

FRANKLIN PLANNING & COMMUNITY DEVELOPMENT

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MEMORANDUM

TO: JAMIE HELLEN, TOWN ADMINISTRATOR

FROM: BRYAN W. TABERNER, AICP, DIRECTOR

RE: PROPERTY ASSESSED CLEAN ENERGY (PACE) MASSACHUSETTS

CC: MARK G. CEREL, TOWN ATTORNEY; CHRISTOPHER SANDINI, FINANCE DIRECTOR; KERRI BERTONE, COLLECTOR/TREASURER; KEVIN W. DOYLE, DIRECTOR OF ASSESSING; AMY LOVE, TOWN PLANNER; CHRISSEY WHELTON, ASSISTANT TO THE TOWN ADMINISTRATOR

DATE: JULY 14, 2020

As you know on April 10, 2020 representatives from the Massachusetts Development Finance Agency (MassDevelopment) met with Town of Franklin staff to introduce the Property Assessed Clean Energy (PACE) Massachusetts program, and discuss potential benefits to property owners, and requirements of the Town.

PACE is a tax based financing mechanism that enables low-cost, long-term funding for energy improvements, such as energy-efficiency projects and renewable systems, on existing Commercial and Industrial properties in Massachusetts. To finance the improvements, a property owner agrees to a betterment assessment on their property, enabling property owners to undertake more comprehensive energy upgrades with longer payback periods (up to 20 years). At property sale the lien stays with the property and is transferred to subsequent property owners.

MassDevelopment's PACE Program Manager Wendy Lee O'Malley will be attending the July 22nd Town Council Meeting remotely to outline the PACE program and its benefits, and answer questions. MassDevelopment acts as the Lead Program Administrator for PACE Massachusetts. In order for the community to participate in PACE Massachusetts it must opt-in through passage of a Town Council Resolution.

Attached for review and consideration is Resolution 20-42, a two page PACE Massachusetts flyer, a short presentation, and a couple examples of PACE projects in other communities.

PACE is an economic development tool for Massachusetts communities that help to create a more competitive environment for attracting and retaining businesses through lower energy costs. DPCD highly recommends the Town participate in this new economic development incentive program. I look forward to discussing PACE at the July 22nd Town Council meeting.



PACE

Property Assessed Clean Energy (PACE) Massachusetts for commercial buildings is a new mechanism to finance energy improvements, such as energy-efficiency projects, renewables, and gas line extensions, on commercial and industrial properties in Massachusetts. To finance improvements, a property owner agrees to a betterment assessment on their property, which repays the financing. This approach enables owners to undertake more comprehensive energy upgrades with longer payback periods of up to 20 years. At property sale, the lien stays with the property and is transferred to subsequent property owners.

Background

Commercial Property Assessed Clean Energy was passed as part of the energy legislation signed by Governor Baker in August 2016. MassDevelopment and the Massachusetts Department of Energy Resources (DOER) will administer the PACE program.

Process and Eligibility

- Individual municipalities may opt into PACE one time by a majority vote of the city or town council or the board of selectmen, as appropriate.
- Properties eligible for financing through PACE include:
 - Commercial buildings
 - Industrial buildings
 - Multi-family buildings with five or more units
- Improvements eligible for financing through PACE must be permanently fixed to the property. Eligible improvements include:
 - Energy efficiency upgrades
 - Renewable energy
 - Extension of existing natural gas distribution to a property



Benefits

- Property owners: Advantageous, non-recourse, upfront, long-term, potentially off balance sheet financing that remains with the property if sold. Capital improvements could reduce operating costs and increase property values.
- Municipalities: Job creation, business growth, and environmental benefits associated with reducing energy consumption.
- Lenders/Mortgage holders: Improved cash flow and reduced credit risk from lower operating costs via financing that cannot be accelerated. Capital improvements could also increase collateral property value.

