

PACE Program Overview



THE Energy Alliance Group OF MICHIGAN



Lean & Green Michigan Property Assessed Clean Energy (PACE) Financing Program

What is PACE?

PACE is a Michigan public act and a new and innovative way for industrial, commercial, non-profit and multi-family property owners to finance 100% of the costs for energy efficiency upgrades, on-site renewable energy projects and water conservation measures.

PACE allows qualified property owners to finance projects using long-term loans that are repaid through a voluntary property tax assessment facilitated by the local government. Assuming all eligibility requirements are met, **PACE** can also be used to refinance existing energy efficiency upgrade projects.

This tax assessment is a senior lien secured by the property and it “runs with the land” – meaning that upon the sale of the property, the subsequent owner is responsible for continuing the repayments. The costs of the upgrades are spread over the life of the project which is generally between 15 and 20 years.

This innovative method of project financing eliminates the need for up-front capital and, for the vast majority of projects, provide property owners with immediate and steady cash flow. If desired by the property owner, a PACE loan can be considered “off-balance-sheet”. These projects lower monthly operating expenses, increase property values and often create a more comfortable work environment.

Benefits of PACE

PACE financing removes typical barriers to the adoption of energy efficiency measures.

- **PACE** is non-recourse
- 100% financing requiring no up-front capital
- Long-term financing, up to 20 years, allows for large capital projects like solar and geothermal
- No need to pay off the loan upon sale - **PACE** assessments remain with the property
- Assessment costs can be passed through to tenants (solves “split incentive” problem)
- For projects costing \$250,000 and greater, the energy savings are guaranteed by the PACE project developer and must be cash flow positive for the term of financing

Who Qualifies for PACE?

Michigan has established **PACE** for commercial, industrial, non-profit and multi-family buildings, as well as for most agricultural applications. Distressed buildings that require re-commissioning and new construction can also qualify.

Additional eligibility requirements are:

- Building must be located in a Michigan **PACE** district
- Building owner is not delinquent on current or past property tax and utility bills
- Business is basically healthy and likely to continue to use the property for 10-20 years
- Property is not overly leveraged – ideally its debt load is 80% or less. However this percentage can vary by lender
- Maximum **PACE** loan is targeted at 25% of the property’s assessed value. But this too is up to the discretion of the lender
- Minimum value of a **PACE** loan is targeted at \$200,000
- **PACE** financing can be used for most projects that increase energy and water efficiency – assuming the results are measurable – or add renewable energy-generating capability
- Tenants qualify with the building owner’s consent

What Projects Qualify for PACE?

Michigan Public Act 270 allows **PACE** financing of projects that increase energy efficiency, water efficiency or add renewable energy generating capacity. The only exclusions are incinerators and digesters. The statute includes a list of allowed projects. New technologies are also allowable.

Examples include:

- Building Envelope Improvements
- Energy Control Systems
- Lighting
- HVAC Systems Including Boilers and Chillers
- Water Usage Improvements
- Solar, Wind & Combined Heat and Power
- Geothermal & Biomass
- Manufacturing & Assembly Process Improvements
- High Speed Doors
- Compressed Air Systems

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Where Has Pace Been Adopted?

Local government assessment financing has been used efficiently for decades throughout the United States to fund improvements to private property that meet a public purpose. Today, Michigan's **PACE** program has been adopted in 18 counties and seven cities. These locations represent 53% of Michigan's population.

