

Commercial PACE Financing: Facts & Benefits

What is Commercial PACE Financing?

Property Assessed Clean Energy (PACE) is a financing program, supported by state and local governments, designed to expand renewable energy and energy efficiency technology adoption. Commercial PACE programs help property owners cover the upfront costs associated with the technologies installed during building retrofits that help make the building's operations more environmentally sustainable. Property owners pay back PACE funds over a set period of time, typically 20 years, as a line item on their property tax bill. Eligible PACE retrofits to reduce building energy costs, such as energy efficient lighting and HVAC system, or onsite solar energy installations, can provide a net gain to the property owners despite any increase property taxes.¹ The key feature of a PACE program is that the debt associated with PACE financing remains with the property should ownership change before the debt is fully repaid. This stable repayment allows for energy-related projects that have longer payback periods that would otherwise not meet commercial payback requirements for capital improvements.



Solar installation financed through commercial PACE
Source: Connecticut Property Assessed Clean Energy

How do Commercial PACE Programs Work?

Commercial properties are typically defined as office buildings, condominiums, shopping centers, and warehouses. Local governments require state-level authorization before implementing PACE programs. Commercial PACE financing legislation varies between states and local program requirements can vary between projects, therefore eligibility can only be determined on an individual project basis. However, there are several general characteristics common to most Commercial PACE programs. The Federal Housing Finance Agency (FHFA) raised concern over the potential for PACE programs to interfere with the order of liens placed on a property; however, these issues are specific to residential PACE financing and do not significantly impact commercial PACE financing beyond a requirement that mortgage holders and mortgage lenders provide written consent and approval for a property to participate.² Older commercial PACE programs relied entirely on local government capital and credit, while more recent programs use private capital and federal grants to help reduce financing costs.³ Typically, local governments arrange for revenue bonding that either pools multiple PACE projects together or funds sizeable, individual projects. As an alternative to local government financing, property owners may personally arrange for private financing, which is later securitized through the property tax assessment process.⁴

What are the Benefits?

The benefits^{5,6} of Commercial PACE programs center mostly on reducing costs for program stakeholders:

- 1) Administrative Costs – Governments can support local energy efficiency and renewable energy adoption at little cost
- 2) Financing Costs – PACE can allow property owners to secure capital at lower cost than in traditional capital markets
- 3) Enhanced Payback – Cheaper capital allows property owners to pursue projects with a range of payback periods
- 4) Energy Costs – PACE financed retrofits reduce operating costs for businesses, supporting local economic vitality
- 5) Property Value – Energy efficient properties increase the value of the local building stock

Examples of Commercial PACE Programs

Currently, 27 states and the District of Columbia allow for Commercial PACE programs, though only a few have active programs.⁷ In the states that allow for Commercial PACE programs, they can be implemented on the local or state level:

Connecticut

In June 2012, Connecticut became the first state to pass a statewide Commercial PACE program. The state's program, known as C-PACE, is managed by Connecticut's Clean Energy Finance and Investment Authority (CEFIA) which also issues the bonds.⁸ Connecticut created a statewide PACE program for two main reasons. First, the state has 169 municipalities, therefore a state-wide program provides the ability to aggregate projects across a greater territory. Second, the program allows CEFIA and Connecticut's Commissioner of Energy and Environmental Protection to work closely with the Banking Commissioner, the Bankers Association, and individual banks across the entire state in order to assure support from the banking community in the implementation of the program as banks are often averse to unfamiliar financing practices.⁹

Los Angeles County, CA

In 2011, Los Angeles County started a Commercial PACE program, LA PACE, with the stated purpose of enhancing property values, lowering greenhouse gas emissions, and creating local jobs, in addition to supporting on-site energy-efficiency, renewable energy, and water-saving improvements.¹⁰ LA PACE follows the traditional commercial PACE model as far as eligibility requirements, but also includes an "open market" approach to financing. This means that property owners interested in the PACE program can negotiate the terms of their specific project with a PACE investor of their choosing and their mortgage lender.¹¹

Washington, D.C.

In 2011, the District of Columbia began its commercial PACE program, called DC PACE. The program was established by the Energy Efficiency Financing Act of 2010, with the goal of job creation and economic development, increased energy security, and the reduction of greenhouse gas emissions in the metropolitan region.¹² The program is run by the District Department of the Environment and allows for commercial and, importantly, tax-exempt properties to apply for financing.¹³ In June 2013, the District announced DC PACE will provide financing for a \$340,000 investment in an affordable multifamily housing complex. The financing will support energy efficiency improvements to the property, including a solar installation. The tax credits and energy savings from these investments will generate \$40,000 of annual revenue to the property owner.¹⁴

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¹ http://votesolar.org/wp-content/uploads/2009/06/PACE_FAQGeneral1.pdf

² http://www1.eere.energy.gov/wip/pdfs/commercial_pace_primer_revised.pdf

³ <http://eetd.lbl.gov/ea/ems/reports/pace-pb-032311.pdf>

⁴ http://www1.eere.energy.gov/wip/pdfs/commercial_pace_primer_revised.pdf

⁵ Ibid.

⁶ <http://pacenow.org/about-pace/commercial-pace-programs/>

⁷ <http://www.aia.org/advocacy/state/AIAB097755>

⁸ <http://www.c-pace.com/site/page/view/about>

⁹ <http://www.forbes.com/sites/justingerdes/2012/06/28/connecticut-to-launch-nations-first-statewide-commercial-pace-program/>

¹⁰ <http://lapace.org/about.html>

¹¹ <http://energy.gov/savings/los-angeles-county-commercial-pace-california>

¹² <http://green.dc.gov/service/dc-pace-commercial>

¹³ <http://www.dcpac.com/home/about>

¹⁴ <http://www.greentechmedia.com/articles/read/washington-dc-signs-its-first-major-pace-deal-for-efficiency-and-solar>