



Building Bridges to Net Zero



“Civic PACE” for Public Housing

**Credit Enhancing Energy Upgrades
in Affordable Housing with PACE Finance**

Special Assessment Finance – A well established history...



*Philadelphia Opt-In Fire
District 1736*

- No out of pocket payment, owner repays cost of financing on a semi-annual real estate tax bill, realizing savings in year one.
- PACE uses tax based financing that has long funded infrastructure projects like water, sewer, gas, and curb improvements
- A special assessment is placed on the title of the property (like PILOT, TIF, & “front foot benefits”)
- Obligation does not accelerate and transfers with the title (along with the savings) to new ownership
- PACE is a voluntary assessment, even for non-profits that don’t pay property taxes

DC PACE: Financial Eligibility & Structuring

ECMS	Capital Cost
Lighting	\$150,000
Water conservation	\$25,000
HVAC & controls	\$775,000
Roof rehab	\$550,000
Boiler replacement	\$100,000
Total	\$1,600,000

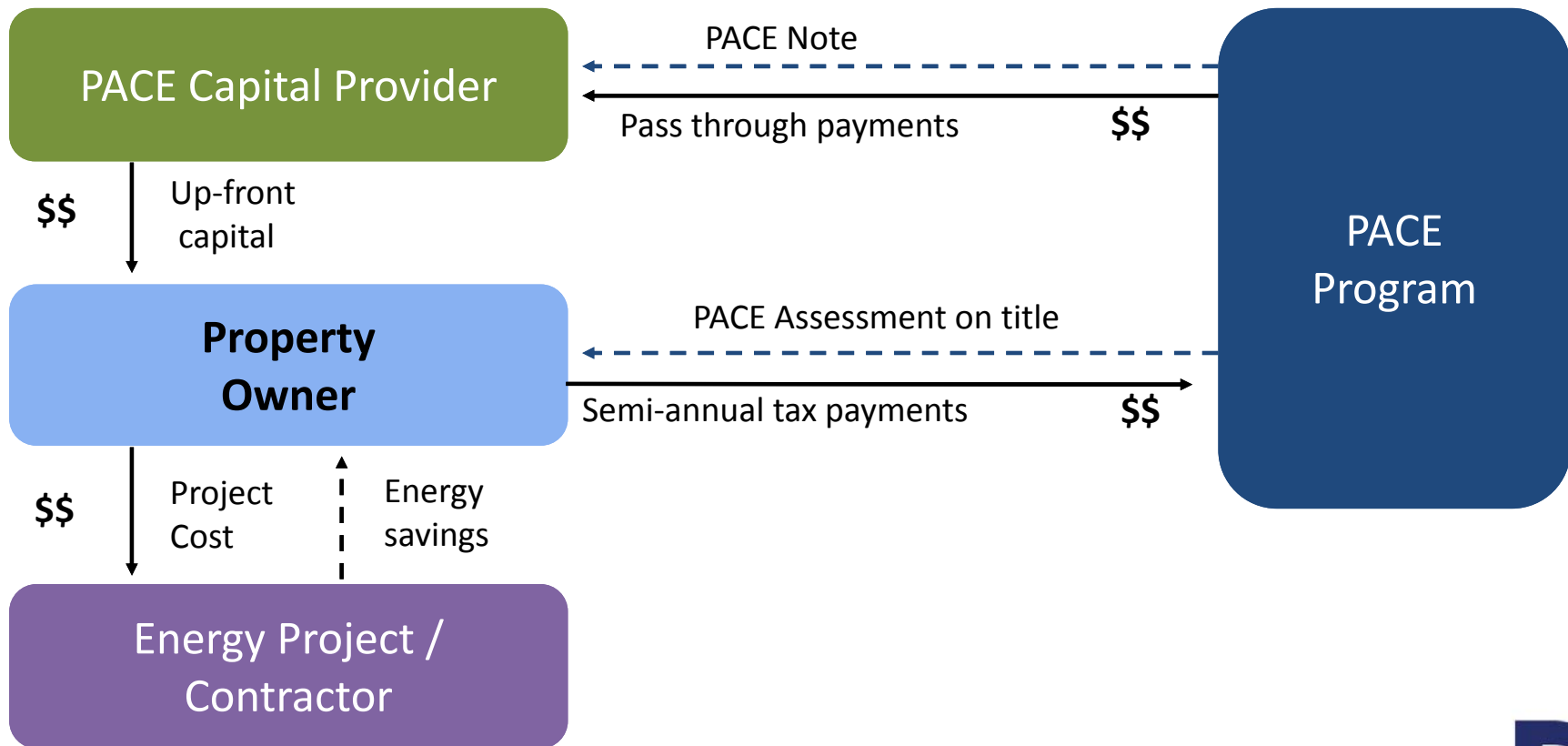
Annual Savings	
Electricity	\$157,000
Water	\$10,000
Gas	\$3,000
Total	\$170,000

Note: Project financials have been simplified for illustrative purposes.

