

# PACE Clean Energy Financing + Opportunity Zones

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Financing

 NJPAO  
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# Commercial Property Assessed Clean Energy (C-PACE)

- Allows commercial property owners to access benefit-rich, low cost, long term project financing
- For renewables & energy efficiency (resiliency in some states, like NJ)
- For upgrades & gut rehab (& new construction in most states, and we expect, NJ)

# What can C-PACE do for you? ~20%+ of Capital Stack

~60%	Bank debt
~20%	C-PACE (vs. more costly Mezzanine)
~20%	OZ / Equity + other tax incentives
<hr/>	
100%	

\* Opportunity Zone

# What you should know

- C-PACE Financing Basics and Benefits
- Examples of C-PACE + Opportunity Zones
- C-PACE-like Alternatives (NJ expects PACE in 2020)
- PPAs\* vs. C-PACE and PACE/Alternatives

\* Power Purchase Agreements

# C-PACE Basics

- No money down, 100% financing (PRIVATE capital)
- Up to 30-year term (average useful life of improvements)
- Project is typically designed to have savings exceed costs
- States: Clean energy upgrades = A public benefit
- Leverage the local government tax mechanism
- Municipality must pass ordinance allowing PACE
- Owner requests Voluntary Special Assessment on property
- Repaid through property tax bill and runs with property
- Requires mortgage lender consent (PACE is a senior lien\*)

\* Only the current amount owing, and arrears, come in front of mortgage

# PACE Benefits to Property Owners

- Save money on energy -- cash flow positive immediately
- Property owner gets the ITCs, SRECs, MACRS\*
- Can be off-balance sheet (it's attached to property, not owner)
- Pro-rated to tenants under triple-net and other leases
- Payment obligation remains with property upon sale
- Improves NOI,\* competitiveness, health, sustainability
- Fills gaps in capital stack in redevelopment / new construction; at ~6% interest, PACE is ~half the cost of mezzanine financing, reducing WACC\* and increasing ROI / IRR\*

\* Net Operating Income  
Investment Tax Credits, Solar Renewable Energy Credits, Modified Accelerated Cost Recovery System  
Weighted Average Cost of Capital  
Return on Investment / Internal Rate of Return

# Example: Greater IRR with C-PACE + OZ

Without C-PACE,  
35% mezz/equity.  
IRR = 29.77%

With 15% C-PACE +  
20% equity,  
IRR is 39.32%

Terrapin Investments  
proposed project,  
Glenwood, CO

Terrapin Project Without C-PACE			
Equity Breakdown		Value Analysis	
Total Investment	\$ 16,045,955.00	Sales Price	\$ 22,856,604.00
Investment Per Key	\$ 142,000.00	Commission	\$ (342,849.00)
Loan	\$ 10,429,871.00	Net Proceed	\$ 22,513,755.00
Equity Required	\$ 5,616,084.00	Minus Debt	\$ (10,429,871.00)
	35%	Capital Returned	\$ (5,616,084.00)
		Profit	6,467,800
		IRR	29.77%
			115%
Terrapin Project With C-PACE			
Equity Breakdown		Value Analysis	
Total Investment	\$ 16,045,955.00	Sales Price	\$ 22,856,604.00
Investment Per Key	\$ 143,393.00	Commission	\$ (342,849.00)
Loan	\$ 10,532,246.00	Net Proceed	\$ 22,513,755.00
C-PACE Finance	\$ 2,430,518.00	Minus Debt	\$ (10,532,246.00)
Equity Required	\$ 3,240,691.00	Minus C-PACE	\$ (2,430,518.00)
	20%	Capital Returned	\$ (3,240,691.00)
		Profit	6,310,300
		IRR	39.32%
			195%

Source: Tony Sherman, Terrapin Investments & Management

# OZ + C-PACE: New Construction + Partial Redevelopment

51%	Construction Loan	\$25M
14%	PACE	\$ 7M
35%	Equity / Incentive	\$17M
	Opportunity Zone Equity, Developer Equity, Economic Development Loan	
100%		\$49M

