



VERMONT ENERGY
INVESTMENT CORPORATION

PACE in Vermont - Show Me the Money!

PACE Statewide Gathering | March 27, 2010
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Who will pay for PACE?

Act 45 §3263. COSTS OF OPERATION OF DISTRICT

- *The owners of real property who have entered into written agreements with the municipality under section 3262 of this title shall be obligated to cover the costs of operating the district.*
 - *A municipality may use other available funds to operate the district.*
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What will PACE cost?

There are three ways for a PACE program to charge participating property owners to defray costs and mitigate risks:

1. Application fee(s)
2. An addition to the interest rate charged to the property owner
3. Loan Loss Reserve account contribution

What will PACE cost?

1. Application fee (or fees) to cover one-time set-up costs

- underwriting costs, title search, lien attachment
- “one size fits most”
- probably \$150-\$250
- could be added to the PACE financing amount if property is approved and improvements are done

What will PACE cost?

2. An addition to the interest rate charged to the property owner to cover:

ongoing program administration costs

- assessment collection, debt service charges
- about 1% additional interest rate charge added when calculating the assessment amount
- fixed for the life of the assessment
- no penalty for prepayment

What will PACE cost?

3. Loan Loss Reserve contribution

- one-time non-refundable payment by property owner into pooled account
- liquidity: for example, if property owner makes PACE assessment payment late
- minimizes possibility of loss from default. This is an excise charge (larger assessment creates larger risk)
- percentage of project: for example, for every \$10,000 of improvements, property owner accepts a lien of \$10,200 - \$10,500 (2% to 5%)

PACE assessment example – Small project with 10-year term

Assessment	\$5,000	Annual cost	\$697
Interest rate	7.0%	Total interest	\$1,967
Term (years)	10	Total cost	\$6,967

PACE assessment example – Small project with 10-year term

1. Application fees	\$150
2. Ongoing program administration costs (@1% interest rate premium for 10 years)	\$305
3. Loan Loss Reserve account one-time contribution (@2 - 5% of assessment)	\$100 - \$250
TOTAL (across 10 years)	\$555 - \$705

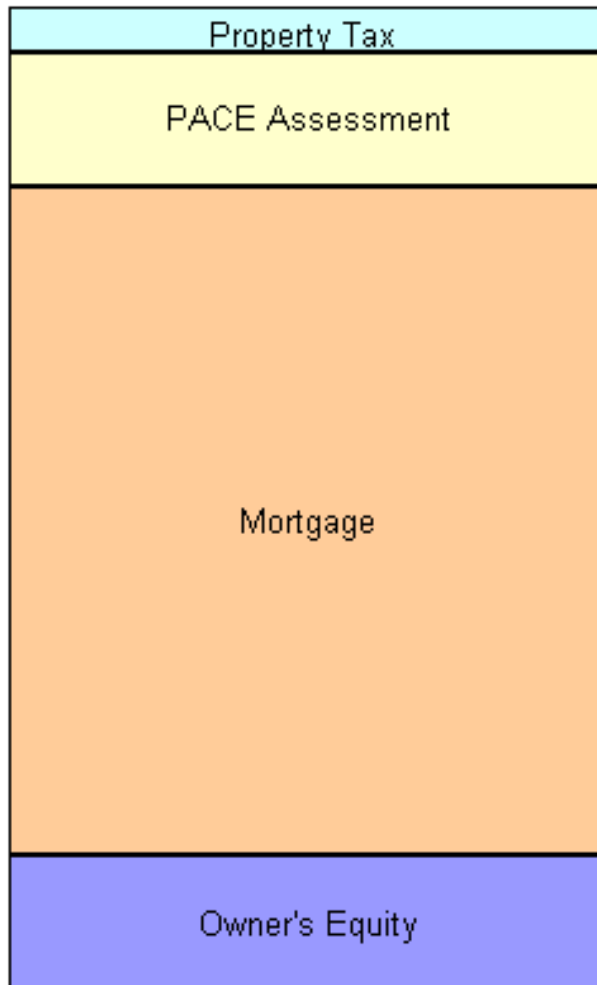
PACE assessment example – Large project with 20-year term

Assessment	\$30,000	Annual cost	\$2,791
Interest rate	7.0%	Total interest	\$25,822
Term (years)	20	Total cost	\$55,822