PACE Eligibility

- Annual payments = Up to \$170,000
- Desired term: 20 years (@ 6%)
- PACE Eligibility: Up to \$1,950,000

How a PACE transaction works



Why? “CivicPACE” in Public Housing

1. Credit Enhancement:

- A. *Secure EPC, no equipment lien*
- B. *Alternative PPA, higher returns to PHAs*
- C. *New funds for RAD Conversion*

2. Public Sector Collaboration:

- A. *Holistic: PACE + LIHEAP + Weatherization*
- B. *White House Climate Action Plan*
- C. *HUD Multi-Family & FHA announcements*

3. New Affordable Preservation Resources:

- A. *US DOE Grant for technical assistance*
- B. *Leverages private capital investment*

Case Study: HUD Assisted Affordable Housing

Customer: Non-profit affordable housing

Project: 32 kW solar, 1.5 mil. water savings/yr.

Property Owner: Annual Benefit

Utility savings	\$72,000
PACE Payments	-\$60,200
Net Cash Flow	\$11,800

Equity Investor Benefits

SREC Revenue	\$72,000
ITC	\$33,300
Depreciation	\$33,000
Total Benefit	\$138,300
Tax Equity	-\$65,000
Net Benefit	\$73,300

PACE Term	15
PACE Note	\$600,000
Tax Equity	\$65,000

- **Annual net benefit = \$11,800**
- **Total Savings = \$177,000 (15-yr. term)**
- Adds 3rd-party capital to larger stack
- Locks in low long-term energy price
- Monetize tax benefit for non-profit
- Positive Cash Flow (NOI) day one
- No out-of-pocket payment
- Aligns costs & benefits

Note: Project financials have been simplified for illustrative purposes.

PACE as a Credit Enhancement for PHAs

*PACE strengthens energy performance contracts (EPCs)
in three different ways...*

Prior to RAD: Offering a “glide path” to conversion...

1. **PACE secured EPCs:** Credit enhance the EPC contract for efficiency projects, cutting costs, improving security, and making them more durable.
2. **PACE secured PPAs:** Increase savings from Power Purchase Agreements for solar and co-generation, lower solar prices, and increase PHA income.

As Part of RAD: PACE provides gap financing during conversion...

3. **PACE maximizes savings in RAD conversion:** PACE provides a new source of funds to finance broader capital improvements. PACE provides the greatest total economic benefit to PHAs by bringing renewable energy benefits into the core financing of the RAD project, and by eliminating the need to pre-pay existing EPC (ECIP) liens during RAD conversion.

1. Efficiency: *PACE-Enhanced EPCs*

PACE improves EPCs for Energy Efficiency...

- A. **PACE is a credit Enhancement:** Adds security for investors, reduces default risk, improves pricing.
- B. **PACE eliminates need for additional security:** There are no equipment liens under PACE
- C. **PACE is an Annual Expense:** The special assessment never accelerates in the event of default, and the total balance can never come due.

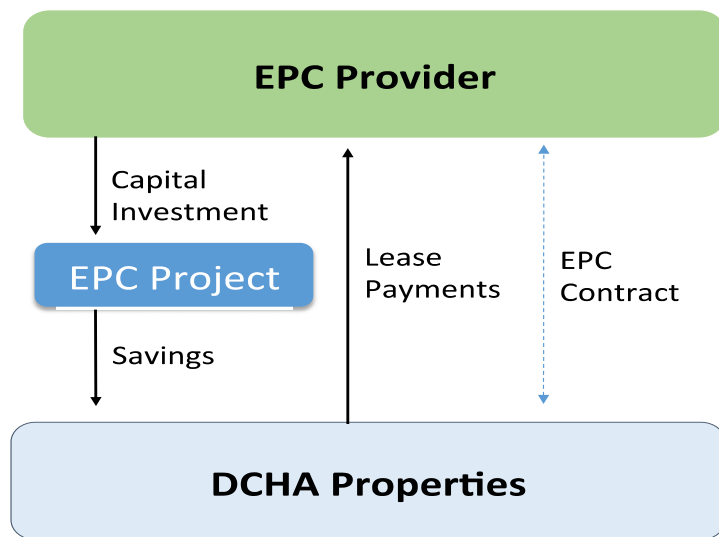
[Note: In December 2015, HUD ruled PACE is an annual tax bill not senior debt, for California FHA – PACE pilot.]

