Municipal Webinar 2: Marketing PACE to Commercial Property Owners
Questions and Answers

1. **Q: How many projects have been done since the availability of each of the programs in SF and LA, and what types of retrofits have been done?**
   A: None yet in the San Francisco or LA programs, but we have several very active leads and are communicating regularly with contractors, capital providers, and other program partners. 46 commercial projects have been financed by the Sonoma County Energy Independence Program.

2. **Q: Has there been any interest from multifamily property owners for commercial PACE?**
   A: None yet in SF or LA, but San Francisco did take steps to ensure that multifamily residential (MFR) properties with 5 or more units, as well as nonprofit owned buildings (e.g. community recreational facilities) were eligible for PACE financing. LA had not been marketing PACE to MFR property owners up to now, but will make a concerted effort this year. SCEIP has funded one MFR property. There is significant opportunity in MFR, especially in affordable housing.

3. **Q: is there a minimum size for improvements to justify all these transaction costs? (e.g., $100k/building)**
   A: No, but both SF and LA programs are recommending a minimum project size of at least $50,000 as a guideline and are advising about the impact of transaction costs.

4. **Q: In CA, how are San Francisco and Los Angeles partnering with PG&E to advance commercial PACE?**
   A: San Francisco had some early engagement with Pacific Gas and Electric including making presentations to Large Account Representatives and Customer Relationship Managers, and sharing program documents with them, and is also leveraging existing utility funded energy efficiency rebate programs such as SF Energy Watch. In Los Angeles, the LA Department of Water and Power and So Cal Gas have been key partners, and now that the program is rolling out County-wide we will be engaging with So Cal Edison.

5. **Q: How much in ARRA grants are going to the Debt Service Reserve Fund (DSRF) and does it assume a certain level of default and what is that level?**
   A: San Francisco received $372,600 from the ARRA State Energy Program, which it is using to establish debt service reserve funds (if any) required by PACE project lenders (i.e. the bond purchasers); using ARRA funds in this way will obviously lower financing costs and should attract more capital. Land secured bonds sold in the public finance market, on which PACE is modeled, almost always involve an initial deposit to a debt service reserve fund approximately equal to one year's debt service. The City of LA received $2.5M from the State Energy Program to establish its debt service reserve fund.

In our jurisdictions, property tax collection rates average over 98%, including residential property, so we do not anticipate significant number of defaults particularly given the eligibility criteria for applicants. In Sonoma County, the delinquency rate for PACE assessments at the end of the last Fiscal year (June 30, 2011) was 0.1% in comparison to the 3.2% Sonoma County-wide property tax delinquency rate.

6. **Q: How critical is the loan loss reserve to program success? Can an entirely privately funded commercial PACE structure work?**

   A: Reserves, if required – and we have been told by some of the potential lenders that they will not require a debt service reserve fund - can be financed through PACE so there is not necessarily a "need" for an ARRA-funded DSRF, but we're assuming subsidizing this will help with the initial stages of program rollout. Ultimately we believe the program can operate successfully on its own.

7. **Q: Are the investors simply providing capital or are they Energy Service Companies (ESCOs)?**

   A: The project financing is solely provided by the qualified investors/accredited investors who purchase the PACE bonds. The PACE investor may choose to work with an ESCO to implement the project, but this is not a requirement. We encourage PACE investors and contractors to network and develop relationships.

8. **Q: Does the County/City go thru a RFP process for investors? I.e., what is the legal relationship between the municipality and the investor?**

   A: Los Angeles issued an RFI (Request for Interest) for PACE capital providers. San Francisco did not go through an RFP for investors; however, it is willing to work with all qualified investors (legislation passed by the San Francisco Board of Supervisors and signed by the Mayor authorizing the issuance and sale of special tax bonds to provide the financing limits the pool of eligible investors to accredited investors and qualified institutional buyers, as defined in the federal securities laws).

   Both programs issue bonds payable solely from the special taxes or assessments paid by the participating property owners. The legal obligation of San Francisco and Los Angeles to the purchasers of their bonds is to levy and collect the taxes/assessments, to foreclose upon delinquent properties in certain circumstances and to use the taxes/assessments to pay debt service on the bonds.

