

Options for PACE Financing Alternatives



Welcome and Introductions

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PACE Financing Options

- Bond Financing
 - Tax-Exempt Bonds
 - Local PACE enabling legislation
 - PACE district/authority issues the bonds, loans proceeds to property owner
 - Bonds repaid through special assessment on property
 - First priority tax lien, remains on property
 - Florida's Evest Program through the Florida PACE Funding Agency

PACE Financing Options

- Bond Financing
 - Private Activity Bonds
 - May be tax-exempt
 - Issued on behalf of a private entity to finance a project (must be specifically listed in the Internal Revenue Code to be tax-exempt)
 - Usually used together with other forms of financing – through private capital to bridge a funding gap as long as (i) the energy improvement does not qualify for federal tax incentives, or (ii) if non-LIHTC federal tax incentives are applicable, the industrial development bonds are not tax-exempt
 - Far Southeast Family Strengthening Collaborative, Inc. project through Washington, D.C.'s DC PACE and Urban Ingenuity program

PACE Financing Options

- Municipal Leases
 - Borrow money using a financing lease structure to pay for long-term assets.
 - Municipal entity acquires an asset through an installment purchase or financing lease structure
 - Municipal entity pays “rent” over time; has an option to purchase the asset for a nominal amount at the end of the lease term
 - Rent payments are treated as loan payments, with the interest component of those payments being tax-exempt to the lessor of the asset.
 - Can be more flexible than traditional bonds
 - Asset ownership and tax credit allocation issues
 - Third Party Ownership structure possibility

PACE Financing Options

- Using PACE with Low-Income Housing Tax Credit projects
 - PACE bonds subject to state volume cap – must apply to state volume cap program and be awarded credits
 - Often multiple financing pieces – PACE used alongside bonds, equity, grants, etc.
- Areas of concern for public housing authorities in the context of PACE financing include:
 - Education efforts of structure
 - HUD approval of the structure (including subordination to HUD's regulatory agreements)
 - Sufficient project funds to pay the assessment

PACE and HUD-Assisted Housing

HUD Multifamily Programs

- 2015 Pilot Program in California
- 2017 Pilot Expanded Nationwide
- Housing Notice 2017-01 (January 11, 2017),
Administrative Guidance for Multifamily Property
Assessed Clean Energy (PACE)

PACE and HUD-Assisted Housing

PACE Notice Applies To:

- Project-based rental assistance contracts under Sections 8, 101, 202, 236 and 811
- HUD-insured mortgages under Sections 207, 213, 220, 221(d)(3), 221(d)(4), 223, 231, 236, and 241
- HUD-held mortgages under Sections 202 and 811
- Section 542 Risk Sharing Program

PACE and HUD-Assisted Housing

Assessment Procedures

Owner submits letter from locality to HUD confirming the following:

- PACE special assessment will be assessed by state or local government pursuant to state law and sent with tax bills
- Payments are collected with tax bills
- At any given time the only obligation is the semi-annual/annual payment(s) then or past due and payable, with no acceleration of the entire assessment amount
- In event of default on payment, lender receives timely notice and a reasonable opportunity to cure non-payment
- An opinion from state's attorney general that obligations are special assessments and treated in similar matter as real estate taxes

If letter not possible, attorney's opinion confirming the 1st four elements and detailing owner's efforts to obtain letter will be accepted for review

PACE and HUD-Assisted Housing

Approval Conditions

- Compliance with all business agreements
- Property not located in Special Flood Hazard Area or located in a wetland
- 60+ REAC score and satisfactory MOR
- (1) Energy audit in compliance with ASHRAE Level II completed within last 3 years, (2) recent, verified benchmarking score of 75+ from EPA's Portfolio Manager, or (3) property has >20 units
- Written consent of lender(s)
- Savings to investment ratio of one or greater, as determined by the energy audit
- Shortfalls in first year may be funded by residual receipts or reserve for replacement funds, so long as use of those funds meet all programmatic requirements

PACE and HUD-Assisted Housing

Approval Conditions

- The energy and water saving measures proposed for the project must be permanently fixed to the property (i.e. the PACE improvements cannot be removed from the property in the event of a change of ownership)
- Special assessment's term must not exceed the weighted average expected useful life of the measures as determined by the energy audit
- The owner must have provided the PACE program a copy of their market assessment letter establishing comparable sales value, etc. or an appraisal
- The owner must contractually agree to provide the lender and HUD with a variety of post assessment information from time to time such as mortgage and assessment amounts; benchmarking data utilizing EPA Portfolio Manager; and prompt notice of a PACE special assessment delinquency

