

Property Assessed Clean Energy (PACE) Financing in Ohio

Caleb Bell

614.227.2384

jbell@bricker.com

Margaret Comey

513.688.8433

Margaret.Comey@lockelord.com

What We'll Cover Today

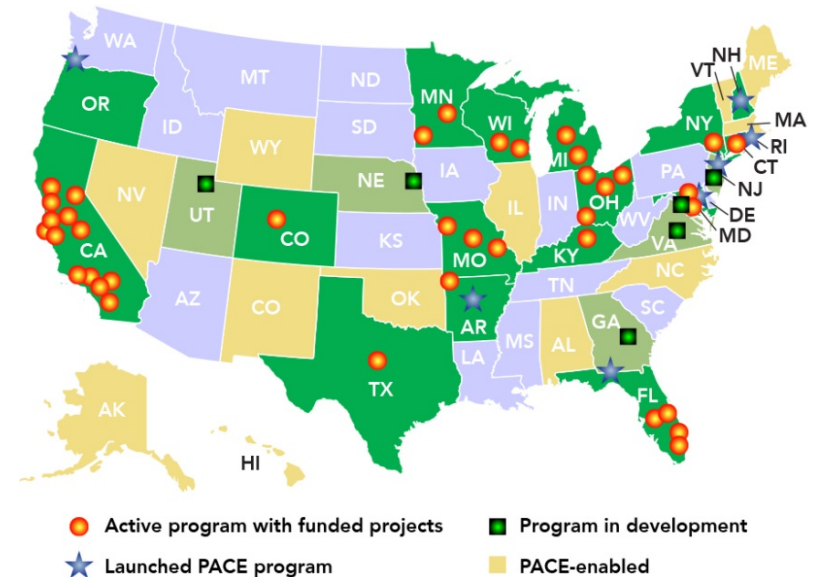
- Understand municipal special assessment process.
- Understand the difference between regular special assessments and PACE special assessments.
- Identify PACE-eligible improvements.
- Identify projects that are candidates for PACE financing.
- Understand lending alternatives for PACE projects.
- Case studies
- Q&A

PACE – “Property Assessed Clean Energy”



State Authorizing Legislation

- PACE = “Property Assessed Clean Energy”
- 30+ states authorize PACE
- States have several PACE laws for various reasons:
 - PACE is covered in more than one law
 - PACE laws have been passed over time to implement various aspects of PACE financing
 - PACE laws have been amended



Special Assessments Generally – Public Use

Special assessments:

- governmental charges
- not taxes
- imposed on real property benefited by an improvement
- used to pay the costs of improvement
- imposed in recognition of the “special benefit” received
- collected like real property taxes

Special Assessments for Energy Improvements – Private Use

- PACE assessments fund privately-owned improvements.
- PACE assessments use existing or modified special assessment laws.
- Privately-owned improvements must be “public use” or provide “public good.”
- States adopted PACE laws or relied on State constitutional provisions stating that energy conservation is a “public good.”
- Due process concerns are modified or reduced.

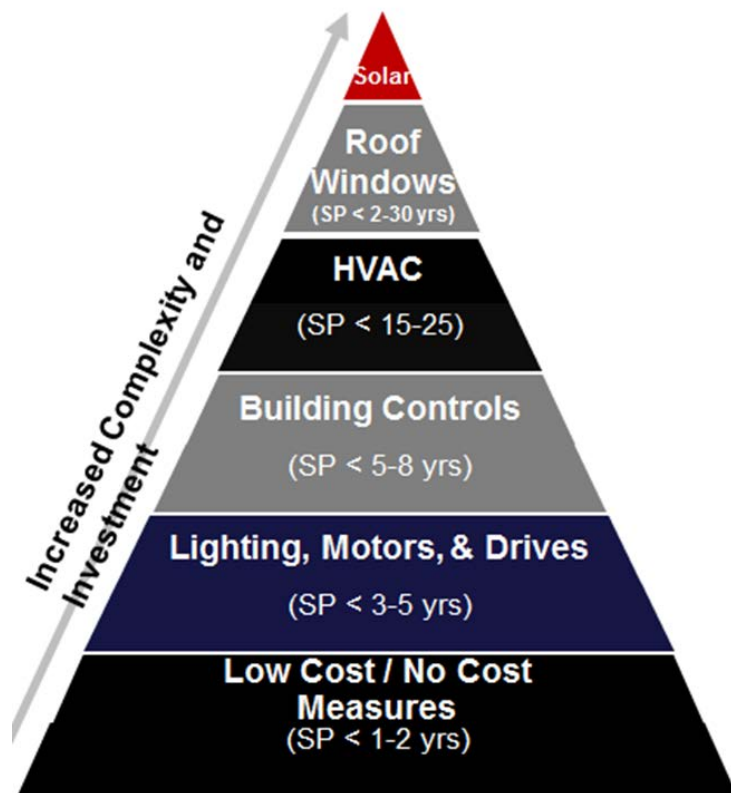
Special Assessments for Energy Improvements – Private Use

