

Ann Arbor PACE Program

Introduction to City Council

September 6, 2011



Overview of PACE

- Property Assessed Clean Energy
- Allows local governments
 - establish Energy Financing District
 - raise capital
 - Voluntary assessments on property for energy efficiency/renewable energy improvements
 - lien on property secures repayment through special assessment mechanism and lowers interest rate

Special Assessments

- First one 1736 – Benjamin Franklin
 - opt in fire fighting service
- Based upon long history of municipal use of assessments for improvements in the public interest
 - septic replacements, footing drain disconnects, seismic improvements, sidewalks

PACE Projects Serve a Public Purpose

- Economic development
- Jobs
- Reduces energy use
- Maintains property values
- Controls energy costs
- Greenhouse gas reductions

PACE Programs Across the Country

Operating Programs

- Berkley CA
- Fresno CA
- Palm Desert
- San Diego County
- San Francisco CA
- Sonoma Co., CA
- Tulare, CA
- Riverside County
- Boulder Co, Colorado
- Annapolis, MD
- Montgomery County, MD
- Town of Babylon, NY
- Maine
- Vermont

Developing or Considering

- Ann Arbor, MI
- Cleveland, OH
- Oakland Co, MI
- Sterling Heights, MI
- Highland Park, MI
- Minneapolis, MN

Why is PACE Attractive?

- Addresses main issue with energy efficiency improvements or renewable energy installations
 - lack of attractive financing
 - PACE mechanism provides another mechanism to finance energy improvements *and*
 - improves the security of the financing (lower interest rate) by using a voluntary special assessment on the improved property
 - allows for longer repayment term
 - may transfer with property allows future owners who receive benefit to continue the investment

Business Case for PACE

- Serves a public good
- Creates jobs
- Keeps money in the local economy
- Supports economic development
- Increases/maintains property values
- Provides attractive financing – not offered by other sources
- Reduces operating costs
- Facilitates move toward energy efficiency

Estimated Ann Arbor Potential

- 31,253,006 sq.ft. commercial floor area
- 1,694 commercial parcels (Parcel Class 201)
- \$130 million spent on building energy per year -- it all leaves the community
- By increasing energy efficiency 20%
 - \$26 million circulating in local economy per year
 - 9 million ccf per year saved
 - 164 million kWh per year saved or 39 Barton Dams!

Boulder Co. PACE Economic Results

- 598 projects, \$9.0 million project spending
- Total costs \$13 M
- In Boulder County
 - 85 short term jobs
 - \$5 M in earning
 - \$14 M in economic activity
- Colorado but outside county
 - 41 short term jobs
 - \$2 M in additional earnings
 - \$6 M in economic activity
- Participants saved \$125,000 in utilities – first year
- Other home owners improved their properties but used different financing, e.g. leased solar panels, used equity line financing

MI PACE – Act 270 of PA 2010

- Allows local governments to establish energy financing districts
- Commercial and industrial properties eligible
- Energy efficiency improvements
- Renewable energy systems
- Provides for Financing Mechanisms
- Voluntary property assessments
- NOT a general obligation of local government

Financing Mechanisms

- Local unit of government may issue bonds or notes
 - shall not be general obligations; secured by 1 or more
 - payments of assessment on benefited property
 - reserves established from grants, bonds, notes or other
 - municipal bond insurance, liens or letters of credit, public or private guaranties, standby bond purchase agreements, collateral assignments, mortgages, and any other available means of providing credit support or liquidity, including section 315 of the Municipal Finance Act
 - tax increment revenues
 - any other amounts lawfully available

MI PACE – Act 270 of PA 2010

- Lien holds same priority and status as other property tax and assessment liens
- Consent of mortgage holder
- Assurances within act
 - term of assessment not to exceed useful life of project
 - appropriate ratio-assessment to property value
 - baseline energy analysis
 - projects > \$250,000 have special requirements
 - contractor must guarantee performance
 - savings to Investment ratio greater than 1
 - reimburses owner for any shortfall in energy savings

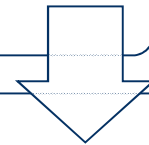
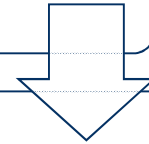
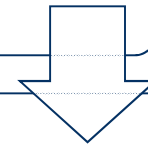
Establish a PACE Program

