

Committee of the Whole
Monday, August 19, 2019 6:30 PM
Council Chambers
1369 25 Avenue

{{Name: Agenda Item Name}}

{{Rationale: Agenda Item Rationale}} {{AgendaItemEnd}}

- 1. Statement of compliance with Open Meetings Act and roll call.**
- 2. Presentation from PACE Sage Capital, LLC on PACE financing in Columbus.**
- 3. Adjournment.**

PACE FINANCING FOR



COMMERCIAL REAL ESTATE

- Long Term (Up to 20 – 30 Years)
- Fixed, Competitive Rates for Capital in the Equity Stack
- **Non Recourse**
- Reduces Required Equity
- Increases ROI
- Can be a Capital Stack Gap Filler to Launch a Re/Development Project
- Secured and Repaid by Annual Special Assessments on the Property
- Special Assessments can be paid by/passed through to:
 - Tenants VIA CAM
 - End Users VIA Surcharge (e.g. Hotel Guests)
- Can be combined with Incentives such as Historic Tax Credits, New Market Tax Credits, TIFs, SIDs, Energy Rebates and Credits
- Available from Project commencement **thru Project completion**
- \$500,000 to \$50+ Million for the PACE portion of a Project

- PACE can fund 100% of the Energy Efficiency and Water Conservation related measures such as roofs, windows, lighting, insulation, mechanicals, temperature controls, solar, elevators, onsite energy systems
- PACE can fund up to a maximum of 20% - 25% of the property “Stabilized or As Is Value”
- Upfront costs are included in the financing
- No lengthy public approval process (45 – 75 days from Application to Closing)
- Funded by Private and Institutional Capital; not Government, not Public Funds
- PACE can fund all types of projects including:
 - Renovations
 - Retrofits
 - Rehabs
 - Conversions
 - Owner Occupied Building Projects
 - New Construction
 - Non Profit Building Projects

EFFECTIVE COST OF PACE CAPITAL IS BELOW MARKET

Passthrough to Tenants, Hotel Guests, etc. Significantly Reduces the Cost of PACE Capital
(Assuming an Initial Rate of 6.25%)

- 25% Passthrough - Effective Rate of 3.03%
 - **45% Passthrough - Effective Rate of 0.00%**
 - 50% Passthrough - Effective Rate of -1.00%
 - 75% Passthrough - Effective Rate of -6.65%
- **Cost of PACE Capital: 5.75% - 6.75% (assuming no passthrough)**
 - **Cost of Mezz Debt: 10% - 15%**

