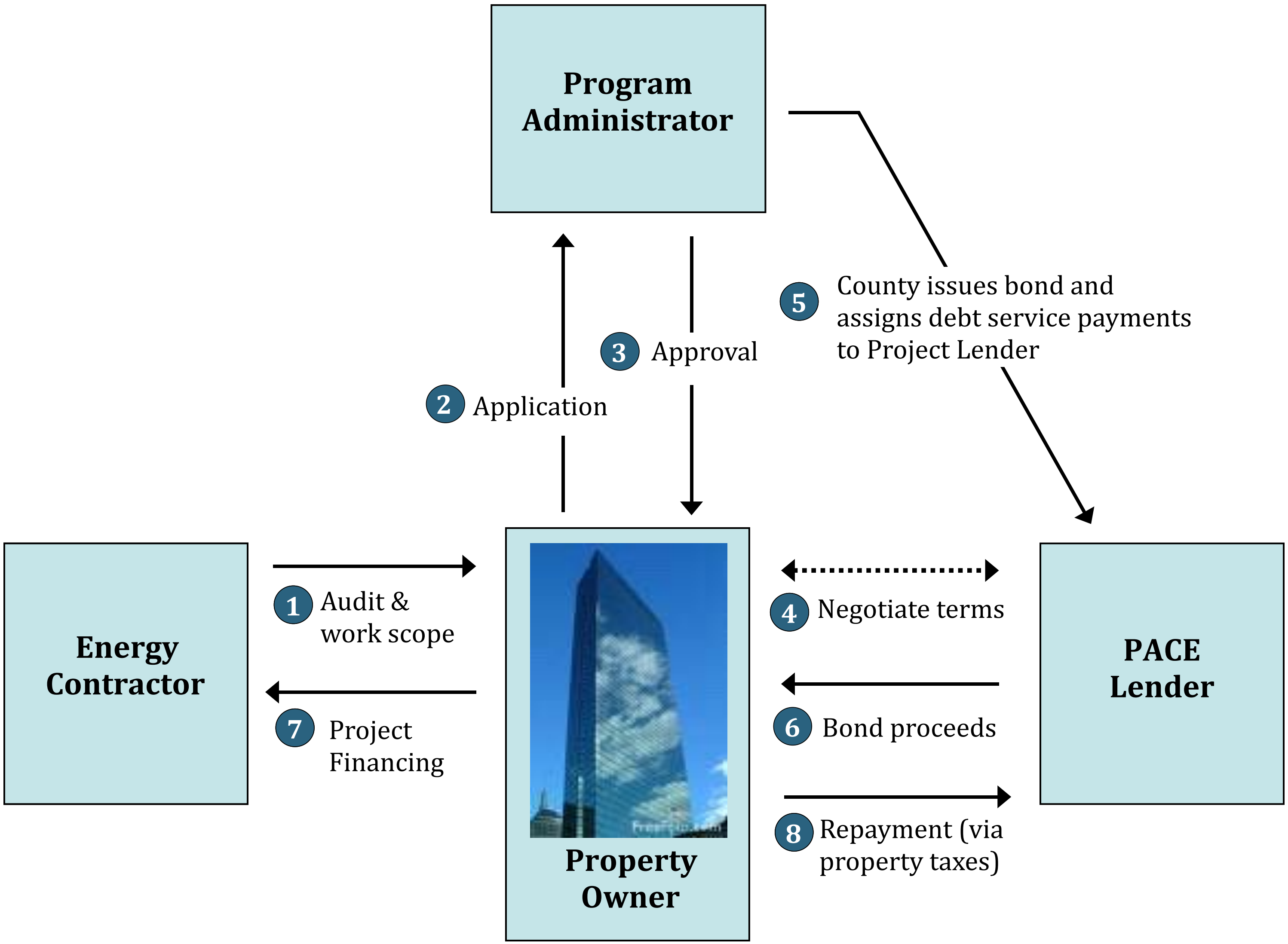
Barriers to Energy EE Upgrades	PACE Solutions
Lack of Funding	Unlimited Private Capital Mkt
No Funds in Capital Budget	Long-Term Financing
Insufficient Payback / ROI	Long-Term Financing
Split-Incentives	Tenants pay Taxes & Assessments
Uncertainty of Savings Technical Expertise Senior Management Buy-in	Guarantees Information PACE Drives Overall Demand

www.pacenow.org

Open Market PACE Features

- Flexible (not one size fits all)
- Bonds purchased by Qualified Institutional Buyers, Accredited Investors
  - Each building/project consists of an individual “improvement area,” backed by single privately-placed special tax bond
- 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
  - Program fees listed
  - PACE Lender fees negotiated
- Project specific underwriting criteria: vary widely by lender and by project

Open Market PACE Process



GreenFinanceSF Overview

- Mello Roos Community Facilities District Act 1982 ("special tax bonds")
- Using "open market" PACE model for capital
- 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/C40, PACENow, U.S. Department of Energy, programs in Los Angeles, Placer, and Sonoma counties