PACE assessment example – Large project with 20-year term

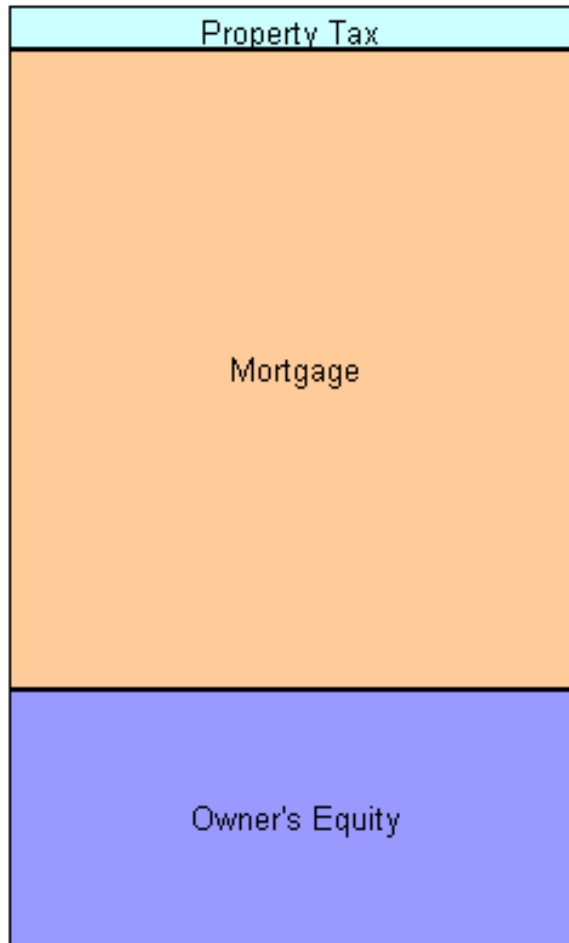
1. Application fees	\$250
2. Ongoing program administration costs (@1% interest rate premium for 20 years)	\$4,238
3. Loan Loss Reserve account one-time contribution (@2 - 5% of assessment)	\$600 - \$1,500
TOTAL (across 20 years)	\$5,088 - \$5,988

Vermont PACE lien position



PACE assessments, like all special assessments, are subordinate to property taxes and senior to mortgages ...

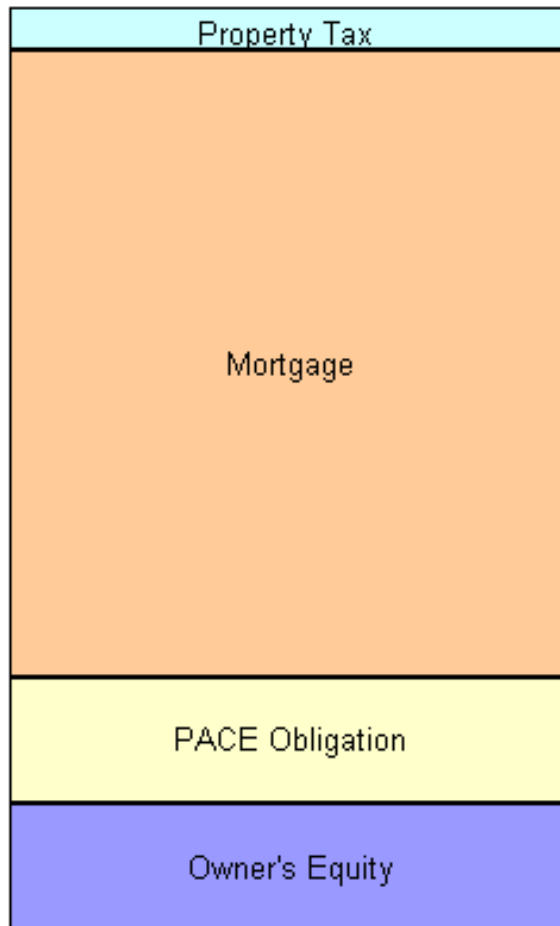
Vermont PACE lien position - Foreclosure



... EXCEPT in foreclosure!

Act 45 says, “A municipality shall release the lien on the property upon demand from a party who has filed an action for foreclosure on a participating property.”

PACE lien position with a contractual obligation



However, a municipality can require a participating property owner to agree that, in a foreclosure, a lien will be placed on the property below the mortgage

PACE liens in Vermont – Summary



PACE liens are senior to mortgages EXCEPT in foreclosure:

- Municipality must release the lien upon demand from a party who has filed an action for foreclosure
- Municipality can mitigate this risk by requiring property owners to place a lien back on the property subordinate to the mortgage
- Reserve accounts may be funded by participating property owners
- Reserve accounts may also be funded from other sources

Act 45 Loan Loss Reserve



§3269. RESERVE FUND

(a) A participating municipality may create a reserve fund for use in the event of a foreclosure upon an assessed property. The reserve fund shall be funded by participating property owners at a level sufficient to provide for the payment of any past due balances on assessments under this subchapter and any remaining principal balances on those assessments in the event of a foreclosure upon a participating property.