- Energy efficiency improvements
 - HVAC
 - Lighting
 - Roofs, windows, insulation
- Alternative energy improvements
 - Solar photovoltaic (PV) and thermal
 - Wind
 - Geothermal
 - Biomass
- Water efficiency improvements



Ohio's PACE Law

- Solar photovoltaic (i.e., roof-top and ground-mounted solar arrays)
- Solar thermal systems (i.e., solar water heating systems)
- Geothermal
- Wind
- Biomass
- Gasification
- **Energy efficiency improvements**



Ohio's PACE Law

“Energy Efficiency Improvement” is given a special statutory definition:

- “...energy efficiency technologies, products, and activities that (1) reduce or support the reduction of energy consumption, (2) allow for the reduction in demand, or (3) support the production of clean, renewable energy and that are or will be permanently fixed to real property.”

“Reduction In Demand” means:

- “...a change in customer behavior or a change in customer-owned or operated assets that reduces or has the capability to reduce the demand for electricity as a result of price signals or other incentives.”

Ohio's PACE Law

“Customer-generated energy project” means:

“... a wind, biomass, or gasification facility that produces electricity”

- EITHER the facility is designed to have a generating capacity of 250kw or less
- OR the facility is:
 - Designed to have a generating capacity of more than 250kw;
 - Operated in parallel with electric transmission and distribution facilities serving the real property at the site of the customer-generated energy project;
 - Intended primarily to offset part or all of the facility owner's requirements for electricity at the site of the customer-generated energy project and is located on the facility owner's real property; and
 - Not producing energy for direct sale by the facility owner to the public.

Special Assessment Authorization

- PACE assessments require the creation of districts or programs.
- Ohio ESIDs require
 - formation of a separate legal entity
 - articles, codes, and board representation
 - audits
 - other action items

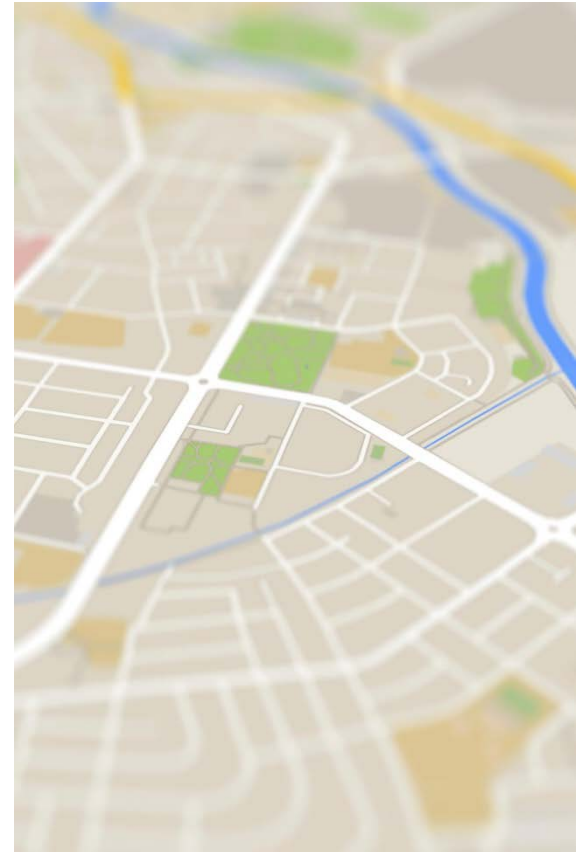
Energy Special Improvement Districts

- ESIDs are available for all property types (i.e., residential, commercial, industrial, non-profit and government property)
- Petition(s) by property owner(s)
- Legislative approval by local government
- District territory may be noncontiguous
- Single parcel projects

ESIDs - Applicable Law

Ohio Revised Code Section 1710.02(A)

