



Principles of an Effective Commercial PACE Program

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Many different examples of PACE program administration exist in the US. Based on the experiences within these markets, a set of best practices and principles of a successful program have emerged. The recommendation put forth in this proposal follows the following principles:

1. **Open Market:** An “Open Market” means any qualified lender can participate. It is critical to have competitiveness in the market to ensure customers have access to competitive market rates, underwriting criteria, closing fees, and servicing costs. PACE Equity has experience working with, and would expect, many different types of projects within a single market, including change of use, historical buildings, low income housing, HUD buildings, office buildings, industrials, hospitality, non-profits, large scale renewables, multi-family and new construction. In addition to having capital sources be cost competitive, it is imperative that there are adequate solutions that can serve the breadth of the market.
2. **Lender Consent Requirement:** The principles of PACE Equity have experience in all active PACE markets as well as markets that never made it to launch. Based on these experiences, we strongly advocate that mortgage lender consent is an absolute and there are no exceptions. Having the banking community supporting the program is imperative in getting momentum in the market. The lack of lender consent puts the program at risk from lawsuits from the banking community and inhibits investments in the program. For example, Florida does not require mortgage lender consent, and as a result the Mortgage Bankers Association has filed a case with the Supreme Court stating PACE is unconstitutional. As a result the market is effectively frozen because few parties are comfortable funding projects until that case is settled. PACE Equity has had direct conversations with the Mortgage Bankers Association and believes that the lack of mortgage lender consent (intended for residential PACE) is the root cause of this lawsuit.

Further, the requirement to have mortgage lender consent provides a high degree of quality control in the process and for the program in general. As a result, the need for project validation and oversight by the PACE Administrator is diminished, supporting the principal of low cost administration.

3. **Limited Scope – Low Cost Fees:** In simple terms, having high fees for PACE administration inhibits adoption. Customers object to high fees without matching value. Having a low cost program makes it much more palatable for building owners to move forward with PACE funded projects. The primary role of the administrator is to manage the application process, validate applications match program criteria, and ensure that PACE Assessments are properly billed, collected, and remitted. All functions

outside of these administrative functions, including energy savings validation, contractor training, marketing, increase costs and ultimately fees to the customer.

Arguments are often put forth that the administrator needs to allocate funds for development support, contractor training, and energy savings validation to ensure the integrity of the program and that there is adequate market outreach. The integrity of the program is driven by the fact that mortgage lenders and PACE finance providers do meaningful analysis that would exceed anything provided by the administrator. As it relates to outreach, let the private sector drive the adoption – it works.

In summary, the administration is a function to manage the process of applications and assessments. Keeping a narrow scope, and corresponding low costs, makes for an excellent environment to do business.

4. **Local Non-Profit Administration:** PACE is based on a premise that we can use our special assessment mechanism for the public good. The PACE enabling legislation across the country designates PACE as a “public good” like fire houses and sidewalks. We should follow that premise to the administration function, and ensure its run for the public good. A local non-profit with a mission that would support their engagement in PACE administration is the best candidate to carry that out. Too often we see for-profit administrators in PACE programs around the country doing what for-profit companies do – maximize scope, revenue and margins, as they should be. The function of PACE administration is not the place you want that activity as it ultimately serves the for profit company with higher fees and less adoption in the market place. In addition, you have the problem of multiple for profit companies doing PACE administration in a market – this is confusing to building owners and makes funding and underwriting more challenging. The most successful PACE programs to date are Ohio and Connecticut – neither have a for profit administrator. Non-profit administration is an emerging trend that you are seeing in new markets such as Texas, Wisconsin, and Missouri.
5. **Statewide Scalability:** A significant investment is made to draft ordinances, contract documents, and administrative deliverables. Another significant investment is made by finance providers to ensure those documents are enforceable and that their pool of investments can ultimately be securitized. It is problematic to do this effort on a municipality by municipality basis across the state with each one being different. Having a common program that can be adopted across the state ensures scalability and the inclusion of many more stakeholders can take advantage of PACE.