Act 45 Loan Loss Reserve



§3269. RESERVE FUND

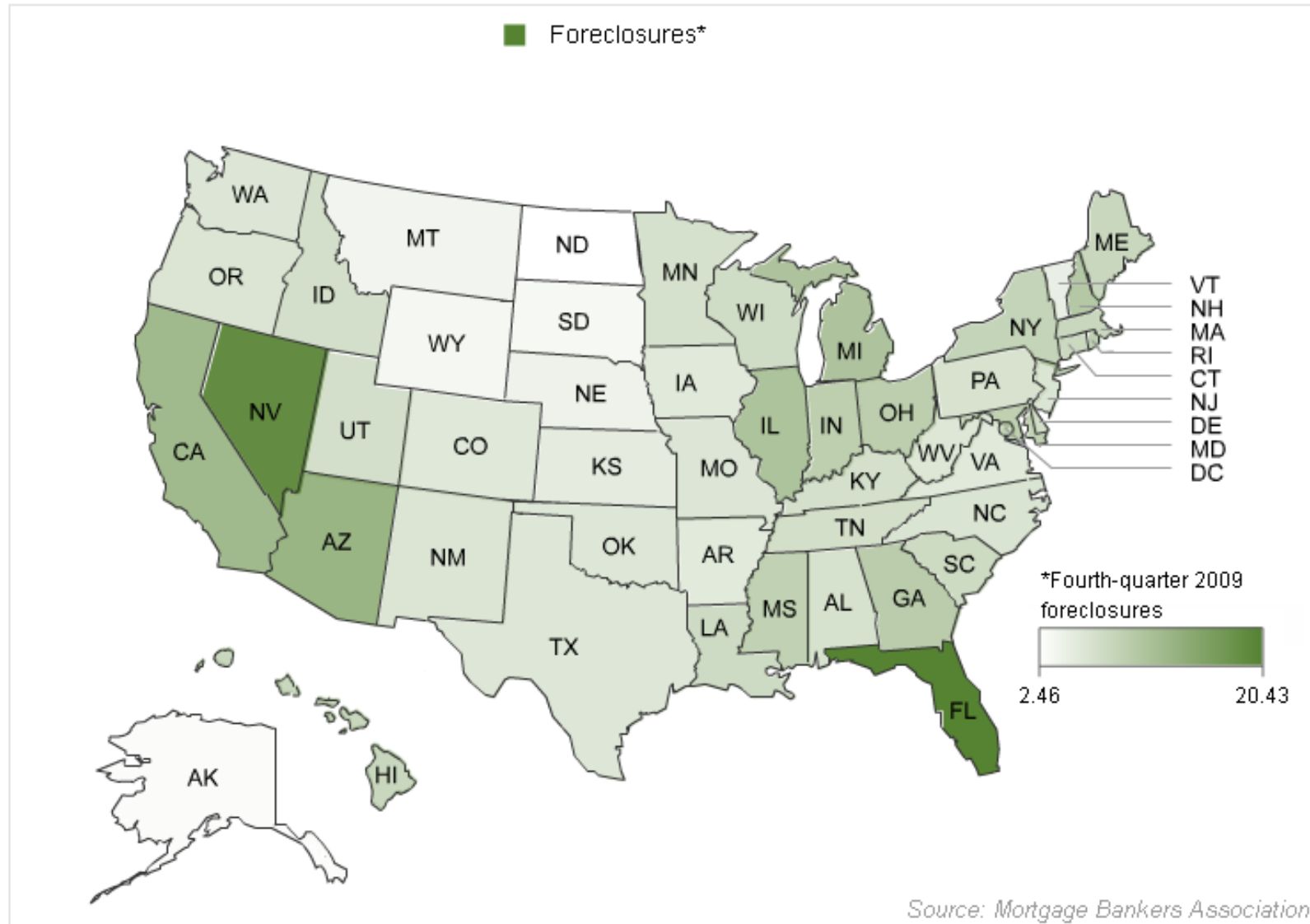
(b) The reserve fund shall be capitalized in accordance with standards and procedures approved by the commissioner of banking, insurance, securities, and health care administration to cover expected foreclosures based on good lending practice experience.

