

**Testimony of Thomas Nason, Northeast Regional Manager C&I
Sargent Electric Company, Lewiston, Maine**

**Before the Maine Committee on Energy, Utilities, and
Technology Public Hearing on LD-340, An Act to Allow for the
Establishment of Commercial Property Assessed Clean Energy
Programs**

February 16, 2021

My name is Tom Nason, and I am the Northeast Regional Manager of C&I for Sargent Electric Company based in Lewiston, Maine. Sargent Electric performs work as an electrical contractor/subcontractor on commercial and industrial projects, specializing in lighting, power distribution, and renewable energy project delivery. We also have experience in energy efficiency upgrades to existing facilities. I am here today to strongly support and to encourage you to vote Yes on LD 340.

Sargent Electric is a member of the Boston Chapter of the National Electrical Contractors Association (NECA), which serves electrical contractors throughout northern New England. We are part of the association of electrical contractors who partner in labor-management relationships with International Brotherhood of Electrical Workers (IBEW) local unions 567 and 1253 here in Maine.

NECA contractors are the types of qualified construction professionals who can help commercial property owners plan and execute PACE-financed energy efficiency and clean energy projects. Working in this industry, we see the aging facilities, as well as new construction projects, that could benefit from more energy efficient systems. There is an important market for PACE projects, which will allow owners to decrease their energy consumption and utility costs, increase the value of their property, and make their facilities more desirable overall. Many owners are already looking to save on their energy bills and want to make their facilities more

comfortable and attractive with these upgrades, but they just don't have the money upfront to get these types of projects off the ground.

The opportunity to finance through a PACE property tax mechanism will be attractive to our customers for a variety of reasons. First, PACE financing will require little or no upfront capital, which is usually prohibitive for a company that often needs to use its available resources to grow the business. It will also allow them to repay the cost of the projects over a much longer period of time than a standard loan, lowering the annual repayment cost to a manageable level. Second, PACE financing allows commercial landlords to pass the cost of these updates to tenants through existing lease structures, such as a triple net lease, since the tenants themselves will reap the benefits of lower utility costs and a more efficient and desirable space. And third, since PACE loans are tied to the tax debt of the property and run with the land, property owners can be confident that if they decide to sell the property during a 10- or 20-year repayment period, the new owner will assume both the financial responsibility and the energy efficiency benefits of the PACE project.

What is even better about the PACE financing mechanism? We don't need to create an immense government bureaucracy or use taxpayer money to incentivize and pay for these projects. LD 340 requires no use of taxpayer funds, and PACE financing is market-driven. This bill is designed so business owners, construction professionals, and private lending institutions are the primary decision-makers on the viability of a potential PACE project. The local government's role is 1.) to verify that the project meets appropriate energy saving standards and 2.) to collect and remit PACE loan payments through existing tax authorities. What we are asking from the Maine Legislature through LD 340 is only to authorize counties or municipalities to establish Commercial PACE programs, if they decide PACE is right for their community.

I certainly hope that you will consider voting Yes on LD 340 because it will be good for both large and small communities throughout Maine. It will increase property values. It will decrease energy consumption which we all know is one of Governor Mills goals for Maine to become more carbon neutral. These programs will facilitate job opportunities for companies like Sargent Electric, ensuring we can put more Maine based electricians, project managers, engineers, estimators, and field staff to work here at home.

I have attached three informational and/or case studies detailing how C-Pace projects have been successful in other states across the United States.



Forney Museum trims energy costs by 32 percent

Nonprofit projected to save \$229,206 over 20 years

THE CHALLENGE

The Forney Museum of Transportation is a small nonprofit cultural institution in Denver, Colorado. When the museum, which boasts a one-of-a-kind collection of transportation-related artifacts, including a Union Pacific Big Boy steam locomotive and Amelia Earhart's 1923 Kissel Gold Bug, wanted to upgrade its facility with energy efficient lighting, preserving capital was a major concern.

THE SOLUTION

The museum's director, Christof Kheim, was introduced to the C-PACE program by an energy efficiency consultant and recognized the benefits immediately. "We chose to participate in C-PACE because the funding is tied to the property via a property tax assessment, regardless of ownership, and because C-PACE gives us a longer-term repayment plan than we would have gotten through conventional financing," said Kheim. "The longer term resulted in a more affordable annual payment, which allowed us—a nonprofit with limited resources—to improve our facility."

"This C-PACE project will allow the museum to save greatly on our energy costs, freeing up funds for other worthwhile projects such as artifact preservation, educational programming, and volunteer opportunities."

