Property Assessed Clean Energy Financing

PACE

A Better Financing Solution

Leading to a More Energy Efficient Illinois
The Market For PACE

$372 billion

Residential & Commercial Sector

$100 billion
In 2008, the U.S. residential and commercial sectors spent $100 billion retrofitting properties\textsuperscript{1}

Projected to grow to $134 billion by 2014\textsuperscript{2}

$36 billion spent on energy efficient products\textsuperscript{3}

\begin{itemize}
  \item \textbf{2008 (billions of $)}
  \begin{itemize}
    \item HVAC: $42 billion
    \item Windows: $10 billion
    \item Insulation: $10 billion
    \item Water Heaters: $10 billion
    \item Solar PV: $6 billion
    \item Other: $2 billion
  \end{itemize}

  \item \textbf{2014 (billions of $)}
  \begin{itemize}
    \item HVAC: $51 billion
    \item Windows: $36 billion
    \item Insulation: $13 billion
    \item Water Heaters: $12 billion
    \item Solar PV: $8 billion
    \item Other: $14 billion
  \end{itemize}
\end{itemize}

\textsuperscript{1} Estimate is based on data compiled from U.S. Industry Studies performed by Freedonia for HVAC, Insulation, and Windows and by market studies performed by Kema for Water Heaters. Solar PV estimates are based on the Solarbuzz June 2009 report.

\textsuperscript{2} Forecast is based on same industry sources.

\textsuperscript{3} According to American Council for an Energy-Efficient Economy, approximately $36 billion was spent on energy efficiency in 2008.
Problem: Few People Busy Efficient Products

Reasons Why:

1. **Cost to get in:** requires higher upfront costs

2. **Cost to get out:** all other financing requires payoff when you move\(^1\)

\(^1\) According to a report a July 2009 report “Unlocking Energy Efficiency in the U.S. Economy” published by McKinsey & Company, ownership transfer concerns affect 40% of retro-fit potential and is the largest contributing factor in preventing consumers from purchasing more efficient systems.
Solution: PACE Loan

Loan stays with the property when you sell it

Property owners borrow money

Loans are repaid
Through property tax bill
Over 15 years
Any Improvement which is permanently attached to the property to make the property more energy efficient or produce clean energy. Does not include appliances.
Everybody Wins!

1. Property Owners
2. Contractors
3. Municipalities
4. Bond Investors
Property Owner Gets an Offer They Can’t Refuse

No costs to get in
No cost to get out
Lower operating costs
Increase property value
You get $1,500¹

¹ Property owners receive Tax Credits in the year the products are purchases. For energy efficiency products (heating, air-conditioning, windows, insulation and water heaters, etc.), the first year tax credit is equal to 30% the cost of the product up to $1,500. The total tax credit for energy efficiency products are capped at $1,500 per home. For renewable energy products, including solar PV systems, property owners receive a credit of 30% the value of the system with no cap. In the example above, the solar PV system’s installed cost was $17,500.
Contractors Back to Work & Grow Business

- Construction Unemployment over 22%
- PACE creates needed work and offers a competitive advantage
- Customers easily qualify
- Generates more customers
- Realize more profit
Municipalities Get an Offer They Can’t Refuse

More Jobs + More Municipal Sales Tax Revenue\(^1\) + Without Raising Personal Taxes + Aligns with Goals for Energy Efficiency = Satisfied Voters / Consumers

\(^1\) Municipalities will increase sales taxes from product sold in their community. Additionally, over time, they would receive incremental property tax revenue from the increase in property values.
Bond Investor Gets a Safe Investment

PACE Bonds have:

- Senior priority lien over mortgages
- Lower LTV’s than mortgages
- Lower default rates
- Yields of 6-8%\(^1\)

\(^1\) Yields will be 10-Year Treasury plus 3.50%
PACE is Sweeping the Nation

- One state per month + has passed PACE legislation (57% of housing/building stock) since January, 2009
- More than 2 dozen municipalities have issued or will be issuing RFP
- Anticipate IFA to Issue pending EECBG Award
- Many have and intend to outsource program administration and bond financing

Map showing states with Passed State Legislation and Not Necessary.
Illinois Housing Stock & Market Potential

- Over 5.3 MM Housing Units per US Census Bureau
- Ramp Up to Retrofit 2% of homes in IL per year --- Over 100,000 per year
- Average Retrofit in IL @ $17,000* per home
- Creates $1.7 Billion in contracts / bond issuance
- Per the Clinton Global Initiative approximately 1,300 jobs are created for every $100 MM in PACE financings
- Creates Approximately 22,000 jobs

* Average retrofit in CO is $17,000 per home.
IL Legislation & Pending Grant Applications

- SB 583
- SB 2482 – Assigned to Revenue under SB2505 on 2/10/10
- SB 1906 and 390 concerning IFA
- EECBG Grant Awards Imminent
- IFA committed to use authority to be conduit issuer
WHAT’S INVOLVED IN IMPLEMENTING A PACE PROGRAM?
Implementing a Successful PACE Financing Program Requires a Multi-Disciplinary Team

- Review Legislation & Attain Unqualified Opinion from Bond Counsel
- Program Design
- Marketing
- Website Development
- Application Processing
- Special Tax / Assessment Administration
- Financial Advisor
- Legal Documentation
- Tax & Disclosure Requirements
- Financing / Underwriting
- Ongoing Tax / Assessment Administration
PACE FINANCING PROCESS

Scope | Apply | Close | Installation of Improvement | Request Funding | Repayment

Property Owner
- Application Review
- Record
- Lein
- Notification to Proceed
- Funding Request Approved

Program Administrator
How the Program Works

- Program is launched and marketed to the Community
- Contractors and property owners attend workshops and/or direct questions to PowerHouse
- Property owner gets bids from contractors
- Issuer Sells Bonds and Assessments are Placed
- Lien Recorded
- Property owner Signs Closing Documents
- Property owner applies and is Approved to participate in the Program
- Property Receives Notice to Proceed
- Work is Completed and Contractor(s) are Paid
- Property Owner Receives Tax Credits and Begins Repayment
- Property owner gets bids from contractors
- Property owner Signs Closing Documents
## MULTI-DISCIPLINARY REQUIREMENTS

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<tr>
<th>Role</th>
<th>Financing</th>
<th>Design</th>
<th>Marketing and Customer Support</th>
<th>Loan Origination</th>
<th>Ongoing Program Support</th>
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OUR EXPERIENCE

• Over 50 municipalities
• Design, financing, marketing, customer support, loan origination, and ongoing support
• Commercial, industrial, and residential
• Legislative support
• Illinois office
Why Partner With Us?

- Experience
  - Over $1 billion in energy efficiency and renewable energy program management experience
- Established and trusted advisors
- No exposure to local government
- Higher program participation = more jobs

Client sampling ...
Thank You

Larry Doody
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