PACE is an economic development tool for cities and towns across Massachusetts. Energy upgrades create a more competitive environment for attracting and retaining businesses through lower energy costs. ***Email pace@massdevelopment.com with your questions.***

MassDevelopment helps cities and towns revitalize, develop, and transform. We offer financing programs and real estate technical assistance services and have the expertise to take on your most challenging projects. ***Learn more by calling 800-445-8030 or visit MassDevelopment.com.***

Main office:

99 High Street, Boston, MA 02110

Regional offices:

Devens | Fall River | Quincy | Lawrence | Springfield | Worcester





PACE Massachusetts Program Information

July 22, 2020

Town of Franklin



What is PACE?

- Property Assessed Clean Energy (PACE) is a tax-based financing mechanism that enables low-cost, long-term funding for energy improvements
- PACE financing is repaid via a betterment assessment on a property's tax bill
- PACE betterment assessments work similar to improvements for public infrastructure that benefit specific properties (i.e., sidewalk or sewer)

PACE in Massachusetts



- Commercial Property Assessed Clean Energy (PACE) was passed in H4568 and signed by Governor Baker in August 2016
 - Amendment for PACE technical correction signed August 2019
 - PACE Massachusetts will become available in Summer 2020
- MassDevelopment will act as Lead Program Administrator
- MassDevelopment will administer the PACE Massachusetts program in consultation with the Massachusetts Department of Energy Resources

Eligible Properties: Existing Buildings



<u>Property Type</u>	<u>Examples</u>
<ul style="list-style-type: none">• Commercial/Industrial	<ul style="list-style-type: none">• Office buildings• Malls• Hotels• Restaurants• Manufacturers
<ul style="list-style-type: none">• Not for profit	<ul style="list-style-type: none">• YMCAs• Schools• Health Care
<ul style="list-style-type: none">• Multifamily (5 units or more)	<ul style="list-style-type: none">• Apartment complexes

Eligible Measures



Measure Type

- Energy efficiency
- Renewable energy
- Gas line extensions

Potential Examples

- Energy management systems
- Insulation and air sealing
- HVAC systems
- Boilers and furnaces
- Lighting
- Energy Recovery and redistribution systems
- Solar panels
- Solar hot water
- Geothermal

Key Elements of PACE Massachusetts



- Municipal opt-in (one time) required
- Maximum financing term allowed by statute is 20 years (dependent on useful life of project measures)
- Energy cost savings must exceed cost of improvements (including any financing costs and associated fees)
- Third party direct private financing (no public funds used)
- Existing mortgage holders must provide written consent to a PACE financing and lien

Key Elements of PACE Massachusetts (continued)



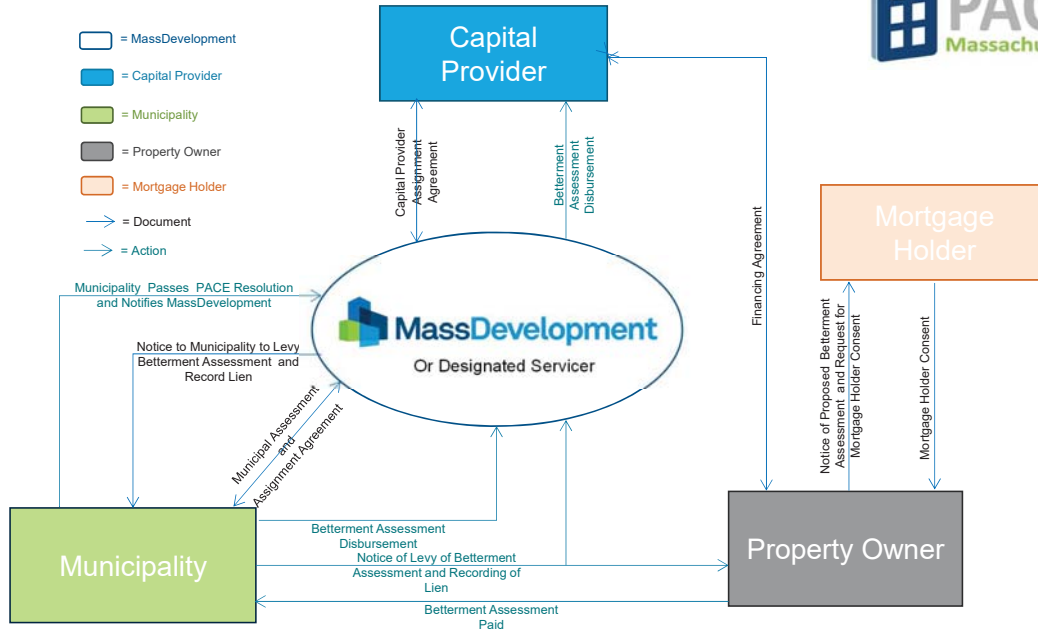
- Municipal liens are senior to PACE liens; unpaid PACE assessments are senior to all other private mortgage liens in a foreclosure
- PACE assessments cannot be accelerated (only unpaid amount can be collected)
- If property is sold, the remaining PACE assessment and PACE lien stays with the property and transfers to new owner
- No limit or maximum financing cost*
 - * project must still meet energy cost savings requirement