Resolution of intent

Public hearing

Resolution to establish

PACE program



Resolution of Intent

- Finding that financing of energy projects is a valid public purpose
- Statement of intent to provide funds for energy projects
- Description of the proposed financing program
- Types of energy projects that may be financed
- Reference to a report on the proposed PACE program
- Time and place for a public hearing

Report Requirements

- A complete description of the operation of the program
 - contract between government and property owner
 - identification of authorized official
 - maximum aggregate annual amount
 - application process and eligibility requirements
 - explanation of assessments and collection
 - plan for raising capital
 - provisions for adequate debt service reserve fund

Report Requirements

- Provisions for marketing and education
- Written consent from mortgage holder – form
- Program fees
- Quality assurance and antifraud measures
- Appropriate ratio of assessment to assessed value
- Baseline energy audit
- Conditions for >\$250,000
- Define Energy District boundaries

Public Hearing Requirements

- Public hearing is noticed
- Report is available for public review
- Hold public hearing

Resolution to Establish

- Council may pass resolution to establish at hearing meeting or hold until next meeting
 - sets forth terms and conditions, may incorporate the report or an amended version by reference
 - description of which aspects of program may be amended without a new public hearing and which may be amended only after new public hearing
- PACE may only be amended by resolution of the governing body

Implement!

Ann Arbor's Introduced Program

Funding

- Using EECBG funds to create a loan loss reserve
 - enhances security to lender
 - acts as a buffer to continue payments to the lender in the event an assessment is paid late or in default
- Required Federal conditions
 - AA has no legal or financial obligation beyond the funds committed to reserve, not subject to further recourse of losses exceed the reserve
 - AA not required to replenish or replace lost amounts
 - AA duty to utilize prudent lending practices

Funding

- AA plans to sell bonds using the projects and the loan loss reserve as security
- Estimated to leverage loan loss reserve 10 to 1
 - approximately \$4 million for Phase 1 funding
- Report states opportunity for next phases of funding, if demand exists
 - not to exceed \$10 million in any year
 - using means allowable under Act

Program Fees

- Application Fee (\$554)
 - review fee
 - technical review, information, approval and project tracking, \$300 for phase 1 funding
 - title search fee
 - verify ownership and existing liens, ~ \$230 for Phase 1
 - recording fee
 - set by state, \$14 for first page, \$3 after - estimate 4 pgs \$24
- Annual administration fee
 - \$15 per year – labor, postage, paper
- Building permits, inspection fees
 - paid to AA at the time of permit application

