

The Lean & Green Michigan™ Approach to Property Assessed Clean Energy (PACE)

An Innovative Way To Help Michigan
Businesses Save Money, Create Jobs,
Grow The Tax Base and Green our State



<http://www.leanandgreenmi.com>



Southfield and Ingham County have
joined Lean & Green Michigan™

Rochester Hills could be next!

How it works and what it would mean
for economic development

MILLER
CANFIELD



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Property Assessed Clean Energy (PACE)

Long-term financing allowing commercial, industrial and multi-family property owners to undertake clean energy improvements profitably, making their business more efficient while gaining positive cash flow to plow back into operations

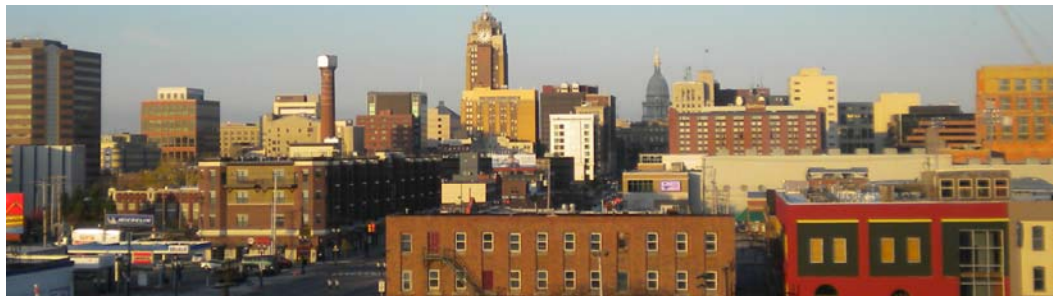


PACE is an economic development incentive requiring **no** taxpayer money! The city is simply giving its businesses a property tax tool to make long-term financing work for energy pro



Who can take advantage of PACE?

- Owners of commercial, industrial, and multi-family property (virtually all business owners)
- Private non-profits (churches, hospitals, private schools, etc.)
- What buildings can *not* be involved?
 - Single family homes
 - Government buildings



WHAT CAN BE FINANCED UNDER MICHIGAN'S PACE STATUTE?

- Energy efficiency improvements
- Water efficiency improvements
- Renewable energy improvements
- New manufacturing equipment that saves energy or water
- 100% of eligible project costs
- Refinancing all of above



MORE DETAILED LIST: WHAT CAN BE FINANCED

- Insulation
- Caulking, weather-stripping, and air sealing
- Windows
- Doors
- Energy control systems
- HVAC
- Energy recovery systems
- Lighting fixtures and day lighting systems
- Electrical systems to charge PEVs and HPEVs
- Water use reduction or efficiency
- Energy-efficient or water-efficient manufacturing processes and equipment
- Biomass
- Solar
- Solar thermal
- Wind
- Geothermal
- Methane gas captured from a landfill
- **Anything else approved as a "utility cost-savings measure" by a municipality participating in Lean & Green Michigan™**

PACE CRACKS THE ENERGY FINANCE NUT

- Problem: most clean energy projects don't work with traditional financing (payback > loan term)
- “Special assessment” mechanism provides more secure, longer term financing
- As a property tax, a PACE special assessment:
 - Is senior to any mortgage, so it is extremely secure
 - “Runs with the land,” so it moves to new owner if property is sold



PACE CRACKS THE ENERGY FINANCE NUT (CONT.)



- Longer term
 - Typical commercial loan: 3-5 years
 - PACE: 10-20 years
- Low, fixed interest rate
- Reduced risk for lender
- Contractors must guarantee the energy savings on projects over \$250,000

PACE Loan vs. Traditional Bank Loan (Example)

Previous annual energy cost	\$300,000	
Project Investment	\$750,000	
	PACE Lien	Traditional Loan
Term	15 years	5 years
Loan To Value	100%	85%
Down Payment	0	\$112,500
Interest Rate	6%	5%
Annual Energy Savings (30%)	\$90,000	\$90,000
Monthly Debt Service	\$6,329	\$12,030
Annual Debt Service	\$75,948	\$144,360
Cash Flow	\$14,052	\$(54,360)

The Lean & Green Model (I)