PACE Authorized Municipalities



- Acton
- Agawam
- Amesbury
- Barnstable
- Devens
- Erving
- Fall River
- Fitchburg
- Greenfield
- Gardner
- Lexington
- New Bedford
- North Adams
- Northampton
- Orange
- Pittsfield
- Randolph
- Rockland
- Wendell
- West Springfield
- Yarmouth

Commercial PACE Structure



 **Wendy Lee O'Malley**

MassDevelopment
 Vice President, PACE Program Manager
 99 High Street
 Boston, MA 02110
 phone: 617-330-2000 fax: 617-330-2001
 direct: 617-330-2019
womalley@massdevelopment.com





Dallas' first PACE project is now the largest in Texas. \$23.9 million in PACE financing enabled the inclusion of energy and water-saving measures in the redevelopment capital stack of the historic Butler Brothers Building.

THE PROBLEM:

Originally constructed in 1910, the nine-story, 600,000 square-foot historic mercantile warehouse, known as the Butler Brothers Building, had long been an empty eyesore across from City Hall. The abandoned building, purchased by Alterra International, a Dallas-based global real estate development company, had deteriorated, with walls covered in graffiti and warping hardwoods soaked from rain leaking into the building. However, redeveloping a historic building could be a costly, complicated venture. Nathan Whigham, VP Business Development at CleanFund, explains one of the common hurdles with redevelopment projects, "A typical real estate capital stack falls short of the funds necessary to cover the additional up-front cost of more expensive energy and water-saving equipment that lowers the property's operating costs." Accessing future operating savings rarely justifies the diversion of significant existing sources of capital from the core business or company growth.

THE PACE SOLUTION:

The utilization of the TX-PACE program to finance energy and water conservation measures has renewed the Butler Brothers Building and demonstrated that there is a low-cost, long-term replacement to expensive equity partner financing.

Alterra International, a Dallas-based global real estate development company, acquired the historic facility in 2011 with the goal of redeveloping the former warehouse and adding to the revitalization underway at the eastern end of downtown. "The TX-PACE financing allowed us to increase the building's energy-efficiency, attracting more interest and appealing to residents and tenants that look for high-efficiency facilities with low maintenance costs, said Mike Sarimsakci, President of Alterra International. "Additionally, we are able to satisfy the sustainability preference of hotel guests, building greater retention and loyalty."

Apartment residents now relish the restored original hardwoods, the exposed brick and concrete columns, and the layers of charm that have been brought back to life.

"PACE loans pair incredibly well with historic buildings that are typically energy inefficient and require additional capital in order to renovate the property to modern energy efficiency standards," Phill Geheb with Munsch Hardt stated. "I am beginning to see greater interest in the utilization of this program for historic and nonhistoric renovation projects because of its flexibility, relative low-cost and non-recourse nature."

COMMUNITY IMPACT:

This project will contribute to the creation of over 100 jobs in the Dallas area, reduce annual electricity use by more than 6.6 million kilowatt hours, remove over 3,500 metric tons of CO₂e each year, and save almost 700,000 gallons of water per year.

"It is great to see Dallas' first PACE deal make it across the finish line. Hopefully this financial model will serve as an example for the other PACE transactions in the Dallas pipeline," said Robin Bentley, Interim Director of the City's Office of Economic Development.

