2019 EMP Comments — Property Assessed Clean Energy— October 5, 2018
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I'm Jonathan Cloud, Executive Director of New Jersey PACE.

Property Assessed Clean Energy, or PACE, is an innovative means of financing clean energy and resiliency improvements in buildings. We have submitted detailed comments on PACE to the BPU, and presented in earlier EMP sessions. Today I want to emphasize the extraordinary value of PACE for urban communities. New Jersey is expecting legislation on PACE late this year, for Commercial Properties.

I'd like to first, summarize the key features of PACE, for the benefit of the public who may not be familiar with it at all, or understand the opportunities that it offers their community, so that the audience understands the potential for PACE to both transform energy use in the built environment, and to provide a sustainable growth engine for the state and local economies.

PACE is a unique financing mechanism that removes the barriers that have stopped commercial property owners from upgrading their buildings with energy efficiency, renewable energy and resiliency measures. PACE saves commercial property owners money on energy, as soon as they make the improvements. It provides 100% of the hard and soft costs, with no upfront costs. PACE allows you to pay for the retrofits –or, in new construction, the upgrades beyond code--over the useful life of these improvements. Projects are typically cashflow positive, right from the start since they are designed to have the energy savings more than cover the annual costs. The result is more valuable and more comfortable buildings, that are more competitive to rent or lease, that save energy and, often, water, and that contribute local jobs and economic development.

With Commercial PACE, it becomes possible to really renew and revitalize many downtown areas, suburban office parks, strip malls, and other frequently neglected areas, and community and economic developments groups should jump on this opportunity to create local jobs, get local lenders involved, and get the word out to property owners. "Commercial," by the way, means not just office and retail, but also industrial, agricultural, institutional properties like schools, churches, and hospitals, and also multifamily properties. If many or most eligible properties were to implement PACE projects, then this can have a significant impact both on the economy and on the sustainability of our cities and towns.

The first thing to notice about PACE is that this financing is not tied to the property *owner*, but rather to the underlying property, so it is automatically transferred to the new owner if the property is sold. This means that the credit worthiness of the current owner is less important than the asset value of the property, which is the key factor in what can be invested. It also means that the property owner doesn't have to worry about whether or not they might want to sell the

[1] New Jersey PACE is an initiative of Possible Planet, a NJ-based 501(c)(3) Nonprofit in operation since 2013.

property before the improvements are fully paid for, because they are only paying for the period they are actually using or owning the property.

Basically, then, PACE financing overcomes some of the major considerations that may be preventing property owners from making the kinds of improvements that make long-term economic and environmental sense. This is the goal of PACE legislation, because it's not just a benefit to the private property owner, it's also in the public interest to have everyone make these improvements. And PACE doesn't cost the taxpayers or ratepayers of the state any money. All of the costs of the improvements are ultimately paid for by the property owner, who is benefiting from energy savings, increased net operating income and a more valuable building.

Now, some kind of PACE legislation is now available in a majority of U.S. states since its invention in California in 2008. Most recently, both Pennsylvania and Delaware passed PACE bills and their respective governors signed them into law, bringing the number to 36 states plus the District of Columbia.

NJ got PACE legislation in 2011, but unfortunately the existing statute (PL2011, ch.187) is missing key elements that would allow its implementation in the Garden State. We have been working with the legislature for several years to draft amending legislation, which we hope to see signed into law later this year. Residential PACE is likely to come along later. For various reasons, residential PACE is more complicated.

As I noted above, PACE allows property owners to make energy and resiliency improvements with 100%, long-term, financing from private sector lenders. This financing is secured by a voluntary Special Assessment collected by the municipality. Special Assessments are widely used in NJ to finance improvements such as sidewalks, sewers, and libraries, just to mention a few. The key difference here is that PACE is voluntary, and is tailored to the needs of each individual commercial property, to make major improvements that can pay off over terms of as much as 30 years. Because PACE payments are attached to the property itself, and are not loans to the property owner, they are considered "off balance sheet." This is important for organizations that would otherwise have to choose, in their capital budget, between investing in their business, and making improvements to their buildings.

Our brief to the EMP lays out the features, benefits, and potential for PACE in NJ, and suggests that over the next several years it can play an important role in the transition to 100% clean energy. PACE has the potential to literally remake and transform the built environment around us. Major energy efficiency retrofits can make our buildings both more efficient and more comfortable year-round, saving money and cutting carbon emissions. It's estimated that 50% of all the energy produced in the US is wasted. PACE EE projects typically cut building energy usage by 30% or more.

Most projects are cashflow positive from the get-go. Fiscally-driven property owners will typically demand that their ongoing savings always exceed their ongoing costs. The good news is that with PACE, property owners reap immediate and ongoing cost savings while using someone else's money. Meanwhile, the investor is receiving an attractive rate of return on an investment that is highly secure, being repaid through the town's property tax collection mechanism.

There are very strong market incentives, therefore, to the deployment and utilization of private capital, that are enabled by state PACE legislation that allows municipalities to exercise a governmental power, at literally no cost to the public, to secure the improvement loans. The estimated potential for investing in existing buildings alone exceeds $130 billion in the state, based on an informal market assessment by New Jersey PACE. One of the fastest new applications for PACE is in new construction, where the “green” elements of the project may represent up to 30% of the cost, thereby reducing the requirements for equity or more costly mezzanine financing. PACE is expected to become a standard component of a real estate developer’s capital stack.

Consequently PACE may prove to have as great an impact on building performance as the historical deployment of incentives through the NJ Clean Energy Program. PACE does not compete with any of these incentives, but rather provides a complementary mechanism to facilitate the uptake of both programs. Financing whatever is ***not*** covered by subsidies or other incentives simply removes another barrier to property owner acceptance.

The benefits of PACE to the public include carbon reduction, improving the building stock of the community, and economic development. For every $1 million of investment in PACE improvements, 15 jobs are created. PACE is voluntary, for both the municipality and the property owner. There is no expense to taxpayers or ratepayers. PACE is one of the few ways of reliably financing energy efficiency improvements over the useful life of these improvements, in a way that benefits everyone involved in the process.

As noted, we are providing a full set of comments to the EMP, we’re happy to provide comments and respond to any questions. Thank you.

For more information, please contact:

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