PACE and HUD-Assisted Housing

Approval Conditions

Projects with HUD-insured or -held debt

- Maximum total property debt, when added to the PACE special assessment, must not exceed 85% to 90% (depending on the section of the National Housing Act) of the property's value, or 83.3% to 90% (depending on the section of the Act) for HUD assisted and subsidized properties, as currently appraised or assessed
- The owner may submit a current appraisal or market assessment (e.g. a rent comparability study) to address this condition
- HUD may require the owner to submit a market assessment of comparable sales if this condition comes into question
- The cost of procuring the assessment is a project expense

PACE and HUD-Assisted Housing

Approval Process

- Locality's PACE program must receive HUD approval before owner can submit request
- For projects with HUD-insured debt, owner submits request to lender. Lender must agree to be responsible for reviewing the submission materials for approval. Once lender agrees and approves materials, it will issue conditional approval, contingent on HUD review and approval. Owner will then submit request to HUD Account Executive for review
- For projects with HUD-held debt or rental assistance contract only, owner submits request to HUD Account Executive for review

PACE and HUD-Assisted Housing

Approval Process

Submission requirements

- Cover letter addressing each of the Approval Conditions
- PACE locality Approval letter
- All PACE agreements, unexecuted
- Lender Conditional Approval (if applicable)
- Energy audit
- Energy audit analysis indicating projected annual savings of energy/water
- Market assessment letter of comparable sales or appraisal
- Owner's counsel opinion or letter from or on behalf of locality that provides assurances of compliance with Assessment Procedures

PACE and HUD-Assisted Housing

Approval Conditions

Projects with PBRA or PRAC

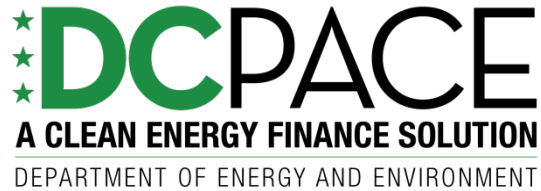
- In budget year after initial PACE assessment, PACE special assessments cannot be included in Section 6700: Taxes and Insurance line items of the budget worksheet HUD Form 92547
- Second and subsequent year budgets must reflect achieved first year savings and utility allowances should be adjusted to reflect actual savings

PACE and HUD-Assisted Housing

Considerations for Mixed-Finance and RAD Transactions

- Additional HUD approvals
- Subordination to HUD Declaration or Use Agreement
- Source of funds with which to pay special assessment

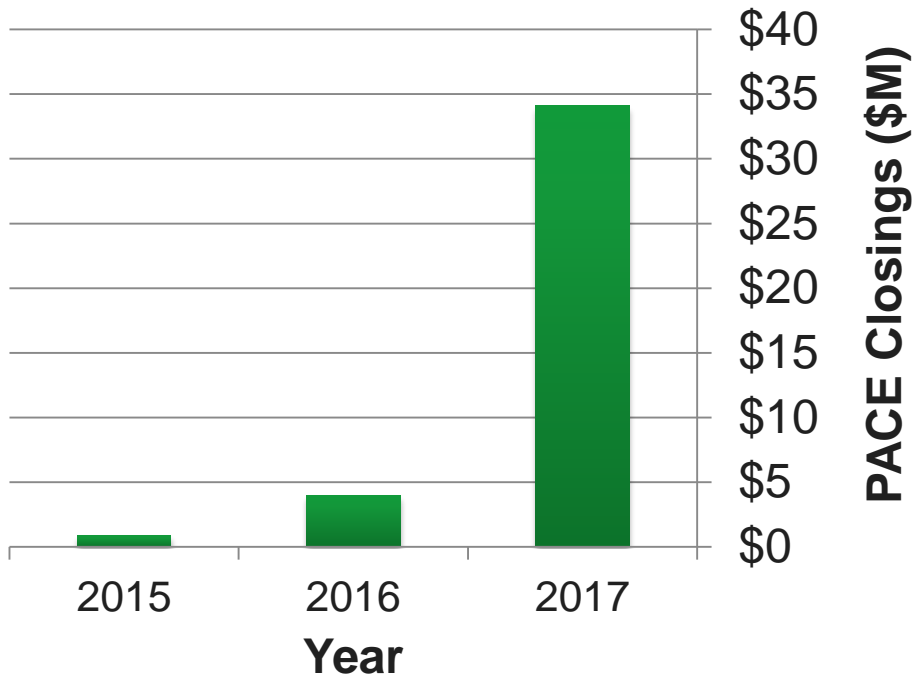
DC: Innovations in Energy Finance



DC PACE is the District's only clean energy financing program for building upgrades.