Eligibility

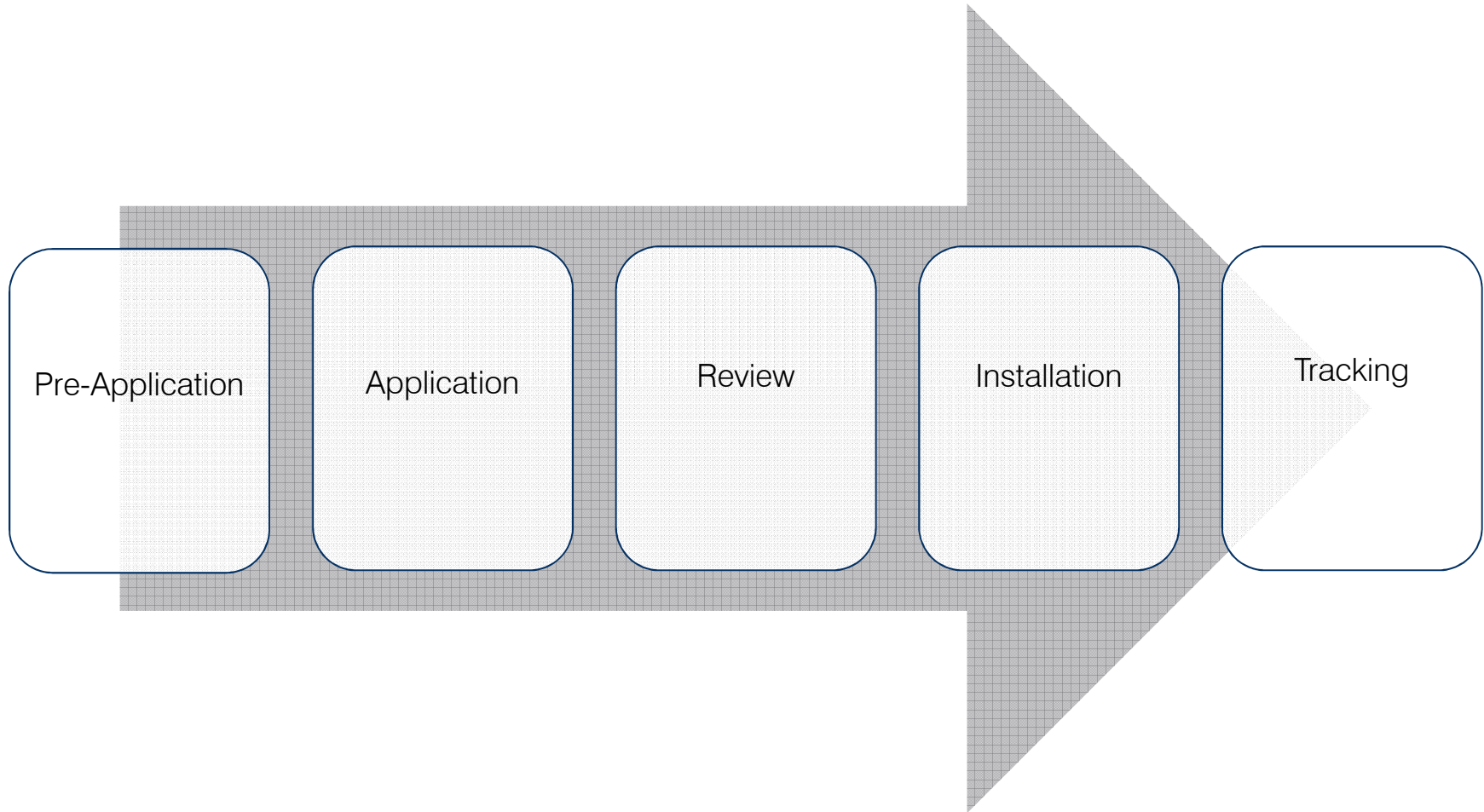
Properties

- Commercial (aligned with building code) and Industrial
- Developed and within AA limits
- Title vested in applicants
- No involuntary liens
- Current on property taxes, mortgages, utilities
- Not in bankruptcy
- Improvements < 20% SEV
- Lien to Value < 99% of 2xSEV