- D. **PACE should not have to be pre-paid under RAD**

1. PACE + EPC: *PACE-Enhanced EPC Structure*

PACE Simplifies Security for EPCs and is expected to make them durable in RAD

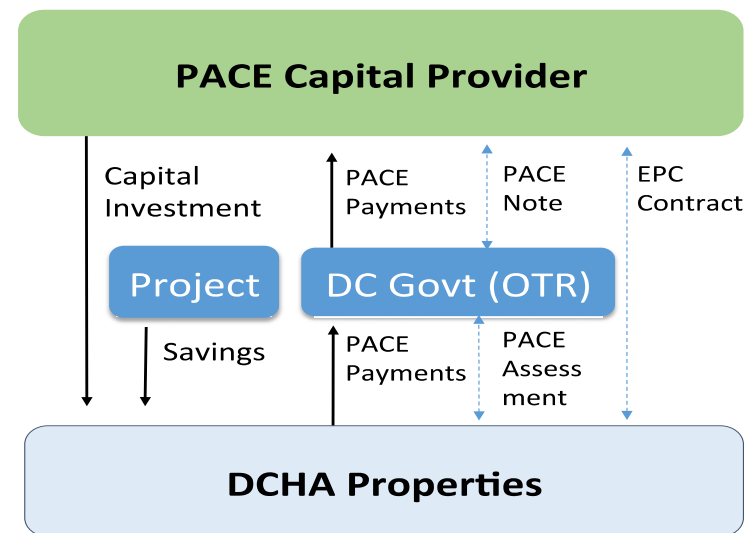
Stand Alone EPC



EPC Alone:

- Contractual Security with Liens
- Subject to Appropriations
- Repaid in RAD Conversion

PACE Secured PPA



PACE + EPC:

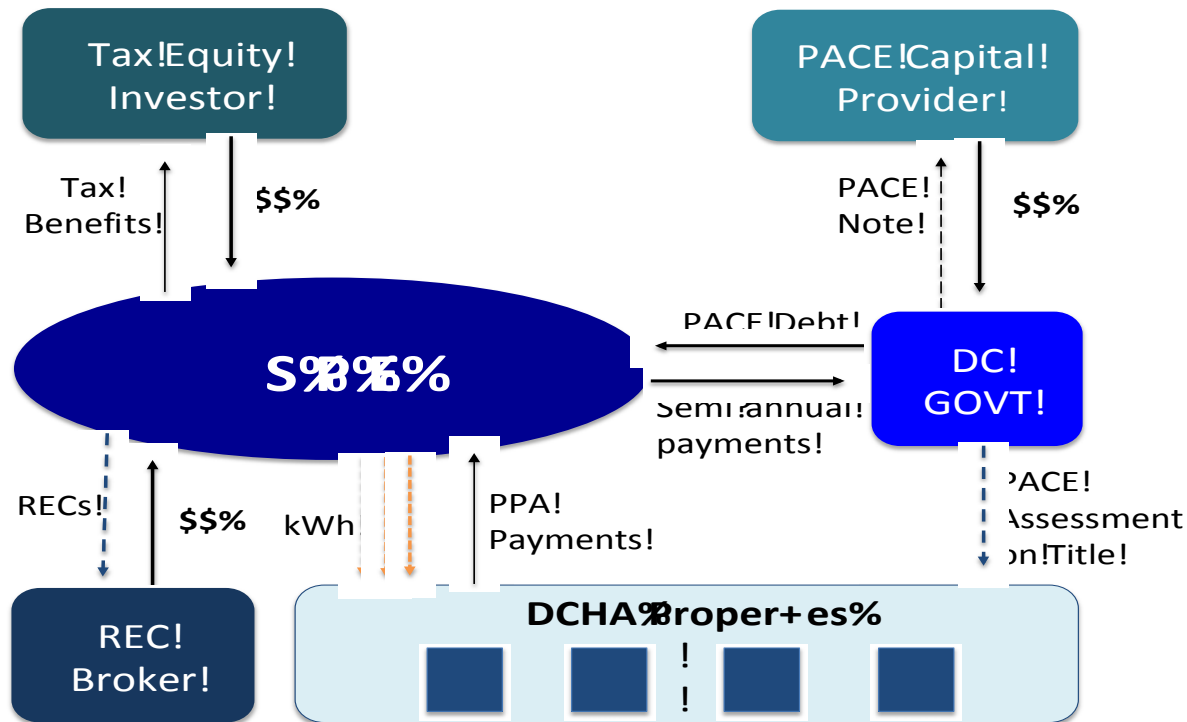
- Contract Security through Assessment
- Eliminates need for Equipment Liens
- Likely Survives RAD Conversion

