Community PACE:[1]

Property Assessed Clean Energy for Everyone

The Community PACE Team[2]

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Overview

Community PACE involves applying the now-established principles of Commercial PACE programs to a wider range of projects, including small business and ultimately residential properties, with potential implications for cities, suburban communities, and rural areas.

In fact, the original PACE concept was a grassroots municipal initiative, aimed at homeowners in Berkeley, CA, rather than a commercial program. But early residential PACE programs saw abuses by shady contractors, leading to a decline in popularity, whereas commercial projects, with multiple checks and certifications, are

[1] "Community PACE" means different things in different contexts, including programs for the elderly. In our usage, PACE is an acronym for "Property Assessed Clean Energy," a method of financing clean energy improvements to buildings using the local property tax mechanism to secure the repayment over the useful life of the measures.

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generally safe from such practices. This has led to a principal focus in the PACE industry on C-PACE, even where statutes are broad enough to permit residential, as is the case in New York State for example.[3]

However, even in the commercial sector there remains a significant gap in the marketplace. The existing C-PACE program in the state of New York, administered by EIC, is effectively limited to projects over $500,000, and tends to favor projects of $2+ million. By contrast, the majority of commercial properties belong to small businesses, local nonprofits such schools, churches, medical facilities, multifamily, and farms, and could benefit from upgrades in the $50,000-$500,000 range.

Community PACE addresses this by creating a streamlined program for smaller projects which can be financed at the local level.

This paper addresses the following questions:

- **What could be accomplished by a local (county/municipal) program?**
- **What is the need?**
- **How could the intended results be accomplished?**

Of course, it cannot answer every question, but **we believe it makes a case that this approach is worth trying, in order to address a major source of the community's carbon emissions**.

Typical C-PACE providers are boutique firms representing large insurance companies and pension funds. Using established approaches, C-PACE capital providers can deliver what large commercial property owners want and need—sizable energy efficiency and renewable energy projects—which have the potential to make a very large contribution to emissions reductions, job creation and economic development. C-PACE unlocks immense economic, social, and environmental value.

The current initiative, Community PACE, is intended to have a different structure and focus, while using the C-PACE repayment mechanism through the municipal tax system wherever possible. The integration of PACE with the property tax system is what de-risks the investment from the perspective of the capital provider. This means that the interest can be relatively modest, at low market rates. Commercial PACE makes it possible for commercial property owners and developers to upgrade to clean energy with no upfront costs, with immediate savings on energy, and with significant financial and other benefits.[4]

It is important to recognize moreover that the proposed Community PACE program is not intended or designed to be a high-profit private enterprise. Community PACE, as opposed to Commercial PACE, is an impact initiative, focused primarily on decarbonizing smaller commercial and residential buildings.[5] Of course, such programs need to be self-supporting and socially beneficial, and participating lenders are

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[3] PACE is enabled in NYS by an Act permitting towns and counties to establish Sustainable Energy Loan Programs and does not differentiate residential and commercial properties in the law. One residential PACE program, now called the Long Island Green Homes program, was established in the town of Babylon a number of years ago. Whether it has been successful has not been well documented.

[4] Municipalities like Rochester and counties like Monroe have opted into agreements with EIC PACE, the only C-PACE administrator in NY State at this time. This brief paper presents an alternative approach, applicable virtually anywhere in the nation. There are even instances of local PACE programs being developed without explicit state legislation, simply based on general municipal powers.

[5] "Commercial" includes office, retail, industrial, multifamily of five units and above, agricultural, and nonprofit/institutional such as churches, private schools, and medical facilities.

expected to earn their regular fees for participating in project financing. But if communities (meaning here both the county and the respective municipalities) consider the initiative worthwhile, then **the best way to run such a program may be as an extension of local government services**.

This has multiple benefits:

- **The local government will be seen as providing an additional public service** and may be able to use federal or other funds to establish the loan program(s) (as originally anticipated in the New York State law).
- The local government should require contractors to be registered and approved, with an immediate suspension if there are unresolved complaints from property owners.
- Administration of the program, which is initially expected to be light because projects are often slow to materialize, can be shared with other municipal functions or outsourced to local firms.
- **The application process can be automated, and the types of improvements standardized in order to make the program more streamlined**.

There are other factors to take into consideration as well, and local governments will need to be convinced that the program is worthwhile, effective, and likely to grow over time to cover all of its setup and other costs.[6]

However, with the right strategy, objectives, goals, communications, support and outreach to various stakeholder groups, the market could attract local and regional banks in order to decarbonize a sizable portion of the state's building stock, creating local jobs, economic development, and multiple social benefits. PACE is a remarkable tool. It has the potential to galvanize many of the key stakeholder groups into massive action, with results, appreciation, generosity, recognition, and satisfaction—including environmental justice communities.

Community PACE programs may differ in important ways in different localities. To begin with, each state's PACE enabling legislation is different. The way property taxes, and special assessments, are handled also varies. Guidelines and regulations established by states, municipalities, and programs may differ. Local government funding and accounting requirements may differ, and the local business culture may be more or less receptive.