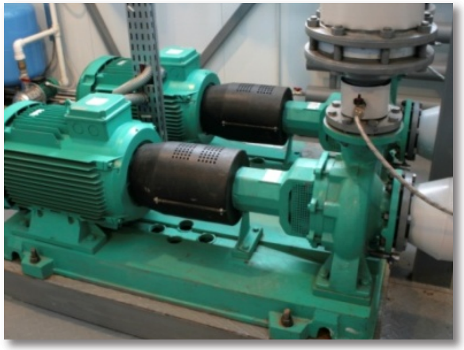
ARRA/SEP Program Support

- $1.3M debt service reserve fund (DSRF)
  - DSRF is a traditional element in land secured bonds
  - DSRF funds reside in an escrow account and sized to cover payment shortfalls (e.g. 10% of the principal amount of the bond)
  - DSRF funds are not expected to cover capital losses (i.e. delinquent amounts will be recovered)

- Process
  - Automatic allocation of 10% of the total requested financing amount per project, maximum $100,000 for any single project
  - Program will consider requests that exceed maximum (10%/ $100,000)
  - PACE investors may decline

Eligible Projects

- Permanently affixed to the property
- Common and custom EE, RE, WC measures*
- Requires professional energy audit
- RE projects to be paired with EE
- No effect on ability to take advantage of applicable incentive/rebate programs
- Use of ENERGY STAR Portfolio Manager
  - Free service to track and benchmark energy usage
  - Comply with Existing Commercial Buildings Energy Performance Ordinance



**EE=Energy Efficiency, RE=Renewable Energy, WC=Water Conservation*

Types of Projects

- Big-ticket measures with longer paybacks
- Examples of eligible upgrades:
  - HVAC upgrades
  - BAS / BMS / EMS installation / upgrade
  - High-efficiency lighting fixtures & lamps
  - Occupancy & day-lighting sensors
  - Building envelope upgrades (roof, windows, insulation)
  - Elevator modernization
  - Solar PV or Fuel Cells to generate electricity
  - Water conservation upgrades (fixtures, etc.)

Property Eligibility

- Program underwriting requirements
  - Property located in City/County of San Francisco
  - Equipment/materials permanently affixed to property
  - Currently pay (or be eligible to pay) property taxes
  - Lien holder consent/acknowledgement
  - Current on mortgage debt and property taxes
  - No recent defaults, bankruptcies or late property taxes
  - Property can't currently be "underwater" on debt
    - Assessed or recently appraised value of property
  - Title search to confirm eligibility and ownership

- PACE investor may have additional underwriting requirements

Why Do We Need Affirmative Acknowledgement from the Mortgage Lender?

- Mortgage banks know their customers, and do/have already done credit analysis for the owner and property
  - Right to negotiate
- Assessment/tax may be valid, but could still trigger mortgage default if lender doesn't affirm
  - "Due on encumbrance" clause in mortgage documents
- If there is a lawsuit, regulators may take action

Lender Talking Points

- No Acceleration
  - In default scenario, amount of lien restricted to outstanding unpaid annual special taxes
  - Therefore, PACE special taxes are *de minimis* relative to value
- Mortgage lender has right to cure delinquency
- Reserve funds can provide liquidity support
- Enhance property value, higher NOI, improve LTV
- Opportunity to co-invest with a third-party PACE investor
  - Maintain partial first position lien
- Mortgagee may underwrite and purchase the PACE bond itself
  - Value-add product for existing customers
- Opportunity for recognition and positive PR

SF Project Pipeline (July 2012)

(received applications and/or projects under development)

Multitenant commercial office building: \$1.3M lighting, retrocommissioning, PV

Community food bank: \$400,000 refrigeration upgrade project

60 unit MF apartment building: \$100,000 solar hot water project

Hotel: \$500,000 air conditioning system upgrade

Hotel: >\$1M envelope, windows, HVAC, PV

Senior Center: \$1.5M HVAC, lighting, boiler, controls, heating distribution, solar hot water

Get Started @ www.greenfinancesf.org

energy upgrade™ CALIFORNIA
in San Francisco County

Contact Us / EUC Commercial / EUC Residential

Commercial PACE

About PACE | Apply Now! | Additional Resources

Investment in energy and water efficiency is an intelligent business decision. Building performance upgrades bring multiple benefits:

- Lower operating costs
- Improve occupants' comfort
- Hedge against utility price increases
- Reduce negative exposure to possible regulation
- Help the environment
- Boost property values

As part of Energy Upgrade California, owners of commercial properties (including nonprofit-owned and multifamily rental properties with five or more units) in San Francisco have access to GreenFinanceSF, an innovative financing program that uses Property Assessed Clean Energy (or PACE) to provide funding up to 100% of the cost of building performance upgrades.

Why PACE?

- Funding for up to 100% of installed project costs
- Lower financing rates than other products in the market
- Longer financing terms than would otherwise be possible
- Enables projects to be cash flow positive in Year 1
- May allow for favorable accounting treatment
- Allows for equitable sharing of costs and savings with current tenants and future owners

About PACE
What is PACE Financing?
For Property Owners
For Mortgage Lenders
For PACE Lenders
For Energy Contractors

Apply Now
Documentation Overview
Application Materials

Additional Resources
Performance Tracking
Energy Aligned Leases
Tenant Involvement
Tax Incentives