2. Solar: *PACE-Enhanced PPA*s

PACE improves the PPA structure...

- A. **PACE is a credit enhancement:** Adds security for investors, reduces default risk, brings more economics into transaction.
- B. **PACE simplifies underwriting:** PACE is tied to the asset not the credit of the borrower, strengthening underwriting.
- C. **PACE eliminates personal guarantees:** PACE security removes the need for owner guarantees on debt.
- D. **Increases owner benefits:** PACE can structure tax equity investment to increase cash flows to the PHA. PACE-Secured PPA's can also revert to PHA ownership (or under RAD owner).
- E. **Third-Party Ownership is also not liquidated under RAD**

2. PACE + PPA: PACE-Secured PPA Structure



PACE improves the security of the PPA by transforming payments into a municipal debt security rather than a simple contractual security. A PACE PPA can allow prepayment of the PPA energy bills as part of the initial financing, and/or accommodates monthly billing tied to a utility expense allowance.

3. PACE + RAD = Benefits in Public Housing Conversion

PACE offers a new layer of capital for RAD...

- A. **Replacement Reserves:** PACE allows for upgrades without depleting capital replacement reserves, allowing more money to cover shortfalls.
- B. **PACE & Energy Efficiency:** PACE can credit enhance EPC energy efficiency improvements, eliminating liens, lowering costs & allowing inclusion in RAD.
- C. **PACE & Renewables:** PACE can bring solar and co-gen portions of the project into the EPC, to share more SREC proceeds with PHAs, improving economics.
- D. **PACE Increases Financial Returns:** PACE allows tax equity investment to be brought directly into the transaction, without consuming Solar Renewable Energy Credit (SREC) income. A PACE PPA can be funded largely with tax benefits, or during RAD conversion solar tax benefits can flow to the LIHTC investor to boost returns and increase investment.
- E. **PACE is a new capital source for RAD conversion:** Increased savings and also avoided EPC pre-payment, both free up funds to dedicate to core capital improvements, extending resources and providing new gap financing in RAD.

Approved Project: *Mixed Finance Affordable Housing*

*Mixed Finance Project established a PACE document structure that
Conforms with HUD-PIH requirements for mixed finance*

1. Inter-Creditor Agreement:

- i. **PACE Subordination:** to Declaration of Trust (DOT/DORC)*
- ii. **Right to Cure:** DCHA may cure any delinquency in payment*
- iii. **First Refusal:** In foreclosure DCHA can buy Tax Cert for \$1*

2. Declaration of Trust: Includes language that ownership transfer under PACE is conditioned on observing the DOT/DORC.

3. Mixed Finance ACC Amendment: Language references PACE subordination to the DOT/DORC through inter-creditor agreement

4. Rental Term Sheet: HUD-PIH approved terms that included PACE financing along with ACC payments within the capital stack



Extending PACE: *Conventional Public Housing*

The Mixed Finance structure could be modified to meet HUD & PHA requirements for Conventional PHA properties as well...

1. **Inter-Creditor Agreement:** Like the mixed finance Inter-Creditor Agreement, a conventional project would provide subordination to the DOT and appropriate rights to cure for interested parties.
2. **Declaration of Trust:** Would include language that any ownership transfer under PACE is conditioned on subordination to the DOT
3. **Section 30 ACC Amendment:** If required, the Section 30 language would similarly reference PACE subordination to the DOT
4. **Rental Term Sheet:** Agreement on rental terms and ACC payment with HUD would similarly reference use of DOT subordinated PACE
5. **Revising Security Interests:** Unlike mixed finance, PHA would be a direct party to this PACE note, so PHA & HUD would establish an alternative 3rd party process for Rights of Cure & First Refusal



Thank You!

*Urban Ingenuity wants to work with you on
“Civic PACE” for Public & Affordable Housing!*

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