



New Jersey PACE: Game-Changing Clean Energy Financing for Nonresidential Properties

OWNERS AND TENANTS

A New Financing Mechanism

PACE stands for “Property Assessed Clean Energy,” an innovative financing mechanism that allows building owners to access cleaner, cheaper, and more reliable energy. PACE typically provides 100% off-balance-sheet financing for comprehensive energy efficiency upgrades and renewable systems. Repayment is through a Special Assessment arrangement with the municipality, making it non-callable, non-recourse, and fully transferable, while ownership, tax benefits, and incentives accrue to property owners.

PACE financing is widely seen as overcoming most, if not all of the barriers to implementing clean energy improvements. **New Jersey PACE (NJPACE)** enables commercial, industrial and non-profit property owners across our state to access relatively low-cost private capital to enable comprehensive energy improvements.

What makes it work?

- It finances 100% of approved clean energy measures, with no cash investment, as an “off-balance sheet” transaction not dependent on the owner's credit
- It provides needed security to lenders and investors, because repayment is tied to the property tax
- It increases the net operating income and asset value of each property, with limited liability to the property owner
- Projects can result in positive cashflows immediately or near term
- If the property is sold, the repayment obligation passes to the new owner (commensurate with the remaining savings)
- There is no cost to the municipality
- The program is voluntary and self-funding

Eligible Clean Energy Improvements

- High efficiency lighting
- Heating ventilation air conditioning (HVAC) upgrades
- High efficiency chillers, boilers, furnaces, water heating systems
- Building enclosure/envelope improvements
- Building automation (energy management) systems
- Renewable energy systems (solar, wind, etc.)
- Cogeneration or combined heat and power (CHP)
- Smart micro grids, back-up systems, and storage

See NewJerseyPACE.org for a complete list.

Amending legislation, expected to be approved in late 2014, will expand PACE to include water conservation and resilient construction, flood-proof and hurricane-resistant rebuilding, etc.

Tenanted Buildings

Owners sometimes hesitate to make major energy improvements because the economic benefits typically accrue to tenants in triple-net lease arrangements. With PACE financing, both owners and tenants are benefited.

Owners get building improvements and higher property values, while being able to pass on both energy savings and pro rata assessment payments to tenants. Major energy efficiency upgrades also generally provide more healthy and comfortable working environments.

Both attraction and retention of tenants are increased, and building owners typically see an increase in Net Operating Income.

Tenants seeking improvements can now make a compelling case to their landlords. PACE financing is widely seen as overcoming most, if not all of the barriers to implementing clean energy improvements.

Hospitals and Health Care Centers

Both for-profit and nonprofit hospitals and nursing homes can take advantage of PACE financing to implement better emergency and self-sufficiency improvements. Where other financing may not be as readily available, assessment-based investments provide immediate opportunities for energy savings, improved control and back-up systems, and on-site clean energy installations, including renewables and cogeneration. Tax equity investors may also be available in some cases.

Multi-Family and Condominiums

Managed residential properties with 6 units or more can also qualify for PACE financing. In the past, individually-metered tenants were often the only beneficiaries of energy efficiency improvements, and landlords were reluctant to invest capital in tenanted buildings. Under PACE, however, building owners can implement upgrades without using their own capital, passing along savings to their tenants at a minimal cost that can be spread over modest rent increases for more comfortable and energy-efficient units. Owners can then take advantage of tax credits, incentives, and accelerated depreciation provisions, where available, to offset their monthly assessments.

Condominiums pose special problems for renewable energy systems, but PACE offers meaningful solutions. The cost of improvements on common areas, including not only community facilities but also the roofs and exteriors of individual units, can be assessed to the condominium association, with modest increases in fees to unit owners. Solar systems must still be connected to individualized inverters and individually metered to meet utility requirements, but equipment and installation costs can be aggregated by the association.

Revitalizing Downtowns, and other major challenges

NJPACE offers a way to kickstart development in a number of challenging situations — from Main Street redevelopment, to the adaptive reuse of existing “white elephant” commercial and industrial structures, to the full-scale energy reengineering of for-profit or nonprofit hospitals, nursing homes, and health care centers.

What types of buildings are eligible?

The property must be non-residential, or have 6 or more dwelling units, and pay property taxes or have a property tax ID. All legal owners of the property must sign the Program Application. The property must be current on property tax and assessment payments, and have no involuntary liens, defaults, or judgments. Where there is a mortgage, the owner must obtain mortgage holder consent. The building must be located in a municipality that has adopted an ordinance approving the **NJPACE** program.

Summary of Benefits to Building Owners

- 100% upfront financing for qualified energy upgrades
- No cash investment is needed
- Off-balance sheet financing allows owners to use their credit elsewhere
- Cash-flow is positive from the start
- Owners without strong credit ratings can be approved
- Allows for deeper energy upgrades because the financing offered is payable over an extended period (up to 20+ years)
- Upon sale, PACE assessment and repayment obligation transfers to new owner
- Like any other municipal assessment, payments don't accelerate in case of default

The New Jersey PACE (NJPACE) Program

New Jersey PACE, a 501c3 NJ nonprofit, acts as program administrator for municipalities at no cost to taxpayers, and reimburses municipalities for costs incurred in placing assessments on owners' properties. We assist municipalities, property owners, contractors and investors by processing each PACE project from application to closing to final approval.

While our services are customized to the needs of each community, we have adopted best practices from programs in other states, including standardized forms and procedures designed to work across NJ's many municipalities; this helps streamline the process for owners who want to use PACE financing in several municipalities. There is no cost to the municipality or to the taxpayer.

Learn more at NewJerseyPACE.org or call us today:

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