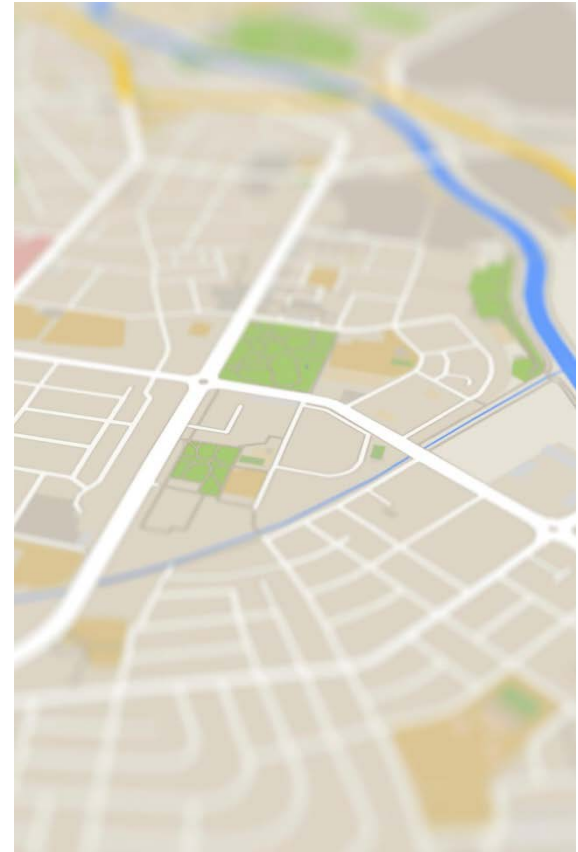
“A special improvement district may be created within the boundaries of any one municipal corporation, any one township, or any combination of contiguous municipal corporations and townships...”