Urban Ingenuity is the DC PACE program administrator, under contract to DOEE

DC PACE Market Growth



Milestones & Building Blocks:

- *First PACE for LIHTC*
- *First HUD approval of PACE*
- *First tax-exempt PACE*
- ✓ Tax Exempt "Civic PACE"
- ✓ Low Income Solar Platform
- ✓ Microgrid Project Support

PACE in the Capital Stack: *Case Study*

Uses	
Hard Costs	\$30,000,000
Soft Costs	\$3,000,000
Total Costs	\$33,000,000

Sources	
Equity	\$4,000,000
Debt	\$27,000,000
Total Sources	\$31,000,000
Gap	\$2,000,000

Options for addressing a \$2M gap...

1. **Do Nothing:** *Project stalls or dies*
2. **Owner's Equity:** *High opportunity costs*
3. **Value Engineering:** *Lock in high operating costs*
4. **PACE:** *Increase NOI & Displace equity*



PACE in the Capital Stack: *Increasing NOI*

Project Basics

Gap filled	\$2,000,000
+ 350 kW solar	\$1,000,000
Total PACE =	\$3,000,000

**PACE improves project
& property value**

Average Annual Cash Flow	
Utility Savings	\$110,000
O&M Savings	\$80,000
Solar (Energy + RECs)	\$120,000
Total Savings	\$310,000
PACE Payments	-\$240,000
Net Cash Flow	\$70,000

***\$190K in annual savings offsets debt service for \$2M+ in PACE
Self financing \$1M more in solar PV further improves cash flow***

PACE in the Capital Stack: *Case Study*

Uses	
Hard Costs	\$30,00,000
Soft Costs	\$3,000,000
Solar	\$1,000,000
Total Costs	\$34,000,000

Sources	
Equity	\$4,000,000
Debt	\$27,000,000
PACE	\$3,000,000
Total Sources	\$34,000,000

Options for addressing a \$2M gap...

1. **Do Nothing:** *Project stalls or dies*
2. **Owner's Equity:** *High opportunity costs*
3. **Value Engineering:** *Lock in high operating costs*
4. **PACE:** *Increase NOI & Displace equity*



PACE in the Capital Stack: *Displacing Equity*

	Self-Funded	PACE
Investment by Property Owner	\$3,000,000	\$0.00
Annual Benefits	\$310,000	\$310,000
Annual PACE Payment	\$0.00	\$(240,000)
Net Benefit Year 1	\$(2,690,000)	\$70,000
Annual Net Benefit Years 2-20	\$310,000	\$70,000
5-year NPV of Cash Flows (@ 6% discount rate)	\$(1,524,000)	\$295,000
10-year NPV of Cash Flows (@ 6% discount rate)	\$(549,000)	\$515,000
5-year IRR	-19%	Infinite
10-year IRR	1%	Infinite

PACE is a valuable tool for development projects!

Tax Exempt PACE for Non-Profits

Far Southeast Family Strengthening Collaborative

- ✓ Gap finance for new HQ of a local non-profit
- ✓ Build the better building without increased equity
- ✓ Lower op-ex over time



Sources & Uses	
IRB (tax-exempt)	\$6,000,000
IRB (taxable)	\$2,000,000
Local Govt. Grant	\$3,000,000
Financing Gap	\$3,000,000
Project Cost	\$14,000,000

\$2.9 M savings above code over 20 years qualified the property for \$2 M+ in PACE

PACE Financing	
Tax-Exempt PACE	\$1,500,000
Taxable PACE	\$500,000
Total PACE	\$2,000,000

PACE for LIHTC Gap Finance

Phyllis Wheatley YWCA

- ✓ Address Cost Increases
- ✓ Avoid Value Engineering
- ✓ Blend PACE w/9 Sources
- ✓ Solar, Water, LED, HVAC



PACE + Solar Tax Equity

	Year 1	PACE Term
Utility savings	\$63,300	\$1,023,000
PACE Payments	-\$61,300	-\$919,000
Net Cash Flow	\$2,000	\$104,000

	Year 1	PACE Term
SREC Revenue	\$22,800	\$123,000
ITC	\$47,800	\$47,800
Depreciation	\$9,500	\$47,500
Total Revenue	\$80,100	\$218,300
Equity Contribution	-\$65,000	-\$65,000
Net Cash Flow	\$15,100	\$153,300

- **New capital source funded with savings**
- **Improved project returns w/37 kw solar**
- **Net savings = lower rent for tenants**

Thank you!

CivicPACE



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Questions?

Follow-up to today's presentation will be posted on our blog *Housing Plus* at www.housingplusblog.com.

A copy of these slides and a recording of the presentation will be available at www.ballardspahr.com/PACEwebinar.

Please join us in Washington, D.C., for our 12th Annual National Housing Symposium on Friday, November 3

Contacts

Thank you for your time!

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