## PACE Equity LLC

Sept 2019  
Detroit, MI  
Cambria Hotel





# OZ + C-PACE: New Construction

61%	Construction Loan	\$29.7M
10%	PACE	\$ 4.3M
29%	Developer Equity / OZ	\$14.4M
100%		\$48.7M

## PACE Equity LLC

June 2019  
Rochester, MN  
Hyatt House



# OZ + C-PACE: Redevelopment

## \$1.2M PACE Financing

Redeveloped 1900's era  
warehouse

→ Self Storage Facility

Roof, Windows, HVAC, Lighting,  
Controls

## Petros PACE Finance

March 2019  
Toledo, OH



# C-PACE in NJ and the U.S.

- Anticipate NJ Amendment passed and signed by Jan 2020
- NJEDA\* to do RFP\* for 3<sup>rd</sup> Party Administrator; write regs
- ~20 states have viable C-PACE; 36 States have PACE laws
- ~\$1 billion C-PACE financed; ~2000 projects; ~16,000 jobs
- Residential PACE (R-PACE) in few states; FHFA\* is obstacle
- Many states and jurisdictions still without C-PACE

\* NJ Economic Development Authority  
Request for Proposal  
Federal Housing Finance Agency

# Seeking Projects for “PACE/Alternatives”

- PACE/Alternatives don't require state and municipal laws
- Key elements mimic C-PACE
- Use existing financing / legal structures in new combos
- Seeking pilot projects of \$1M+
- National recognition with major impact fund for projects
- U.S. Dept of Energy grant application for viability, scalability

# PACE/Alternatives: No state or local laws required

- **NICCE (New InterCreditor Clean Energy) Financing**
  - C-PACE-like InterCreditor Agreement with senior debt holder(s)
  - Designed to be able to transition into C-PACE when available
  - On balance sheet; requires mortgage lender consent (like PACE)
- **DREEM (Deed-registered Renewable & Energy Efficiency Measures)**
  - Energy Services-type agreement with SPV and SNDA\*
  - Co-developed with experienced structured finance expert
  - Doesn't transition to PACE; lender gets ITCs, SRECs, MACRS

\*Special-Purpose Vehicle and Subordination, Non-disturbance, and Attornment Agreement

# NICCE & DREEM Financing vs. PACE

<b>Key Benefits for Commercial Property Owners</b>	<b>NICCE</b>	<b>DREEM</b>	<b>PACE</b>
NO State or local laws required	✓	✓	×
100% Financing; no upfront costs	✓	✓	✓
Non-recourse, non-accelerating, non-extinguishing	✓	✓	✓
Transferable to future owners	✓	✓	✓
Payments over average useful life (≤25 years)	✓	✓	✓
Mortgage lender consent required	✓	✓	✓
Costs pro-rated to triple-net tenants	Via CAM	Via CAM	Via pro-rated tax bill
Off-balance sheet	×	✓	✓
Can transition to C-PACE when available	✓	×	NA 14

# PPA vs. PACE vs. PACE/Alternatives

Key Benefits for Commercial Property Owners	PPA	PACE	PACE/Alternatives	
			NICCE	DREEM
100% Financing; no upfront costs	✓	✓	✓	✓
Owner owns equipment	✗	✓	✓	✗
Owner takes ITC, SREC, MACRS	✗	✓	✓	✗
Transferable to future owners	✓	✓	✓	✓
Can transition to C-PACE when available	✗	NA	✓	✗
Off-balance sheet	✓	✓	✗	✓
NO State or local laws required	✓	✗	✓	✓
Mortgage lender consent NOT required	✓	✗	✗	✓ <sup>15</sup>

# SUMMARY:

## OZ + C-PACE or PACE/Alternatives

- C-PACE & PACE/Alternatives finance energy efficiency, renewables & resiliency measures in upgrades, rehab & new construction
- Significantly greater IRR with C-PACE or PACE/Alternatives, which fill gaps in capital stack with lower WACC vs. mezzanine/equity
- C-PACE requires state & local law & mortgage lender consent
- Where C-PACE isn't available, PACE/Alternatives mimic C-PACE
- NICCE financing (a PACE/Alternative) can transition to C-PACE



Thank you!



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