The redevelopment into 238 apartments, a 270-room dual-branded Fairfield Inn/TownePlace Suites by Marriott, and retail and office space is expected to spur additional revitalization in the area.

PROJECT OVERVIEW

PROJECT FINANCING

Lender: CleanFund Commercial
PACE Capital, Inc.
Total Assessment: \$23.9 million
Incentives:
- Historic Tax Credits: \$21 million
Term: 20 years
Lender Consent Granted

IMPACT

- Approximately 6,600,000 kWh in electricity savings annually
- Almost 700,000 gallons of annual water savings
- Approximate annual energy use reduction of 40%

BUILDING

Size: 600,000 Square Feet
Built: 1910

IMPROVEMENTS

HVAC, lighting, insulation, roofing, glazing, exterior waterproofing and plaster, plumbing fixtures, and irrigation systems

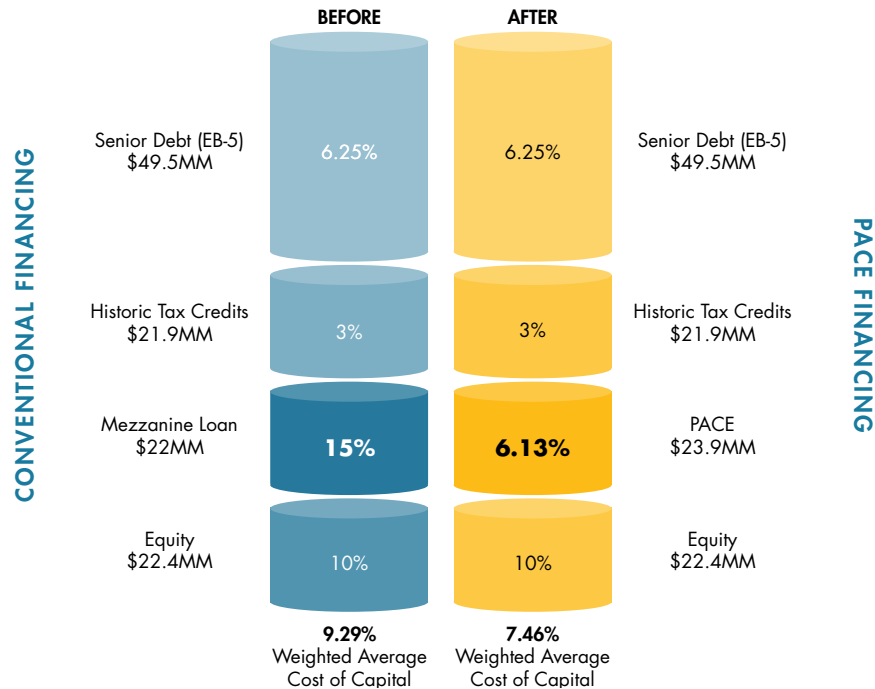
PACE IN TEXAS

Texas PACE answers the question, "How are we going to pay for it?" and is transforming how developers, owners, and contractors look at projects, proving that there is a clear path forward for energy efficiency, distributed generation, water use reduction, and resiliency projects in existing buildings.

CONTACT

Texas PACE Authority
admin@texaspaceauthority.org
1-855-738-PACE (7223)
www.texaspaceauthority.org

CAPITAL STACK COMPARISON



HOW DOES TX-PACE WORK?

Commercial Property Assessed Clean Energy (TX-PACE) is an innovative financing program that offers commercial, industrial, and large multi-family property owners a voluntary program to obtain up to 100% financing for water conservation, energy-efficiency, resiliency, and distributed generation retrofits. TX-PACE has great potential to directly affect a business' bottom line; a project's savings in utility costs offsets the cost of installing the project. In most instances, this will result in an immediate positive cash flow.