—Christof Kheim, director of The Forney Museum of Transportation

THE IMPACT

Colorado C-PACE facilitated 100 percent of the financing for the lighting project, preserving the museum's operating budget. Even better, with just a \$63,073 investment, the nonprofit is projected to shave more than \$229,000 off its utility bills over 20 years (the effective useful life of the LED lighting). The project, which is being installed by a local contractor, Mac Electric and Lighting, is also projected to boost the building's value by \$176,312.

"The C-PACE program is an incredible financial tool that allows our customers to make efficiency and sustainability improvements and have a cash-flow-positive budget with no cash out of pocket," said Paula Megenhardt, lighting sales manager at Mac Electrical and Lighting. "As rebate incentives evolve and change, [the program] gives businesses the opportunity to take advantage of funding while incentives are available rather than miss out while trying to raise capital to pay for the project."

Despite its success, the Forney Museum project wasn't without challenges. "There were several capital providers who weren't comfortable financing our project," said Kheim. "After several false starts, Alpine Bank, who we were introduced

to through the program, came through with enthusiasm and efficiency."

When asked how other nonprofits could benefit from the C-PACE program, Kheim said, "C-PACE offers an opportunity to make cost-saving energy efficiency upgrades with little or no upfront costs, resulting in a set and affordable annual repayment expense. Any organization, but in particular nonprofits, would benefit greatly by using C-PACE. They can lower their operating expenses and free up some of their limited finances via the resulting cost savings."

ABOUT COLORADO C-PACE



Colorado Commercial Property
Assessed Clean Energy

Colorado C-PACE provides financing for energy efficiency, renewable energy and water efficiency improvements, including new heating/cooling systems, lighting, water pumps, insulation, and renewable energy projects for commercial properties. C-PACE offers long-term financing that covers 100 percent of the project cost and is repaid over a period of up to 20 years as a line item on the existing property tax bill. Because the loan runs with the property, if the building is sold, the repayment obligation can transfer to the new owner, who enjoys the ongoing utility cost savings associated with the project.

Visit copace.com for more information.

BY THE NUMBERS

Project type:
Energy efficiency

Building type:
Nonprofit

Building size:
146,217 square feet

Total project cost:
\$63,073

Percent financed:
100%

Asset value increase:
\$176,312

Finance term:
10 years

Lifetime energy savings:
\$229,206

Put C-PACE to work for your building.
Contact SRS at www.paceworx.com today.

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Mortgage Lenders See Opportunity in C-PACE Financing

AUTHOR: [Laura Laumont](#) PUBLISHED ON: [July 24, 2020](#) PUBLISHED IN: [News](#)

Building owners have long understood the advantages of low-cost, long-term financing through Commercial Property Assessed Clean Energy (C-PACE). A common question from borrowers is – but how will my senior lender look a C-PACE? C-PACE requires written consent from all secured lenders on the property because, like other property tax assessments, the claim for current and delinquent C-PACE payments is typically on par with regular property taxes. At first glance this structure seems difficult for lenders, yet [hundreds of national, regional, and local lenders have consented to C-PACE](#), and the industry is growing exponentially. Demand for C-PACE has only increased in recent months as traditional lending sources have pulled back in response to Covid-19 and lenders are recognizing C-PACE as a valuable tool to capitalize new, ongoing, or recently completed construction projects. For projects grappling with Covid's impact, C-PACE can offer immediate liquidity that is structured to benefit both the sponsor and the senior lender, notably through senior debt service reserves or partial paydowns.

Why do senior lenders consent to C-PACE financing?

1. **C-PACE Assessments Do Not Accelerate** – only current & past due C-PACE payments can be enforced through a tax lien and are senior to a mortgage lender's claim; the full principal balance can never be called due, unlike a traditional mortgage.
1. **C-PACE Does Not Restrict a Senior Lender's Foreclosure Rights** – the senior lender can foreclose on the property in the same manner as if it were the sole financing on the property; there is no "workout" with mezzanine debt or equity providers.
2. **Escrow the C-PACE Assessments** – senior lender may require borrower to escrow annual C-PACE payments on a monthly basis, similar to property tax and insurance escrows, to mitigate risk of non-payment.
3. **C-PACE Capitalized Interest** – interest can be capitalized for up to 24 months (longer for select projects) to push the first payment beyond project completion or stabilization.
4. **Ample C-PACE Cure Period** – mortgage lender receives notice & cure rights with ample time to bring the C-PACE current given that a tax lien foreclosure/sale typically takes 12-24+ months.
5. **C-PACE OpEx Savings May Increase Property Value** – many states require that a third-party engineer verify that the monetary savings from C-PACE funded improvements exceed the cost of the financing, supporting a higher property NOI and valuation.
6. **C-PACE Wins Deals & Build Relationships** – the combination of a traditional mortgage and C-PACE typically offers the lowest blended cost of capital to borrowers, allowing senior lenders to fund more projects and offer a differentiated product to the market without having to build out C-PACE expertise or compete on pricing alone.

