

Michigan's Property Assessed Clean Energy (PACE) Financing Program

What is PACE?

PACE is a Michigan public act and a new and innovative way for industrial and commercial property owners to pay 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 local government. This tax assessment is a senior lien secured by the property and it "runs with the land" – meaning that upon the sale of a property, the subsequent owner is responsible for continuing the repayments. Thus, the costs of the upgrades are spread over the life of the project, which are generally between 15 and 20 years.

This innovative method of off-balance sheet project financing eliminates the need for up-front capital and provides property owners with immediate and steady positive cash flow. These projects lower monthly operating expenses, increase property value and create a more comfortable work environment.

Benefit of PACE

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

- PACE is non-recourse and off-balance sheet financing.
- 100% financing requires 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 loan upon sale - PACE assessment remains with the property.
- Assessment costs can be passed through to tenants (solves "split incentive" problem).
- Projects must achieve cash flow positive for the term of financing.
- Energy efficiency performance is guaranteed for projects over \$250K.

Who Qualifies for PACE?

Michigan has established PACE for commercial, industrial, non-profit and multi-family buildings only. Single family and government owned buildings do not qualify. Distressed buildings that require re-commissioning and new construction can also qualify.

Additional eligibility requirements are:

- Buildings must be located in Michigan PACE Districts;
- 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 – its debt load is 80% or less;
- Energy efficiency improvement project must be over \$250K – smaller projects qualify with lesser terms;
- PACE financing can only be used for energy efficiency projects: and
- Building tenants qualify - consent from building owner is required.

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

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 nine counties and three cities. These locations represent 44% of Michigan's population. Owners of buildings in non-PACE jurisdictions can request its adoption through Levin Energy Partners, Michigan's PACE administrator.

PACE has been adopted in the following locations:



Counties

Eaton
Genesee
Grand Traverse
Huron
Ingham
Macomb Saginaw
Washtenaw
Wayne

Cities

Rochester Hills
Royal Oak
Southfield

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