CITY OF DALLAS

The City's TX-PACE program is based on the Texas PACE in a Box model program created by over 130 stakeholders. The City of Dallas provides a market-based, flexible TX-PACE program that enables property owners to do business with the parties of their choosing at the lowest possible administrative cost. The program includes a high level of consumer protection to ensure that the projects will deliver the anticipated savings.

dallas.texaspaceauthority.org



TEXAS PACE AUTHORITY

The nonprofit organization, Texas PACE Authority, administers the uniform "PACE in a Box" model on behalf of the City of Dallas. This model approach ensures local governments can establish an effective program quickly and economically, providing a tool for building owners to invest in more efficient infrastructure.

www.texaspaceauthority.org



CLEANFUND COMMERCIAL PACE CAPITAL

CleanFund Commercial PACE Capital is the leading direct provider of long-term financing for energy efficiency, water conservation, renewable energy and seismic improvements to commercial, multifamily and other nonresidential properties in the U.S. With significant expertise in commercial real estate, finance, renewable energy and PACE policy, CleanFund offers PACEDirect™ and SolarPACE™ financing programs, which enable property owners to upgrade their properties with no up-front cost, increasing property cash flows and value.

www.CleanFund.com





GARFIELD METRO BUILDING

MACOMB COUNTY'S FIRST PACE PROJECT

Project Quick Stats:

PACE district: Macomb County

Property owner: RMP, LLC

PACE developer: Newman Consulting Group

PACE contractors: BASS

Controls/Bumler Mechanical

PACE lender: Petros PACE Finance

Amount financed: \$249,000

Project term: 20 years

Total 20 year savings: \$733,133.00

Total net savings: \$254,725.00

Average annual cash flow: \$12,736.00

Energy conservation measures: Efficient heating and cooling systems, LED lighting, and networked building controls.

Impact: Each year, the Garfield Metro Building PACE project will replace **119,118 kWh of electricity** and **6120 therms of natural gas**.

That will result in, a **carbon reduction of 96.5 metric tons** annually

- That's like **taking 20 cars off the road** each year!

Overview

In July 2017, the Peleman family, owners of the Garfield Metro Building, became the first property owner to use PACE financing in Macomb County. The Pelemans are using PACE financing to install LED lighting, high efficiency heating and cooling systems, as well as system controls. Under the Lean & Green Michigan PACE program, the Peleman family, partnered with Newman Consulting Group and Petros PACE Finance, a national PACE lender, to make its 20,000 square foot office building more comfortable, cost-effective, and attractive to tenants.

BASS Controls and Bumler Mechanical identified the PACE opportunity for the Pelemans and partnered with Newman Consulting Group to develop the PACE project. BlueColt Lighting provided the lighting solution for the project. BASS Controls and Bumler Mechanical are members of the National Electrical Contractors Association (NECA) of Southeastern MI and partner with the highly skilled workforce of IBEW Local 58.

The PACE-financed upgrades are slated to break ground in August 2017 and will result in \$733,133 in total savings and a net savings of \$254,725 over 20 years. Through PACE, the Pelemans are not only saving money and eliminating energy waste, but also setting a sustainable example for small buildings across Macomb County and Michigan.

Partners



PACE Financing

Commercial building owners spend \$200 billion per year on utilities, yet 30% of this is waste. The comprehensive energy projects that could make these properties efficient often require significant up-front capital and take years to achieve profitability. Commercial loans typically have a tenor of 3-5 years, making the annual repayment much greater than the energy savings. PACE changes all this by allowing property owners to finance energy efficiency and renewable energy projects through a property tax special assessment.

Macomb's elected leaders created a countywide PACE district in October 2013 by joining the statewide Lean & Green Michigan PACE program. Since the County will enforce this assessment just like any other property tax obligation, lenders feel secure in providing fixed-interest loans with terms of up to 25 years. The result is 100% financing with positive cash flow for commercial and non-profit property owners, since the savings generated by the energy project are greater than the PACE loan repayments. In addition, these projects create good jobs and communities upgrade their building stock, increasing the local tax base over time.

Lean & Green Michigan

Lean & Green Michigan™ helps commercial, industrial and multi-family property owners take advantage of PACE to finance energy projects, eliminate waste and save money through long-term financing solutions that make energy projects profitable. Lean & Green Michigan™ is a public-private partnership that works with local governments, contractors, property owners, and lenders to invigorate Michigan's PACE statute with a market-based approach to energy finance and economic development.