Our initial focus is New York State, but the principles we are putting forward can be adapted to any jurisdiction, in some cases even ones that do not have state PACE laws.[7]

Community PACE in New York State

In NYS currently only large projects can get funded through New York's existing C-PACE Program. With a minimum project size of ~$400,000, a minimum $10,000 legal fee per project regardless of size, and a 1.5% administrative charge, energy efficiency and renewable energy retrofits using C-PACE are out of reach for small to midsize building owners. The fees become disproportionately high relative to the project itself. Adding to that, national lenders that provide C-PACE financing have begun setting minimums at about $2 million.

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[6] We are also proposing that the initial costs (including legal, technological, and program design costs) be covered by federal funds that are available without impacting existing municipal budgets.

[7] At least one jurisdiction — the City of Atlanta —has created a PACE-like program without the benefit of state legislation. Again, the original PACE program was developed by a municipality (Berkeley) before it was a state law.

That leaves small to mid-sized commercial property owners in places like Rochester and Monroe County, where local banks have yet to even see a C-PACE project, with no ability to access reasonable funding for clean energy projects. Despite incentives, this leaves them with few options in the face of increasing energy costs.

The City of Rochester has about twelve thousand commercial properties, most of them small to mid-sized buildings. Providing access to C-PACE to these owners could generate $100 million a year in additional clean energy investment—with corresponding growth in green jobs and economic development.

It is becoming clear to the financial and real estate sectors that there is no better financial structure than C-PACE for clean energy retrofits, gut/rehab, or new construction.
Across the country, local and regional banks have seen the value of C-PACE for expanding their loan portfolio and products, and for gaining new customers. Especially in jurisdictions where C-PACE projects have already had a track record of success, local financial institutions have begun lending under C-PACE.

There is no reason why C-PACE should be inaccessible to small commercial property owners. NY's C-PACE law, called the Sustainable Energy Loan Program (New York General Municipal Law, Article 5-L, § 119-GG) states:

> ***"The legislative body of any municipal corporation may, by local law, establish a sustainable energy loan program."***

This program may in time include residential, but only once the municipality has established an effective process for handling small commercial projects and NYSERDA has given its approval. The problems that have afflicted R-PACE programs can ultimately be avoided with effective local program management.

Many experienced players in the C-PACE ecosystem share a concern that high fees associated with C-PACE hinder its uptake, and some program administrators have developed streamlined, low-cost solutions that can be adapted for this purpose. FastPACE, offered by the California-based Allectrify, offers an aggregation service for local lenders, with a median project size of around $170,000. PACENation (the national association of PACE programs) as well as professionals, nonprofits, for-profits, and other C-PACE administrators may be available to assist in putting together such an initiative.

*Local nonprofits, including **Possible Rochester**, can assist in organizing **a collaborative effort, researching, educating, filing applications, utilizing, and fulfilling reporting requirements** for these grants.*

Advantages to Monroe County

Monroe County has recently introduced Phase II of its Climate Action Plan, targeting community-wide emissions (as opposed to governmental buildings and operations). Community PACE addresses the built environment, with a focus on a scalable approach to meet the needs of 90-95% of commercial property owners in the county. As others have noted, PACE flips the script on energy efficiency and renewables; and Community PACE flips the script on Commercial PACE so that it can address a much larger segment of the market.

Advantages to Towns (Penfield, Henrietta, Brighton, etc.)

Local municipalities may not have the staff or resources to undertake a stand-alone Community PACE program, but they have immediate access to the local business community. We are proposing a ***public-private collaboration*** with each town, where the Community PACE program would connect with other services that the town provides, including issuing zoning and site plan approvals and building permits for both new construction and alterations. Offering clean energy financing at the point of immediate contact with the property owner is likely to have the greatest likelihood of success.

What would a small-project C-PACE Program in NYS look like?

A small-project program would manage the administration of simple, straight-forward energy efficiency and solar installations. Such a program would be able to administer C-PACE more cost-effectively than national lenders with institutional overhead costs.

In discussions with NYSERDA, we have been told that ***"nothing in the PACE Statute or NYSERDA's program rules prohibits other third-party entities from supporting and marketing C-PACE at the local level.***"[8]

EIC PACE would continue to serve developers of new construction and large building owners using national lenders. These organizations are adept at putting together complex capital stacks with multiple sources of capital.

Starting with Henrietta and Penfield, leaders of the Community PACE initiative have committed to galvanizing support through their Chambers of Commerce and other local professional networks, so that local properties are appropriately and systematically approached to understand and participate in the program.

Property owners who hear about C-PACE benefits through their trusted advisors (local bankers, attorneys, accountants, etc.) are more apt to pursue clean energy upgrades.

Local green teams would target these professionals to inform, answer questions, and help network and connect the dots to ensure that all commercial property owners are aware of what C-PACE could mean for their top and bottom lines and for attracting and retaining commercial tenants whose employees care about the climate.

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[8] Letter available on request.

While some national lenders can be brought in to help catalyze the program, our objective would be to educate local and regional banks to lend to their existing and prospective clients through C-PACE. Again, there is a growing trend across the country for local banks to embrace C-PACE as a new revenue stream and potential for growth. And keeping the investments local also keeps profits local.