The need for C-PACE financing is more acute than ever before in the industry's 10-year history. Importantly, many C-PACE programs permit ["look-back" financing](#) of eligible improvements or developments completed within the last 1-3 years. C-PACE can offer immediate liquidity to fund cost overruns, pay down debt, and replenish operating and debt service reserves, benefitting both the borrowers and the existing lenders. C-PACE interest can be capitalized for up to 24 months (longer for select projects), delaying any impact on debt service coverage.

SAMPLE IMPACT

A \$100M hotel development is initially capitalized with \$30M of equity and \$70M of construction financing charging 5.5% interest-only. The project faces \$5M of cost overruns and operating reserve shortfalls. The property's projected as-stabilized value was originally \$123M but has been revised downward to \$107M. C-PACE can fund \$21.4M (20% LTV) to cover:

- \$5.0M of cost overruns and operating reserves
- \$6.0M paydown of the senior loan
- \$7.7M of senior debt service reserves to cover 24 months
- \$2.7M of C-PACE capitalized interest reserve to cover 24 months

In this example, C-PACE brings the project back in balance and funds costs and reserves to stabilize the project. The senior lender's LTV based on the revised \$107M valuation is 59.8%. Had the senior lender chosen to accrue interest for two years rather than bring C-PACE into the project, its LTV based on the \$107M valuation would have been significantly higher at 72.6%. Had the sponsor used "traditional" rescue capital (often 10%+ rates), they would face eroded equity, higher debt service, or both.

Many lenders structured short-term forbearance began in March and April 2020, and lenders are now facing difficult decisions around foreclosure and potential Chapter 11 bankruptcy filings by borrowers. The C-PACE liquidity offering outlined above offers a win-win solution to lenders and borrowers to avoid costly litigation and bridge properties through near-term uncertainty.



Laura Laumont is [Greenworks Lending's](#) Vice President of Principal Transactions.

For additional questions about lender consent and C-PACE financing, email Laura at llaumont@greenworksloaning.com.

SHARE ON



The Henry

Luxury townhomes with advanced energy technologies

Project Quick Stats:

PACE district: Washtenaw County

Property owner: Prentice Partners of Ann Arbor

PACE contractor: G-Energy & Green Portfolio Solutions

PACE lender: Greenworks Lending

Amount financed: \$1,970,972

Project term: 20 years

Net 20 year savings: \$1,773,677

Total 20 year savings: \$7,468,075

Energy conservation measures:

- LED lighting and controls
- Solar panel roof mounts
- High Efficiency building envelope, heating, ventilation, water heating and water fixtures
- Energy Star windows and appliances

Impact: This project will save up to 58.3 tons of CO2 release - the equivalent of 69 acres of US forest capturing harmful greenhouse gases.

Overview

As Washtenaw County's first PACE project, The Henry will be an exciting addition to the Ann Arbor community and will reap significant savings for the property owner. This formerly vacant lot will include construction of two buildings for eleven three-level townhouses with additional co-working space.

With advanced energy technologies such as solar panels, electric vehicle charging stations for an on-site vehicle fleet, and other high efficiency appliances, The Henry is sure to succeed in its marketing to young professionals who are often energy and environmentally conscious.

"The Board and I are excited to support Washtenaw County's first PACE project," said County Chair Morgan. "We are committed to achieving our county's environmental and carbon neutrality goals. 'The Henry' reflects the kind of environmental impact that supports those goals. This project ensures that the environment will be preserved and protected for future generations. We're proud to know that this will be the first of several construction projects that produce energy efficient, accessible and sustainable housing in our community."



Partners



green
portfolio
solutions



PACE Financing

Commercial building owners spend \$200 billion per year on utilities, yet 30% of this is waste. The 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 greater than the energy savings. PACE changes all this by allowing property owners to finance energy efficiency and renewable energy projects via a property tax special assessment.

Washtenaw County's elected leaders created a countywide PACE district in February 2014 by joining the statewide Lean & Green Michigan PACE program. Since the County will enforce the PACE 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 to facilitate energy-saving projects. 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.

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