Contact Lean & Green Michigan

Email: info@levinenergypartners.com

Phone: (313) 444-1474



3400 Russell, Ste. 255
Detroit, MI 48207





RESOLUTION 20-42

Authorization to Participate in the Massachusetts Commercial Property Assessed Clean Energy Program (PACE Massachusetts)

- WHEREAS,** pursuant to M.G.L. c. 23M, as amended (the “PACE Act”), the Commonwealth has established a commercial sustainable energy program known as the Massachusetts Property Assessed Clean Energy Program (“PACE Massachusetts”) to provide a financing mechanism (“PACE financing”) to private owners of commercial and industrial properties for certain qualifying commercial energy improvements (“improvements”); and
- WHEREAS,** pursuant to the PACE Act, PACE Massachusetts is administered by the Massachusetts Development Finance Agency (“MassDevelopment”), in consultation with the Massachusetts Department of Energy Resources; and
- WHEREAS,** under PACE Massachusetts, the owner of the commercial or industrial property benefitting from the improvements (the “benefitted property”) is required to repay the PACE financing through the payment of a betterment assessment (a “PACE betterment assessment”) placed on such benefitted property by the municipality in which the benefitted property is located; and
- WHEREAS,** in order for an owner of commercial or industrial property to participate in PACE Massachusetts, Section 2 of the PACE Act requires that the municipality in which such property is located must elect to participate in PACE Massachusetts; and
- WHEREAS,** the Town of Franklin (the “Municipality”) has determined that it is in the best interest of the Municipality to participate in PACE Massachusetts as a “participating municipality,” as provided in the PACE Act, to permit the owners of commercial and industrial properties located in the Municipality to access PACE financing for qualifying commercial energy improvements through PACE Massachusetts;

NOW THEREFORE, BE IT ORDERED, as follows:

The Town Council of the Town of Franklin hereby approves the Municipality participating in PACE Massachusetts pursuant to the PACE Act, and authorizes the Town Administrator to enter into a PACE Massachusetts Municipal Assessment and Assignment Agreement (the “Agreement”) with MassDevelopment, pursuant to which the Municipality will agree to:

- (i) Levy PACE betterment assessments and impose PACE betterment assessment liens on benefitted properties located in the Municipality, in the amounts determined by MassDevelopment to be sufficient to repay the PACE financing,
- (ii) Assign the PACE betterment assessment liens to MassDevelopment, which MassDevelopment may in turn assign to the providers of the PACE financing (each a “capital provider”), as collateral for such PACE financing,

- (iii) Include on the property tax bills for the benefitted properties the installment payments necessary to repay the PACE betterment assessments, in the amounts and at the times as determined by MassDevelopment,
- (iv) Collect and pay over to MassDevelopment or its designee, the PACE betterment assessment installment payments, as and when collected, and
- (v) Enforce, to the extent required by the Agreement, the PACE betterment assessments and liens. The Collector Treasurer of the Municipality as may be designated in the Agreement is authorized to levy such PACE betterment assessments and impose the PACE betterment assessment liens on behalf of the Municipality without further authorization by this legislative body.

Notwithstanding any other provision of law to the contrary, officers and officials of the Municipality, including, without limitation, municipal tax assessors and tax collectors, are not personally liable to MassDevelopment or to any other person for claims, of whatever kind or nature, under or related to PACE Massachusetts, including, without limitation, claims for or related to uncollected PACE betterment assessments. Other than fulfillment of the obligations specified in the Agreement, the Municipality has no liability to the owner of the benefitted property or to any capital provider related to the Municipality's participation in PACE Massachusetts.

This resolution shall become effective according to the provisions of the Town of Franklin Home Rule Charter.

DATED: _____, 2020

VOTED: _____

UNANIMOUS: _____

A TRUE RECORD ATTEST:

YES: _____ **NO:** _____

ABSTAIN: _____ **ABSENT:** _____

RECUSED: _____

Teresa M. Burr, CMC
Town Clerk

Glenn Jones, Clerk
Franklin Town Council