Chris Peterson

Managing Partner, Nebraska

PACE Sage Capital, LLC

1327 H Street, Suite 303

Lincoln, NE 68508

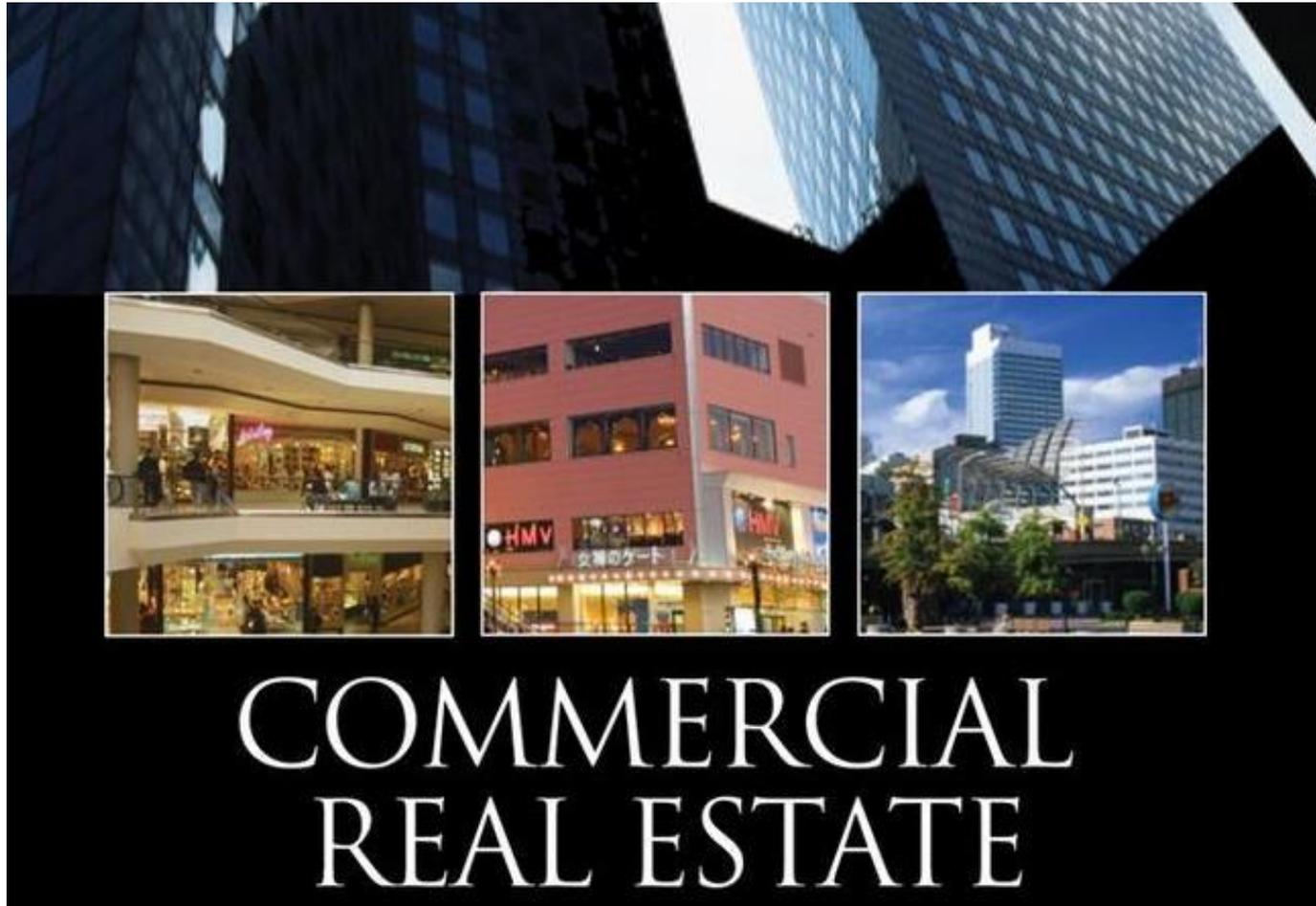
Cell: 402.470.7294

chris@pacesage.com

www.pacesage.com



PACE FINANCING FOR



COMMERCIAL REAL ESTATE

PACE: Property Assessed Clean Energy

- Commercial Real Estate Financing for Energy Efficiency, Water Conservation & Renewable Energy Systems
- Long Term (up to 30 years in Nebraska)
- Fixed Rates, Non-Recourse
- Secured by Annual Assessments on the Property
- No Public Funds At-Risk; No City or Taxpayer Liability

PACE in Nebraska

- April 2016 – Legislature adopts PACE Act (LB 1012)*
- May 2017 – Omaha passes first PACE ordinance
- June 2018 – First PACE loan funded in Omaha
- August 2018 – Lincoln passes PACE ordinance
- April 2019 – First PACE loan funded in Lincoln
- August 2019 – La Vista passes PACE ordinance

PACE in Nebraska

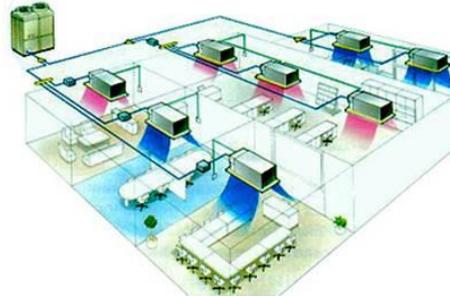
- Largest Project: \$24.9 Million, Omaha Capitol District
 - 333-room Marriott hotel
 - 223-unit apartment building
 - 90,000 square feet retail space
- Smallest Project: \$900,000 Omaha car wash
- Total PACE loans approved as of 8/15/19
 - 9 in Omaha, 2 in Lincoln: approx \$45 Million
- 7 Hotels, One Apartment Building, One Retail Bldg, One Car Wash, One Indoor Sports Facility

WHAT CAN PACE FINANCE?

Qualifying Energy Conservation Measures: Energy Efficiency, Water Conservation, and Renewable Energy Systems



Commercial Boiler



VRF HVAC System



LED Lighting



Chiller



Fume Hood



Escalator



Refrigeration



Parking Lights

PACE CAN FINANCE:



Controls



Elevator



Windows



Cool Roof



Solar PV

- Insulation
- Caulking, Weather-stripping and Air Sealing
- Water Heating Systems
- Daylighting Systems
- Energy Recovery Systems
- Cogeneration and Trigeneration
- Solar, Geothermal, & Wind
- Energy efficiency related items up to 25% of the total cost of the energy project

AND MORE...

DEVELOPMENT SCENARIOS FOR PACE

- Redevelopment including:
 - Renovations
 - Retrofits
 - Rehabs
 - Conversions
- Owner Occupied Building Projects
- New Construction
- Non Profits (YMCA's & Churches)

PACE SIMPLE MATH

Project Financing Without PACE

Project Cost	<u>100</u>	
Debt		70
Equity	<u>30</u>	
Total	100	

Project Financing With PACE

Project Cost	<u>100</u>	
Debt		70
PACE		20
Equity	<u>10</u>	
Total	100	

PACE – AN ALTERNATIVE SOURCE OF EQUITY

- Cost of PACE Equity: 5.0% - 6.0% (July 2019)
- Cost of Investor Equity: 10% - 20%

BENEFITS OF PACE

- Available through Project completion in Nebraska (beyond completion in many states – up to 36 months)
- PACE can fund 100% of the Energy Efficiency, Water Conservation & Renewable Energy System related improvements of a Project, up to a maximum of 20% - 30% of the property's “Value at Completion”
- Typically \$500k* to \$20 Million plus for a single PACE loan
- No lengthy public approval process (45 – 90 days from Application to Closing)



Senior Lender Consent Required

In every Commercial PACE transaction, existing lienholders (typically a bank) are asked to provide Acknowledgment, Consent and Subordination to PACE liens.