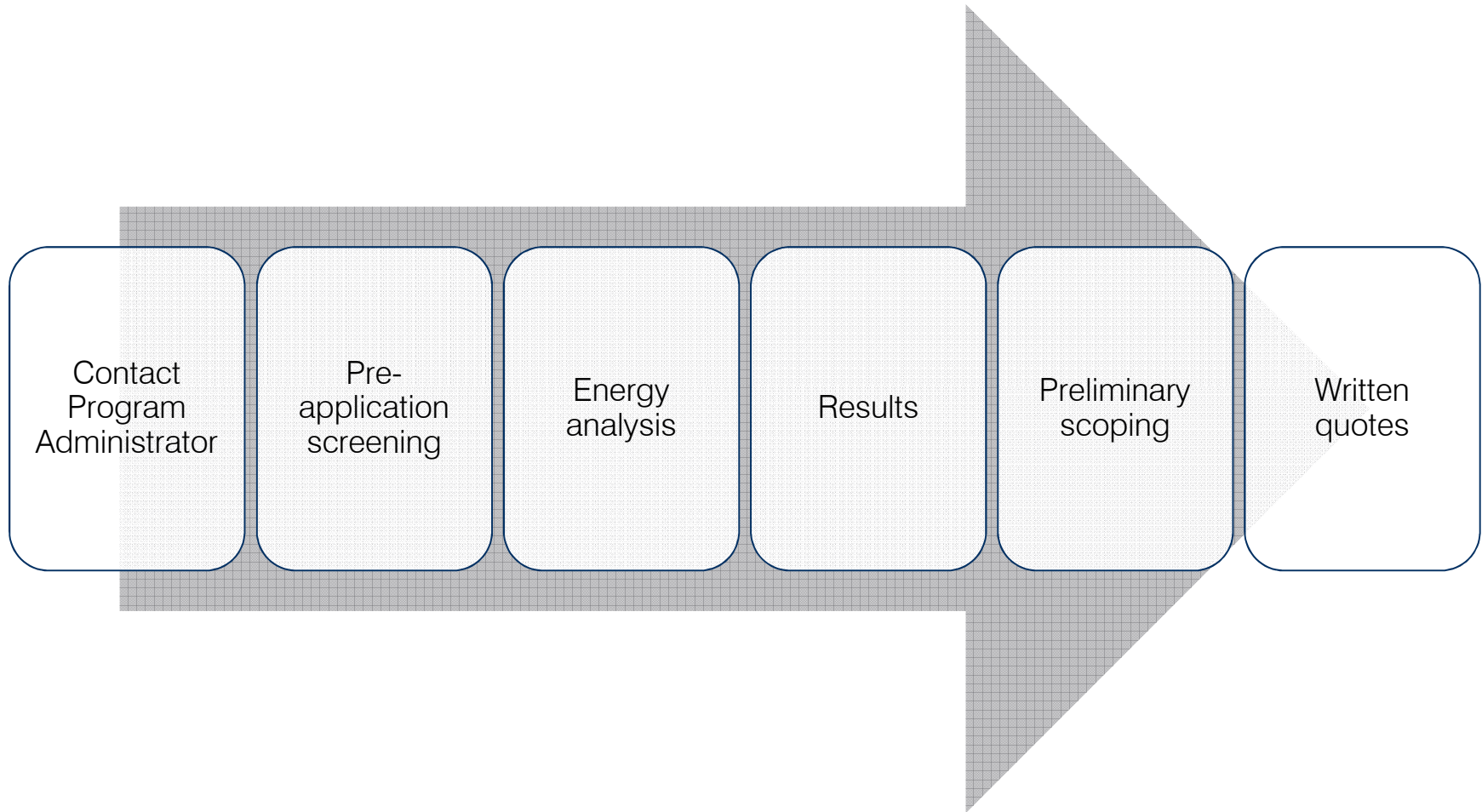
Projects

- \$10,000 - \$350,000
- Energy analyses
- Insulation, weather sealing
- Lighting
- Heat, AC and ventilation
- Energy Star appliances
- Doors & windows
- Cool roofs
- Solar PV/thermal/water
- Geothermal
- Combined heat and power systems
- Biomass thermal

PACE Program



Pre-Application



Pre-Application Screening

- Step added to ensure no false starts
- Looking for
 - Projects less than minimum of \$10,000
 - Projects likely to exceed \$250,000
 - Projects where maximum assessment amount is much less than maximum potential energy project (allows use of limited energy analysis)
 - Properties where lien to value is greater than 99%
- First consultation with mortgage holder regarding likelihood of lender consent and agreement

