

# C-PACE Offers Benefits for Energy Efficient Properties in Many States

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**Regardless of arguments as to its cause, climate change is real and its negative effects on health and the environment are evident. And although there exist legal directives that certain businesses must meet to increase energy efficiency and reduce carbon emissions, which draw both compliance and resistance, force has not been the only driver in changing behavior. In fact, physical, social, environmental, and market factors have become very motivating rationales for sustainable practices – especially in the real estate industry.**

Depending upon location, 21st century real estate ownership and development demands application of various methods of planning and construction, as well as financing. One of the proven means of achieving energy efficiency in developing and redeveloping commercial properties has been the Commercial Property Assessed Clean Energy program, commonly known as “C-PACE.”

## What is C-PACE?

PACE is a tax assessment-based financing mechanism that provides long-term funding for energy efficient improvements to property, as well as renewable energy and water conservation projects. (While PACE financing may be applied to both commercial and residential properties, this update focuses only on *commercial* properties – i.e. C-PACE). While PACE is a national program, it is applied and administered state-by-state. To date, 38 states and the District of Columbia have passed PACE legislation, 28 of which have active programs.

C-PACE financing is commonly used to provide up-front capital for an existing property, or as part of the capital stack in connection with an acquisition and development project.

For example, in Ohio, PACE financing may be used for:

- Energy efficiency improvements, such as:
  - HVAC
  - lighting
  - roofs
  - windows

- doors
- building envelope
- insulation
- any other energy efficiency technologies, products, and activities that reduce or support the reduction of energy consumption, allow for the reduction in demand, or support the production of clean, renewable energy
- Alternative energy improvements, such as:
  - solar photovoltaic project
  - solar thermal project
  - geothermal project
  - wind, biomass, or gasification facility

#### How does it work?

PACE programs are structured as a cooperative arrangement between the property owner, a lender, a local government entity (such as a municipality or a township) and a specifically-created energy special improvement district (ESID). The ESID authority and the property owner plan the project, the lender and property owner negotiate the terms of improvement financing, and the financing closes. At closing, 100% of the C-PACE proceeds are deposited into escrow, which will be disbursed as costs are incurred – similar to a construction loan. The special assessment is then added to the property tax bill and the taxing authority will assign its rights to the payments to the ESID lender.

If a current special assessment is not paid when due, a lien is placed on the property for the unpaid amount. The special assessment lien has the same priority as a property tax lien for general taxes – i.e., it has first priority. As with general property tax liens, it is the property, not the property owner itself, that is subject to liability for the payback amount.

#### What are the benefits?

The main benefits of the C-PACE program are:

- Establishment of energy-efficient buildings that reduce operating costs
- Minimal upfront cost for property owner
- Financing can cover 100% of project costs (both hard and soft)
- Funding is provided up front

- Payback terms typically range from 10 to 20 years (but not in excess of the improvements' useful life)
- The financing is not a loan – the cost is paid back by way of a special assessment on the property tax bill (i.e., “property assessed”)
- Annual energy savings for a project usually exceed the annual assessment payment, so the property owner is typically cash flow-positive immediately
- The property owner is not personally liable for payback
- PACE improvements will likely increase property value
- Leases may pass-through the special assessments to tenants
- The special assessments run with the property upon transfer

C-PACE financing will not make sense for all projects; however, owners and developers owe it to themselves to consider its use.

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