PACE liens are ONLY triggered when a borrower misses a payment, and even then it's only the missed payment that becomes a lien.

First National Bank of Omaha, Great Western Bank, Five Points Bank, Pinnacle Bank, and Union Bank have consented in Nebraska.

ENERGY ENGINEERING – TO QUALIFY A PACE PROJECT

Project Details Submit separate sheet if necessary

Measure #	Description/Specification of Energy Measure
#1	Parking Lot Lighting Retrofit: replacement of 22 existing 400w MH fixtures with new 235w LED fixtures.
#2	Building Exterior Lighting Retrofit: replacement of 4 existing fixtures in office of the building with new LED fixtures.
#3	Roof Replacement: replacement of approximately 7,000sf of roofing. Existing roof cores showed an estimated R-value of 3. New roof has an R-value of 25.
#4	Storefront Window Replacement: replacement of approximately 6000sf of existing storefront window system.
#5	HVAC RTU Replacements: replacement of existing rooftop units (160 tons) with high efficiency units.
#6	EFS Repairs: repair and replacement of approximately 1000sf of EFS (and insulation) around the building.

Measure #	Construction Costs/Bids	Estimated Useful Life (yrs.)	Year 1 Energy Savings	Year 1 Maintenance & Operational Savings	Over Term Energy Savings (specify % growth/yr.)	Over Term Maintenance & Operational Savings (specify % growth/yr.)	Over Term Total Savings (Energy + O&M)
#1	\$164,468	20	\$954	\$2,200	\$32,390	\$74,697	\$107,087
#2	\$8,563	20	\$410	\$2,350	\$13,920	\$79,790	\$93,710
#3	\$684,218	30	\$1,590	\$5,000	\$53,999	\$169,766	\$223,765
#4	\$121,547	30	\$1,005	\$1,500	\$34,111	\$50,930	\$85,041
#5	\$200,000	20	\$23,640	\$1,500	\$802,661	\$50,930	\$853,591
#6	\$126,000	20	\$54	\$500	\$1,824	\$16,977	\$18,800
Total	\$1,304,796		\$27,653	\$13,050	\$938,904	\$443,090	\$1,381,994
Estimated Total Energy Savings (in kBtu, kWh or therms)				Electricity = 305,973kWh; Gas = 3,175Mcf			

ENERGY ENGINEERING – TO QUALIFY A PACE PROJECT

About half of the states with active PACE programs do not require PACE projects to meet a Savings to Investment Ratio (SIR). Nebraska's PACE law includes an SIR standard but to prevent the SIR from disqualifying otherwise worthy projects, LB23 (2019) allows the SIR standard to be waived by the PACE program administrator.

From the Nebraska PACE Act: LB23 (2019)

...there are sufficient resources to complete the energy project and that the **energy project creates an estimated economic benefit**, including, but not limited to, energy **and water** cost savings, maintenance cost savings, and other property operating savings expected from the energy project during the financing period, **which is equal to or greater than the principal cost of the energy project.** **The estimated economic benefit may be derived from federal, state or third-party energy certifications or from standards of energy or water savings associated with a particular energy efficiency improvement or set of energy efficiency improvements.** **A municipality may waive the requirements of this subdivision upon request of the owner of the qualifying property, and, if such request is denied, the owner may appeal the denial ...**

Implementing a PACE Program

- Adopt ordinance allowing PACE
- Mayor designates PACE administrator
- Publish PACE program guide incl application & fee schedule
- Accept PACE applications including application fee
- Review and approve/deny application
- Issue letter of qualification
- Review and approve assessment contract
- Administrator signs assessment contract prior to PACE loan closing; city receives administrative fee at closing
- Installation of qualifying measures confirmed by third-party
- City receives annual fee for program admin; annual report
- City responsible for filing lien if default (missed payment)

Why do Cities adopt PACE?

- An Existing or New Business Owner or Developer wants to Use PACE Financing
- No Public Funds At-Risk; No City or Taxpayer Liability
- Gives Commercial Real Estate owners & developers another tool to help finance new construction or upgrade existing buildings
- Adds Another Economic Development Tool to the Tool Box (today Iowa and Kansas do NOT have PACE laws)



Questions?



Chris Peterson
Managing Partner, Nebraska

1327 H Street, Suite 303

Lincoln, NE 68508

Cell: 402.470.7294

chris@pacesage.com

www.pacesage.com