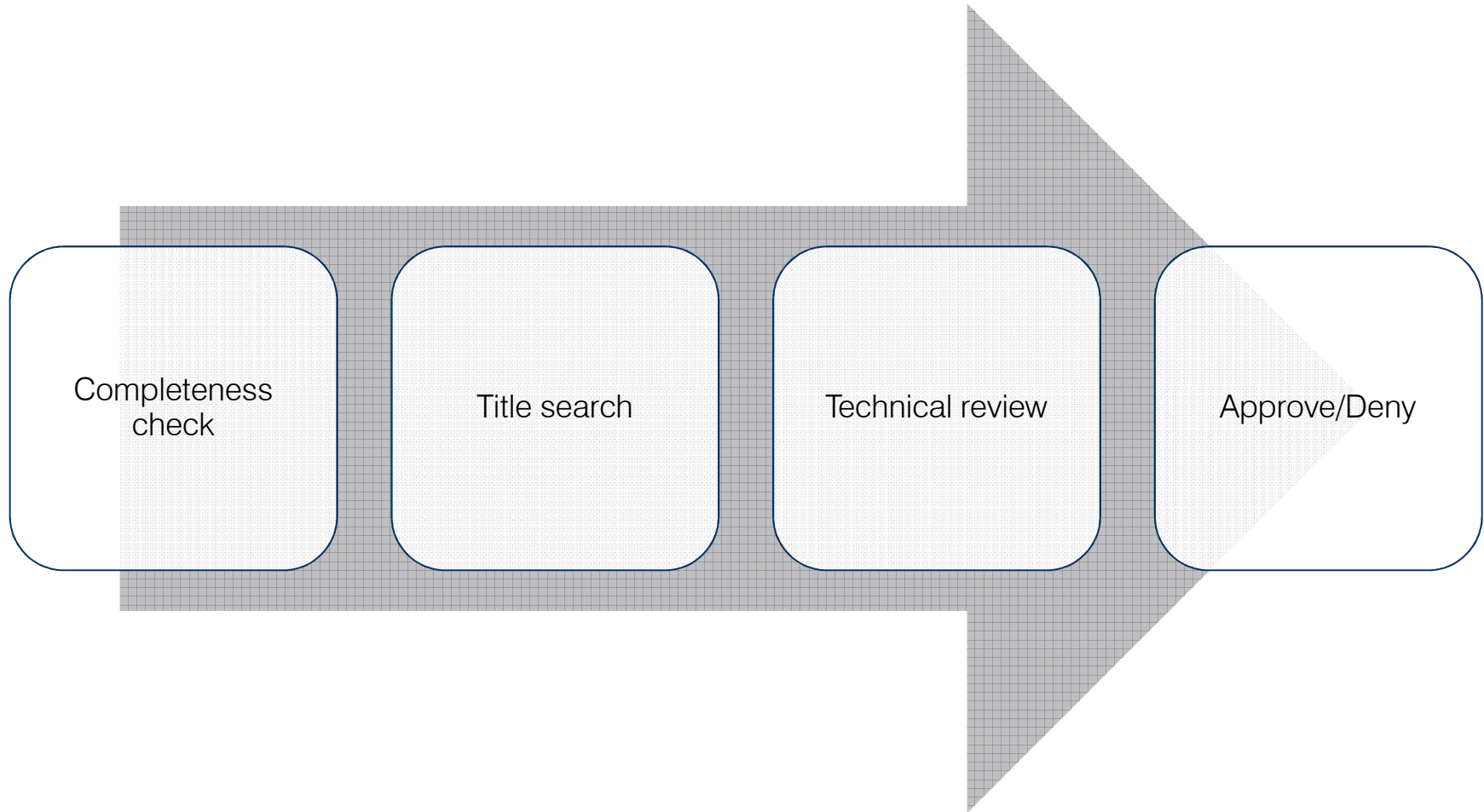
Energy Analysis Required

- Unless have an Energy Analysis that
 - Was performed under AA Downtown Development Authority's energy efficiency program OR
 - Meets ASHRAE Level II or III and is less than 3 yrs. old
- Must perform Energy Analysis meeting standards
 - Rebuild Michigan, Technical Energy Analysis Guidelines, with modifications and clarifications
 - ASHRAE Level II or Level III Audit

Energy Auditors

- Critical component
- Auditors will be pre-qualified
- Plan to have 2 – 4 pre-qualified auditors