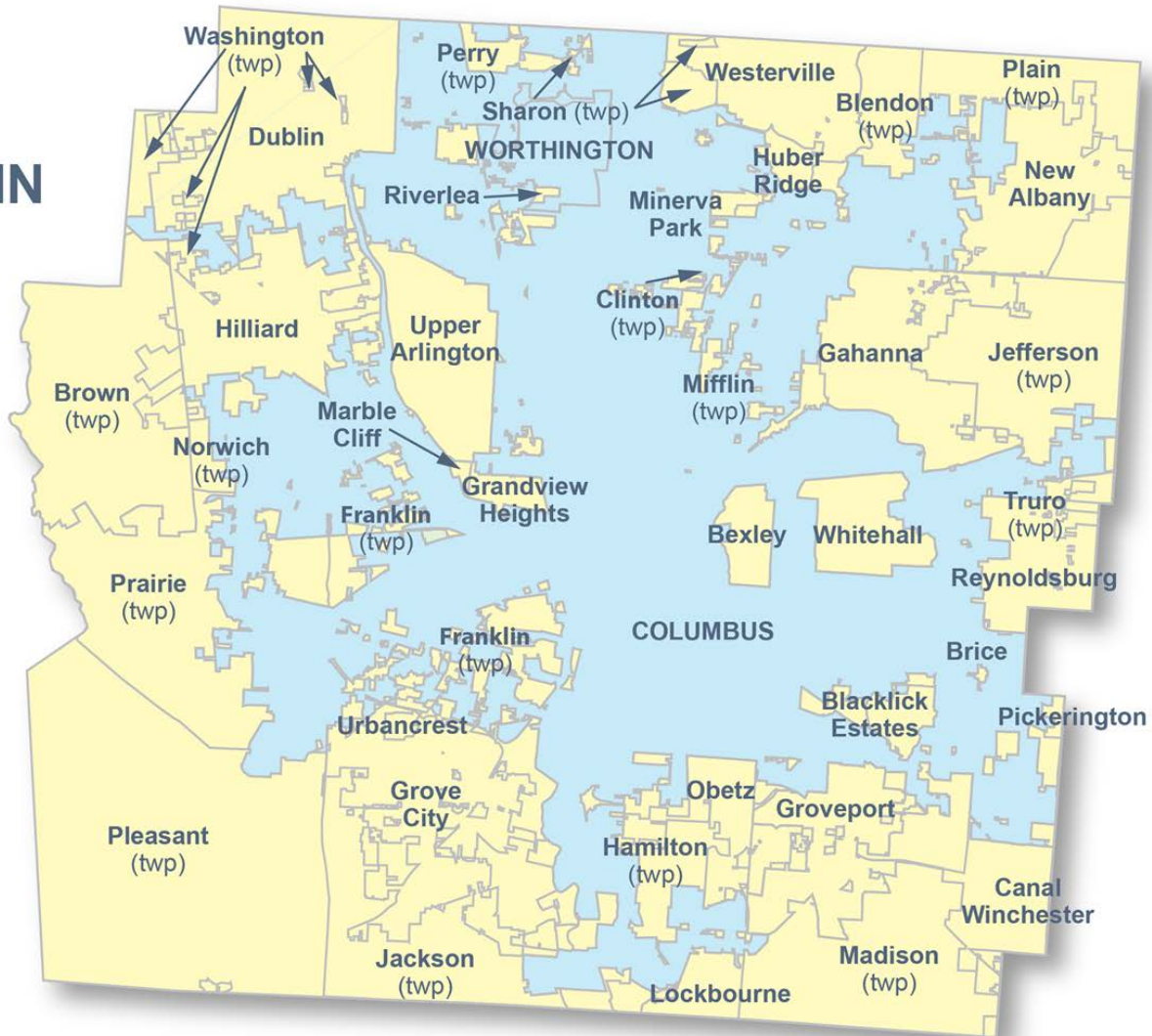
ESIDs - Applicable Law

Ohio Revised Code
Section 1710.02(A) cont.

“...territory in a special improvement district may be noncontiguous if at least one special energy improvement project is designated for each parcel of real property included within the special improvement district.”



FRANKLIN



Ohio PACE Programs



PACE Financing Case Studies



PACE Financing Case Studies

- PACE can be a tool added to other tools used in a project financing, such as TIF, HTC and Bonds
- PACE can be utilized on a single parcel or a single campus; PACE need not be city-wide or district-wide.
- PACE could be a project financing tool for any large user of power with deferred maintenance such as:
 - Commercial properties
 - Manufacturers
 - Colleges and universities
 - Hospitals
 - Municipal, county or township properties

Case Study: Great Lakes Mall

- \$3,375,000
- Port Authority + ESID + City
- Owner of Great Lakes Mall requested special assessments on main mall parcel
- Energy efficient roofing and 10 HVAC systems
- Mall tenants with triple-net leases obligated to pay proportionate share of tax bill and operating expenses
- Transaction was win-win:
 - Mall owner gets cost recovery for capital improvements
 - Mall tenants have lower costs (energy savings vs. tax bill)



Case Study: PNC Tower

Port Authority + ESID + City + County + State

- \$2,785,000 Bonds
- \$400,000 Loan
- \$920,000 Loan Loss Reserve Grant



Case Study: PNC Tower

- Owner of PNC Tower desired energy upgrades to enhance building
- Energy efficient roofing
- Air controls
- Lighting controls
- Existing tenants with triple-net leases obligated to pay proportionate share of tax bill and operating expenses

Case Study: Delco Lofts Project

- Urban redevelopment project in Dayton
- Historic industrial manufacturing building
- Redeveloped by Crawford Hoying Development Partners
- 134 market rate apartments, parking, amenities, and first-floor retail



Case Study: Delco Lofts Project

- \$17.6M Senior/Bridge Financing
- \$4.4M of Federal Historic Tax Credits (+/- 90% face value)
- \$5M in State Historic Tax Credits (+/-75% face value)
- \$3.8M Dayton Port Bonds
- PACE Financing
 - LED Lighting
 - Windows
 - HVAC
 - Insulation
 - Thermostats/Controls
- \$650,000 Dayton Port Sales Tax Savings



Case Study: Timberline

- \$926,000, part of overall \$4.5 million financing
- ESID + City + Owner's Lender
- Energy efficient roofing and HVAC systems
- Special assessments pledged as additional security for loan; if owner makes all loan payments, no special assessments are due
- Transaction benefits everyone:
 - Energy savings allow cost recovery for capital improvements
 - Lender gets additional security for PACE portion of the overall financing
 - Owner gets lower interest rate due to additional security



Case Study: City of Sharonville

- Adjoining parcels, each with an office building
- Energy management control systems, CO2 sensors, and LED lighting
- About \$240,000 total in energy improvements between the two buildings



Case Study: Kids First Sports Center

- 108,000-square-foot youth sports facility financed through PACE
- \$650,000 energy improvement project:
 - Installation of rooftop solar panels
 - Replacement of fluorescent lighting with LED lighting
 - Installation of new insulation panels in gymnasium
- Provides 100% of the energy project's cost and is repaid for up to 25 years with a voluntary special assessment added to the property's tax bill
- Financing by private lender focused on PACE financing



PACE Project Candidates

- Complicated projects
- Urban projects
- Retrofit projects
- New construction
- PACE can help replace equity requirements!



Questions & Discussion

Caleb Bell

Partner, Bricker & Eckler LLP



100 South Third Street
Columbus, Ohio 43215

jbelle@bricker.com

614.227.2384

Margaret Comey

Senior Counsel, Locke Lord LLP



7850 Five Mile Road
Cincinnati, Ohio 45230

Margaret.comey@lockelord.com

513.688.8433