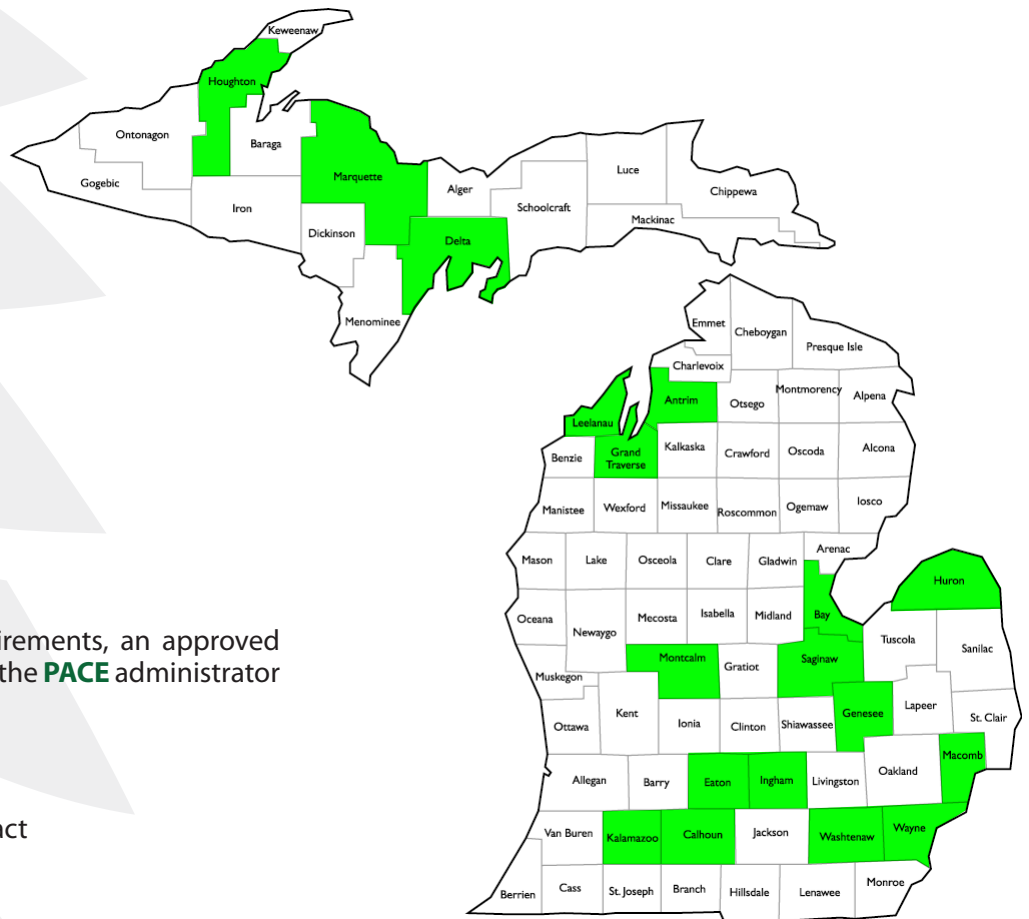
PACE has been adopted in the following locations:

Counties

- | | |
|----------------|-----------|
| Antrim | Ingham |
| Bay | Kalamazoo |
| Calhoun | Leelanau |
| Delta | Macomb |
| Eaton | Marquette |
| Genesee | Montcalm |
| Grand Traverse | Saginaw |
| Houghton | Washtenaw |
| Huron | Wayne |

Cities

- | | |
|---------------------|-----------------|
| Bloomfield Township | Rochester Hills |
| Ferndale | Royal Oak |
| Orion Township | Southfield |
| Pleasant Ridge | Troy |



What are the Steps to PACE Financing?

If the project appears to meet the requirements, an approved **PACE** contractor will submit the project to the **PACE** administrator for consideration.

If approved, typical steps would include:

- 1) Pre-Project Assessment
- 2) Prepare & Execute Proposal Contract
- 3) Conduct Facility Audit
- 4) Prepare & Approve Cost Analysis
- 5) Secure **PACE** District (If Required)
- 6) Prepare & Execute Energy Performance Contract
- 7) Secure **PACE** Financing
- 8) Implement Project
- 9) Close on **PACE** Financing
- 10) Conduct Annual Audits & Reporting



A Lean & Green Michigan Approved PACE Project Developer