Review



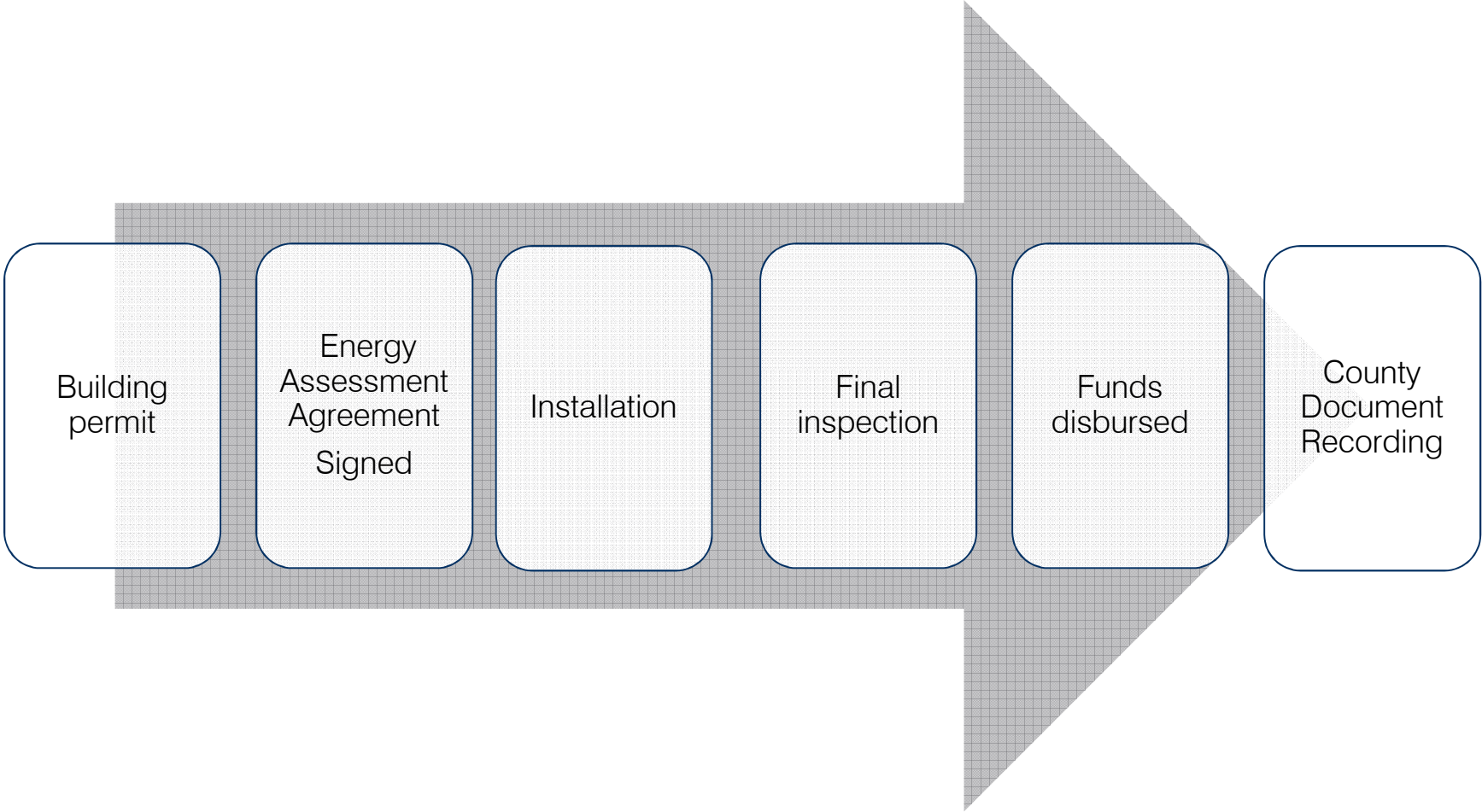
Review – Title Search

- The property owner(s) own the property with no federal or state income tax liens, judgment liens or similar involuntary liens on the property
- The property is within the City's jurisdictional boundaries
- Property owner is current on property taxes
- Property owner is current on mortgage
- Property owner is current on water and sewage utilities
- Property owner is not in bankruptcy and the property is not an asset in a bankruptcy proceeding
- Improvements should not exceed 20% of the State Equalized Value before energy improvements
- Loan to value of property cannot exceed 99% of two times the State Equalized Value