(c) The municipality shall disclose in advance to each interested property owner the amount of that property owner's required payment into the reserve fund. Once disclosed, the amount of the reserve fund payment shall not change over the life of the assessment.

Vermont has one of the lowest foreclosure rates



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Vermont PACE program parameters

- Maximum PACE financing is 15% of assessed value
- Residential: Maximum PACE financing is \$30,000, or 15% of assessed value, whichever is less
- PACE assessment + existing mortgage < 90% of assessed value
- Municipalities can choose to be more restrictive

History of PACE programs nationally

- Berkeley, CA: Solar PV only pilot, 38 projects, \$1 mil
 - Palm Desert, CA: 70% solar, 206 projects, \$7.5 mil
 - Boulder County, CO: 500 projects, \$10 mil
 - Babylon, NY: Redefined existing district, 169 projects, \$1.2 mil
 - Sonoma County, CA : 670 projects, \$21 million
 - CaliforniaFIRST: Pilot in summer 2010. The pilot counties and cities have been awarded \$16.5 million in funds from California's State Energy Program
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PACE alternatives, nationwide

- Aggregated bond issuance
 - Boulder County, CO
- Interim financing model
 - City / county funds
 - Sonoma County and Palm Desert
 - Private capital
 - Berkeley / San Francisco / San Diego
(renewable funding)
- Babylon, NY, model
- Commercial banks and credit unions

PACE in Vermont – Working together

Act 45 §3266. INTERMUNICIPAL AGREEMENTS

Two or more municipalities, by resolution of their respective legislative bodies or boards, may establish and enter into agreements for incurring indebtedness or otherwise financing projects under this subchapter.

PACE financing options in Vermont

§4592. SUPPLEMENTARY POWERS

The (Vermont Municipal Bond) Bank ... has the following powers:

... (9) To issue its bonds or notes which are secured by neither the reserve fund nor the revenue bond reserve fund, but which may be secured by such other funds and accounts as may be authorized by the bank from time to time

PACE financing options in Vermont

§4592. SUPPLEMENTARY POWERS

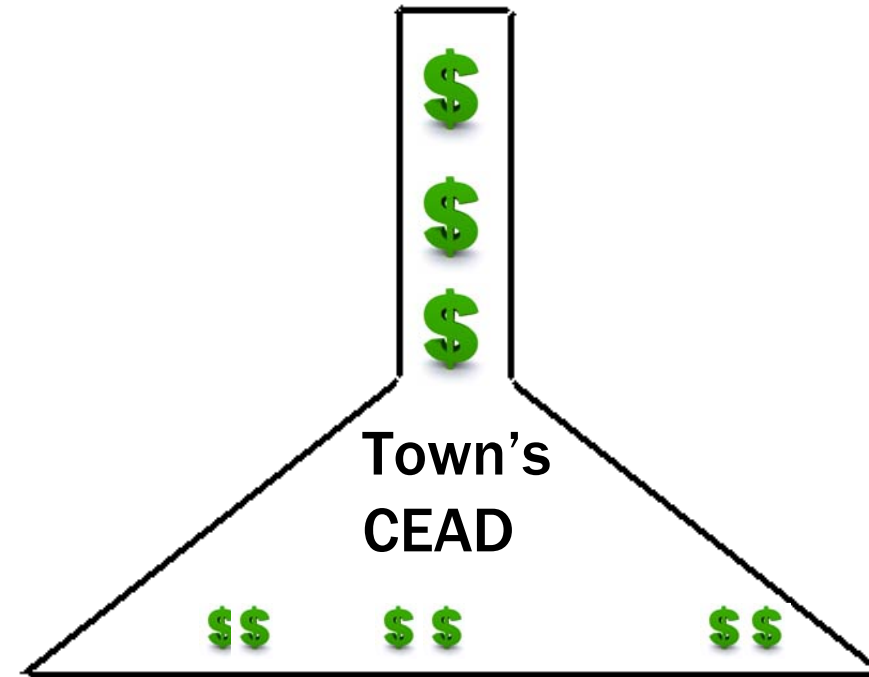
The (Vermont Municipal Bond) Bank ... has the following powers:

- *... (10) To issue bonds, other forms of indebtedness, or other financing obligations for projects relating to renewable energy... or to energy efficiency projects...*
- *Bonds shall be supported by both the general obligation and the assessment payment revenues of the participating municipality*

How the money flows



Financing Source



**Property
Owner**

**Property
Owner
Opts In**

**Property
Owner
Opts In**

**Property
Owner**

**Property
Owner
Opts In**

More information

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