PUBLIC-PRIVATE PARTNERSHIP: FAST, FREE, EFFICIENT

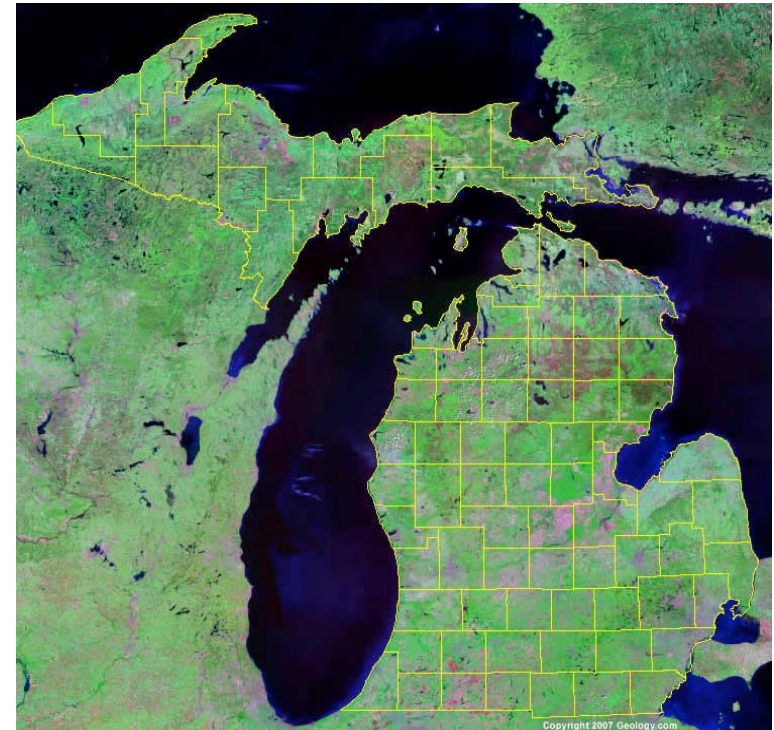
- Traditional model: local govt. pays vendor \$200,000 to \$1,000,000 to create PACE district
- Better way – join Lean & Green Michigan™ for free
 - Levin Energy Partners administers the district
 - Miller Canfield does the legal work for local govt.
 - LEP and MC are compensated by property owners in each privately-financed PACE deal, *not* by R.H.
- This Public-Private Partnership approach is faster (no vendors, no RFP process) and avoids risk for local govt., which invests no money



The Lean & Green Model (II)

SHARED SERVICES, STATEWIDE IMPACT

- Michigan statute allows jurisdictions to create ***shared*** PACE district
- Lean & Green Michigan™ creates a statewide PACE market open to all
- Companies get one set of efficient rules for projects across state
- Banks get broad and diverse pool of projects to finance
- Cities & counties save money and avoid duplication with a “shared services” approach



The Lean & Green Model (III)

FINANCE PROJECTS WITH PRIVATE CAPITAL



- Private financing unleashes the market to drive growth
- Lean & Green brings it!
 - Banks: Citi, Wells Fargo, Comerica, Fifth Third, PNC, etc.
 - PACE funds: Structured Finance, Clean Fund, Samas Capital
 - Private Equity
 - Labor capital: Ullico, pension funds
- Public funding is allowed but not necessary

ECONOMIC DEVELOPMENT IMPLICATIONS

- Economic gardening – help *all* industries
- Property owners: save money, get green PR
- Tenants/employees: buildings are more comfortable, less expensive, and greener
- Contractors: get a new tool to gain business
- Citizens: put local residents *to work* on retrofits, etc.
- City: cutting edge of greening; improve biz climate
- Planet: reduce carbon footprint



Next Steps



- Pass resolution of intent
- Hold public hearing
- Pass resolution of adoption (can be at same mtg. as public hearing)
- Start working with businesses to develop and finance clean energy projects!

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MICHIGAN'S PACE STATUTE

- Public Act 270 of 2010 became law on 12/14/2010
- Covers commercial, industrial and multi-family property – not single family property
- Affords flexibility on financing arrangements
- Allows up to 100% loan-to-value (LTV) financing
- Bank must consent if there's a mortgage
- Allows municipalities to work together