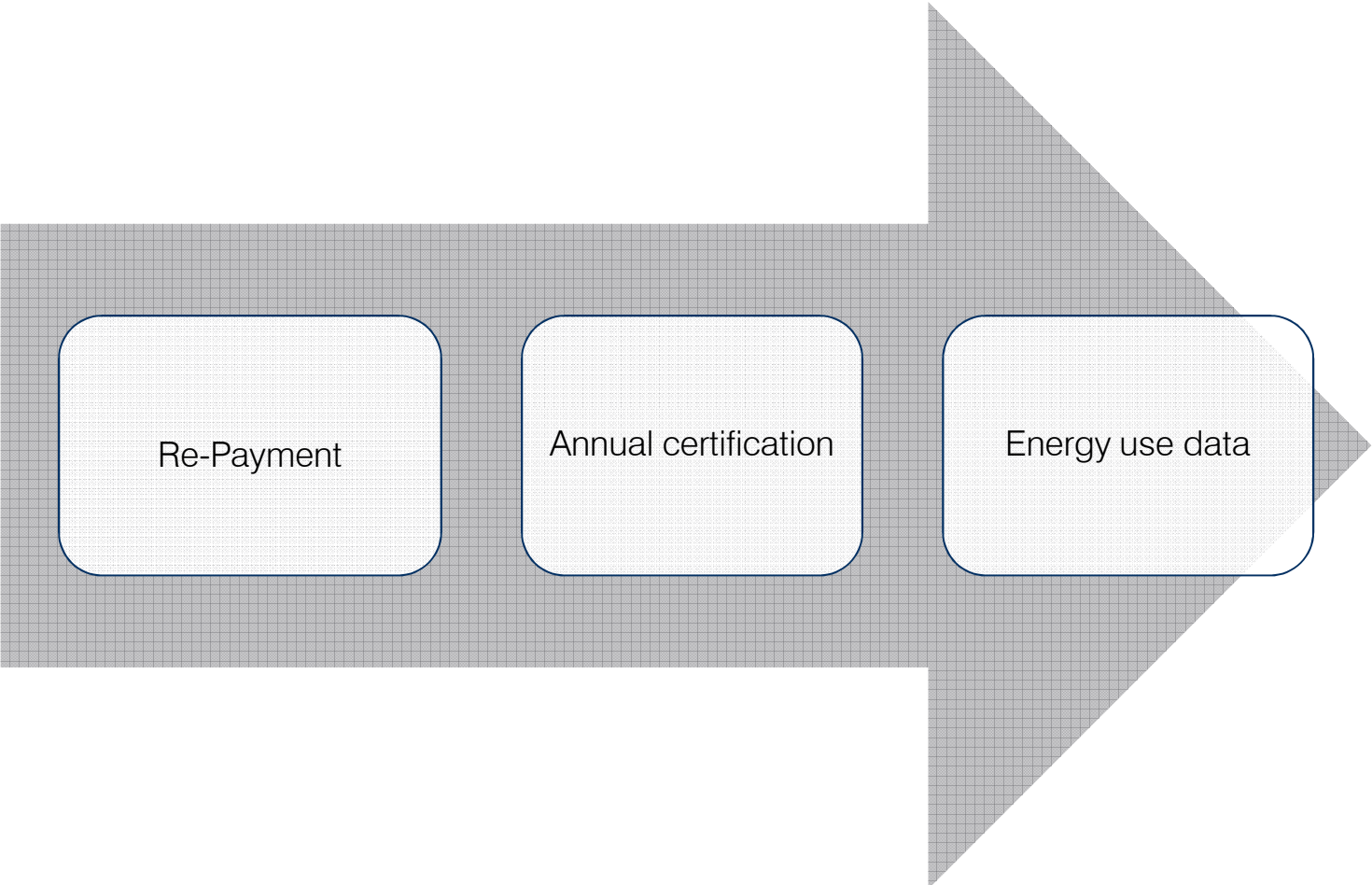
Review – Technical

- Projects requested are eligible for Phase I funds
- Expected savings to investment ratio is greater than one (over time)
- The length of the assessment period does not exceed the life of the equipment or 10 years, whichever is less
- The energy efficiency of the building is improved before implementing renewable energy systems
- Proposed improvements and costs are eligible to be financed under the program and are within the range of \$10,000 - \$350,000
- Savings are realistic
- Amount of financing is equal to, or less than, project costs and that project costs included are eligible
- Funding is available
- Fees remitted are correct

Installation



Tracking



Re-Payment

Annual certification

Energy use data

Outreach Prior to Introduction

- Extensive stakeholder input after first draft report
 - June 17
 - includes local banks (hold many commercial mortgages), HVAC firms, local USGBC, property managers, etc.
- Meeting with banking group
- Meeting with property managers
- Meeting with title company
- Meeting with organizations
 - DDA, Chamber of Commerce, Washtenaw contractors