9. **Q: 40% of the property in our municipality is non-profit tax exempt. Can we modify the program to capture their involvement?**

   A: At least in California, it is possible to provide PACE financing for property owned by non-profit entities that do not otherwise pay property tax. In order to place a PACE assessment on a property that is not on the secured tax role, the Tax Collector must agree to prepare a tax statement and collect the amount for the special PACE assessment. There are also policy considerations: for example, if a church or a hospital is one/two/five years delinquent, is the municipality willing to foreclose? Also, investors may have additional concerns about lending to properties owned by non-profit entities. Each municipality can modify their program to fit their need. We would recommend discussing with bond counsel.

10. Q: You have presented a big list for marketing - what activity(ies) has had the most impact?

A: In Los Angeles, meetings organized by Business Improvement Districts and local advocacy groups have proven worthwhile, especially as a means to reach Class B/C property owners. San Francisco is now conducting similar activities, and is also seeking to actively bring together PACE investors and contractors/energy service providers to facilitate the project development process. Until recently, the SCEIP has not conducted any targeted marketing but is currently working closely with our partnering utility, Pacific Gas and Electric, to reach out to small and medium businesses that may be particularly affected by upcoming rate schedule changes.

11. Q: Can you talk about the after-upgrade reporting obligations and how this impacts the overall risk. Connected to that is the Hanover RE insurance angle.

A: In general, in order for property improvements to be eligible for financing through the Program, they must have an established ability to reduce energy or water usage, or generate clean power for the property. San Francisco requires property owners to enroll in and use ENERGY STAR Portfolio Manager which provides access to the data necessary to determine how the installed improvements are performing over time, and how their building is performing relative to its peers (this is now required for all nonresidential buildings >10,000 sq. feet by a 2011 ordinance). Property owners with energy demand above 200 kW are also required to participate in the free PG&E Interact Services, which provides energy usage monitoring on a near real-time basis. Property owners and investors are encouraged to conduct more detailed performance analysis on their own to ensure continued cost and energy savings, at their discretion.

LA elected not to require post-retrofit reporting, but instead to leave this to the PACE investors and mortgage holders to enforce. That said, the program strongly encourages the use of ENERGY STAR Portfolio Manager for eligible properties, as well as the no-cost MVWeb service offered by LADWP.

12. Q: In Missouri we formed a stakeholder association aka MoPACE.com for all partners and providers for outreach, network and subscription to "best practices" – is anyone else doing this?

A: PACE*Now*'s mission is, in part, to be a central hub for networking, information flows, and development of dissemination of best practices. We do this with our website, these co-sponsored webinars, and plan to develop a newsletter and other means of outreach. We welcome the opportunity to interact and work with all PACE stakeholders, subject only to our staffing constraints (which are a function of our funding).

Sonoma County is producing a digital Replication Package that will consist of a PACE program how-to manual, sample documents, forms and templates, best practices information and other resources for municipalities. The information will be available on the Resources for Municipalities page of our website www.sonomacounty.org. Documents will be uploaded as they are finalized.

13. **Q: How receptive have existing lenders been to accommodate the PACE- based financing that has a superior security priority?**

    A: We know from experience that a mix of national, regional, and local CRE lenders have provided authorization or consent for over 40 or the 70 some odd C-PACE projects completed to date. That evidence, and discussions we have had with CRE lending officers, makes us confident that lender consent need not be an obstacle to commercial PACE programs. Furthermore, there is an opportunity for the existing lender to either purchase the bond itself, or to co-invest alongside a qualified 3rd party PACE investor.

14. **Q: Note that for banks and appraisers (and investors) projecting a 30% saving on energy is not the same risk as showing 3 years of 30% below market standards savings.**

    A: While energy savings are crucial to managing repayment risk, PACE financing may be employed to fund the cost of necessary capital expenditures that would otherwise have to be funded with equity. Banks are free to impose measurement and verification requirements, as well as to require the property owner to escrow funds on a monthly basis to ensure that adequate funds are available to make PACE assessment payments.