An initial revolving loan program can be established using federal or other funds so that fees and interest charges on the early projects will all go back "into the pot" and be available to help expand the program. Such early successes will also encourage local lenders to get involved.

Possible success metrics:

- **% of commercial buildings upgraded.**
- **$ invested.**
- **$ saved.**
- **Tons of reduced CO_2 emissions.**
- **Impacts on disadvantaged communities.**

PACENation has suggested an initial objective of reaching 15% of eligible properties.

Community PACE, Equity, and Environmental Justice

A small-project Community PACE program also has the ability to impact disadvantaged communities, where real-estate values are typically lower, but energy costs are often higher. PACE is unique as a real-estate financing tool that does not rely on the creditworthiness of the property-owner or business-owner. PACE investments are tied to the property via the property-tax mechanism, and thus depend primarily on the anticipated savings and operating revenues that can be projected after the improvements.

Currently C-PACE programs predominantly apply to larger buildings in wealthier districts, and most national PACE investors are looking to fund large projects ($2+ million), meaning that projects in BIPOC and other low-income communities do not even get considered for funding. Community PACE aims to change that, on a locality-by-locality basis.

A Note on Public-Private-Nonprofit Partnerships

Many agencies form partnerships with nonprofits for a variety of purposes, including infrastructure projects, social service delivery, community engagement, strategic planning, and so on. With Community PACE, both the municipality and the nonprofit benefit, and so does the community.

Byte bridge writes:

> The majority of these are strategic partnerships, whereby the nonprofit will assist the public agency in developing and **implementing strategic plans** for a given goal or objective.
>
> These relationships exist because public agencies often require the unique expertise of private-sector enterprises in order to carry out a project efficiently and effectively.[9]

[9] https://brytebridge.com/what-is-a-public-private-partnership-for-a-nonprofit/

Our Ask of Municipalities and of Monroe County

We need to level the playing field between large and small businesses, enabling small to mid-size businesses— the majority of our commercial sector—to be able to cost-effectively access C-PACE financing to lower their costs and their carbon footprints.

Allow us to work with your organization to explore the possibility of accessing federal or state funds for the purpose of developing a small-project C-PACE program in Monroe County.

The benefits to the public: jobs, economic development, reduced carbon pollution and damage to our health, and a more competitive building stock in the face of rising prices and climate change.

The Community PACE Team

For more information please contact: Jonathan Cloud, Executive Director, 908-581-8418 (cell) or
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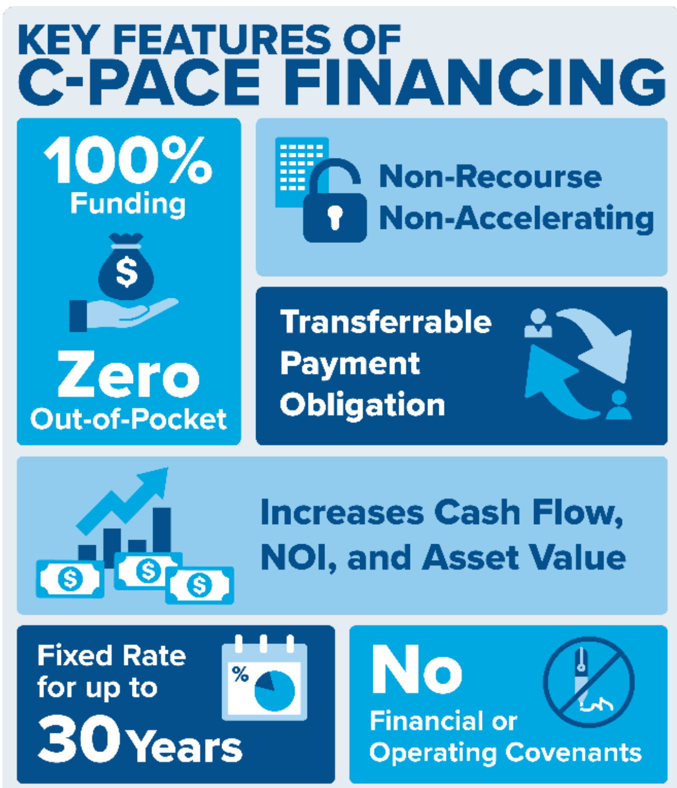

Financing Scenarios Comparison Summary

	Self-Funded	Conventional Loan	PACE Financing
Debt Financing	$0	$4,000,000	$5,000,000
Out-of-Pocket Equity Investment	$5,000,000	$1,000,000	$0
Energy Savings (First Year)	$537,415	$537,415	$537,415
Annual Debt Service Payment	$0	$898,508	$446,241
Free Cash Flow Impact Year 1	$4,462,585	$1,361,093	$91,174
Capitalization Rate	7.00%	7.00%	7.00%
Value to Property Owners (FCF/Cap Rate, if positive)	$0	$0	$1,302,483
Years to Positive Project Cash Flow	9.1 Years	10 Years	Immediately
Cost of Capital (Assume Equity Costs @ 20%)	20.00%	7.20%	6.29%

Overview of the Community PACE Ecosystem