15. **Q: Are the refrigerant regulations state or federal regs?**

    A: State of CA

16. **Q: A U.S. senator was approached for assistance with and support for H.R. 2599. His answer was that it was in the House. What can we ask him to do for us?**

    A: HR 2599 is the House bill. There has been no bill introduced in the Senate, but a Democrat has been identified to act as a sponsor and supportive Republicans are being sought to pair with him.

17. **Q: Is it possible to get a copy of the toolkit that is referenced in the final slide?**

    A: We are currently starting to develop it.

18. **Q: Do you have a list of FAQs from lenders, brokers, prop managers based on conversations you have had?**

    A: This is under development and will be included in a proposed "toolkit" that some stakeholders are beginning to work on together.

19. **Q: Is there a way to have a commercial loan "adopted" into a PACE District or does it have to be a municipal bond or grant fund only?**

    A: In Los Angeles, for an existing loan to be "adopted," it would have to be taken out and replaced with PACE financing through a bond sale.

San Francisco is currently operating under the policy goal that its PACE program should be used to encourage new adoption of these improvements, not to provide refinancing for those that have already installed them.

20. Q: It seems that there are three "clients" that we need to market to: property owners, banks and tenants. Do you all have a sense of what the biggest hurdles have been in SF and LA from each of those groups?

A: You are correct that PACE must work within the intersection of the interests of these three groups. Property owners often assume that there is no way that a bank would consent. But this is based on an assumption that the bank cannot participate, and that the full amount financed is placed ahead of the mortgage – both of which are incorrect.

With respect to the extent of the "seniority" of PACE liens, only delinquent installments (plus penalties and interest) are foreclosed in the event of property owner delinquencies; the full outstanding principal amount is not accelerated in the event of delinquency. Consequently, we believe it is not appropriate to take the entire principal amount of the PACE assessment into consideration when calculating the impact of the new lien.

In addition, existing lenders often assume that we are simply asking them to subordinate without offering any incentive – also incorrect. First, banks may purchase the PACE bonds themselves or co-invest. Many existing lenders are considering this option, and talking about combining the PACE investment with a securitization strategy, which not only provides ongoing liquidity but also an additional revenue opportunity. Second, existing lenders may offer construction financing, with PACE as the take-out.

We have not been engaged as much with tenants, but tenants interested in leasing high-performance space can be allies in the marketing effort. Local, State, and Federal government agencies can be especially influential, due to their large footprints.

21. Q: How do you feel this will work in Oregon?

A: It's hard to make predictions for any given state. The success of PACE in any state will depend on a lot of factors, including: support from local governments (action alone or in consortiums), state resources, market for participation, climate, population, etc.

22. Q: Do the LA and SF programs operate with Third Party Administrators or are they run by the municipality?

A: SF is working with a third party administrator to assist the city in developing and administering the program, and their subcontractor is serving as the special tax administrator responsible for formation services (Boundary Map Preparation and Recordation, Method of Apportionment of Special Tax , and other related tasks), as well as Administration Services (Data Collection, Annual Special Tax

Levy Calculation and Enrollment, Annual Reports, Delinquent Tax Reporting, Prepayment Calculations, etc.).

In Los Angeles, application review and certain other administrative functions are being managed by a third-party administrator, with the County performing the back-end legal work. LA may bring on a 3rd party to manage the program after the ARRA funding period, but this has not yet been determined.

23. Q: Is anyone working on an insurance program to insure over the capital risk PACE creates for mortgage lien holders?

A: It is being considered by some, though it's not clear that residential mortgage lenders will be willing to accept it.

24. Q: What is the prospect of applying PACE to hotels and other single-occupancy buildings?

A: Single-occupant buildings are ideal, since there are fewer parties to coordinate and no potential for a "split incentive." Hotels are particularly good candidates, due to the fact that they operate 24/7 and have large base loads.

25. Q: In the City/County leasehold deals, are the Cities and Counties agreeable to paying the pass through special assessments?

A: That is the idea, yes. Cities/Counties can help to prove the legal case for treating PACE assessments as operating expenses under existing leases